Going global in Aerospace and Defense

Although global integration is an increasingly critical success factor for enterprises across sectors, the Aerospace and Defense (A&D) industry is less mature than others in this regard. The choice for A&D companies is either to delay taking action or to embrace the issue. We believe that companies that move now have the opportunity to strengthen their positions in the worldwide marketplace and optimize business results through more effective operations and better value propositions.

Perhaps the most important challenge for the A&D industry is its rapid globalization. This means that business success will be increasingly dependent on how well a company can compete as a worldwide organization that can capitalize on global advantages. A&D companies need to aim for what we refer to as a “globally integrated enterprise.”

A globally integrated enterprise is a new kind of organization – a step beyond today’s “multinational corporation.” It can locate operations and functions anywhere in the world based on the right cost, the right skills, and the right business environment. It integrates operations horizontally and globally – performing as a cohesive whole, not as a hub with outposts. It is a company focused on connecting and leveraging sources of production and creating value, regardless of the physical location or the organizational ownership of these resources. It involves close interaction across its ecosystem of internal and external stakeholders, including employees, customers, partners, government agencies and other third parties with a stake in a product or service.

**Our assessment of the A&D industry**

Our assessment of 26 leading A&D companies indicate that both the commercial and defense sides of the industry are in the middle of the global integration maturity range, with commercial being slightly ahead (see Figure 1). We also found that leading A&D companies tend to be those that are already more globally integrated than their peers.

**FIGURE 1.**

A&D commercial is only slightly ahead of A&D defense in global integration.

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<th>Ad hoc</th>
<th>Degree of global integration</th>
<th>Mature</th>
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<td>Final GIE ranking</td>
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<td>2.0 Aware</td>
<td>3.0 Capable</td>
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Source: IBM Institute for Business Value.
We believe the long-term business winners will be those enterprises that continue along the path to becoming even more globally integrated.

We also found that strong scores as a globally integrated enterprise correlate to stronger financial performance. Collectively, companies scoring high in our assessment exhibited higher profits, greater earnings per share, compound annual growth rates, return on assets and less debt.1

The A&D industry is different from other sectors because its defense side faces sometimes severe restrictions on crossing national borders. This suggests that the commercial side will most likely lead the defense side in terms of global integration maturity. However, the challenges on the defense side may also affect the commercial side, since many large A&D companies operate in both commercial and defense markets. Because of the industry’s dynamics – especially restrictions on cross-border communications – the A&D journey to global integration may take longer than in other industries, such as Automotive and Electronics.

**Becoming more globally integrated**

Our research and studies of various industries suggest that a company can follow three general steps to become more globally integrated. To do this, our research and studies of various industries suggest that a company can follow three general steps.

**Step 1: Identify the important actions that map to the global integration strategy.**

The goal here is to align global integration efforts with existing business strategies (short- and long-term) in a way that will have the most impact. To do this, a company can:

- Identify the elements of the company’s business strategy.
- Map the competency areas (globalization, componentization, unique value) to that strategy and prioritize the actions that the company should be taking.

**Step 2: Identify the company’s business components that “fit” the plans for global integration.**

On its journey to global enterprise integration, a company needs to know which parts of the business to change. A component business model (CBM) is a good framework for identifying the company’s basic business components, as well as those that can provide differentiation.

**Step 3. Ask five questions about important business components in the company as each relates to a globally integrated enterprise.**

By answering these questions, a company can develop a strategy for improving its global integration initiatives:

- Where should the business function be done?
- Who performs the function?
- What technology enablers are used?
- How well does the business function integrate?
- How innovative is it?

The A&D companies that act now have the opportunity to reap advantages that may be denied to those that wait, including attaining leadership positions in the increasingly global A&D industry and improving business performance by efficiently leveraging an integrated business on a global scale.

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Reference

1 IBM analysis of financial data from Thomson One Banker and company annual reports.