

Getting Ahead of the Curve in the Tactical Wheeled Vehicle Market

The tactical wheeled vehicle industry is rebalancing after experiencing unprecedented spending levels.

Defense contractors must invest in analyzing the future of this market to remain competitive.



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During more than a decade of counterinsurgency operations in Iraq and Afghanistan, America's military has shaken off its Cold War legacy and evolved into a force whose mainstay ground vehicles are very different than the battle tanks designed to hold back Soviet units in the Fulda Gap.

The next ten years promise to be just as transformative for today's forces and the companies that support them. Not all the factors and variables that will influence the industry landscape are currently evident. But the winning firms of 2025 will be those who are willing to work now to understand what it will take to lead this market segment in the 21st Century.

Turmoil and Transition

It is a time of transition in the defense industry and the ground vehicles market is no exception. MRAPs rushed to Iraq and Afghanistan are being cast off and scrapped by the thousands while the Army presses ahead with the Joint Light Tactical Vehicle in the hopes that it will be suited to future operations anywhere in the world.

The country's strategic focus is also shifting as American policymakers wrestle with how to respond to China's remarkable economic, and now military, rise. More urgently, the recent Russian incursion into the Crimea showed how quickly the issues can shift as U.S. policymakers try to make falling defense budgets fit a fast-changing world. While no one foresees a resurgent Cold War with heavy

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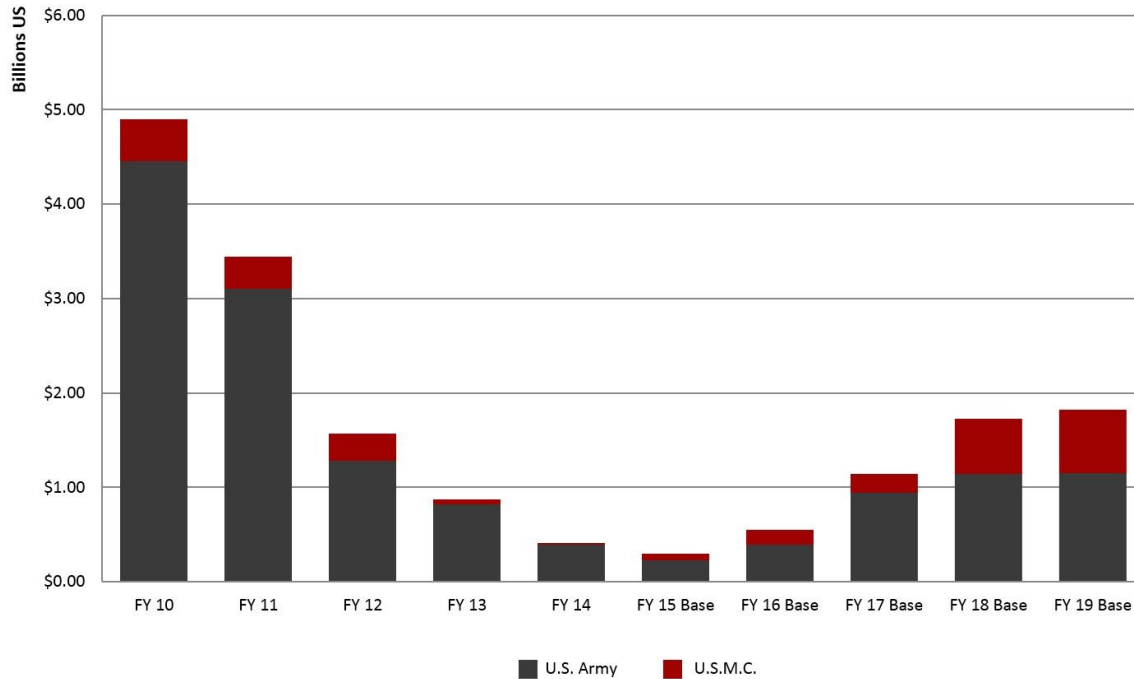
conventional forces poised for battle, land forces continue to seek the right balance of capabilities.

Secretary of Defense Chuck Hagel has warned that if the Pentagon does not receive funding above current discretionary spending caps, then he expects that more cuts to force structure and investment programs will be forthcoming. The White House recently requested a Defense Department base budget of \$495.6 billion for fiscal 2015, a figure supporting naval and aviation systems—procurement programs deemed most relevant to the Pacific theater. Meanwhile, ground systems have not fared as well, with procurement in the fiscal 2015 request slipping 3.2% from 2014 spending levels. Perhaps more impactful over the long term is the nearly 12% decline in fiscal 2015 ground vehicles' research and development budgets.

In light of these numbers, it may seem most sensible to focus on perfecting a proposal for one of the few big contracts still up for competition, in what are often winner-takes-all stakes. Those wins are indeed crucial, just as a losing bid can pose an existential threat to a company's future.

Even for the company that scores a momentous win, this is not a time to be short sighted. In today's defense market, making

Tactical Wheeled Vehicle Procurement



Over the Horizon

the most out of a program win means thinking about how such success can be leveraged to bolster a company’s long-term prospects. That insight comes from investing resources in strategic planning, so that corporate leaders can look beyond this era of transition and map out a course for a more prosperous future than the one faced today.

The choices within the current climate for the defense industry can be stark. Exit the market. Buy a competitor. Bide time and chase adjacent business opportunities. Those firms that remain may focus their energy on winning one of the few remaining opportunities, but that is essentially a short-term step.

The question that needs to be actively addressed everywhere from executive suites to individual business units is easy to ask but difficult to answer: *What are the traits of a winning firm in 2025?* To answer this question, business leaders need to get a better understanding of new ways to think about future business dynamics.

There are four areas in particular worth focusing on: market context, global marketability, scalable manufacturing and lifecycle-cost design.

Successful firms in the 2020s will be those that are willing to explore adaptable and dynamic fleet management models that reflect a

different market context than today's environment. This may include integrated vehicle leasing, customer-focused performance and maintenance diagnostics, managed fleets of commercial vehicles performing tasks far from battlefields, and a wider spectrum of outsourced services. Improving the competitiveness of U.S. vehicle manufacturers is a noble goal, but figuring out what measures will improve global marketability is the greater challenge. Some companies might work to first introduce international variants of a vehicle. Since tactical wheeled vehicle price points are much lower globally than in the U.S., starting with a low-cost vehicle may broaden the addressable market. This, of course, would require companies to invest in internal research and development rather than waiting for government funded R&D. Likewise, it may be that international sales could be secured because the firm is able to leverage networking and C4I technology investments owing to loosened export regulations. It might even be that investing in manufacturing in a customer's country is a worthwhile, and sustainable investment.

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The elements of manufacturing such a vehicle will evolve, with dynamics shifting to increase the viability of certain U.S. vehicle manufacturers over others. Familiar aspects

such as using more commercial components, production techniques and best practices may be present alongside revolutionary rapid prototyping and additive manufacturing.

Implications for industry

The basic corporate structure of a competitor of the future is also an open question. Depending on biases, the current market can be read as one that requires a pure-play military vehicle business, or one that is ripe for entry by a diversified automotive giant. The role of commercial entities could force a reexamination of generation and management of intellectual property, something that might portend a major shift if government is to accept that it will not own design and technical data unless it is willing to pay for it. Ultimately, how the industry grapples with this progression will come down to the business case that can be made for any single or large-scale transformation.

Looking further ahead

Some of the biggest changes in defense markets during the coming decade will be unpredictable or out of the hands of any given chief executive or chairman. What is certain is that change is coming, and it will move faster than most companies expect. It is up to industry leadership today to take this on as an immediate challenge. Those who begin to explore how their firm can thrive in 2025 will be better prepared to stay ahead of the curve in the tactical wheeled vehicles market.

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