

SOAR IN THE NEW

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Four Stories to Watch at Paris Air Show 2017

by John Schmidt

Aerospace and defense manufacturers will be focused on several market, technological and strategic challenges during the upcoming International Paris Air Show.

The key market challenge will be becoming more efficient and growing faster in a slow-growing industry with declining orders for commercial aircraft. To overcome this market challenge, these companies will need to use data analytics technologies to improve operations, supply chain, and systems integration, and deliver more personalized and engaging customer experiences.

Strategically, they will need to determine how best to expand their digital transformation beyond engineering to embed digital technology and agility into many more parts of their value chain -- encompassing in-flight pilot and passenger experiences, airline operations and maintenance, aircraft design and manufacturing, and collaboration with customers and suppliers.

In addition to these challenges, there will be stories about new growth opportunities such as the Asia/Pacific and defense markets, as well as aftermarket services including aircraft maintenance.

Here are more details about these four storylines:

- Story One: Market Realities
- Story Two: Going for Growth
- Story Three: Digital Dominates
- Story Four: Analytics All Around

STORY ONE: MARKET REALITIES

This industry is faced with slow commercial aerospace growth and flat global defense spending.

The new Accenture Commercial Aerospace Insight Report, which combines Accenture's econometric modeling and insights from industry executives, reveals that the global commercial aerospace growth is likely to deliver only 2.1 percent annual growth this year. Executives remain concerned about geopolitical risks especially worsening economic conditions and increased political instability during the next year.

Aircraft orders have declined by approximately 50 percent over the last three years since their peak in 2014. Additionally, material and labor costs are expected to rise during the next 18-to-24 months.

There are ongoing problems that are vexing the industry—widespread and expensive delays in delivering aircraft to market on time and on budget. For some complex programs the time to deliver a plane to market has lengthened from four to eight years.

STORY TWO: GOING FOR GROWTH

Despite these market challenges, numerous growth opportunities exist. Expect show attendees to be focused on business opportunities in the Asia/Pacific region, potential growth in the defense sector, and higher demand for aftermarket services.

Asia/Pacific

The Asia/Pacific market is expected to grow 7.5 percent – much faster than other major global regions, according to the Accenture Commercial Aerospace Insight Report. North America is forecasted to grow 3.5 percent, while Europe, Africa, the Middle East and Latin America are projected to decline by -0.5 percent.

Aftermarket

More aircraft are remaining in commercial use longer than they have in the past. As such, business opportunities are growing for companies that provide aftermarket services including maintenance, repair and overhaul.

Defense

In the defense market, which for the past several years has grown at a slower rate than the commercial sector, opportunities could be on the rise. Global defense acquisition

spending is forecasted to remain flat at \$441 billion, or only grow incrementally, during the next five years, according to Accenture research and analysis. But recent geopolitical dynamics could create more growth in this market.

STORY THREE: DIGITAL DOMINATES

Digital transformation continues to be a major industry trend.

The report, Accelerating Through Digital Turbulence: Accenture Technology Vision 2017 for Aerospace and Defense Companies, reveals that for the past few years aerospace companies have been consistently developing digital capabilities. Nearly all (98 percent) are comprehensively investing in digital technologies as part of their overall business strategies.

To be sure, use of digital technology in this industry is far from new. The Boeing 777, for example, was designed in the 1990s using digital tools. The Airbus A350 XWB has a fully three-dimensional digital model for partner design collaboration.

While aerospace companies have used digital for design purposes, a more profound and strategic digital transformation is underway throughout this industry. During the next few years digital will secure its place at the heart of the industry value chain, enabling digitally-based business models that will reshape peoples' activities to drive efficiency and improve supply chain performance.

Aerospace and defense companies will develop digital capabilities to differentiate their operations, both internally in how products are designed and manufactured and externally in how products are operated and maintained. They will leverage a wide range of capabilities from "big data" to augmented and mixed reality. Broadly defined, big data consists of very large data sets that can be managed and analyzed to detect patterns and trends and generate insights about operations, product quality, and peoples' behaviors.

STORY FOUR: ANALYTICS ALL AROUND

Pervasive throughout the Paris Air Show will be a focus on the rapidly growing amount of data being produced and how to use analytics to manage, make sense of, and generate insights from this data to improve decisions.

The amount of data this industry generates is massive and growing. For example, one aircraft can produce an estimated one terabyte of data per flight. To put this in perspective, a terabyte is the equivalent amount of data as approximately 200 digital video disks.

The industry is increasingly using big data to embrace every aspect of the industry value chain -- from in-flight passenger experiences, to airline operations, to design and manufacturing, to service and support. Big data transforms the way these companies

operate, interact and integrate. Data is evolving from a valuable resource to the basis for entire business models and growth.

Whereas aerospace and defense companies now differentiate mainly through their products, pivoting into digital businesses that leverage the benefits of big data will help them differentiate through operational capabilities.

ACCENTURE AT THE SHOW

Accenture executives will be available for meetings at the show to discuss these stories, the new research reports, and demonstrate numerous technology applications. We will be located in the VIP Chalet Area (number 33) close to Hall 3.

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