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## Opinion: Secrets Of The “Big-Small” Aerospace Companies

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[Steven Grundman](#)

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Earlier this spring, I hosted a panel discussion at the Atlantic Council among the chief executives of AM General, Cubic Corp. and Siemens Government Technologies (SGT). While these three companies—prime contractors predominantly for automotive vehicles, training and transit technologies, and infrastructure and automation solutions, respectively—may appear quite disparate, they cohere strongly around a theme that was suggested in the event’s title, “Big Small Companies: How Size Matters in Defense Contracting.” Brad Feldmann of Cubic, Andy Hove of AM General and Barbara Humpton of SGT shared insights about the challenges and rewards that are distinctive to “life in the middle,” and along the way we learned some of the secrets to making big-small beautiful.

Over the past quarter-century, the industrial structure of defense has transformed. In 1993, the erstwhile Lockheed, [General Dynamics](#), British Aerospace and Northrop, for example, each had a market capitalization of less than \$4 billion. From what was then a fragmented array of mostly midsize, national brands made famous by the Cold War, there has emerged a structure resembling the weight-lifter’s barbell, with a concentration of large, diversified and global companies at one end juxtaposed at the other by a diffusion of small businesses and microscale specialty subcontractors.

In between, there lies a narrow band of companies I like calling “big-small,” an oxymoron I think most apt. Wall Street regards such companies in the class called “small caps,” with equity under \$2 billion in value. I think of them as companies with defense revenues of roughly \$1 billion. Like the large-diversifieds, the big-smalls have the competence and capabilities to solve their customers’ large, complex problems. Like much smaller companies, however, the absolute scale of their resources leaves little room for making long bets or indulging plush overhead superstructures.



The secrets of their success seem to reflect a particular combination of attributes: leadership, focus and empathy.

**Leadership.** I had invited Frank Finelli, managing director at The Carlyle Group, to introduce the panelists, and his remarks put the most important ingredient in the success of big-small companies right out front. He said the ordinary premium on gifted corporate leaders who have a vision for how to create value is amplified in big-small companies because of the limited resources they have to implement their strategies.



“You have to be very, very good and very, very focused about what you do as a company,” Finelli said, “if you want to succeed in the land of the bigs.” Punctuating his point late in the conversation, Andy Hove lamented,

“The only thing [about the job of CEO] that bugs me is having to do my own dishes and my own PowerPoint slides.” Gifted leaders make a difference to any enterprise, but they are the essence of successful big-small companies.

**Focus.** A second precept of big-small success that all the CEOs agreed is essential involves sustaining attention to deliberate choices. Barbara Humpton’s turn on this theme concerned portfolio management, which she compared to “constant gardening” that involves both “crop rotation” and the cultivation of “investments we know we’re going to have to stick with for a long time in order to see them pay off.” Hove, again, added the punctuation, saying, “You don’t have a hundred different bets on the table; you have a few, and you can’t lose very many of them.” Successful big-small companies serve a surprisingly diverse range of customers and global markets, but they concentrate the application of limited resources on a focused selection of strategic initiatives.



**Empathy.** The other secret to the beauty of big-small companies that I learned from these CEOs is their exceptional affinity with customers. Brad Feldmann was especially convincing on this point. “We flat out have to do better with the customer than anyone else,” he said. “We have to be more responsive; we have to deliver the stuff early; we have to have faster innovation cycles; and we have to have empathy for our customers.” Hove called it the practice of managing “deep customer relationships.” This empathic knowledge of their customers enables the big-smalls to differentiate by the trick of what I call “customerization”—the ability to deliver customized solutions at production-scale prices.

Despite these merits, the outlook for this segment of the industry remains challenged by a market of customers and investors with a decided bias for scale. The segment of companies lying between the bigs and the smalls will probably remain along only a narrow band, but you can bet that the few that prosper there will have great leaders, focused strategies and a special eye for their customers’ needs.

*Contributing columnist Steven Grundman is the principal of Grundman Advisory and a senior fellow at the Atlantic Council. The views expressed are not necessarily shared by Aviation Week.*

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