



Expanding Foreign Sales of U.S. Military Equipment: Industry Perspectives

*By Jon Barney
Partner, Avascent*

Prepared for:

CSIS



A&D companies – expand globally

Q: Will foreign markets be of greater importance to your company in the coming years? (March 2013 Avascent and Fleishman Hillard survey of senior A&D leaders on international markets)

YES! (93%)

“An important element of our **growth strategy** is our focus on **increasing our international business** from about 17% [of total revenues] today **to 20%** over the next several years.”

LOCKHEED MARTIN 

“We put on a **real push to grow internationally**. It’s easier for US companies to hunker down and **stay home**. But the other side of the coin is that **there is a huge market out there** that’s available to us.”

Raytheon

“Our **strategy** focuses on the **growing importance of winning international business**, where growth markets remain.”

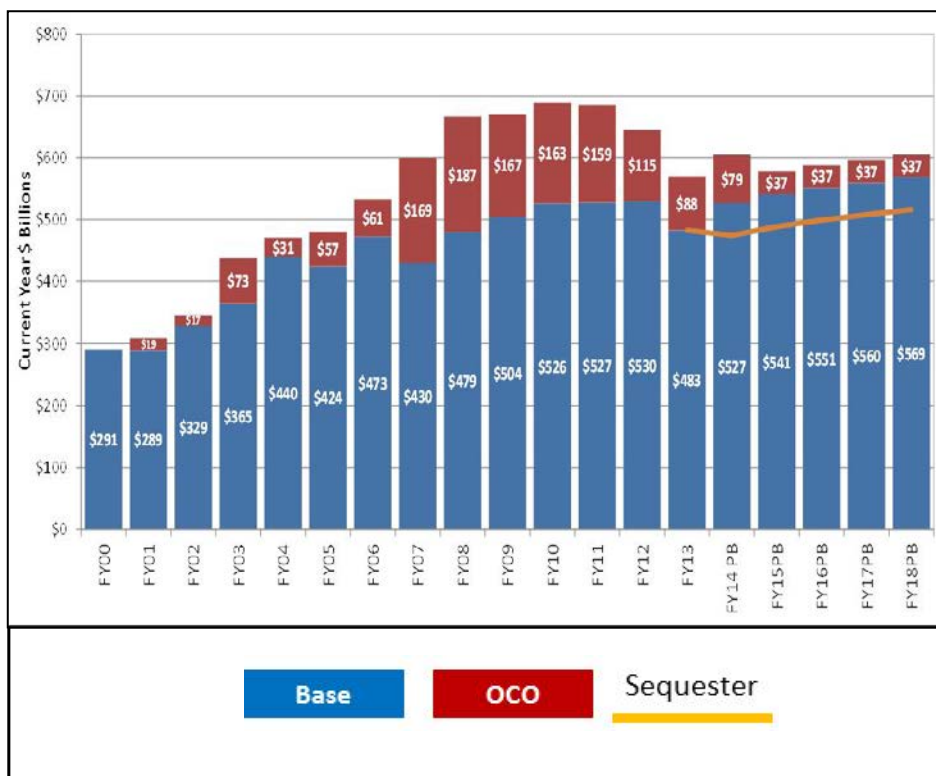
BAE SYSTEMS



Growth will be in the Rest of the World

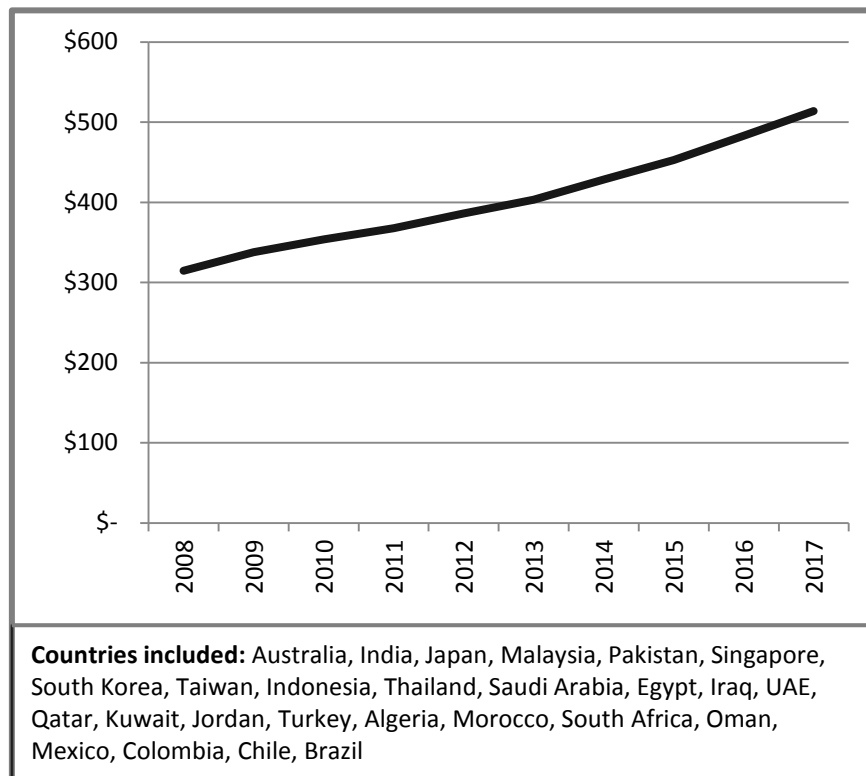
Flat/Declining Budgets

DoD Budget

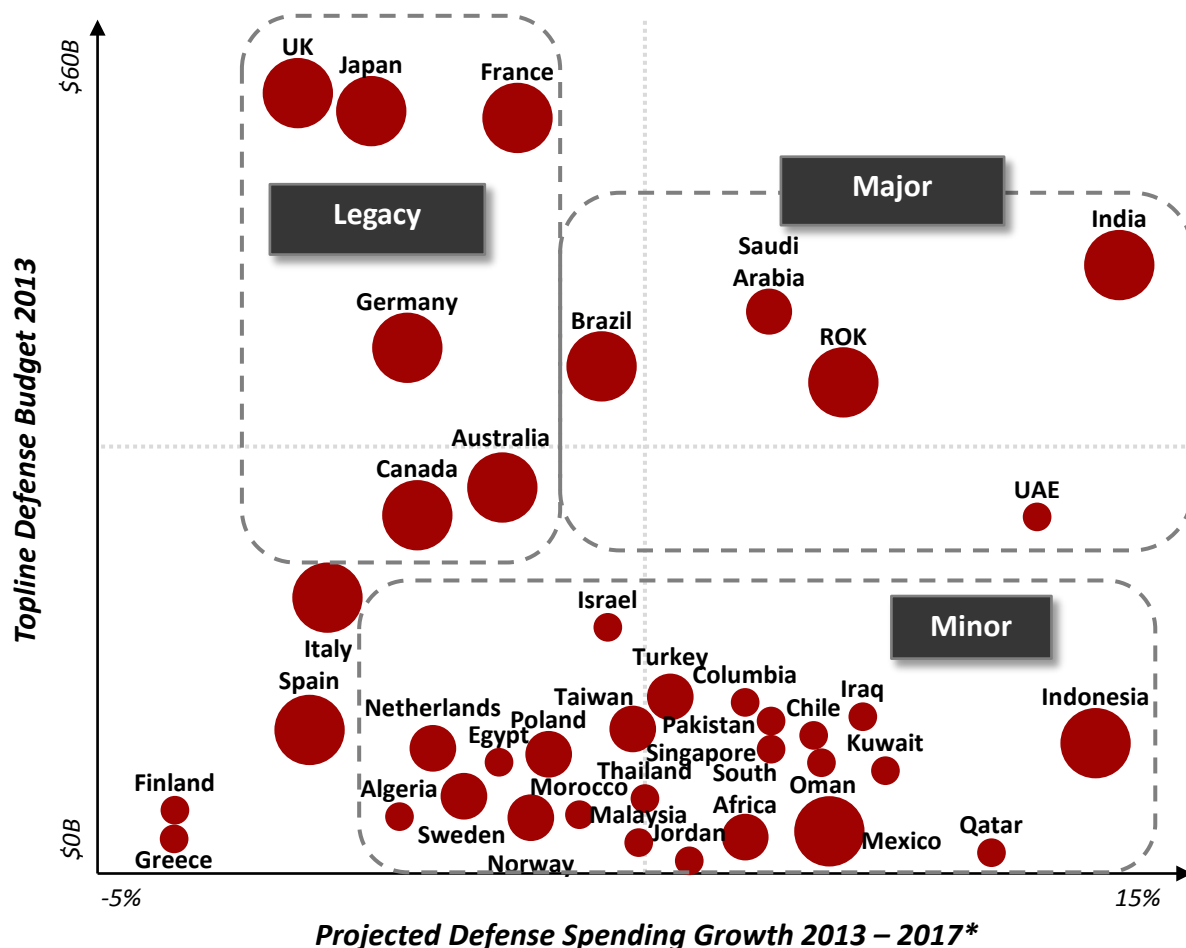


Growing Economic Power

Rest of World



Countries: Uneven growth picture... but with opportunity

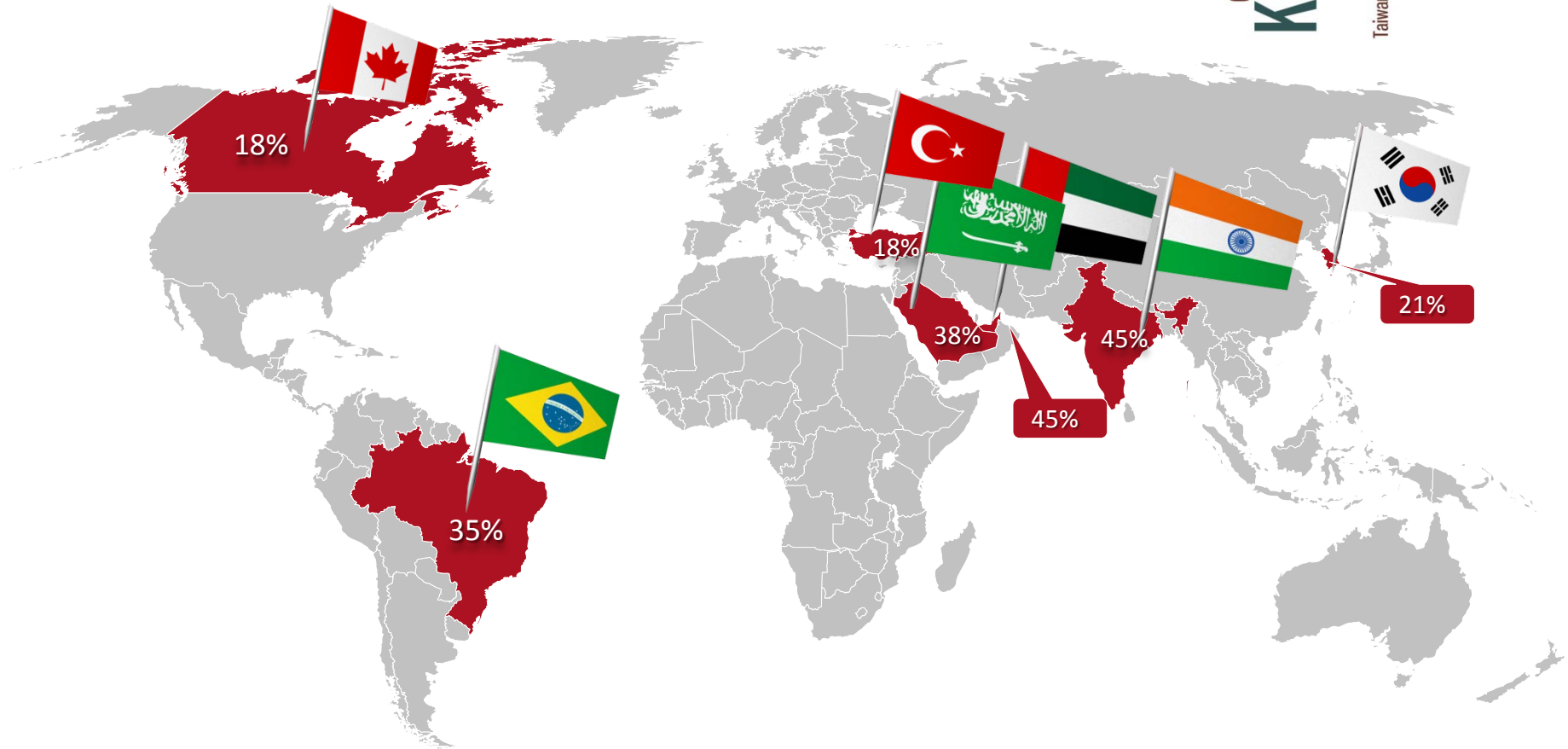


Segments	
1. Legacy: High GDPs and high levels of defense spending face declines/flat budgets	
2. Major: Sizable markets and growth offer significant opportunities for companies looking to gain traction globally	
3. Minor: Numerous smaller markets will continue to show moderate growth in defense spending – niche strategies	
2013 GDP	
	\$0B - \$400B
	\$400B - \$1T
	> \$1T

Survey: *BUSI* not BRICS

Q: Which of these countries do you consider most important to your company in terms of growth potential?

UAE Turkey
Brazil RoK
Canada KSA India
Taiwan



Offsets - The Growing Half Trillion Dollar Challenge

in 2012
an estimated **\$214B** in offsets
have been obligated but remain undischarged

by 2016
that number is expected to approach
\$500,000,000,000

Guns and Sugar, *The Economist*, May 25, 2013



**The
Economist**

The defence industry

Guns and sugar

More governments are insisting that weapons-sellers invest in side deals to help them develop their industries. This is a bad idea

May 25th 2013 | NEW YORK | From the print edition

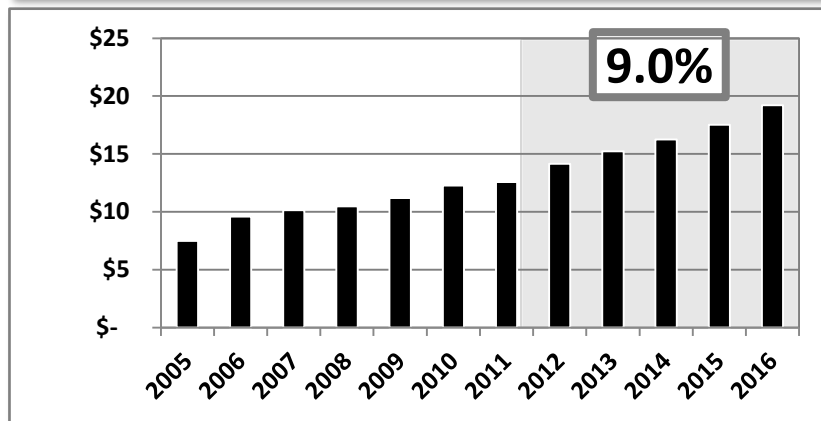
IMAGINE that Apple could sell iPhones in Brazil only if it ploughed 20% of its projected revenues there into local technology firms. That may sound absurd, but this is what happens when governments buy arms from foreign contractors. In procurement it is standard to supplement the main deal with a side contract, usually undisclosed, that outlines additional investments that the winning bidder must make in local projects or else pay a penalty. Welcome to the murky world of "offsets".



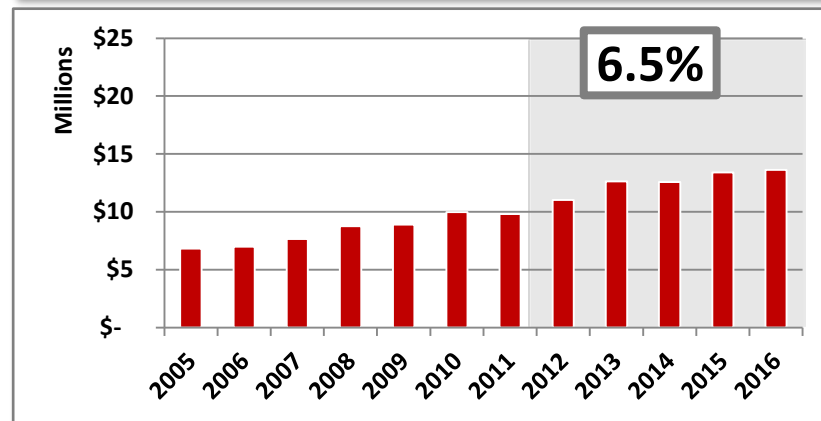
The practice came of age in the 1950s, when Dwight Eisenhower forced West Germany to buy American-made defence gear to compensate for the costs of stationing troops in Europe. Since then it has grown steadily and is now accepted practice in 120 countries. It has its own industry newsletter and feeds a lively conference circuit. The latest jamboree, hosted by the Global Offset and Countertrade Association, was held this week in Florida. Defence executives, officials and middlemen gathered there amid forecasts that the industry could double in size over the next few years. Yet its very structure serves to mask a build-up in the unrecognised financial liabilities of companies. It also, critics argue, fosters corruption, especially in poorer parts of the world.

Offset Growth in All Regions Increasing

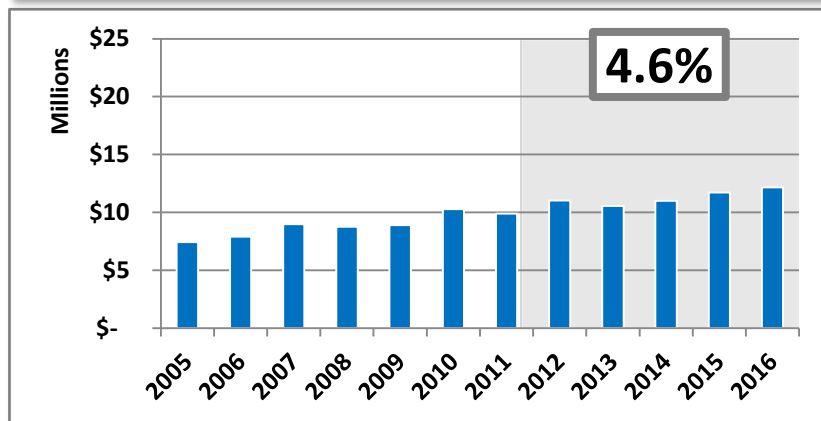
MENA Obligations



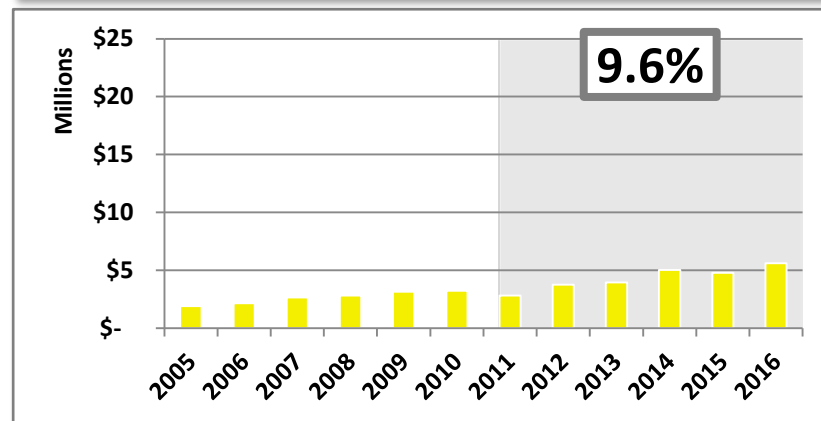
Asia/Pacific Obligations



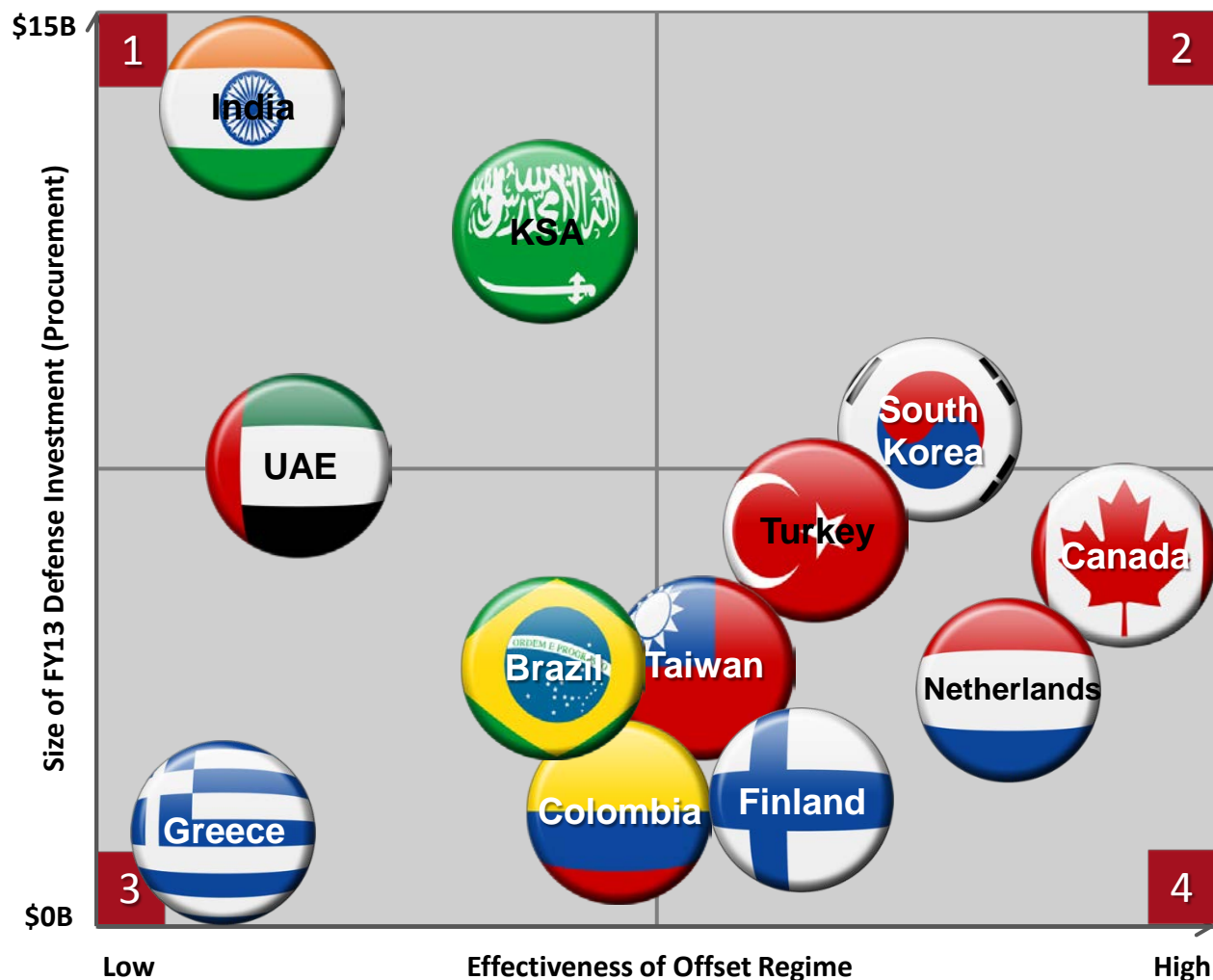
Europe & Canada Obligations



Latin America Obligations



Largest markets = largest challenges



- 1 **The Reality:**
Vital Markets with Challenging Offset Environments
- 2 **The Ideal:**
High Spenders and Offsets Leaders
- 3 **The Second Tier:**
Smaller Addressable Markets with Complex Offsets
- 4 **Mature Markets:**
Smaller but Strongly Structured Offset Environments

Global Expansion Challenges and Recommendations

Challenge		Recommendation
Fly-in/fly-out approach to global expansion	>	“Boots on the ground” and effective JV partnering
Product centric approach	>	Solution centric approach
Offsets rapidly increasing in \$\$\$ and importance	>	Raise visibility and view as opportunity not risk
Offset authorities \neq economic dev results	>	Campaign to educate and train offset authorities
Building a global organization	>	Integrate strategy, policy, reps, compliance, brand