



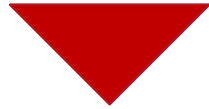
FighterCo

Sample Case

Introduction and Background

1 INTRODUCTION

Fighter Co. has been a top manufacturer of military aircraft for the Department of Defense (DoD) for many decades. While the company has made a variety of aircraft, the area where it excels the most and consistently outpaces the competition is fighter aircraft. The company has also developed large fixed-wing transport aircraft and tactical rotorcraft (i.e., helicopters), and has periodically won government contracts to produce both.



2 EVOLUTION OF CORE MARKETS

Fighter Co.'s forays into commercial markets have struggled, mainly because, according to Fighter Co. Management, the company has not figured out how to produce or source parts affordably enough to turn a profit with a commercial customer base. Over the years, Fighter Co. has received government contracts for sustainment (i.e., maintenance and repair) of its manufactured aircraft. However, over time, the company has lost its competitive advantage to firms that specialize solely on aviation operations and maintenance, primarily due to cost pressures and requirements for contractors to service a wide variety of aircraft. The company's capital structure and production processes are best suited to the production of fighter aircraft. As a result, Fighter Co. has been on the winning side of many government contracts for procurement of hundreds of new fighter aircraft over the past 20+ years.

Problem Statement

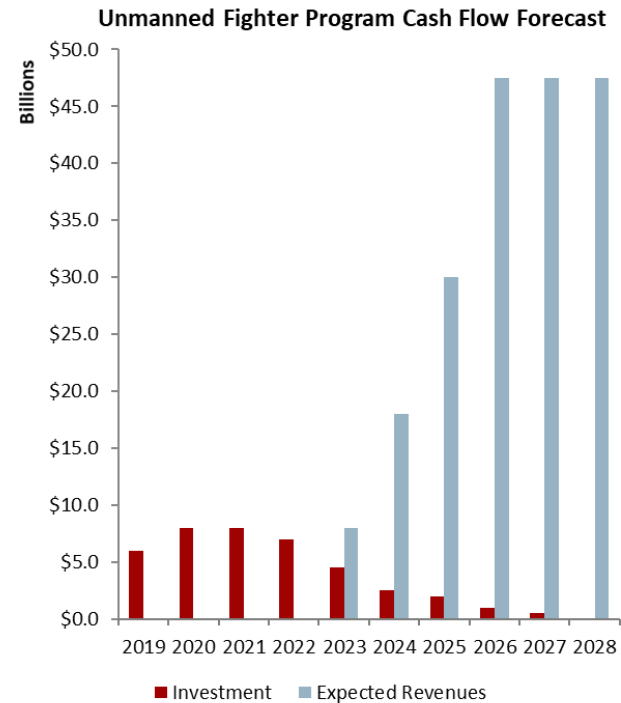
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3 PROBLEM STATEMENT

In the early 2010s, Fighter Co. was selected by the government to design, develop, and manufacture a highly integrated fighter aircraft that would replace most manned aircraft used by US military services for combat by 2030. Given the high volume of this opportunity and the substantial investment required from Fighter Co. to win the contract, producing this aircraft accounts for the majority of the company's personnel and capital.

At this point in time, the prototype development and testing phases have been completed and production is well underway; delivery of its aircraft to the US military will begin four years from next month. Fighter Co.'s senior leadership is looking beyond its anticipated US military sales to improve the company's long-term financial prospects.

GRAPHIC(S) AND QUESTION(S)



Question 1: *What would you like to ask during a facilitation session with FighterCo to better understand the business?*

Question 2: *What are some other markets that FighterCo might want to consider expanding into given its current capabilities?*

Sample Answers – Questions 1 & 2

Question 1

- **Core and adjacent capabilities** – What is Fighter Co. good at doing? What are adjacent capabilities they could develop? How have they differentiated themselves from competitors?
 - This can reveal information about their market positions, threats, and opportunities they may face
- **Sources of revenue** – How else does Fighter Co. make money? What areas have they tried before? Are any areas off-limits?
 - This focuses on Fighter Co.'s finances and how they've thought about their addressable market over time
- **Business model** – How is their customer base characterized? How willing is the company to dramatically change its business model?
 - By better understanding Fighter Co.'s business model, and how they sell to customers, we get a better sense of what markets would be a good fit for them moving forward

Sample Answers – Questions 1 & 2

Question 2

- **Fighter Co could sell its existing aircraft to new markets**, both domestically (e.g., other military branches) and internationally (e.g., foreign allied militaries)
 - Selling current aircraft to other markets would enable Fighter Co to save on development costs while still expanding into new markets
- **Fighter Co. could sell aircraft pieces** (e.g., aerostructures, engines, subsystems, components) to current and existing customers
 - Aircraft parts are used by a variety of industries (e.g., commercial airlines, militaries, other aircraft manufacturers), though chances are that Fighter Co buys most of its aircraft pieces from other suppliers, limiting its ability to profitably sell them to other buyers
- **Fighter Co. could develop new types of aircraft** (e.g., helicopters, commercial aircraft, other military aircraft, UAVs/drones)
 - Developing new aircraft types would enable it to expand into new markets, but it would likely take time and significant investment
- **Fighter Co. could provide aircraft sustainment services** (e.g., maintenance, repair, and overhaul, spare parts, aircraft testing)
 - Sustaining existing aircraft would enable Fighter Co to draw long-term revenue from its aircraft sales, though this is likely a different business model than direct platform sales

Market Expansion Options

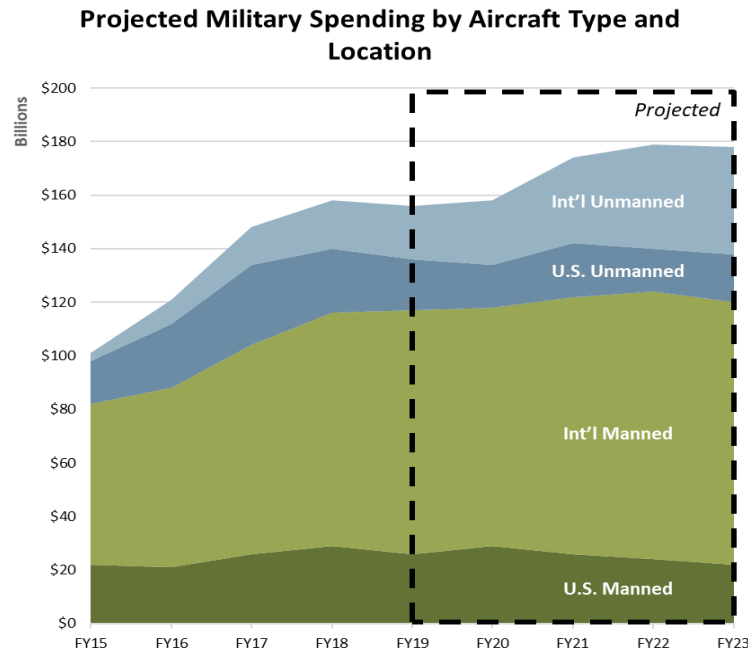
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4 LEAD-IN

Based on your conversations with Fighter Co., you have been instructed that the company feels most comfortable with government customers and thinks that any future market they enter should include a government buyer.

Their research department has provided this graph that shows spending among four primary aircraft markets that they would like to consider.

GRAPHIC(S) AND QUESTION(S)



Market Definitions

Each market includes spending on engineering, manufacturing, and development of aircraft structures, interiors, and equipment used in the cockpit and cabin, as well as other parts necessary for flight and performing intended missions.

U.S. Manned Aircraft

- Includes conventional platforms used by the U.S. government for a range of purposes, such as combat or transport, flown by one or more pilots

International Manned Aircraft

- Similar to U.S. manned aircraft, but used by international militaries; foreign countries either purchase aircraft from foreign manufacturers or via the Foreign Military Sales process from U.S. manufacturers

U.S. Unmanned Aircraft

- Aircraft specifically designed to be piloted by remotely-located personnel in order to perform surveillance or other dangerous missions while limiting potential harm to humans; often referred to as "drones" by news media, used by the U.S. government

International Unmanned Aircraft

- Similar to U.S. unmanned aircraft, but used by international militaries

Question 3: Looking at the graph of manned and unmanned aircraft spending in the US and International markets, what are your main takeaways?

Question 4: What approach would you take in order to evaluate these markets to determine which is most attractive?

Question 5: After looking at the graph and talking about the comparisons you made, which market(s) seem the most attractive and why?

Sample Answers – Questions 3 & 4

Question 3

- **US Manned:** The market appears to be **Fighter Co's core market**. It's relatively **flat over time**, with some decline in the outyears.
- **Int'l Manned:** The market is the **largest of all four** and has demonstrated **consistent growth historically**. Moving forward, it is **expected to maintain its size**, highlighting its attractiveness. One thing to keep in mind is **potential political considerations** of selling a state-of-the-art fighter aircraft to other countries
- **US Unmanned:** The market has seen a near-term increase in value but is **expected to decline in the near-term**. Entering the market in FY15 would have yielded strong growth, but **now it may be too late to capture significant value**
- **Int'l Unmanned:** This is the **smallest market of the four** but is projected to have significant growth moving forward. Its smaller market size may indicate limited competitor presence. Entering it would likely be a **high-risk, high-reward strategy**

Question 4

Factors you could consider when evaluating different markets include the following:

Market Size & Growth Trajectory	Products & Services in Demand	Cost/Ease of Doing Business	Customer Familiarity and Interest in Fighter Co Offerings	Competitive Environment	Required Investment to Pursue Market (e.g., new aircraft, new bus. Model)
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Sample Answers – Question 5

Question 5

Two markets appear to be the most attractive for Fighter Co to pursue:

- **International Manned**

- This is a **large market that is steadily growing** in which Fighter Co can **leverage its core manned fighter capabilities** to address. They would likely be able to use the same workforce (e.g., engineers, sales personnel) to address this market, **limiting upfront investment**. The **focus of business development should be allied countries** since it is often easier to sell sophisticated equipment to them

- **International Unmanned**

- This market has the **highest growth potential**. There may be competition already present but given its currently limited size **competitors may not have significantly invested in this market**. Fighter Co would have to **customize its current manned fighter aircraft** for this market but could do so in time for the **projected growth in FY21 – 22**

Revenue Potential Evaluation

INFORMATION

5 LEAD-IN

Since you have selected an international market, Fighter Co. would like to select one country to serve as an initial growth pursuit for 2020.

In order to do so, Fighter Co. would like you to calculate the potential revenues that it can receive in 2020 based on the information in this table.

The company calculates potential revenues by multiplying any given country's spending on (manned/unmanned) aircraft in a year by 10% (i.e. assuming a 10% market share). Which country has the highest potential 2020 revenues?

GRAPHIC(S) AND QUESTION(S)

Country	2019 Defense Spending (USD)	'19-'20 Defense Growth Rate	Annual % of Defense Spending on Manned Aircraft	Annual % of Defense Spending on Unmanned Aircraft	Fighter Co. Potential Revenues, 2020
South Korea	\$27B	10%	30%	20%	
India	\$44B	2%	40%	20%	
Saudi Arabia	\$40B	5%	33%	10%	
Brazil	\$33B	1%	34%	17%	

The company calculates potential revenues by multiplying any given country's annual spending on a type of aircraft by 10%

Note: these figures have been simplified for use in this case interview and do not represent actual values

Question 6: Calculate potential revenues in 2020 for FighterCo for manned and unmanned aircraft in each country

Question 7: Which country appears to have the strongest potential revenues in each market?

Question 8: What other factors should be considered when exploring business opportunities in each of these countries and markets?

Sample Answers – Questions 6-8

Question 6

- **South Korea** - $\$27B + (\$27B \times 10\% = \$2.7B) = \$30B \times [30\% = \$9B \times 10\% = \mathbf{\$900M \text{ for manned}}]$ OR $[20\% = \$6B \times 10\% = \mathbf{\$600M \text{ for unmanned}}]$
- **India** - $\$44B + (\$44B \times 2\% = 1B) = \$45B \times [40\% = \$18B \times 10\% \mathbf{\$1.8B \text{ for manned}}]$ OR $[20\% = \$9B \times 10\% = \mathbf{\$900M \text{ for unmanned}}]$
- **Saudi Arabia** - $\$40B + (\$40B \times 5\% = \$2B) = \$42B \times [33\% = \$14B \times 10\% = \mathbf{\$1.4B \text{ for manned}}]$ OR $[10\% = \$4.2B \times 10\% = \mathbf{\$420M \text{ for unmanned}}]$
- **Brazil** - $\$33B + (\$33B \times 1\% = \$3.3B) = \$33B \times [33\% = \$11B \times 10\% = \mathbf{\$1.1B \text{ for manned}}]$ OR $[17\% = \$5.5B \times 10\% = \mathbf{\$550M \text{ for unmanned}}]$

Question 7

- Given the revenue calculations, **India has the most attractive market for manned aircraft (\$1.8B)**, followed by Saudi (\$1.4B). **India also the strongest potential revenues in the unmanned aircraft market (\$900M).**

Question 8

When entering into a new country or market, FighterCo should consider factors that may impact margins, stakeholder investments, and barriers to entry, such as:

- **Level of internal investment required** to access the country's industrial base or key partners
- **Potential trade restrictions or foreign sales processes**
- **Long-term revenue security** and overall geopolitical security environment
- **Fighter Co.'s existing in-country presence** or business relationships

Synthesis and Reflection

QUESTIONS

Question 9: *What are some limitations with using 2019 potential revenues as a basis for determining whether a country is worth being FighterCo's primary focus for expanding international military sales?*

Synthesis and Reflection

SAMPLE ANSWER (QUESTION 9)

Question 9

- Using 2019 potential revenues as the primary factor in determining an expansion country **relies too heavily on a single criteria for investment and could provide a skewed view of the market.**
- In order to make an informed decision, FighterCo should **compare long-term revenue with 2019 revenue** and evaluate the **expected margins in order to determine the return on a potential investment.**
- Beyond the financial implications, FighterCo should also consider **what impact sales to a given country would have on US foreign relations and the company's brand.**