

Porter five forces analysis aerospace and defense industry essay sample

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There are currently many alternatives to aircraft travel, including cars, rail, and ship. Depending on distance, air travel has a significant advantage as far as speed and convenience. High speed rail may be a significant competitor. Also, as more people use the internet to teleconference, air travel may become less necessary in the business community. Other aerospace products such as space equipment have no foreseen competitors. Defense also has little to no substitute, as researchers are constantly developing better, more accurate and less destructive methods. Unless world conflict disappears, there will always be a need for defense spending.

Threat of entry of new competitors: LOW

The aerospace and Defense industry has significant barriers to entry. The industry is very intensive on research and development, which requires specialized workers and is capital intensive. Projects also have large capital requirements as significant investment is needed before money is received from sales. Contracts are made with a significant amount of weight to reputation and successful projects completed in the past. There are also many government and safety regulations that must be met in order to enter the market. The companies within the industry will shift from defense to focus more on aerospace as worldwide defense spending decreases and aerospace spending increases. New competitors can attempt to enter the aerospace market, primarily in China. China is known to have little industrial regulation and their companies may have reduced barriers to entry.

Intensity of competitive rivalry: MEDIUM

Competition is particularly fierce at the basic stage of negotiating contracts.

Competitors at each level of product line are relatively similar. Contracts are made with promises of future research and development that has not yet been accomplished. However, once the initial contracts are written companies typically sub-contract certain components of the contract to their peers that they previously bid against. This means that even if a company loses a contract bid, they may still benefit indirectly from that sale.

Bargaining power of buyers: MEDIUM

There are relatively few suppliers for commercial and smaller aircraft, giving buyers few choices. However, commercial airlines typically purchase jets with long-term contract. This shifts a large portion of the risk of projects to the manufacturers

Bargaining power of suppliers: LOW

Large-engine manufacturers are the most likely group to carry bargaining power for the aerospace and defense industries. The requirements in terms of power output and fuel efficiency are set very high and only a few manufacturers meet these goals. Companies are still able to negotiate with several suppliers to achieve the best contracts. Other components such as steel, plastics, and rubber are traded as commodities and the prices are determined by the markets, removing any bargaining power from the suppliers.