



A&D Consolidation Points to Steady Industry Growth, Underscores the Need for Smart Manufacturing

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Military contractor Northrop Grumman recently announced that it would buy Orbital ATK, which makes components for missiles and satellites. This is the latest consolidation in the high growth aerospace industry, preceded by United Technologies' move to Acquire Rockwell Collins.

According to Zack's Investment Research, the Aerospace and Defense Market is strong, as one ETF just hit a new 52-week high. This was driven by a favorable earnings season from major industry players due in part to intensifying geopolitical risks, as reports indicate that North Korea may soon conduct another long-range missile test.

SMART MANUFACTURING DRIVES A&D GROWTH

This market activity illustrates a rapidly evolving aerospace industry, unprecedented demand and a need for product innovation and the ability to scale. This also underscores the need for smart manufacturing as a driver of growth and a way to keep a watchful eye on quality and cost control.

Prior to taking office, President Trump called for 90,000 more Army soldiers, a 350-ship Navy, 100 more aircraft fighters, and strengthened nuclear and missile defense. The Navy projection alone would be very expensive, with increased spending on big-ticket items such as aircraft carriers and attack submarines.

This *good news* for A&D contractors comes with a stern caveat: Cost control. As a candidate, Trump promised disgruntled taxpayers more for less on NBC's Meet the Press: "I'm gonna build a military that's gonna be much stronger than it is right now. But you know what? We can do it for a lot less."

The agenda of the Trump administration and the Republican Congress creates a two-pronged mandate for defense contractors. The sector needs to position for growth, assuring they have the systems and processes in place to accommodate what promises to be a boost in demand not seen in decades. Furthermore, they must also prepare for an era of higher accountability, characterized by requirements to deliver on time and on budget with decreased tolerance for delays, setbacks, and quality issues.

OPPORTUNITIES FROM SMART MANUFACTURING

Those that gear up and embrace smart manufacturing approaches, sooner rather than later, will be best positioned to take advantage of the looming opportunity. Technology and digital manufacturing companies face similar opportunity and challenge as they support the A&D sector. Bringing the advanced analytics, automation, and cyber-physical integration capabilities to fruition in the complex business of building next generation fighter jets is a momentous undertaking.

As the U.S. works toward bolstering defenses to better compete with powerful global forces, it's important to remember that we can't do it as we always have. There will be tremendous pressure to build stronger, smarter, faster aircraft in less time, with fewer mistakes and overruns. We have the technological might; now it is up to A&D sector leaders, as well as military and government heads, to invest in smart manufacturing as the foundation for a stronger and more secure defense.