



DIVERSIFIED INDUSTRIALS

# Adapt, Survive and Thrive in Turbulent Times

The Aerospace and Defense Industry's Response to the Economic Downturn

KPMG INTERNATIONAL



# Foreword

In many ways, the aerospace and defense (A&D) industry can be considered to be moving through a “perfect storm” of financial, political and historical volatility.

Almost daily, many areas of media highlight credit problems, decreased air traffic, plans for lower defense spending, massive layoffs, order cancellations and other evidence of market upheavals and economic contractions.

KPMG member firms are realistic about today’s challenges but also optimistic about the resiliency of the A&D industry. Many Original Equipment Manufacturers (OEMs), manufacturers and suppliers worldwide are now seeking to build on strategies developed over the years to better understand, manage and optimize their business. More than a motto, “lean and mean” has been a way of life for many A&D companies who have, over the years, adopted lean manufacturing principles, just-in-time inventory systems, performance-based supplier agreements and other established methods.

As a result, the A&D industry may not only successfully endure these turbulent times but should also become more efficient, flexible and profitable. KPMG looks to further help our clients expand and develop their strategies to improve agility, enhance bottom-line performance and increase their market share.



**Marty Phillips**

Global Head of Aerospace and Defense  
KPMG in the U.S.



# Executive summary

The current recession is considered by many to be more severe than any other global economic downturn since the 1930s.

Between 2002 and 2007, the A&D industry saw consistent growth. By the end of 2008, however, stocks of leading U.S.-based A&D companies had fallen by almost 40 percent.<sup>1</sup> As of early March 2009, the U.S. economy has suffered its worst decline in 26 years.

The cash position for many A&D companies remains strong, based partly on reserves built up during the recent, robust years. In addition, many companies are developing and applying a number of strategies to help them reach their business goals and improve their competitive position.

These strategies include internal consolidations, personnel reductions, further adoption of lean manufacturing principles, and aggressive supplier management to reduce costs.

Other strategies involve expansion into markets beyond the company's core business, tightened program management and controls, and proactive planning for anticipated cuts in defense spending. For their part, suppliers are finding new ways to improve working capital management, optimize cost efficiencies and enhance global competitiveness.

A&D companies should develop a balanced approach to financial and operational strategies that enable them to "prepare for the best but plan for the worst." Properly designed and implemented, these strategies can help them adapt, survive and thrive in today's turbulent times.

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<sup>1</sup> "Defense industry stocks not immune to 2008 market declines, Boeing pain," Donna Borak, Canadian Business, December 31, 2008.



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# The historical context

An informed understanding of downturns in general and the current crisis in particular can help today's organizations develop strategies to adapt, survive and potentially thrive during some of the worst conditions that many of us have seen in a lifetime.

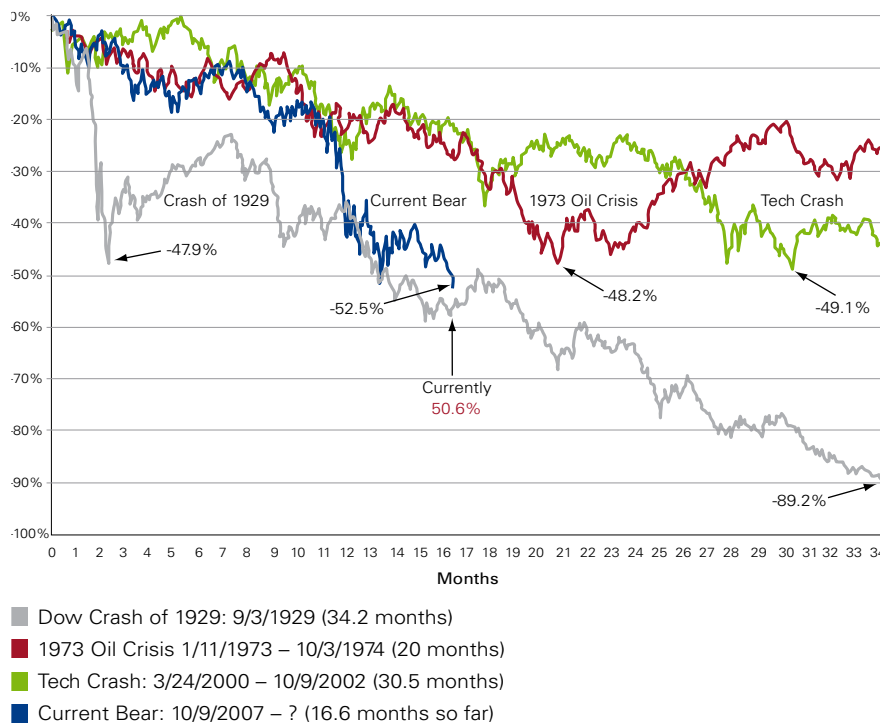


## 1.1 Not another Great Depression – not yet

Many economists agree, at least in March of 2009, that the current recession is just that – a recession and not another Great Depression. By 1932, the U.S. stock market had lost 90 percent of share value. The U.S. financial system had gone into meltdown, with the entire banking system shutting down by March 1933 when the newly elected President Franklin Roosevelt took office. The U.S. Dow Jones Industrial Average (DJIA) did not recover to its 1929 level until 25 years later, in 1954.

Of course, facing a recession rather than a depression provides cold comfort to businesses in 2009.

### Comparison of U.S. stock markets during downturns



Source: dshort.com.  
<http://www.businessinsider.com/how-far-will-stocks-fall-if-this-is-another-great-depression-2009-2>, February 24, 2009

2 National Bureau of Economic Research, December 2, 2008.  
 3 "Dow and S&P sink to '97 levels," CNNMoney.com, February 29, 2008.  
 4 Dow Jones Indexes. (n.d.). *Dow Jones Industrial Average 5-year chart*. Retrieved April 2, 2009.  
 5 "World Bank Says Global Economy Will Shrink in '09," Edmund Andrews, New York Times, March 8, 2009.  
 6 "Global Economic Forecast," Export Development Canada, January 15, 2009.  
 7 "Economy: Global recession having impact – Rudd," AAP, March 04, 2009.



## 1.2 Is the current recession unique?

The current recession can be considered unique in several ways. First and foremost, it is much more severe and may last much longer than previous downturns over the past six decades. According to the National Bureau of Economic Research in the United States, the current U.S. recession is one of the longest downturns since the 1930's. The last two recessions (1990-1991 and 2001) lasted eight months each, and only two of the 10 previous post-Depression downturns lasted as long as a full year.<sup>2</sup>

As of early March 2009, the U.S. economy has suffered its worst decline in 26 years. In the fourth quarter of 2008, the GDP fell by an annual adjusted rate of 6.2 percent, a figure not seen in over a decade.<sup>3</sup> Since May 2008, the DJIA has dropped by about half, from a high of approximately 14,000 to below 7,000.<sup>4</sup>

The global effects of this recession have been equally severe. The World Bank predicts that the global economy and global trade will shrink for the first time since World War II.<sup>5</sup> Industrialized economies as a group are expected to contract by one percent in 2009.<sup>6</sup> Even economies that have so far "dodged the bullet" are showing signs of distress. In Australia, the government has reported a drop in the gross national product of 0.5 percent, the first decline in eight years.<sup>7</sup>

The current recession is also unique in its origin – the U.S. subprime housing loan market. The subprime crisis and credit crunch was an ongoing economic problem that became more apparent during 2007 and 2008. It led to contracted liquidity in the global credit markets and banking system. The downturn in the U.S. housing market, risky lending and borrowing practices, and excessive individual and corporate debt levels have caused multiple adverse effects on the world economy.

Moreover, the risk of an adverse feedback loop – a "death spiral" – between the financial system and the broader economy represents a significant threat. Automotive and other vertical industries have suffered significant declines.

The combination of mounting losses, falling asset prices, and a deepening economic downturn, has caused serious doubts about the viability of a widening swath of the financial system.

Finally, the current recession is unique in that investors are taking longer than usual to return to markets. Investor confidence levels, like consumer confidence levels, are lower than they have been since the early 1980s. Piecemeal interventions to address the attendant liquidity strains and resolve the troubled institutions do not yet appear to have succeeded in restoring market confidence, and they have not addressed the widespread nature of the underlying problems.

# Effects on A&D

The recession has hit the A&D industry hard, changing how many companies structure their business models, operational strategies and supplier relationships.



## 2.1 Prepared for the storm

Many A&D companies were prepared for the coming storm. Business has been booming for almost a decade. The Bush administration had increased defense spending by 60 percent. Due to the growth in commercial airline demand and strong U.S. defense spending, the global A&D industry had record order backlogs. The order books of the two largest commercial sector aircraft manufacturers, Boeing and Airbus, are full until 2012. Backlogs were seen not only in the commercial segment but also in defense products, helicopters and business jets. The industry revenue had increased by 95 percent from 2001 to 2007.<sup>8</sup>

At the same time, the debt to equity ratio of leading U.S.-based A&D contractors based on revenues was reduced from a weighted average of 0.71 in 2001 to 0.39 in 2007,

while the weighted average return on sales increased from 1.4 percent to 7.2 percent during those same years.<sup>9</sup> In general, the cash position for A&D companies was strong – a situation that remains the case for many of these companies.

## 2.2 Reversals in 2008

Starting in 2008, market and economic conditions began to reverse. The commercial aircraft portion of the industry suffered losses during much of the year due partly to skyrocketing prices of materials used in the manufacturing of airplanes, the lack of availability of many of those same materials, and labor strikes.<sup>10</sup> In July 2008, the industry's cost of aluminum, carbon fiber and titanium increased by 90 percent, 60 percent and 30 percent respectively, to reach three-year high values.<sup>11</sup>

In addition, the volume of air traffic sharply declined. For example, American Airlines has announced plans to cut their U.S. schedules by 9 percent this year, based on a decrease of 2.5 percent in booking for the first part of 2009. February traffic for American fell 13.5 percent from a year earlier, and all the other major U.S. carriers have also reported similar declines.<sup>12</sup>

Reduced traffic, accompanied by lower defense funding and ongoing economic stress, has led to mass cancellation and deferrals of aircraft orders placed with manufacturers. By the end of 2008, stocks of the top U.S.-based A&D companies had fallen 39 percent.<sup>13</sup>

## 2.3 A mixed outlook

Based on information available in early March 2009, the industry

<sup>8</sup> "Aerospace Industry Flying into Strong Turbulence Ahead, According to New AlixPartners Study," AlixPartners press release, July 10, 2008.

<sup>9</sup> OneSource data used to calculate figures for leading US-based A&D companies: BA, UTX, LMT, HON, NOC, GD, RTN, and LLL. Note: GE was removed from the data set because it was over-weighted by non-A&D business units.

<sup>10</sup> "Aerospace Industry Flying into Strong Turbulence Ahead, According to New AlixPartners Study," BNET, July 10, 2008.

<sup>11</sup> Ibid.

<sup>12</sup> "American Airlines to cut U.S. capacity 9 percent, CFO deflects bankruptcy chatter," David Koenig, Associated Press, March 10, 2009.

<sup>13</sup> "Defense industry stocks not immune to 2008 market declines, Boeing pain," Donna Borak, Canadian Business, December 30, 2008.



outlook remains deeply mixed. Cash reserves remain strong for many A&D companies, and the industry still enjoys strong order backlogs. However, it also faces an increased risk of order cancellations and postponed projects from their customers. A new administration in Washington D.C., accompanied by a soaring federal deficit, may force a number of A&D programs to be revised or cancelled. Defense spending may be redirected to healthcare programs, national infrastructure projects and other government agencies.

Other factors present more immediate threats. Some companies are facing the highest levels of liquidity risk since World War II. Russian and Chinese companies are becoming more competitive. Global supply chains are vulnerable to disruptions because of low stock levels, financial restraints, geopolitical conditions and supplier bankruptcies. In the United

States, talent is becoming scarce as experienced professionals who entered the industry during the Cold War now seek retirement, and there appears to be a lack of engineering and technical graduates that can take their place.

## 2.4 Issues in the public sector

For companies in the defense sub-sector or with defense-related contracts, the recession's impact is likely to be seen primarily through major changes in government spending. Many of these changes have already been anticipated. In January 2009, defense new orders for capital goods decreased USD4.4 billion or 35.3 percent over the previous month.<sup>14</sup>

The Obama administration in the United States will most likely seek to maintain or decrease defense spending.

For example, the Aerospace Industries Association (AIA) has reported that the administration is planning to delay an aerial refueling tanker by five years while also cancelling plans to develop a bomber to replace the B-52.<sup>15</sup> Decreased funding and project cancellations can lead to reduced orders for A&D companies, which can impact sector job losses.

In addition, President Obama has signed a presidential memorandum requesting new legislation and executive branch guidance to strengthen oversight and management of defense acquisitions. The policy is intended to end no-bid and cost-plus contracts, maximize the use of competitive procurement processes, and clarify rules prescribing when outsourcing is and is not appropriate.

<sup>14</sup> "Highlights from the Advance Report On Manufacturers' Shipments, Inventories, and Orders," U.S. Census Bureau: Mining, Manufacturing and Construction Statistics, January 2009.

<sup>15</sup> "Obama to delay tanker, cancel bomber, sources say," AIA Daily Lead, March 10, 2009.



## 2.5 Impact on the private sector

A significant decline in business and tourism travel, aggravated by fiscal pressures, has led to serious losses, layoffs and cutbacks across the sector.

According to the International Air Transport Association (IATA), international cargo witnessed a drop of 13.5 percent in November 2008, while international passenger traffic fell by 4.6 percent. The international capacity shrank by one percent.<sup>16</sup>

The impact of these declines has been dramatic. In January 2009, Airbus warned that the company's orders could decline by 66 percent over the year because of reduced traffic and difficulties in financing deliveries.<sup>17</sup>

Boeing has also announced mass deferrals and cancellations of aircraft orders.<sup>18</sup>

For airline companies in general, the future appears to be less optimistic. The IATA recently released a grim forecast for 2009. After noting a loss of USD5 billion for the global airline industry in 2008, IATA predicts a USD2.5 billion loss in 2009.<sup>19</sup>

Markets for helicopters and business jets have also been affected. As with other A&D companies, manufacturers in this sector have announced significant layoffs. AgustaWestland, Eurocopter and Sikorsky still have a backlog for new and refurbished military products, but the companies are facing probable cuts in defense spending.<sup>20</sup>

The business jet market has seen reduced travel volumes and higher inventories of used aircraft. Cessna, Embraer and Hawker have announced large downward adjustments in production.<sup>21</sup>

## 2.6 Government and institutional actions

Governments around the world are taking steps to address the economic crisis. In the months ahead, privatization of weakened financial institutions, tighter banking and accounting regulations can be expected. Public institutions will encourage a deleveraging of financial products while easing up monetary policies to restore credit markets. There is also the potential for an increase of national capital buffers and requirements.

<sup>16</sup> "International Cargo Down 13.5% in November - Passenger Declines by 4.6%," IATA, November, 2008.

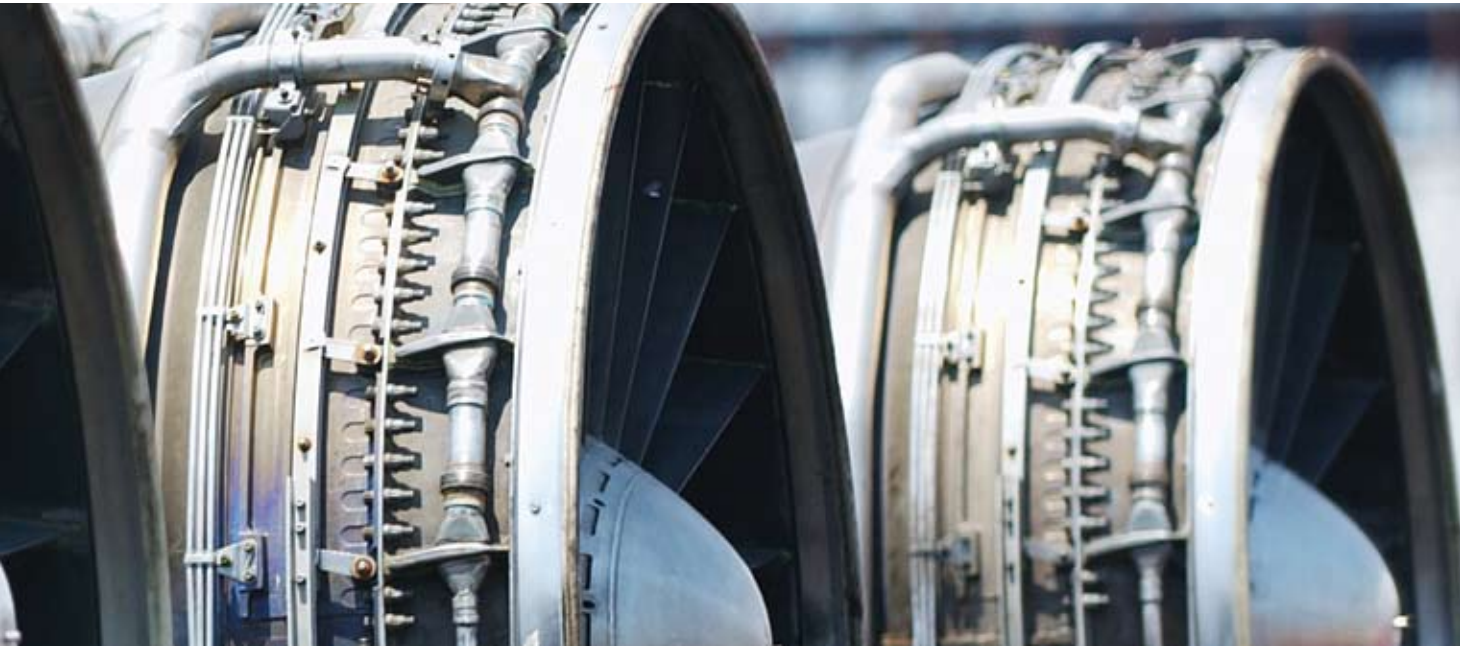
<sup>17</sup> "Airbus warns of big fall in commercial orders," Kevin Done, Financial Times, January 15, 2009.

<sup>18</sup> "Boeing and Airbus face mass aircraft deferrals and cancellations," Centre for Asia Pacific Aviation, January, 9, 2009.

<sup>19</sup> "IATA Financial Forecast: Lengthy Recession Is Now Main Challenge," December 2008.

<sup>20</sup> "Still buoyant commercial helicopter industry waits to exhale," John Croft, FlightGlobal, February 16, 2009.

<sup>21</sup> "Backlogs shrinking at the major OEMs," Kirby J. Harrison, AIOOnline, February 1, 2009.



At the same time, governments are developing financial stimulus packages. As of the beginning of February 2009, at least 34 countries had announced plans worth a total of USD2.25 trillion.<sup>22</sup> The U.S. Congress has passed a stimulus bill totaling USD787 billion. This follows a USD700 billion financial rescue fund provided to assist the U.S. credit and financial institutions. The bill also contains a modified “Buy American” provision requiring only U.S.-made products to be used in stimulus-funded projects. The provision’s influence on the A&D industry will probably be limited to steel supplies in the United States, although global A&D supply chains and supplier relationships might also be affected.

China has announced a CNY4 trillion (USD585 billion) stimulus package. Countries in Europe and other parts of the world have announced similar measures, including EUR26 billion (USD33 billion) in France, GBP20 billion (USD28 billion) in the UK and AUD42 billion (USD27 billion) in Australia.

The success or failure of these programs cannot be easily determined. However, they represent major fiscal injections into the global economies. Although this stimulus may not be felt directly in the A&D industry, it could have indirect benefits in the coming year.

“With delivery deferrals mounting and order cancellations threatening, manufacturers have moved quickly to scale back production and lay off workers, but analysts fear deeper cuts will be needed in 2009.”

Source: Aviation Week, January 25, 2009

<sup>22</sup> “Economic stimulus plans now global phenomenon,” Ron Scherer, The Christian Science Monitor, February 4, 2009.

# Strategies used by A&D companies

The A&D industry is no stranger to economic downturns. In fact, many of the strategies that A&D companies are using today have been in place for years and were actually developed during past recessions.



A&D management should understand the cyclical nature of the industry and know that balance sheets should be improved in good times to prepare for the tougher periods. During the good times from 2001 to 2007, companies achieved outstanding performance in terms of sales, debt-to-equity ratios and return on sales.

Now that the potential outlook is not as favorable, many A&D companies are developing a number of strategies to offset losses, reduce costs, improve efficiencies, enhance their supply chains and strengthen their overall market position.

## 3.1 Restructurings

Merger & Acquisition (M&A) activities, internal consolidations, divestments and cancelled acquisitions have helped a number of A&D companies improve their balance sheets and avoid losses.

Mergers and acquisitions have been limited by uncertain markets and a scarcity of capital. Of the top 25 largest completed A&D deals in 2008, only four were larger than USD500 million.<sup>23</sup> Fitch expects limited M&A activity in 2009 for the industry, except for bolt-on or niche acquisitions.<sup>24</sup>

However, smaller acquisitions have been structured by companies looking to save costs or enhance capabilities. In January 2009, Lockheed Martin acquired Universal Systems & Technology, Inc. (UNITECH), which provides training and mission readiness offerings.<sup>25</sup> In November 2008, Boeing completed the acquisition of Tapestry Solutions, a company specializing in services and software systems that improve the tracking and distribution of equipment. The acquisition was aimed at enhancing the company's global logistics support network, streamlining

its logistics command and control, and reducing operating costs.<sup>26</sup>

To preserve cash amid the global economic crisis, EADS announced in January 2009 its plans to halt a major U.S. defense acquisition. The company has USD12 billion in cash, which it wants to preserve for the future. The company feels that preserving cash for internal development projects – not acquisitions – is its priority in the prevailing economic scenario.<sup>27</sup>

For many companies, internal restructurings have been more attractive. In January 2009, Northrop Grumman announced that they would combine their seven operating business units into five to lower costs and achieve other benefits. The Integrated Systems group and Space Technology will be combined to form Aerospace Systems unit.

<sup>23</sup> "Aerospace & Defense Review," McGladrey Capital Markets, Q4, 2008.

<sup>24</sup> "Fitch: 2009 N.A. Aerospace/Defense Outlook: Commercial Demand at Risk, But Credit Outlook Stable," December 9, 2008.

<sup>25</sup> "Lockheed Martin Completes Acquisition of Universal Systems & Technology, Inc. (UNITECH)," Press Release, Lockheed Martin, January 9, 2009.

<sup>26</sup> "Boeing Completes Acquisition of Tapestry Solutions," Press Release, November 6, 2008.

<sup>27</sup> "EADS Halts U.S. Defense Acquisition to Preserve Cash," Bloomberg, January 13, 2009.



Information Technology will be combined with Mission Systems groups to form Information Systems.<sup>28</sup>

In December 2008, Textron announced a plan to exit all of Textron Financial Corporation's (TFC) commercial finance business. The company expects restructuring charges of about USD65 million to be recorded in the fourth quarter of 2008 with expected cost savings of about USD100 million in 2009.<sup>29</sup>

### 3.2 Cost optimization

As in any recession, companies are taking steps to cut costs and increase efficiencies to help improve liquidity and cash flow. Giovanni Bisignani, IATA CEO and Director General, has stated that non-fuel unit costs for the airline industry are down 13 percent

since 2001, while fuel efficiency has improved by 19 percent.<sup>30</sup>

Airlines are also reducing scheduled flights, deferring aircraft deliveries or scaling back expansion plans. Air Transport Association (ATA) analysis shows the 10 largest U.S. carriers all cutting capacity in the first quarter of 2009. The cuts ranged from 3.3 percent to 22.1 percent.<sup>31</sup>

A&D companies have also been disciplined about making necessary cuts in their workforce. Rolls Royce cut 2,300 jobs in January 2008.<sup>32</sup> Cessna will be laying off at least 4,600 in 2009.<sup>33</sup> On January 28, 2009, Boeing announced its plans to cut 10,000 jobs this year through attrition, retirement, and layoffs. The figure includes the 4,500 job reductions announced by the company earlier in the month.<sup>34</sup> United Technologies is expected to

cut 11,600 jobs, five percent of its 223,100 workers worldwide, with the deteriorating commercial aerospace market as one of the major factors.<sup>35</sup>

Invariably, these layoffs result in a great deal of publicity for these companies; receiving less attention have been measures that have streamlined procedures and lowered costs for A&D companies. For example, in 2008, Boeing began to consolidate all of its flight testing into one organization to streamline procedures and create economies of scale. The company expects to reduce flight testing costs by almost 10 percent, saving hundreds of millions of dollars every year. Flight testing costs have traditionally accounted for 20 to 25 percent of the total cost of new airplane development.<sup>36</sup>

<sup>28</sup> "Northrop Grumman Corp. to combine units to cut costs," Find Articles, January 28, 2009.

<sup>29</sup> "Textron Announces Plan to Exit All Non-Captive Financial Businesses; Revises Fourth Quarter Financial Outlook and Expands Restructuring Program," Press Release, December 22, 2008.

<sup>30</sup> "World's airline industry lost \$5 billion last year," Associated Press, Seattle Times, January 29, 2009.

<sup>31</sup> "Can Cheap Oil Fuel the Aerospace Sector?" Jorina Fontelera, ThomasNet, February 3, 2009.

<sup>32</sup> "Rolls-Royce announces 2,300 job losses despite £35bn order book," The Guardian, January 12, 2008.

<sup>33</sup> "Cessna: Layoff total to climb to 4,600 following 4Q report," Portland Business Journal, January 29, 2009.

<sup>34</sup> "Boeing plans to cut 10,000 jobs," BBC News, 28 January 2009.

<sup>35</sup> "United Technology Plans to Cut 11,600 Jobs," Associated Press, March 10, 2009.

<sup>36</sup> "Boeing groups flight testing for efficiencies, cost savings," Leehamnews, January 12, 2009.

“Companies will have to be much more competitive with their pricing as defense funding is likely to become harder to get.”

**Source:** Bill Johnston, Managing Director, Aerospace & Defense, Regulatory & Compliance, KPMG in the U.S.

### 3.3 New supplier agreements

New supplier agreements have led to lower costs. From 2006 to 2007, acquisition costs for the Lockheed Martin F-35 Lightning II program were cut by USD981 million, in part due to lower material costs associated with agreements made by Lockheed Martin and its subcontractors.<sup>37</sup>

Bombardier has signed long-term agreements with the suppliers of titanium and aluminum to decrease its exposure to price fluctuations.<sup>38</sup> The company has strengthened its manufacturing base in low-cost countries and outsourced some of its business process operations to external providers based in India.<sup>39</sup>

Other A&D companies, worried that the collapse of a supplier could damage their own financial health, have used cash to help smaller companies. In October 2008, EADS helped Latécoère, one of its main

suppliers, overcome liquidity difficulties by paying it in advance to compensate for delays in aircraft projects.<sup>40</sup>

### 3.4 Entering new markets

Faced with decreased orders and excess capacity, some A&D companies are considering whether to enter new or complementary markets. In February 2009, for example, EADS signed an agreement with local partner Emirates Advanced Investments. The two companies are establishing a joint venture, C4 Advanced Solutions, to transfer technology to the United Arab Emirates (UAE) and increase the presence of EADS in the region.<sup>41</sup> It is also seen as a move by EADS to diversify away from its European home market.

### 3.5 Program management execution

The Obama administration is stressing greater oversight on defense projects, more competitive bidding, the elimination of cost overruns, and other

measures to reduce spending and increase cost-efficiencies. Accordingly, many manufacturers will likely focus on improving program management execution. Suppliers will also be expected to improve their program management as these cost pressures are passed down the supply chain.

### 3.6 Preparation for less funding

Even when the economy improves, A&D companies will still be facing much more intense competition because of long-term reductions in defense spending. As a result, A&D companies are fine-tuning their prices and working to streamline their supply chain, driving for improvements in product quality and price. Many companies are increasing funds for independent research and development as well as bid-and-proposal initiatives in anticipation of tomorrow's more competitive markets.

<sup>37</sup> "U.S. Government Report Shows Decreased Costs For F-35 Program," Press Release, April 8, 2008.

<sup>38</sup> Annual Report 2008, Bombardier.

<sup>39</sup> Ibid.

<sup>40</sup> "European companies launch supply chain rescues," Richard Milne, Financial Times, November 16, 2008.

<sup>41</sup> "IDEX 2009: EADS Defense & Security Signs JV Deal," Pierre Tran, Defense News, February 22, 2009.



# Competitive initiatives for suppliers

On the supplier side, a number of initiatives have been developed to try to deal with decreased orders and added financial pressures.



Suppliers are working with OEMs and larger manufacturers to identify and manage supply shortages. They are also broadening product offerings through horizontal supplier integration.

Other supplier initiatives focus on capital management, cost reductions and improved global competitiveness.

## 4.1 Working capital and cost optimization

Now more than ever, many suppliers are adopting a rigorous kanban/just-in-time inventory management approach to keep stock levels as low as possible. Partnering with product designers and cost sharing with product developers have also increased cost efficiencies and reduced lead time. Additionally, some suppliers have announced significant layoffs to reduce costs and improve their balance sheets.

## 4.2 Global competitiveness

Certified supplier programs and master level agreements help assure OEMs of supplier cost, quality and responsiveness. In addition, strategies for performance-based logistics have allowed suppliers to trade performance guarantees for more control over logistics. Support by suppliers for green initiatives has also helped A&D companies comply with green product development regulations.

“The supply chain adapts quickly to changes at the prime level caused by government policy changes. Many times, suppliers can improve their cash flow by adopting aggressive working capital policies instead of simply raising prices. Accordingly, the combination of reduced prices and a skillful balance of on-shore versus off-shore sourcing, while satisfying ‘Buy America’ provisions, can help suppliers remain competitive. Strategic sourcing is not just for prime contractors – suppliers can also benefit from implementing strategic sourcing initiatives.”

**Source:** Phil Duke, Managing Director, Aerospace & Defense, Business Performance Services, KPMG in the U.S.



# Conclusion

The gravity of the current crisis cannot be underestimated. At the same time, there is potential for an overall improvement in financial markets, driven perhaps by government stimulus or simply by the inevitable thawing of credit markets.

“The A&D industry is highly resilient – primarily because companies are willing to make tough choices about managing costs and managing resources.”

**Source:** Doug Gates, Principal, Aerospace & Defense, Business Performance Services, KPMG in the U.S.

The industry is also hearing talk of a new arms race based on continued global conflict and next-generation weaponry. Emerging markets for A&D companies such as cybersecurity offer new possibilities.

A&D companies can avoid the extremes of unwarranted pessimism – or optimism – by developing financial and operational strategies that enable them to “prepare for the best but plan for the worst.” Properly designed and implemented, these strategies can help them adapt, survive and thrive in today’s turbulent times.



## Succeeding in turbulent times

KPMG firms can help today’s A&D companies with tools, methodologies, experience, and industry knowledge. We provide advisory services on cost optimization, restructurings, and working capital and cash management. Our professionals can also work with OEMs and their suppliers to help improve the supply chain, which can contribute to reduced costs and improved quality, while managing risk.

In addition, KPMG member firms include cross-disciplinary teams of professionals who closely monitor the A&D industry as well as relevant global economic trends and political events. With KPMG, A&D companies can develop strategies to help them improve risk management, enhance bottom-line performance, curb costs, improve liquidity, and strengthen their competitive position.





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Designed and produced by KPMG LLP (UK)'s Design Services

Publication name: Adapt, Survive and Thrive in Turbulent Times

Publication number: RRD-140646

Publication date: May 2009