Commercial Aviation:
Being Successful in a Challenging Growth Environment

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Presentation by

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It was 2011. Jude Dozor, then President and CEO of C&D Zodiac, a $900M division of Zodiac Aerospace, was engaged in conversation with A&D industry experts having to do with the health of both the defense and commercial aircraft industries. It was the tale of two industries. The defense industry was weak and softening. But the commercial aircraft space was strong. Fast forward three years.

January's Aerospace and Defense Forum meeting featured Jude Dozor as the guest presenter. Now an Operating Executive with Vance Street Capital, Jude shared his thoughts about today's world of *Commercial Aviation: Being Successful in a Challenging Growth Environment*.

The operative word in his title is most definitely "growth." While the defense industry continues to languish with the onset of sequestration, commercial aviation can be best described as booming. The divide between the two industries is more extreme today than three years ago. Consider these numbers.

The two 800 pound gorillas in the industry, Boeing and Airbus, have orders on the books that are at all time highs. Between the two, over 10,000 planes are on order. If they both were to not take another order, based on estimated deliveries in 2014 of 1380 planes, the two companies have business that will last them until 2022! Imagine that.

So you might ask . . . why? From our perspective in the U.S., the economy is still not on stable ground. Unemployment is still high. So why the boom in commercial aviation? The cost of money is one factor. What better time to replace aging fleets than now when the cost to finance is so attractive? And if we get past our myopic view of the world, we discover a dramatic shift in what Jude refers to as the "Population Center of Gravity."

Within an eight hour flight of New York City, there are approximately 600M people, or 9% of the world's population. Sounds like a decently large number until one considers that same eight hour radius from Dubai in the United Arab Emirates. Care to venture a guess how many people are within that boundary? In excess of 4,500M, or 65% of the world's population. The Emirates, supported by oil money, have made no bones about their desire to establish a worldwide network to "take over the world," connecting any city in the world to Dubai.

Explosive growth is underway because of skyrocketing demand and attractively low cost of capital. And adding to the business case for purchasing of aircraft is the fact that planes are now more efficient than ever. At a time when the cost of oil is at historically high levels, the use of composite materials in the production of aircraft has dramatically risen. Almost 90% of a plane's interior is now made from composite materials. Engine parts are being produced from composites. The net result? Planes are lighter, the cost to operate is lower and they can reach farther distances on the same tank of gas.

From the perch of the manufacturers, life is grand. Well, at least for Boeing and Airbus. Due to the increased demand around the world, regional manufacturers are trying to carve out their piece of the pie. Bombardier out of Canada has notions of competing with the big boys in the 100 to 130 seat arena but are finding that route challenging.

New regional entrants Comac (China), Mitsubishi (Japan) and UAC (Russian) are throwing their hats in the ring. What are their futures? There are challenges for all three Jude explained. However, with the population centers in their respective regions those footholds alone may provide these companies with the production flow necessary to survive.

Sounds so rosy, does it not? From a 40,000 foot perspective it does, but not everything can be viewed through such rose-colored glasses. Challenges loom.

- Supply Chain – It is predicted that it might take 10 years for the supply chain to be ready to handle the new fleets of composite produced aircraft. As Jude proffered, how will the industry deal with such factors as repair of composites, or the painting and stripping of composite materials? Technical hurdles exist that are not fully understood yet.
- Price Pressure – Oil is expensive. Overall production costs are on the rise. So what are Boeing and Airbus doing? Asking each of their suppliers to "partner" in order to reduce costs by 15%. For many suppliers, that is just not possible. However the pressure is on. Boeing, long a practitioner of single source supply, is now actively looking for second sources. Suppliers will need to be all the more nimble to retain their contracts.
- Paperwork – It is said that there's not an airplane in existence that can carry the paperwork required to certify it. The necessary certification requirements will place a significant burden on suppliers, forcing OEM's to maintain or further streamline their internal processes.

What does all this mean to commercial aviation suppliers? Opportunity, and laser focus.

- Those suppliers who have a plan, who are nimble, who have their "head on a swivel" can not only survive but prosper.
- Operational excellence must be a way of life, not a desired goal. Nothing less than 100% on-time deliveries or 100% quality performance will be acceptable. There will always be another company lurking around the corner trying to snatch the business. Operational leads within the organization will be the most important salesperson in the company according to Jude.
- Innovate proactively. The status quo will not be acceptable. Truly understand customer needs. Don't let the first series of no's derail efforts to innovate.
- Secure long term agreements. While not without some shortcomings . . . additional price pressure . . . these contracts provide long term stability. No need to be as "worried about tomorrow's work."
- With costs rising and prices forced downward, employ countermeasures.
  - Up the I.P.
  - Promote Win-Win ideas
  - Employ lean manufacturing
  - Look for alternative production sources

But maybe most importantly, know thyself. As Jude explained, "know your water line." Preserve your I.D., the DNA that differentiates your company from the din. Know what cannot change along with what needs to change. Manage those balances. While culture can change, Jude accentuated that values need to remain constant.

Lee Schwartz, former CEO and President of manufacturing and distribution companies, is principal of the Schwartz Profitability Group (SPG) that, for over 12 years, has uncorked the operational bottlenecks of manufacturing and distribution companies, boosting their bottom line results. Lee's clients range from smaller family run companies to Fortune 500 firms, including those in aerospace and defense. His work helps clients find solutions related to process improvement, supply chain management, inventory control, workflow design, and operational performance. Results consistently include cost reduction, improved efficiencies and increased profitability.

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