Global Aerospace & Defense Sector Outlook

Growth prospects remain upbeat...

The global A&D sector is likely to experience stronger growth in 2017, following multiple years of positive, but a subdued rate of growth.

A&D sector continues to be at the forefront of digital innovation

Additive manufacturing
Machine learning
Smart automation
Blockchain
Advanced analytics

2% estimated growth in 2017

Flat revenue increase expected in commercial aerospace subsector

Increase in travel demand driven by global demographics and wealth creation in Asia and the Middle East

3.2% defense subsector revenue growth in the US, contributed by:

- Resurgence of global security threats
- Higher defense spending from other major regional powers such as Japan and India

Continued transformation with A&D supply chain to reduce costs, respond quicker and to invest more in product innovation

Global defense spending returns to growth

Foreign investments norms are being relaxed in emerging markets

Potential further industry consolidation

... acquisitions and cross border joint ventures in the global A&D sector are expected to gain further attractiveness

Global A&D sector is expected to continue to experience pricing pressure and a resulting need to be more efficient and to reduce costs

Source: Deloitte 2017 Global aerospace and defense sector outlook
Regional Aerospace & Defense Sector Outlook

United Kingdom (UK)
The UK exiting the European Union leads to uncertainty around the impact on the A&D sector. As the pound sterling has depreciated, UK become more competitive, and export activity is expected to increase.

France
International air traffic growth and a 4% upturn based on the rise of production benefits the French A&D industry. The French defense sector is ramping up on personnel for operational units which includes €2 billion to fund the defense payroll, equipment, training, strike capabilities, acquire supplementary resources for cyber defense and intelligence etc.

China
A 13% reduction in armed forces personnel is expected by the end of 2017, which may increase the spending on military equipment and weapons. China’s domestic aviation market is growing fast and is expected to be the worlds largest by 2035. China has also entered commercial aircraft manufacturing to meet domestic as well as global demand for travel.

India
The defense budget is increasing as the country recapitalizes and strengthens its military to counter potential threats from China and Pakistan, while upgrading existing assets. The government’s emphasis on timely execution and improved policy, in consultation with industry participants, is expected to lead to technological advancements in the sector. In the commercial aerospace sub-sector, India has the highest traffic RPK growth globally, and it is expected to be the third largest aviation market by 2026.

The Middle East
Low oil prices are likely to affect future defense spending in the Middle East region. National security threats and ongoing instability and conflict in the region will likely maintain a strong order flow.

Source: Deloitte 2017 Global aerospace and defense sector outlook
## A&D: Business & Workforce Implications

### Business Implications

<table>
<thead>
<tr>
<th>Business Implications</th>
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<tbody>
<tr>
<td><strong>Production growth</strong> to meet strong demand for next-generation aircraft and growing passenger traffic</td>
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<td><strong>Global competition</strong> increases from countries such as China and Russia</td>
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<td><strong>Capacity demands</strong> require a transformation of the supply chain</td>
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<td><strong>International growth opportunities</strong> to seek and gain economies of scale (e.g., consolidation by part family)</td>
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<tr>
<td><strong>Changing customer requirements</strong> served by rationalization of product portfolios</td>
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<td>Focus on <strong>efficiency</strong> initiatives (e.g., risk sharing with suppliers, factory automation)</td>
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### Organisation and Workforce Implications

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<tbody>
<tr>
<td><strong>Invest in people development</strong> such as upskilling and career progression</td>
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<tr>
<td><strong>Improve employee productivity</strong> (e.g., manage cost structures timely, rationalize/close factories)</td>
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<td><strong>Enhance organisational flexibility</strong> to adjust capacity and focus and enable innovation</td>
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<tr>
<td><strong>Prepare organisation and employees</strong> for changing customer requirements (e.g., more functionality, more reliability) and technological advancements</td>
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<tr>
<td><strong>Adopt cognitive tools</strong>, AI technologies, and train people to work with these tools</td>
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Research overview

Deloitte’s largest and most extensive human capital survey to date

10,000+ business and HR leaders

140 countries

49 A&D responses

Unless otherwise noted, all data referenced is from 2017 Deloitte Global Human Capital Trends: Rewriting the rules for the digital age.
2017 Human Capital Trends

The organisation of the future: Arriving now

Careers and learning: Real time, all the time

Talent acquisition: Enter the cognitive recruiter

The employee experience: Culture, engagement, and beyond

Leadership disrupted: Pushing the boundaries

Digital HR: Platforms, people, and work

People analytics: Recalculating the route

Diversity and inclusion: The reality gap

The future of work: The augmented workforce
2017 Human Capital Trends: Aerospace & Defense Perspective

Top 10 Human Capital Trends: The perspective of A&D companies

- Organization of the future: 74% Importance, 24% Readiness
- Employee experience: 72% Importance, 26% Readiness
- Leadership: 70% Importance, 16% Readiness
- Talent acquisition: 70% Importance, 39% Readiness
- Careers and learning: 70% Importance, 37% Readiness
- Performance management: 68% Importance, 39% Readiness
- People analytics: 66% Importance, 30% Readiness
- Digital HR: 64% Importance, 22% Readiness
- Diversity and inclusion: 63% Importance, 33% Readiness
- Robotics, cognitive computing, and AI: 49% Importance, 20% Readiness
- The augmented workforce: 47% Importance, 18% Readiness
## 2017 Human Capital Trends: Industry View

### 2017 Trend Importance Ratings by Industry

<table>
<thead>
<tr>
<th>Trend</th>
<th>A&amp;D</th>
<th>Advanced Manufacturing</th>
<th>Cross-Industry</th>
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</thead>
<tbody>
<tr>
<td>Organisation of the future</td>
<td>74</td>
<td>+8</td>
<td>+14</td>
</tr>
<tr>
<td>Employee experience</td>
<td>72</td>
<td>-1</td>
<td>+7</td>
</tr>
<tr>
<td>Leadership</td>
<td>70</td>
<td>+3</td>
<td>+8</td>
</tr>
<tr>
<td>Talent acquisition</td>
<td>70</td>
<td>+12</td>
<td>+11</td>
</tr>
<tr>
<td>Careers and learning</td>
<td>70</td>
<td>+10</td>
<td>+13</td>
</tr>
<tr>
<td>Performance management</td>
<td>68</td>
<td>+11</td>
<td>+10</td>
</tr>
<tr>
<td>People analytics</td>
<td>66</td>
<td>-3</td>
<td>+5</td>
</tr>
<tr>
<td>Digital HR</td>
<td>64</td>
<td>+5</td>
<td>+9</td>
</tr>
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<td>The augmented workforce</td>
<td>47</td>
<td>+6</td>
<td>+6</td>
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2017 Human Capital Trends:
Aerospace & Defense
Deep Dive
The organisation of the future: Arriving now

As organisations become more digital, they are shifting from designing to actively building the new organisation.

- **50%** rate their ability to implement new techniques, technologies and mindsets to support teaming across external networks as adequate.
- **10%** consider themselves excellent in implementing them across internal networks.

- **90%** consider themselves weak in simplifying their organisations.
- **24%** believe they understand how to build the organisation of the future.

74% Very important or important
The employee experience: Culture, engagement, and beyond

Organisations are leveraging pulse feedback and self-service tools to design the integrated employee experience.

26% are fully capable and ready to craft integrated employee experiences.

17% are considering diverse employee preferences when designing work.

8% consider themselves excellent in aligning employees and personal goals with the corporate purpose.

Only 17% consider themselves excellent in providing programs for younger, older and a multi-generational workforce.

Deloitte and Facebook, "Transitioning to the future of work and the workplace," November 2016
Leadership disrupted: Pushing the boundaries

High-performing leaders today need different skills and expertise than in generations past.

15% Consider themselves excellent in maintaining clear and current succession plans and programs.

16% Feel they have a developed digital leadership program.

8% Have leadership programs that develop all millennials and women.

Digital leadership required shifts in how leaders must think, how leaders must act, and how leaders must react.
Talent acquisition: Enter the cognitive recruiter

In the open talent economy, technology allows talent to move more freely than before.

Biggest disruptor in talent acquisition today is experimentation with tech solutions and services.

- Excellent in cultivating and monitoring long-term relationships with potential future talent: 18%
- Excellent at managing crowdsourcing: 33%
- Excellent at using predictive analytics for sourcing and recruitment: 9%

70% of respondents rated this as very important or important.
Careers and learning: Real time, all the time

Continuous learning is critical for business success

37% are ready to move into the new world of careers and learning

The changing nature of the career

- Length of career: 60 to 70 years*
- Average tenure in a job: 4.5 years*
- Half-life of a learned skill: 5 years*

8% Consider themselves excellent at providing mobile learning programs

Organisations need to deliver learning that is always on and always available over a range of mobile platforms

*Sources: The 100-Year Life: Living and Working in an Age of Longevity; A New Culture of Learning: Cultivating the Imagination for a World of Constant Change
Performance management: Play a winning hand

Organisations have radically changed the way they measure, evaluate, and recognize employee performance.

The focus has shifted from talking about people to talking with people in open conversations.

Agile goal management, check-ins, and continuous feedback are becoming common; new models of evaluation and rewards are next.

Capabilities to implement performance management have improved by 10%* since 2015.

11% are excellent in providing timely and accurate performance feedback to employees.

22% are excellent in using incentive based compensation for all levels of the organisation.

*Statistic is not specific to A&D sector.
People analytics: Recalculating the route

People analytics is becoming a business function focused on using data to add value to business operation, and embedding analytics into real-time apps and the way we work.

- 30% report they are ready for people analytics.
- 25% have deployed and utilized HR and talent operational reporting and scorecards with excellence.
- 50% consider themselves weak in using people data to predict workforce performance and improvement.
- New tools are emerging and analytics are shifting from push to pull.

68% consider very important or important.
Digital HR: Platforms, people, and work

HR leaders are being pushed to help drive the organisation to “be digital” not just “do digital”.

HR is being asked to help lead the digital transformation in 3 areas:

Digital workforce
Digital workplace
Digital HR

38% Are preparing HR in driving major business change (communications, organisation design, workforce transition)

13% Are excellent in providing employees with real-time HR applications and dashboards

64% Very important or important
Rates they are excellent in reporting on diversity

75% Consider themselves adequate in creating a culture of inclusiveness and diversity

38% Rates they are excellent in reporting on diversity

Traits of an inclusive leader: commitment, courage, cognizance of bias, curiosity, cultural intelligence, collaboration

Fairness, equity, and inclusion are now CEO level issues, but continue to be frustrating and challenging

Very important or important
Future of work: The augmented workforce

Organisations must implement cognitive tools, retrain people to use these tools, and rethink the role of people as more work becomes automated.

100% Consider themselves weak in aligning competency models to account for new robotics/cognitive computing/AI requirements.

66% Rate themselves as weak or adequate in managing crowdsourcing as part of the workforce and talent strategies.

20% have implemented or made significant progress in adopting cognitive and AI technologies.

Very important or important

47%
In Conclusion: A new game requires new rules

Call to action
for HR and business leaders to understand the significant impact of change and develop new rules for people, work, and organisations

New rules reflect the shifts in mindset, behavior, and actions required to lead, organize, motivate, access, manage, and engage the 21st-century workforce
Rewrite the rules

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