

Defense industry and porters five forces management essay



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The U. S. Army is one of the many agencies in the Department of Defense with a mission to respond to threats to the nation's security and respond to domestic disaster relief missions. The organization accomplishes this through major combat operations and reconstruction operations globally and domestic. The challenge the Army faces is being able to provide the right forces with the right capabilities to meet a variety of challenges that are encountered in combat and humanitarian operations. The Army recruits, organizes, trains and equips Soldiers to operate as members of inter-agency, inter-governmental, and joint forces with other armed services and countries. To do this the Army invests in science and technology projects that create innovative products that enhance the fighting capabilities and welfare of the soldiers in combat and disaster relief situations.

According to the Army Senior Leader Reference Handbook, " How the Army Runs", the Army's science and technology (S&T) investments support the Army's operations focusing on the future force while, at the same time, seeking opportunities to provide advanced technology to the current force. It further states that the Army S&T program seeks to provide solutions that enable faster, lighter and smarter systems and the dual strategy is aligned with the Army's future operational capabilities and the lessons learned from current operations. The S&T program supports Army operations in three ways, 1) today's soldiers benefit from technologies emerged from past S&T investments, 2) it exploits opportunities by accelerating mature technologies resulting from ongoing efforts and 3) the investments influence the expertise of the scientists and engineers to seek and develop solutions to problems that are encountered during current mission operations.

The major parts of the defense industry are: aerospace and defense.

According to the impact study, “ The Aerospace and Defense Industry in The U. S.”, conducted by Deloitte, the aerospace and defense industry is the largest net exporter and one of the largest contributors to our nation’s gross exports at \$89. 6 billion. The aerospace and defense industry is mainly comprised of companies that manufacture products for military use. The industry produces products such as aircrafts, watercrafts, spacecrafts and weapon and information systems. The industry is primarily responsible for the reduction of human casualties in combat situations due to the advancements in technology that no longer require soldiers to be put in harms way. The U. S. aerospace and defense industry has increasingly become global, with American companies not selling abroad but setting up operations in other countries. On the other hand foreign companies, principally from Europe and under NATO, have increasingly become part of the U. S aerospace and defense industry by purchasing companies or establishing U. S. subsidiaries to gain a foothold in the largest defense market in the world (Deloitte, 2012).

Some of the current challenges the industry is facing is the government debt crisis and growing pressure on defense budgets to reduce costs ad spending. This has a negative effect on projects as additional program cuts are expected due to project overruns costs or the determination that current or planned projects and systems are no longer needed. In addition, there are difficulties in the global financial environments in sovereign countries, such as Greece, Spain and Portugal, that generated revenues from the procurement of military equipment and technology. Due to the lower

spending from defense consumers, this will lead to lower revenues for the defense contractors and could inhibit innovation in the industry. However, due to the current situation and unrest in areas of the Middle East, the demand for products in the aerospace and defense industry could increase and be a positive driver for the industry.

Given the slowdown in the U. S dense spending, contractors are considering how to replace revenues with growth in adjacent markets and through gap filling. According to Porter (2008), the understanding the competitive forces and industry structure is essential to effective strategic positioning. The approach suggests that an analysis of the following forces shapes a company's strategy:

Threat of New Entrants

Bargaining Power of Suppliers

Bargaining Power of Buyers

Threat of Substitute Products or Services

Rivalry of Existing

The identification of the competitive forces and shaping them in the company's favors is crucial to strategy. An industry analysis not only reveals positioning opportunities within an existing industry but it also allows companies to thoroughly analyze when the company should enter and exit the industry. It can also assist the company in identifying a prospective new industry with a good future or one that can present some value to the

organization. According to Porter (2008), it is the industry structure that drives competition and profitability.

Threat of Entry:

New entrants to an industry bring new capacity and desire to gain market share that puts pressure on prices, costs and the rate of investment necessary to compete (Porter, 2008). When new entrants are diversifying from other markets they can leverage existing capabilities and cash flows to shake up competition (Porter, 2008). In the defense industry, the barriers to entry are incredibly high. The threat of entry is limited due to the big businesses having proprietary technology, established brand identities, and cumulative experience in the industry (Porter, 2008), making it difficult for small businesses attain government contracts and compete with the defense firms.

The Power of Suppliers:

Powerful suppliers capture more value for themselves by charging higher prices, limiting the quality of services or shifting costs to industry participants (Porter, 2008). The defense industry is made up of several large corporations. The main competitors are Lockheed Martin, Raytheon, Northrop Grumman and General Dynamics. Many of these large suppliers are simply giant distributors who are experts in finding and winning defense contracts (Gerbe, 2011). Some of the suppliers have their products patented which prevents the government from switching suppliers and expecting the same product from another company.

The Power of Buyers:

Powerful customers can capture more value by forcing down prices and demanding better quality. The defense industry is highly regulated with only one major buyer which is also the regulator; the Department of Defense (Gribbin et al., 2012). Defense spending accounts for the major source of revenue for aerospace and defense contractors with primary buyers being the military and intelligence branches of US and foreign governments. In 2010, \$3.6 billion of goods were exported to foreign military sales (Deloitte, 2012). The DOD is a powerful buyer and captures more value by forcing prices down and demanding better quality. If a firm is serving this market and DOD budgets are cut as expected, a number of companies may leave the defense market and focus on existing or emerging industries.

The Threat of Substitutes:

Like previously stated, due to high entry barriers and powerful suppliers, there are few competitors in the industry leaving few quality substitutes. Because contracts take long periods of time to complete, it is difficult for the government to switch suppliers over a short period of time and substitute the product. In addition, many of the defense agencies are looking to insource if the defense contractors and suppliers are unable to meet the requirements inhibiting the entry of emerging companies. As previously stated, the acquisition of goods and services from foreign governments and vendors is an option but impacts the DOD's military advantage since it poses a threat to the confidentiality and proprietary aspects of domestic technologies

Rivalry amongst Competitors:

The defense industry is characterized by intense rivalry, especially in the services sector. According to Deloitte (2012), Aerospace and defense companies routinely compete in a low-price and technically acceptable contract environment. As previously established, there are only a few competitors amongst the defense industry, all of which are of similar size. Rivalry comes about when bidding on or competing for a new project. According to the article, “ Competition in Defense Contracting” by Tom Gerbe (2011), the Defense Department issued an interim rule in February 2010 to increase competition in major defense acquisition programs to trim defense spending. As a result, prime contractors are required to provide technical data packages that were once considered proprietary information, making it easier for smaller companies to produce the same goods. This will increase competition for sole source items and allow small businesses to compete. However, Gerbe states that some of these big suppliers try to further confuse competitors by providing part numbers for the military that are different than their similar off-the-shelf parts. A competitor attempting to acquire a sample from one of these companies may be told that the particular part only sells to the military. If a company cannot acquire the part, then there is nothing to reverse engineer.

The aerospace and defense industry has a significant impacted the strategy of the U. S. Army in ensuring soldier capabilities are enhanced, contributing to the Army’s strategy of mission accomplishment and protection of the Nation. Due to science and technological advancements in the aerospace and defense industry, there has been a reduction in human casualties over

time. The defense industry has created the technology that successfully addresses national security and helps defend the U. S. In addition, the industry also impacts the U. S. economy as the largest net exporting industry in the U. S. The modern technology innovations created from this industry have reduced the warfighter's need to be put in harm's way because adversaries can be fought with unmanned vehicles and laser guided munitions. The technology innovations and products developed have made our nation safer and our military forces powerful. The industry continues to innovate to produce the necessary defense used to increase our national security. However, the significant reduction in DOD spending may potentially negatively impact company funded research and development, and with it the innovations and technology advances we would have expected over the coming decade. With significant pressure to lower the budgets for defense, there may be a potential negative impact on the industry's capacity to continue to develop the innovations and technologies that have powered its first century. In addition, the rivalry amongst competitors and substitutes can be a threat in the defense industry. It can cause the firms not to collaborate with each other and improve the value operations and allow DOD to get more for their money. The intensive competition can impact the flexibility to incorporate emerging technologies over the life of the system (Rice, 2013). To ensure the initiatives that add value to the Department of Defense strategy are implemented, the competitive need be reassessed periodically and aligned with the mission strategy.