

The background features a gradient from red at the top to blue at the bottom, with several red and grey stars scattered across the upper half. The lower half shows a blue sky with white clouds.

# **SALES STRATEGY FOR A BUSINESS DEVELOPMENT IN THE EUROPEAN AEROSPACE MARKET**

A WHITE PAPER PREPARED BY



**SALES SUBCONTRACTOR IN**

AERONAUTICS, AVIATION, DEFENSE, ENERGY,  
AUTOMOTIVE INDUSTRY

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# ABSTRACT

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The European market is one of the most populous, rich, and vibrant in the world. The numbers speak for Europe: 754 million people, with a high standard of living (an average of more than 40,000 USD per year per inhabitant). European GDP is 25% of the world's GDP (and is equal to the USA GDP). The average European's life expectancy now sits at over 80 years old.

Dynamic in its nature, the European market is one that fosters innovation in a wide array of industries, such as aeronautics, energy (fossils, nuclear, and renewable), telecommunication, rail or maritime transportation, nanotechnology, automotive, medical and pharmaceutical products, and many others.

This economic dynamism is fostered by effective public infrastructure; governments, administrations, public services, and tax collection work efficiently and with a very low degree of corruption when compared to other economic areas. These data are abundantly available and supported by various studies that evaluate and classify these different criteria of economic and social development.

Finally, and this is not the least point, exchange rate fluctuations and the debt level of the countries of Europe make it possible to work "in the long term" with relatively limited risks – when compared to other currencies of major world economic blocs.

Given its nature as welcoming to economic growth, Europe is therefore an attractive market. The outlook for investment in this zone is quite optimistic.

The challenge is to break into the market.

Olivier Le Brun, CEO



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# OVERVIEW OF THE EUROPEAN AERONAUTICAL SECTOR

**T**he aerospace sector is one of the main economic sectors in Europe. The European aerospace sector includes more than two thousand companies, representing 800,000 job positions and generating an annual turnover of more than US\$250 billion.

The European Aviation Safety Agency (EASA) is Europe's aeronautics regulatory authority. EASA issues, among others, PART 21 approvals for aeronautical parts producers, Parts Manufacturer Approval (PMA), and PART 145 (aeronautical maintenance companies) or PART 66 (maintenance technicians). EASA is the equivalent of the FAA (Federal Aviation Authority) in the United States or CAAC in China.

European companies are present throughout the aerospace value chain: design, production, operation, maintenance, financing, recycling.

The majority of players in the aeronautical sector also have a foot in the defense sector, and vice versa. Other industries that often intersect with the European aerospace and defense sectors are the shipbuilding industry, rail and automobile transport, and energy. •

## SOME SPECIFIC CHALLENGES IN THIS MARKET

**T**here are four main challenges in entering the European Aviation market

### CHALLENGE #1: EUROPE - ONE MARKET, MANY COUNTRIES

It is important to distinguish geographic and cultural Europe from the European Union.

Geographic and cultural Europe consists of forty-six countries, including Russia, Belorussia and Ukraine, for example. It also includes very small countries, such as the Vatican, San Marino, Andorra and Lichtenstein, which do not have a major aeronautical and defense interest in the context of this white paper.

Here is the complete list of the countries of Europe:

- |                            |                  |                    |
|----------------------------|------------------|--------------------|
| 1. Albania,                | 13. Spain        | 26. Macedonia      |
| 2. Germany,                | 14. Estonia      | 27. Malta          |
| 3. Andorra,                | 15. Finland      | 28. Moldova        |
| 4. Armenia,                | 16. France       | 29. Monaco         |
| 5. Austria,                | 17. Georgia      | 30. Montenegro     |
| 6. Belarus,                | 18. Greece       | 31. Norway         |
| 7. Belgium,                | 19. Hungary      | 32. Netherlands    |
| 8. Bosnia and Herzegovina, | 20. Ireland      | 33. Poland         |
| 9. Bulgaria,               | 21. Italy        | 34. Portugal       |
| 10. Cyprus,                | 22. Latvia       | 35. Czech Republic |
| 11. Croatia                | 23. Lichtenstein | 36. Romania        |
| 12. Denmark                | 24. Lithuania    | 37. United Kingdom |
|                            | 25. Luxembourg   | 38. Russia         |

39. San Marino

40. Serbia

41. Slovakia

42. Slovenia

43. Sweden

44. Switzerland

45. Ukraine

46. Vatican City

The European Union is a political entity that was formed in 1957 and covers only 28 of the 46 European countries:

1. Germany

2. Austria

3. Belgium

4. Bulgaria

5. Cyprus

6. Croatia

7. Denmark

8. Spain

9. Estonia

10. Finland

11. France

12. Greece

13. Hungary

14. Ireland

15. Italy

16. Latvia

17. Lithuania

18. Luxembourg

19. Malta

20. Netherlands

21. Poland

22. Portugal

23. Czech Republic

24. Romania

25. United Kingdom<sup>1</sup>

26. Slovakia

27. Slovenia

28. Sweden

These 28 countries (along with Iceland, Norway, Switzerland and Lichtenstein) constitute the member states of EASA.

### ► **Situation of several countries bordering Europe**

Turkey and Israel can be considered “European” countries with respect to their aeronautical and military industries.<sup>2</sup>

Similarly, the countries of Armenia, Azerbaijan and Kazakhstan lie halfway between the Middle East and Europe. Their aerospace and defense industries are negligible at this time.

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1. The United Kingdom is currently expected to be leaving the European Union (period 2018 - 2021).

2. Turkey and Israel are also included in the European soccer league, but presumably for reasons unrelated to the aerospace industry

## ► Core European Aerospace Market

The European aerospace industry is concentrated in five countries:

1. France
2. Germany
3. Great Britain
4. Italy
5. Spain

The main manufacturers, their subsidiaries, and the main first layer of subcontractors (called «Tier 1» or «Risk Sharing Partners») are located primarily in these five countries..

Other European countries have developed an aeronautical industry (Sweden) or are now doing so (usually former communist countries). This strategy usually involves the creation or development of a national airline, which gradually develops its internal maintenance, repair and overhaul (MRO) activity. This is the case in Turkey, for example. Other countries strengthen production for subsidiaries of major aeronautical groups. This is the case in Poland and its Aerospace Valley which has a large concentration of aeronautical factories (but few decision centers).



### **ABSOLUZ CONSULTING TIP:**

Since some countries are of little interest when it comes to aerospace and defense industries, Absolut Consulting advises its clients to think of “Europe” as two different economic zones and to treat these zones as two distinct markets:

- A zone consisting of the countries of the European Union, plus Switzerland, Norway, Turkey and Israel;
- A zone consisting of Russia and Ukraine.

Diplomatic, economic and social developments could, over the long term, change this distribution. •

## CHALLENGE #2: MANY COUNTRIES WITH MANY LANGUAGES

Europe also presents a major linguistic challenge: in Europe there are almost as many spoken languages as there are countries.

Obviously, English is generally spoken and understood by the majority of European employees, and the abundance of technical terms and acronyms specific to the aviation industry makes it possible to understand each other. However this common language is often called “Globish,” because in reality it is far from real English.

This can be a major issue, especially when drafting contracts. Companies should take precautions in the negotiations to ensure that all parties have the same understanding of the contract or agreement draft. •



### ABSOLUZ CONSULTING TIP:

Select a sales channel that is able to speak fluent English and at least two of the three other important languages for the European aerospace industry (French and German). Spanish or Italian language ability can be useful. Having Arabic speakers is also an advantage, because it will open the North African market. Arabic-speaking sales managers can easily be found in Europe.

## CHALLENGE #3: MATURE MARKETS WAIT FOR NO ONE

Last but not least, the European aerospace and defense markets are mature, long-cycle markets. This means that the buyers and suppliers already have long-established relationships and that you will have to fight hard to introduce and gain traction for your products and services. Success in Europe is therefore a long-term commercial task that requires consistency and perseverance, as well as a well-defined implementation strategy. •



### **ABSOLUZ CONSULTING TIP:**

Rarely is a market is permanently closed, but to take advantage of opportunities that arise, you must first be known and recognized. Business development efforts have to start well before the first contract, and you have to accept that investing in business development will be as a cost center at first, before becoming a profit center.

## **CHALLENGE #4 - SPECIFIC PRIORITIES**

The aerospace sector involves commercial priorities that may be different from other economic sectors:

First, the company must be legally able to deliver the aerospace product or service – which means that the product or service must be certified by the aeronautical authorities (mainly EASA in Europe, FATA / Rosaviatsiya in Russia) before it can be sold commercially.

Second, the company must be practically able to deliver the product or service on time. The ability to meet deadlines in the supply of the services is the priority of all priorities. (It is traditionally referred to as “TAT” – Turnaround-Time – or Lead Time.)

Third, the company must be economically able to deliver the product or service – that is, to deliver at a reasonable and competitive price.

The importance of meeting deadlines can be summed up in a famous acronym of the aviation world: AOG, which literally means «Aircraft on ground.» An aircraft generates revenues when it is in the air, moving passengers or freight from place to place. During an AOG event, the aircraft is not generating revenue. The prompt availability is essential to the proper functioning of the entire aviation sector, and timely availability of parts is therefore more important than the price, and aerospace suppliers compete keenly on the basis of TAT and lead times. •



### **ABSOLUZ CONSULTING TIP:**

Build your reputation as being able to deliver faster and more reliably than your competitors, and you will open doors.  
Fail to keep your promised lead-time, you'll close those same doors completely

# LEGISLATIVE, LEGAL AND FINANCIAL PARAMETERS

## 3.1 – VARYING LEGAL STANDARDS IN A MULTINATIONAL EUROPEAN MARKET

Each European country is governed by its own laws. Even after fifty years since the creation of the common market, harmonization has not been fully accomplished: the laws are not the same from one European country to another.

In aeronautics, EASA is the common authority, and many common rules apply throughout the EASA area. But more general rules governing businesses and their employees vary significantly from country to country: working conditions, fees, salary costs, corporate taxation will depend on the country in which you locate your business.

Selecting legal courts in case of litigation is also a subject that should be carefully considered. It may be advisable to favor International Arbitral Chambers, such as those in Paris or London. But it can be very expensive. •



### ABSOLUZ CONSULTING TIP:

If you cannot include your own country's laws as the governing law and your own country's forums for dispute resolution, then ABSOLUZ recommends as follow:

- ▶ Consult a lawyer from the country at issue. This can save you from some nasty surprises at a later date.
- ▶ Consider suggesting Swiss law and fora, which gives both parties a neutral ground.
- ▶ Finally, consider providing that disputes will be resolved in a court of arbitration, with the one of Paris being the most recognized and well-regarded (but it is not the only one).

## 3.2 - THE STRONG DOLLAR AND INTERNATIONAL INFLUENCE OF AMERICAN LAW

The US dollar remains the king of international transactions (with about 80% of such transactions denominated in dollars). Using the U.S. dollar as the transaction currency has the advantage of broad acceptance around the world, including Europe.

However, it also has a side-effect, increasingly disagreeable, of potentially allowing the US Department of Justice to prosecute any person or company that has used the US dollar as a transaction currency and has engaged in a transaction that may violate the 1977 “Foreign Corrupt Practices Act”.

With the rapid rise of US prosecutions under this law, and the resulting risk and exorbitant costs for defense, it may be appropriate to think about selecting an alternative currency for your transactions in Europe.

The Euro is obviously a rational choice for European transactions because it is the currency of 19 European countries (out of 28 in the European Union). The list is as follows:

- |            |                |                 |
|------------|----------------|-----------------|
| 1. Germany | 8. France      | 15. Malta       |
| 2. Austria | 9. Greece      | 16. Netherlands |
| 3. Belgium | 10. Ireland    | 17. Portugal    |
| 4. Cyprus  | 11. Italy      | 18. Slovakia    |
| 5. Spain   | 12. Latvia     | 19. Slovenia    |
| 6. Estonia | 13. Lithuania  |                 |
| 7. Finland | 14. Luxembourg |                 |

The British pound or the Swiss franc can also be used as reference currencies in the event of disagreement over the de-dollarization of transactions or the use of the euro. •



### ABSOLUZ CONSULTING TIP:

If you are an American company, try to insist on using the dollar. It should not be too complicated.

If you are not an American company, consider the Euro instead. After all, why use the US dollar if there are no advantages and possible disadvantages?

# MAIN EUROPEAN ACTORS

## 4.1 - EUROPEAN ACTORS AMONG THE FIVE PRINCIPAL AERONAUTICAL MARKETS

Following is a list of the main actors in the five leading aerospace countries of Europe.

	FRANCE	GERMANY	UNITED KINGDOM	ITALY	SPAIN
PUBLIC ADMINISTRATION		<ul style="list-style-type: none"> <li>• EASA (Cologne)</li> </ul>			
AIRCRAFT MANUFACTURER	<ul style="list-style-type: none"> <li>• Airbus</li> <li>• ATR</li> <li>• Daher</li> <li>• Dassault</li> </ul>	<ul style="list-style-type: none"> <li>• Eurofighter GmbH</li> <li>• Airbus Defense &amp; space</li> </ul>		<ul style="list-style-type: none"> <li>• ATR</li> <li>• Piaggio Aerospace</li> </ul>	<ul style="list-style-type: none"> <li>• Airbus Defense &amp; Space</li> </ul>
HELICOPTER MANUFACTURER	<ul style="list-style-type: none"> <li>• Airbus Helicopters</li> <li>• NH Industries</li> </ul>	<ul style="list-style-type: none"> <li>• Airbus Donauwörth</li> </ul>		<ul style="list-style-type: none"> <li>• Agusta Westland</li> </ul>	
ENGINE MANUFACTURER	<ul style="list-style-type: none"> <li>• Safran</li> </ul>	<ul style="list-style-type: none"> <li>• MTU Aero Engines</li> </ul>	<ul style="list-style-type: none"> <li>• Rolls Royce</li> </ul>	<ul style="list-style-type: none"> <li>• Piaggio Aerospace</li> </ul>	<ul style="list-style-type: none"> <li>• ITP</li> </ul>
AEROSTRUCTURES	<ul style="list-style-type: none"> <li>• Lisi Aerospace</li> <li>• Lauak</li> <li>• Mecachrome</li> </ul>	<ul style="list-style-type: none"> <li>• Premium Aerotech (Airbus)</li> <li>• Airbus Bremen (wings)</li> <li>• Rheinmetall</li> </ul>	<ul style="list-style-type: none"> <li>• Airbus Broughton (wings)</li> <li>• Airbus Broughton (wings)</li> </ul>		<ul style="list-style-type: none"> <li>• Aciturri</li> <li>• Aercal</li> </ul>
OEM TIER-1	<ul style="list-style-type: none"> <li>• Zodiac Aerospace</li> <li>• Latécoère</li> <li>• Stelia</li> <li>• Thales</li> <li>• Saft batteries</li> <li>• Saint-Gobain</li> </ul>	<ul style="list-style-type: none"> <li>• Liebherr Aerospace</li> <li>• Diehl Aviation</li> <li>• Airbus Ulm (radars)</li> <li>• Becker Avionics</li> <li>• Biral</li> </ul>	<ul style="list-style-type: none"> <li>• AE systems</li> <li>• GKN Aerospace</li> <li>• Cobham</li> <li>• Meggitt</li> <li>• Marshall</li> <li>• Chemring</li> <li>• Ultra Electronics</li> <li>• BE Aerospace</li> </ul>	<ul style="list-style-type: none"> <li>• Iacobucci</li> <li>• Tecnam</li> </ul>	<ul style="list-style-type: none"> <li>• AERnova</li> <li>• Aciturri</li> </ul>

	FRANCE	GERMANY	UNITED KINGDOM	ITALY	SPAIN
OEM TIER-2	<ul style="list-style-type: none"> <li>• Mecapole</li> <li>• AAA</li> <li>• AD Industrie</li> <li>• Air Liquide</li> <li>• Dediene Aerospace</li> <li>• ECA Group</li> <li>• Amphenol Air LB</li> <li>• Lheritier Alcen</li> </ul>		<ul style="list-style-type: none"> <li>• Ipeco</li> <li>• Mac Aero Interiors</li> <li>• ELG Carbon fibre</li> </ul>		<ul style="list-style-type: none"> <li>• Alter technology</li> <li>• Arquimea</li> <li>• Crisa (Airbus)</li> <li>• HV Sistemas</li> <li>• Cadamadrid</li> </ul>
SEAT MANUFACTURER	<ul style="list-style-type: none"> <li>• Zodiac</li> <li>• Stelia</li> </ul>	<ul style="list-style-type: none"> <li>• Brice</li> <li>• Recaro</li> <li>• Zim Flugsitz</li> </ul>	<ul style="list-style-type: none"> <li>• Acro Aero</li> <li>• Pitch Aircraft seating</li> <li>• Martin-Baker</li> <li>• Ipeco</li> <li>• Thompson Aero Seating</li> <li>• Mirus Aircraft seating</li> </ul>	<ul style="list-style-type: none"> <li>• Aviointeriors</li> <li>• Geven SpA</li> <li>• Optimares</li> </ul>	
MRO	<ul style="list-style-type: none"> <li>• AirFrance Industrie – KLM</li> <li>• Sabena Technics</li> <li>• Air Support</li> <li>• PMV Groupe</li> <li>• Dassault Falcon Service</li> <li>• Revima</li> </ul>	<ul style="list-style-type: none"> <li>• Lufthansa Techniks</li> </ul>	<ul style="list-style-type: none"> <li>• BBA Aviation</li> </ul>		
SPACE INDUSTRY	<ul style="list-style-type: none"> <li>• ArianeGroup</li> </ul>	<ul style="list-style-type: none"> <li>• Airbus Friedrichshafen (satellites)</li> </ul>	<ul style="list-style-type: none"> <li>• Airbus Portsmouth and Stevenage (satellites)</li> </ul>	<ul style="list-style-type: none"> <li>• Telespazio (Leonardo &amp; Thales)</li> </ul>	<ul style="list-style-type: none"> <li>• DAS Photonics</li> <li>• IberEspacio (Safran)</li> <li>• Sener</li> </ul>
MISCELLANEOUS	<ul style="list-style-type: none"> <li>• Tarmac Aerosave</li> <li>• Assmann Telecom</li> <li>• CS</li> <li>• Air Cost Control</li> <li>• Nyco</li> <li>• OEMS</li> </ul>		<ul style="list-style-type: none"> <li>• Adder technologies</li> <li>• AIS</li> <li>• Clement Clarke Communications</li> <li>• Qinetiq</li> </ul>		

## 4.2 – EUROPEAN ACTORS AMONG OTHER EUROPEAN COUNTRIES

	OTHER COUNTRIES
<b>PUBLIC AUTHORITY</b>	
<b>AIRCRAFT MANUFACTURER</b>	<ul style="list-style-type: none"> <li>• Pilatus (Switzerland)</li> <li>• Saab (Sweden)</li> <li>• IAI (Israel)</li> <li>• Iliouchine (Russia)</li> <li>• Soukhoï (Russia)</li> <li>• Tupolev (Russia)</li> <li>• Let Aircraft Industries (Czech Republic)</li> </ul>
<b>HEICOPTER MANUFACTURER</b>	<ul style="list-style-type: none"> <li>• Kopter (Switzerland)</li> </ul>
<b>ENGINE MANUFACTURER</b>	<ul style="list-style-type: none"> <li>• Rotax (Austria)</li> <li>• UEC-Saturn (Rostec, Russia / Safran, France)</li> </ul>
<b>AEROSTRUCTURE</b>	<ul style="list-style-type: none"> <li>• Amag Rolling (Austria)</li> <li>• Ruag (Switzerland)</li> </ul>
<b>OEM TIER-1</b>	<ul style="list-style-type: none"> <li>• Fokker (GKN, Netherlands)</li> <li>• KMWE (Netherlands)</li> <li>• Satair (Denmark)</li> </ul>
<b>OEM TIER-2</b>	<ul style="list-style-type: none"> <li>• SKF (Sweden)</li> </ul>
<b>SEAT MANUFACTURER</b>	
<b>MRO</b>	<ul style="list-style-type: none"> <li>• TAI (Turkey)</li> <li>• Turkish Technic (Turkey)</li> </ul>
<b>SPACE INDUSTRY</b>	<ul style="list-style-type: none"> <li>• Aerospace propulsion product (Netherlands / ArianeGroup)</li> </ul>
<b>MISCELLANEOUS</b>	<ul style="list-style-type: none"> <li>• Acams (Air Traffic Management, Norway)</li> <li>• Artisys (Air Traffic Management, Czech Republic)</li> <li>• Brüel &amp; Kjaer</li> <li>• Sociétés de financement et locations d'avions (Ireland, cf paragraphe §5.6 de ce livre blanc)</li> </ul>

For completeness, this table might also include the European subsidiaries of aeronautical actors outside Europe. They are legion. However, from a business point of view, they often are not decision centers. •

# TRENDS

One should know about major trends before investing in the European aeronautical market and to planning a long-term strategy. Absolut Consulting has identified eight main trends for 2019.

## 5.1 - CONCENTRATION OF ACTORS

The European aviation industry is growing increasingly concentrated. As is often the case in a mature market, the number of players decreases through mergers and acquisitions. All independent SMEs, with few exceptions, end up as part of a larger company in the same sector. Smaller OEMs with bigger OEMs, smaller MROs within bigger MROs, and so on.

This merger movement is not over, even though the number of independent companies that are available as merger candidates has dropped sharply in recent years. •

## 5.2 - DECLINING NUMBER OF SUBCONTRACTORS

At the same time that companies are merging, major contractors are reducing the size of their supplier panels. It is increasingly difficult to be referenced with prime contractors (aircraft manufacturers, engine manufacturers, Tier 1 OEM manufacturers); on the other hand, getting referenced becomes more valuable because of the smaller number of referenced firms.

Fortunately, aeronautical companies have a culture of intellectual curiosity and research; this is truer in the field of R&D but it also affects the general attitude towards newcomers and their solutions and services, especially if solutions or services are innovative.

Innovation in products and services is therefore an excellent way to penetrate the European aeronautics market. •

## 5.3 - INCREASING PRODUCTION RATES

The trend is to reduce the number of suppliers, but it comes at the same time as a sharp rise in production rates. The number of aircrafts to produce or needing maintenance is increasing sharply (at the speed of the world traffic increase, about +5% / year.)

This creates opportunities: existing suppliers may not be able to keep up with the higher production rhythm imposed by their customers. The prime contractor may then seek solutions so that it does not become a bottleneck in the customer's production chain. One possible solution is referencing in the supplier panel a new entrant who brings an additional production capacity. •

## 5.4 - DISTRIBUTION OF VALUE AND CYCLICALITY

Profitability in the aerospace sector has long been distributed as follows: ▶ les avionneurs dégagent une petite rentabilité ;

- ▶ the aircraft manufacturers had a small profitability;
- ▶ engine manufacturers, tier 1 OEM suppliers and MROs generated strong profitability;
- ▶ Airlines usually lost money (although sometimes succeeding in earning a small profit).

This is no longer true. The current concentration of the market in the hands of two major aircraft manufacturers (Airbus and Boeing) has allowed them to develop proprietary service solutions (FHS-components and GoldCare, among others) that require airlines to use Airbus or Boeing MRO facilities only.

What is more, these two aircraft manufacturers have signed commercial contracts with equipment manufacturers in which contractual clauses have allocated a larger portion of the value to the aircraft manufacturer than to the equipment manufacturer.

Moreover, airlines have struggled hard to achieve profitable business models. In 2018, airlines globally were profitable. Nevertheless, they remain exposed to oil price increases.

In addition, it is important to note that "aviation" (that is, passenger and cargo service) and "aerospace" (supplying aircraft and components) do not have the same economic cycles.

Airlines respond to the global economy cycles. When the global economy is down, airlines suffer; when the global economy is booming again, airline profits return, at least for those who have survived. (Global recessions often lead numerous airlines to bankruptcy or mergers.)

Manufacturers, engine manufacturers, OEMs ,and MROs are more a-cyclical. It is one of the financial strengths of this industry. These companies can do very well even in a depressed economy. This does not mean that they do not experience economic cycles, but they are not necessarily the same cycles as in the general economy. •



#### **ABSOLUZ CONSULTING TIP:**

Keep in mind these concepts of value and cyclicity when investing in these sectors, and anticipate changes or even reversals. Depending on whether you are targeting one or both of these sectors (aerospace / aviation), your orders may vary substantially during the sector's cycles, and over time, the cumulative effects of the cycles maybe up or (not often) down, or offset each other.

## 5.5 - UAV: EMERGENCE OF A NEW MARKET

The UAV industry is growing fast in the shadow of the aviation industry. It is still in its early phases: projects, products, services are booming, and they appear - and disappear - very rapidly.

From this exciting and creative tension, some companies are starting to emerge, because of their economic weight and because of the commercial success of their products or services.

Absoluz Consulting expects, without risk of overstatement, that this industry will experience substantially change very much like the changes that have been experienced by the car industry or the aeronautic industry: appearance of leading companies, consolidation following mergers and acquisitions, and disappearance of the smallest UAV actors (whose products or services have not net enough success).

In the end of this process, the sector should stabilize among:

- ▶ OEMs,
- ▶ operators,
- ▶ maintenance companies,
- ▶ service companies for this sector. •



### **ABSOLUZ CONSULTING TIP:**

Companies that thrive on UAV technology and applications can be a great way to penetrate the European market, but you need to be aware of the risks associated with the foreseeable evolution of this sector.

## 5.6 - LEASING

Airlines no longer buy their planes—they lease them.

In 2016, approximately 42% of the commercial aircraft fleet was owned by lessors, according to Flight Ascend Consultancy. This figure has most probably grown again during the last two years.

Among the biggest lessors in the world are:

1. AerCap (Ireland)
2. GE Capital Aviation Services (GECAS, USA)
3. BOC Aviation (Singapore)
4. Air Lease Corporation (ALC, USA)
5. AVOLON (Ireland)
6. SMBC Aviation Capital (Ireland)
7. ALAFCO (Kuwait)
8. Dubai Aerospace Enterprise (DAE, Dubai)

This trend has an impact on aircraft maintenance, because more and more maintenance decisions are made by these leasing companies, or at least according to their rules. Absolut Consulting has not seen any leasing company interest in STCs and PMAs, or in general for anything that «customizes» the aircrafts they will have to re-lease. •

## 5.7 – DISTRUST OF THE UNITED STATES

As stated in paragraph 3.2, the use of the US dollar in transactions may allow the US Department of Justice to sue any person or company under the extraterritorial reach of the American «Foreign Corrupt Practices Act.»

At the same time, several American diplomatic choices, and even some sudden reversals (for example against Cuba, Iran or Russia), have had serious and costly impacts on the conduct of non-American businesses.

European leaders, as well as Europe's largest exporting companies, have gradually realized the impact that dependence on American government policies may have on their businesses. They went from global trust to global mistrust.

Some have responded to this uncertainty by reducing their dependence on the US suppliers, or even from the US currency, in order to keep and maintain as much freedom of action as possible.

This trend is not yet extensive, especially in aviation, because of the numerous interconnections between European and American economies and companies. But it does exist and could be reinforced by US judicial or diplomatic decisions. •



### **ABSOLUZ CONSULTING TIP:**

Once you have achieved a certain volume of business activity in Europe, it may be time to replicate your homeland activities in Europe (directly or through a production agreement), especially if your main activity is based in the United States.

## 5.8 – BREXIT

The United Kingdom's exit from the European Union is more commonly known as «Brexit».

Until now, the British national authority, called after “Civil Aviation Authority” (CAA) has been applying the EASA regulations, which allowed the aviation industry to follow the same rules on both sides of the Channel.

Brexit may change this – or it may not. The consequences of Brexit are not yet known simply because decisions are still being made.

Britain has about seven hundred aeronautical companies, and it is often used as a European bridgehead for North American companies. Many of these companies have been attracted to Britain by the English language, which greatly facilitates their daily work.

This strategy could change depending on the decisions that will be made during the coming months.

EASA has already certified some British companies, but it has also indicated that for certain types of activity, such as «Completion Centers», certification would be harder or even impossible; in such cases, these companies will therefore soon be under the CAA and no longer EASA. •



### **ABSOLUZ CONSULTING TIP:**

Keep calm and do business as usual. It is imperative that you defer certain decisions, such as plant or office site locations. Many Brexit decisions will be made in 2019. Politicians are playing a “Scare me if you can” game, but many decisions will most probably be taken in a smooth way, in the common interest of both the E.U and Britain.

# 6 - THE TEN COMMANDMENTS FOR PENETRATING THE EUROPEAN AERONAUTICAL MARKET

**T**he mission of Absolut Consulting is precisely to enable companies to enter the European aerospace market (as well as the aviation, defense, and energy sectors). This chapter will not discuss specific sale techniques and commercial tools to implement to achieve this goal. Instead, it will summarize some essential commercial rules.

**Rule #1:** Think “long term action” to penetrate the European aeronautical market.

**Rule #2:** Establish a local sales presence.

**Rule #3:** Speak at least three European languages.

**Rule #4:** Adapt your marketing to the European market.

**Rule #5:** Attend a show per year.

**Rule #6:** Work on your network, like you were European.

**Rule #7:** Consult a European lawyer.

**Rule #8:** Adapt your target to your budget.

**Rule #9:** Establish competitive and industry intelligence.

**Rule #10:** Take an interest in pioneers and innovators.

## **RULE #1: THINK “LONG TERM ACTION” TO PENETRATE THE EUROPEAN AERONAUTICAL MARKET**

The European aviation market is mature; this means that your potential customers already have solutions for their needs and that they can work without you. You therefore need to plan for a long term strategy. It will take time for your PROSPECTS to become CLIENTS.

A common mistake is to start quick and strong, and then give up too rapidly, because the income from this new market does not grow fast enough.

If you start an implementation effort in Europe and stop it after six months or a year, you will not only be in Europe, and all your expenses will have been lost.

Penetrating the European market requires patience and sustained commercial effort.

## **RULE #2: ESTABLISH A LOCAL SALES PRESENCE.**

Establishing a successful commercial presence in Europe requires, among other things, unlocking potential brakes that will affect your customers.

Physical distance, problems of distant time zones, language issues, extra-European currency, customs difficulties: these are the types of challenges that will be counterproductive in your implementation.

A local presence in Europe is an extremely reassuring imperative for your counter-parties. This is the first step. It is essential because this bridgehead will be the daily link between your first prospects and customers and better enable you to introduce them to your business and your services.

This presence must be your « voice to customers». It also allows you to roll out quality management organizations in a way that your customers demand (Six Sigma, QRQC, PDCA, etc.)

As your customer portfolio grows, it will be time to consider more comprehensive solutions for marketing your services in Europe.

### **RULE #3: SPEAK AT LEAST THREE EUROPEAN LANGUAGES.**

English is a prerequisite (at least the «globish» English that any non-English speaker can read, write, and understand).

Speaking two other European languages among French, German, Spanish, or Italian is imperative. These four languages correspond to the main European aeronautical countries. Mastering these languages allows you at least to create a commercial link, fluidify the relationship that must be established between your company (via its point of contact: your sales representative) and your target customer (via its entry points: buyers, engineers, project leaders, leaders).

### **RULE #4: ADAPT YOUR MARKETING TO THE EUROPEAN MARKET.**

In order to conquer Europe and the European aeronautical market, it is imperative that a marketing customization be conducted in tandem with the commercial effort.

At a minimum, this will show your European location on your website and in your social networks, as well as the contact details of your representation in Europe (with, among other things, a European phone number).

You must have a website in English and, if possible in two other European languages (always bearing in mind your main targets in Germany, Spain, France and Italy).

Some social networks are strongly established locally. For example, Xing is the equivalent of LinkedIn in Germany and very well established there, or VK, a kind of popular Russian Facebook.

Advertising campaigns on search engines must be adapted to local search and viewing habits. The French and the Spanish use only Google for research, while the Russians use mostly Yandex.

If your culture is quite different from Western European culture (e.g., for Asian companies), it may be wise to create pages or complete sites designed specifically for Europe. Ideally, use a graphic designer and a web designer “made in Europe” (for a better understanding of the European cultural codes).

## **RULE #5: ATTEND A SHOW PER YEAR.**

Here is a list of the main European aviation and aerospace shows.

<b>NAME</b>	<b>INDUSTRY</b>	<b>PLACE / COUNTRY</b>	<b>PERIODICITY</b>	<b>DURATION</b>
<u>PARIS AIR SHOW</u>	All	Paris (France)	Once every 2 years	7 days
<u>AIRCRAFT INTERIOR</u>	OEM	Hambourg (Germany)	Yearly	3 days
<u>MRO EUROPE</u>	MRO	In a different Western European capital city each year	Yearly	3 days
<u>EBACE</u>	Business jets	Geneva (Switzerland)	Yearly	3 days
<u>FARNBOROUGH AIR SHOW</u>	All	London (United-Kingdom)	Yearly	6 days
<u>ILA BERLIN</u>	All	Berlin (Germany)	Once every 2 years	5 days
<u>MRO BEER</u>	MRO	In a different Eastern European capital city each year	Yearly	3 days
<u>WORLD ATM CONGRESS</u>	Air Traffic Management	Madrid (Spain)	Yearly	3 days

## **RULE #6: WORK ON YOUR NETWORK, LIKE YOU WERE EUROPEAN.**

Trade shows and commercial prospecting are not enough. A lot of business is done through networking. It is therefore important to work on developing your network of professional contacts.

There are conferences, professional clubs (or not) and meeting opportunity events. Generally discreet, often local or national, they are opportunities to build relationships and develop business.

The quality of the network of your sales department is often one of the main components of its efficiency in developing revenues.

Along with the network activity, you can develop a lobbying activity. This usually happens among a group of companies with common interests.

Some European countries have a culture of lobbying, others not (such as France, where the term “lobby” still has a negative bias). It is a costly, discreet and long-term collective tool. The European Union is very open to lobbies ; there,

they are called «accredited interest groups,» and these lobbies are most often the issuers of reports to be studied and voted on by MEPs or the European Commission.

## **RULE #7: CONSULT A EUROPEAN LAWYER.**

This rule may seem obvious and yet ...

Although it is true that using a lawyer can slow down a report or a file and can thicken the contracts, doing without a lawyer will almost certainly lead to costly and time-consuming difficulties.

It is imperative to co-write the contracts with your sales department and a legal department (or an external lawyer). This drafting with eight hands (a commercial representatives and a lawyer for each party) is just the guarantee that your contract pursues your desired aim (that is the job of the salesmen) and that it is properly written from a legal point of view (that's the lawyers duty).

A common mistake is to leave the contract drafting to either the sales manager or the lawyer, rather than having them collaborate. This gives a counterparty a golden opportunity, and is rarely good for your business.

Finding the right legal advice for the aerospace sector is imperative.

The good news is that the most expensive or the most famous lawyers are not always the most competent. You just have to know how to identify the right lawyer.

## **RULE #8: ADAPT YOUR TARGET TO YOUR BUDGET.**

More good news: Entering the European market requires more consistency than money.

Nevertheless, you must calibrate your commercial effort to your available financial resources. You must plan financial resources for the longer term, because this commercial effort will be a cost center for some time before becoming a profit center.

To carry out this work, it is necessary to determine the accounts and countries that you will approach first.

For Absolut Consulting, aeronautical customers can be classified into 15 categories:

1. Aircraft manufacturers
2. Engine manufacturers
3. Aerostructure manufacturers
4. Tier 1 OEMs

5. Tier 2 and 3 OEMs
6. Airlines
7. MRO Maintenance Centers
8. Parts brokers
9. Lessors
10. Airport managers
11. Military and Defense and Security Services
12. Providers of services to aircraft manufacturers and airport managers
13. UAV market (products, services, countermeasures)
14. Public authorities
15. Various

This classification is arbitrary, and you can create your own categories and subcategories based on your own products and services. (For example, distinguish between commercial aviation / general aviation, fix wings / rotating wings, etc.)

When it comes to choosing a geographic area, the more you reduce it, the more you can reduce your linguistic and travel needs. Targeting aeronautical companies from the Hamburg employment area alone will not have the same cost as targeting all tier 1 OEMs in Europe.

Your classification can be done according to various criteria that you choose: type of customer, location, language, legal, currency, etc.

Failing to clarify and delimit your target market put you at risk of soaring costs, which will dilute your profitability or even exhaust your sales force for nothing.

## **RULE #9: ESTABLISH COMPETITIVE AND INDUSTRY INTELLIGENCE**

To enter a market, you must understand it; to stay there, you have to update that knowledge continually.

With this commercial approach, you must set up industry and sectoral monitoring tools. This will allow you to anticipate the possible evolution of the market, or legal constraints, for instance.

It is also this intelligence that can allow you to recognize and capitalize on commercial opportunities, techniques or innovative processes before your competitors.

Your sales force must manage this sectoral intelligence and gather these data in a way that you can use it. «Manage» does not mean «do it yourself». You can entrust this work to intelligence firms.

Intelligence has a cost. But working without intelligence strategy will most probably lead to even higher costs in the longer term.

### **RULE #10: TAKE AN INTEREST IN PIONEERS AND INNOVATORS.**

The European aviation market is mature, and as a practical matter this creates an entry barrier for companies that want to settle there.

An unconventional, even daring, commercial strategy could be to target start-ups, new born companies and new entrants in the aeronautics market<sup>3</sup>. They have fewer habits and don't look like the impenetrable fortresses that have become over time the main contractors in the market.

This advantage is offset by some disadvantages, especially the difficulty of identifying the targets, which requires close sectoral intelligence. These targets also pose financial risks, which can sometimes lead to unpaid bills.

Fortune favors the bold. •

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3. Absolut Consulting knows lots of them, but we only reveal it to our customers.

# MOVING FORWARD WITH ABSOLUZ CONSULTING

**A**bsoluz Consulting is a service company that provides its customers with an outsourced external sales force. It transforms a fixed charge into a variable expense and provides valuable flexibility in commercial management.

Absoluz Consulting's expertise extends to the aerospace, aviation, defense and security, energy, and automotive industries.

Absoluz Consulting's team members all have solid experience in their respective sectors of activity. They work according to processes defined by Absoluz Consulting, thus guaranteeing efficiency for their customers.

Confidentiality, expertise and commercial audacity are their signature. •



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