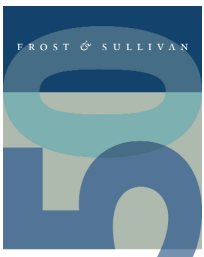


Global Military Helicopters Market  
Financial War Clouds: Driving New Opportunities and Business Models

Aman Pannu, Consultant Europe - Aerospace, Defence and Security



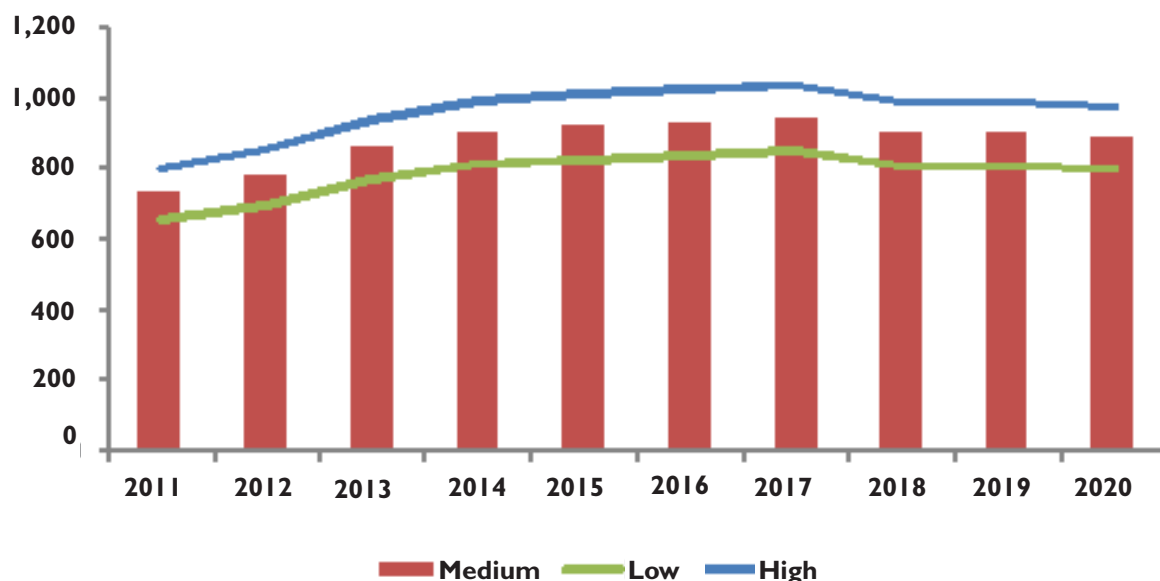
*“We Accelerate Growth”*

## Global Military Helicopters Market Overview

The recent Special Operations mission conducted by the U.S. Seal Team Six (ST6) to acquire and terminate a high-value target by a highly specialised task force involved the use of the Sikorsky MH60 (K/M version). The dust had yet to settle, and the industry experts were already discussing the use of “stealth” technologies for this mission. Many experts consider this a promising note for the military helicopter market, which is just coming out of a very challenging period. The expeditionary nature of today’s missions, the heavy wear and tear of the platforms that operate under extreme conditions, and the ageing helicopter fleets worldwide are driving the global demand for helicopters.

The global helicopter market across military and civil end-user segments is facing a growth in demand, reaching a potential market size of nearly 24,000 platforms over 2011-2020. The key factors contributing to this industry growth are upcoming replacement cycles in worldwide military and state-run fleets, growing disposable income in emerging markets and the structural growth of the global economy. However, it is the military that continues to be the main driver for helicopters. According to Frost & Sullivan research, on the assumption that the market conditions are likely to remain favourable, the military will account for more than 60 percent of the global helicopter demand over the next 10 years (in terms of market value), generating revenues of nearly US\$200 billion, and creating orders of nearly 9,000 platforms between 2011-2020. This demand for military helicopters is driven not only by a desire to obtain new, modern helicopters but mostly by the need to replace/upgrade a large global fleet of ageing helicopters of all types and sizes, both in western countries and emerging markets.

**Figure 1: Global Military Helicopter Demand, 2011-2020**



Source: Frost & Sullivan

## Global Military Helicopter Demand, 2011-2020

Frost & Sullivan research indicates that the global market for support-in-services (SIS) represents a very lucrative market. However, end-users within the military segment still need to fully recognise the benefits of advanced service agreements, such as Performance Based Logistics (PBL) and Total Cost of Ownership (TCO). In a situation where the average life of a helicopter is about 40 years and growing (through a series of upgrades with life extensions and capability-enhancing upgrades), the SIS market represents a significant opportunity for the primes to create a diverse income stream, especially in times of budgetary austerity.

Despite the expected growth for military helicopters, the industry faces significant challenges, including the defence budget cuts in some of the traditionally strong western markets, but also in some emerging markets where the end-users may be exercising caution in terms of procurement, both operationally and financially. The impact of the global economic turmoil is visible across a majority of programmes in military helicopter segments, as they generally tend to be large procurements.

The exceptions are the countries that are engaged in deployments or recently withdrew, as well as countries that started the procurement process before the crises and find it difficult to cancel for financial and contracting reasons. Although they seem to be weathering the economic downturn much better than the western markets, the emerging markets such as Brazil and India are still somewhat vulnerable to budget volatilities, which has led to more diligent procurement processes for most major military assets.

Military forces across the globe, particularly in emerging markets, are currently undergoing major acquisition and upgrade programmes in their helicopter fleets. Overall modernisation also means that nations are considering filling capability gaps and procuring helicopters in different segments in order to cope with multiple operational requirements. Frost & Sullivan believes that the industry needs to be innovative, not only in developing new technologies and expanding portfolios, but also in introducing new business models and operational support such as through life contracts in order to support the end-user segments, and in turn drive new programmes and procurements.

## Helicopter Vision: Winning in a Highly Competitive Environment

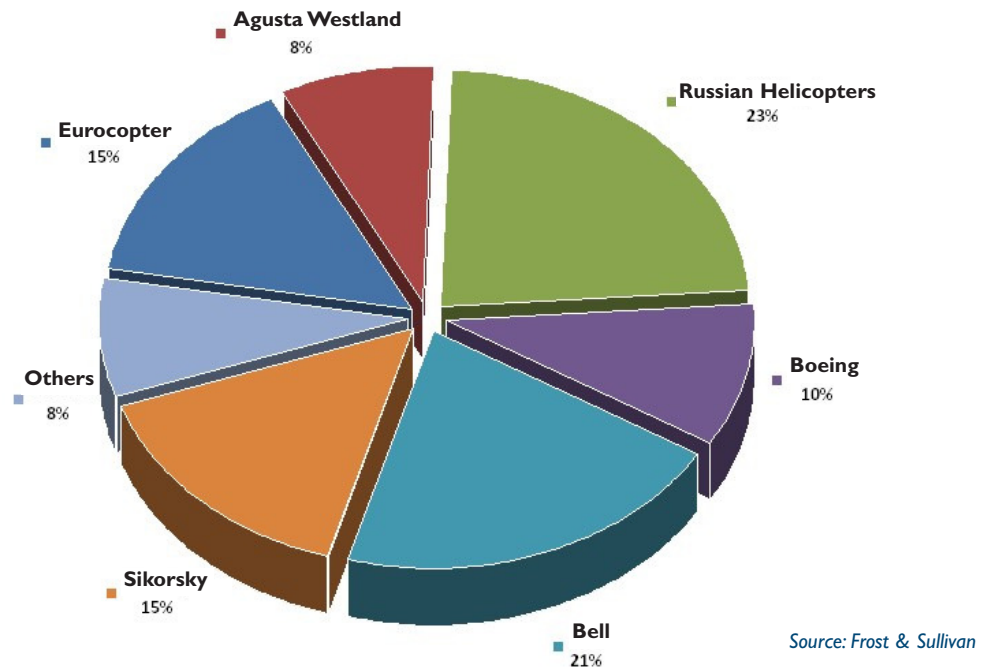
The ongoing developments across Middle East and North Africa are a concern for many governments, as no one is sure which of the “revolutions” will succeed and which will fail. Industry experts are contemplating a win-win situation for defence contractors, regardless of the outcome. This viewpoint is presented in view of the current ongoing conflicts and the potential impact on the defence procurements in these markets, where new governments will want to strengthen their armed forces to secure and sustain the newly achieved status quo. Also, in the countries where the popular revolts were not successful, governments are expected to re-supply their forces with modern equipment to ensure that revolutionary activities are kept at bay.

In such circumstances, the industry should expect a procurement drive in the short to medium term, depending on how long it takes for the conflicts to reach a resolution.

The share of emerging markets in global helicopter demand is expected to experience continuous growth over the next 10 years. Frost & Sullivan research indicates that BRIC nations alone will increase their market demand share from about 15 percent in 2011 to 20 percent in 2020. Although Brazil is estimated to account for approximately 5 percent of the global market, the military helicopter orders are not expected to be as large as in other major countries, but will remain relatively stable.

Europe and Russia continue to compete strongly within this domain. The Russian military helicopter market is expected to grow significantly due to recent government orders. The Russian manufacturers historically have been the leading suppliers to India, a market expected to have considerable growth over the next 10 years. Roughly half of all the helicopters procured in India over the next 10 years will be military, with the other half being civil and government types. This military demand is underpinned by a national armament programme to replace an ageing Indian helicopter fleet. However, domestic manufactures have strong ambitions but limited capability to satisfy domestic demand across product segments, which attracts significant attention from global players to the Indian market.

**Figure 2: Global Military Helicopter Installed Base By Manufacturer, 2010**



Despite the promising growth forecasts for India, it is only the second largest helicopter market in Asia Pacific, behind China, which is forecast to have a nearly 10 percent growth rate in the next 10 years. The military market is driven by the need to replace a current ageing fleet, as well as to expand national military power.

Major defence spending increases are expected to continue over the next decade, which will pay for helicopter procurement and development projects. Chinese helicopter manufacturers are growing in strength and ambition but lack the capability to cater to higher weight segments, which are expected to be in high demand in China over the next decade.

### Global Military Helicopter Installed Base By Manufacturer

Frost & Sullivan considers markets across APAC and the Middle East as growing markets, wherein budgets are increasing and high-value procurements are expected. Markets across Europe and North America seem to have reached equilibrium, with lower procurement drives (in comparison to the past decade) expected. Finally, Africa shows high potential for growth, but is challenged by severe budget constraints in the short term.

**Figure 3: Global Helicopter Market, Competitive Landscape**



The helicopter market continues to face strong competition across the globe, mainly with U.S. and European companies, but more often setting the stage for head-on battles with Russian manufacturers and even some regional players. Developed markets are dominated by a select group of players from Europe and North America. Their presence is also strong in other regions, and their strategic intent also involves more investment to obtain opportunities in emerging markets. One of the key growth strategies that the western companies adopted early on is the building of local and regional hubs, and partnerships with local service companies. This strategy seems to serve them well, especially in an environment where more and more end-users are considering end-to-end solutions/sharing risk.

Source: Frost & Sullivan

## **Military Helicopter Industry: Battling the Challenges with New Solutions**

In May 2011, the participants of the International Military Helicopter conference (organised by the International Quality & Productivity Center) in London were introduced to the challenging environment of the United Nations (U.N.) Aviation operations. Operating more than 300 air platforms (of which 170 are helicopters, 75 for military and 95 for civil operations), the U.N. is progressively exploring new business models to source and maintain an active fleet of helicopters to support its varied (and mostly mission-critical) operations.

The underlying theme of the conference evolved to be the growing need (and increasing adoption) of bespoke procurement models for both platforms availability and support operations. Another area of discussion was the higher than expected average life of platforms, hovering at about 40-plus years (and still increasing). In consideration of the increasing average life of platforms and the budgetary challenges, the opportunity/challenge for the industry is to present the end-user with unique sustainability models. If the industry lacks the initiative, the end-user will find such solutions, as is the case with the replacement/sustenance of the Kiowa Warrior by the Armed SCOUT Helicopter Project Office of the U.S. Armed Forces (albeit with the industry).

Frost & Sullivan suggests that the industry takes a lead in introducing such “bespoke” models to the end-users (both in the developed and emerging markets), and capitalise on the alternate revenue streams of aftermarket support, both for back-end and frontline operations.

**Oxford**

4100 Chancellor Court  
Oxford Business Park  
Oxford, OX4 2GX, UK  
Tel: +44 (0) 1865 398600  
Fax: +44 (0) 1865 398601

**London**

4, Grosvenor Gardens,  
London SW1W 0DH, UK  
Tel 44(0)20 7730 3438  
Fax 44(0)20 7730 3343

[enquiries@frost.com](mailto:enquiries@frost.com)

<http://www.frost.com>

<http://www.aerospace.frost.com>

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