

GLOBAL OPPORTUNITIES



Cockpits In Emerging Countries

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For an avionics shop looking to grow, a nearby airport without a similar business but boasting empty hangar space might be a juicy target. Another solution might be acquiring an existing shop as part of a larger, long-term strategy. Depending on how a businessperson views potential limitations on expanding beyond his or her borders, those two choices might be the only ones available. But, it's also true that modern communication and transportation networks can work to minimize obvious constraints and help leverage the time, treasure and expertise needed to expand into an emerging overseas market.

Yes, geographic, political or socio-economic constraints on a business's ability to expand beyond its "comfort zone" can limit potential international opportunities. Realities involving the ongoing global recession, few international mandates for new equipment installations and relatively stable demand among existing operators will conspire to make a traditional business-expansion scheme's outcome less certain.

MACROECONOMICS

The economic realities currently confronting U.S.-based businesses lack boundaries. One need only review international financial news reports for confirmation. For example, in February 2011, the General Aviation Manufacturers Association published its annual summary of new general aviation aircraft shipments and billings, and noted "the global economic downturn continued to negatively impact general aviation manufacturers in 2010."

According to GAMA, "worldwide shipments of general aviation airplanes declined

Continued on following page

GLOBAL OPPORTUNITIES

Continued from page 27

for the third year in a row to a total of 2,015 units, an 11.4 percent decrease over the previous year's total of 2,274 airplanes." One bright spot, however, involved billings, which rose by 1.2 percent in 2010 over 2009, to \$19.7 billion. The association admits this slight increase was borne "by deliveries of long-range, large-cabin aircraft," an eloquent statement on who is using their aircraft in the current economic environment.

While GAMA's annual shipment summaries involve only new aircraft, the association's numbers provide an easy yardstick for measuring worldwide economic health and demand for aviation goods and services. If operators are not flying their aircraft for economic reasons, they're also not buying new ones. The good news for avionics shops and manufacturers is continued use of existing aircraft creates demand for ongoing maintenance and potential upgrades.

"I think the demand for our products is driven by the ever-increasing age and increased maintenance costs of steam-driven gauges," said Cory Relling, international sales manager for Aspen Avionics. "Why would a customer repair a couple of decade-old steam gauges when they could replace them with a glass display for virtually the same cost?"

"Remember that this is a 'global' situation," said Peter O'Connor, Bangkok-based sales and marketing manager for DAC International Inc. "Things have been tough everywhere, and even though the Asia-Pacific markets in general are improving, it does not mean people are out spending on avionics projects in the region."

Not all of the economic news is bleak, as GAMA Chairman John Rosanvallon, president and CEO of Dassault Falcon, noted in February. "However, despite the pain caused by the downturn, we are now seeing strong GDP growth on a global level, and corporate profits are up," Rosanvallon said. "This bodes well for general aviation's future, as shipments have traditionally lagged an economic recovery by one to two years."

"As the U.S. leads the world economy, the financial crisis in other parts of the world tends to lag by, it seems, six to 12 months," Relling added. "This means that, although we may be feeling the beginning of a turnaround here in the States, other parts of the world are still deeply buried in the financial crisis."

OPERATING ENVIRONMENTS

Anyone more than casually involved in the worldwide aviation industry knows it's one of the most highly regulated of any. Of course, regulation can work against innovation and flexibility. But, it also can be beneficial to planning and profitability when pending rules telegraph airspace entry and on-board equipment requirements, as well as potential business opportunities.

For example, operators face a rule mandating ADS-B Out capabilities, at a minimum, in certain U.S. airspace by 2020. Australia probably leads the pack of those countries implementing the technology, with full national coverage above FL290 mandated beginning Dec. 12, 2013. Other countries are moving more slowly on ADS-B, with phased implementation—first in remote areas where ground-based radar installations are problematic and at high altitudes—and presently lack mandatory

equipment requirements. According to their respective regulatory authorities, Canada, Sweden and the United Arab Emirates fit into this category.

Elsewhere, few pending requirements exist for new equipment. For example, terrain- and collision-avoidance mandates have been in place throughout most potential markets for several years.

"I remember the glory days of the TCAS, EGPWS and RVSM mandates where everyone was busy installing equipment, and lead times were an issue because the equipment could not be manufactured fast enough," Relling said. "Lead times are, to me, a double-edged sword. They are difficult to live with, but that also means sales must be going well."

THE LAST FRONTIERS?

Despite the discouraging portrait for international expansion these competing factors paint, there are two regions where anticipated economic growth, equipment mandates and expanding operational needs might be favorable to expansion: China and Russia.

China has announced airspace changes beginning in 2012 to 2015 that will begin to open up general aviation's potential there. Over the past few months, China-based companies have announced plans to acquire two name-brand general aviation firms: Teledyne Continental Motors and Cirrus Design. Clearly, someone is confident the long-term market for personal aircraft at least deserves several million yuan.

Russia is "one of the areas I consider a good place to do business," according to Relling. He added, "Although Russia is a difficult place to do business, it can be quite lucrative

Continued on page 30

GLOBAL OPPORTUNITIES

Continued from page 28

if you have a local partner to help you navigate the maze. They are spending money in Russia and most of the programs seem to be large-quantity fleet-type programs. The fact that Russia is a good place to do business is evidenced by several airplane and helicopter OEM's recently opening operations there."

Meanwhile, "China has limited commercial general aviation avionics capability as we know it," DAC International's O'Connor said. "There has been no need for this capability, but there is an emerging market in the years to come. They do have good, existing technical capability, understand

all the latest technologies, but there is a lack of experience in running a general aviation business."

But, would a U.S.-based company's investment be worth it? "China for example has maybe 200 corporate aircraft," O'Connor said. Even if some predictions of near-term growth are accurate—leading to doubling of China's business aviation market within 10 years—is that enough to make it worthwhile?

"So, in 10 years they will be putting an additional 200 aircraft into the market?" O'Connor asked rhetorically. They will be mostly new aircraft, he added, noting the obvious limits on the retrofit and support market. "Those numbers may be a little low, but probably correct until 2015," O'Connor

said, and then likely will be followed by more growth. "A long way to go," he added, noting there are "good possibilities in the pilot training market in aircraft supply and support. That market should not be ignored."

Given the multiple barriers for a U.S. business contemplating expansion into China and Russia—including language, distance, culture and business practices—the challenges of entering the market in what some have called general and business aviation's last frontier are significant.

YOUR NEXT STEP

The bottom line is the global economic downturn, coupled with relatively static demand for new avionics and related services, makes the outcome of any international expansion uncertain. Still, there are opportunities out there, and those who position themselves and their company in the right place at the right time stand to reap the benefits.

"Do your homework on what the market is versus the capabilities of your organization," O'Connor concluded. "Work out what your chance is of winning the business from the existing companies, some of whom have been in business for decades and understand what realistic investment is required to become established and profitable. Evaluate possible teaming opportunities with existing companies in the target countries. And mostly, understand what value your company brings to the table to the aircraft operators."

That's good advice for any U.S. business contemplating international expansion, whether into China, Russia or other regions. □

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