

# **Annual Industry Dossier - 2014 - Global Defense & Aerospace Industry - Key Trends, Strategic Insights, Issues & Challenges, SWOT, Force Field Analysis & Strategic Outlook**

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## **Abstracts**

The global defense & aerospace industry has been reeling under the pressure of severe defense spending cuts underway across the entire western hemisphere against the prevailing macro-environmental uncertainties, difficult economic as well as fiscal realities & absence of any major external threat perception after having waged war against terror for over a decade that drove the growth of defense industrial base across most traditional markets. However, after sustaining war campaigns across Iraq & Afghanistan war theatres against terrorism for over a decade coupled with the ongoing economic recovery across most traditional markets since the global economic crisis of 2008; the U.S. economy & its allies are in a difficult financial shape amid the Euro zone debt crisis & an uncertain global macroeconomic environment marked by sporadic currency exchange rate fluctuations.

The U.S. defense budget, the largest in the world, standing at a staggering 50% of the global defense spending has been subjected to a series of cuts to the tune of \$1 trillion over the next decade under the defense budget act 2011 followed by the sequestration cuts coming into effect from March 2013. Further, with the winding up of allied operations and the scheduled withdrawal of troops from Afghanistan through 2014 and the commensurate defense spending cuts; the activity across almost all key OEMs has dropped substantially and the competitive intensity for new contracts has risen tremendously with cost competitiveness becoming a critical parameter for contract awards as witnessed over the U.S. Army's JLTV & FMTV programs.

The defense spending situation across traditional markets is likely to further tighten over

near to medium term with continuing string of budgetary cuts in the United States & prevailing uncertainty over the implementation of sequestration cuts with about \$52 billion of cuts likely to be implemented in the 2014 defense budget, pegged at \$527 billion, from October 2013 itself. The DoD has been working towards creating two, alternate budgets for 2015 catering to two, alternative scenarios with one taking sequestration cuts into account while the other goes along with the president's 2014 budget request indicating towards the ongoing impact of the prevailing uncertainty. The latest Government shutdown has further exacerbated the situation with furloughs impacting the operations across defense & aerospace industry OEMs deeply. Further, Congress's lack of unanimity & ongoing political tussle amongst the Republicans & the Democrats over handling of matters & Fed's tightening measures are fomenting further uncertainty regarding the fiscal & monetary policy stance. The upcoming U.S. debt ceiling situation would again need an interim continuing resolution to raise the overall debt ceiling to ensure smooth functioning through 2014 & to avoid any potential default over debt. However, after the series of recent developments inside Congress that culminated in the partial Government shutdown; a lot of uncertainty still prevails over what's likely to unfold.

The European conditions are not good either with the French annual defense spending too, projected to stay flat at €31.4 billion through 2014-2019 under the military budget law with a cumulative funding deficit of about €5.9 billion through 2019 expected to be plugged through strategic asset sales with about €1.8 billion required to be generated in 2014 & 2015 itself through expected stake sales in DCNS & Dassault. The industry, consequently, has been on the consolidation path as necessitated by the industry dynamics and has seen a spurt in M&A activity already.

The global defense & aerospace industry, thus, currently is juxtaposed between rapidly rising technological capabilities and the deteriorating overall economic conditions to sustain & support the same. The fallout has been evident and has been along the anticipated lines, in the form of several major, key program cancellations. The overall outlook for the industry is contractionary over medium term with most OEMs working towards implementing an array of strategies and plans aimed at partially offsetting the ongoing spending cuts revolving around key demand drivers, namely, replacement demand, vehicle upgrades & retrofitment, maintenance & repair, demand from emerging nations and technological developments offering superior maneuverability and enhanced protection against a broad range of asymmetric threats. Further, the OEMs are also working towards rationalizing & optimizing their overall cost base & industrial footprint with competitiveness becoming critical while continuing with their strong R&D focus directed at the development of cutting edge technologies & platforms with

enhanced capabilities & superior performance features & specifications.

Against this backdrop, the report analyzes the global defense & aerospace industry and provides strategic insights into the key industry trends, challenges & risk factors that are likely to shape the future of the industry followed by an insightful industry SWOT & Force Field Analysis and strategic outlook for the industry for 2014.

### **Key Excerpts from the Report:**

1. Ongoing spate of defense spending cuts across industry impacting funding for existing & new programs.
2. Analysis of ongoing, Strategic Portfolio realignment across most industry OEMs and other strategies & plans to partially offset the impact of ongoing spending cuts & in-sync with emerging industry scenario.
3. Comprehensive analysis & insights into the upcoming U.S. Fiscal situation, DoD budget for FY2014 & the FY2015 budget request.
4. Strategic insights into key domains anticipated to register growth over near to medium term
5. Rising trend towards collaboration, joint development & platform sharing amongst industry OEMs.
6. Increasing share of FMS contribution to overall revenues across industry players.
7. Increasing preference for hardware refurbishment & upgrade over replacement.
8. Rising significance of emerging nations & markets in global economic dynamics.

### **Usage & Relevance:**

The report provides & will be useful for:

Strategic Analysis and Vital Inputs essential for Strategic Planning & Decision-Making Process

Analysis of inherent Industry Strengths & Weaknesses

Identification & Analysis of Imminent Opportunities & Emerging Potential Threats for the industry

Gaining access to Key Industry Trends & Insights; crucial inputs for Decision-Makers

Analysis of Forces Driving and Restraining the Industry & their overall Dynamics

Identifying & highlighting areas for making Potential Strategic Changes, Adjustments and

Realignment of the internal strategy framework in-sync with emergent trends

Strategic Industry Outlook for 2014

**For Whom:**

The report would be essential for those having strategic interest in the Global Defense & Aerospace industry & will be especially useful for Key Decision-Makers, Top Management of Companies, OEMs, Suppliers, Distributors, Vendors and other Key Players in the Industry Value Chain as well as existing & potential Investors, industry & company analysts & those associated with the industry or any of the defense & aerospace companies.

**Highlight:**

The report is comprehensive yet concise & compact at the same time; is custom-built for meetings & presentations, being built on the Microsoft PowerPoint platform; in addition, to being a ready self-reckoner as well as a quick reference guide driving, enabling & ensuring prompt and informed decision making.

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