

Opinion: New Strategic Imperatives For The Defense Industry

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Companies such as SpaceX have put national security in their sights, and legacy defense contractors need to reevaluate their approaches to remain relevant.

Credit: Joshua Conti/U.S. Space Force

What business are you *really* in? This deceptively simple question enjoys special standing in the catechism of corporate strategy. Harvard's Theodore Levitt used it in a 1960 article to underscore what the *Harvard Business Review* regarded in 2004 as "the most influential marketing idea of the past half-century: that businesses will do better in the end if they concentrate on meeting customers' needs rather than on selling products." Or, as Professor Levitt liked hammering home to his students, "People don't want to buy a quarter-inch drill; they want a quarter-inch hole!"

Levitt's commandment came quickly to mind reading Defense Secretary Lloyd Austin's recent speech at Pearl Harbor, in which he advanced integrated deterrence, a "new vision of what it means to defend our nation."

For starters, says Austin, integrated deterrence involves using the military "to buttress U.S. diplomacy and advance a foreign policy that employs all instruments of our national power." He says it requires developing advanced technologies such as quantum computing and artificial intelligence as well as new operational concepts (Conops) for their applications to military operations. Above all, modern deterrence "rests on integrated networks among our capabilities, our operations, and our allies."

In the speech's entire 1,300-word explanation of integrated deterrence, Austin never once used the words "ship," "plane," "tank," "missile," "weapon," or "system" to describe the needs of this vision. In turn, now would be a good time for the companies addressing national defense to take up Levitt's challenge and ask hard questions about whether the businesses in which they think they are engaged reflect their customers' needs or instead reflect a preoccupation with selling their versions of Levitt's quarter-inch drills.

The importance of these questions is more than Talmudic. In his nostalgia-tinged critique of American railroads, Levitt described how at the end of the 19th century, its companies were flush with confidence that "[n]o other form of transportation could compete with railroads in speed, flexibility, durability, economy and growth potential." Then, within a generation, they were "flat on their backs, broke and pleading for government subsidies." Levitt blamed railroad executives, who saw themselves in the railroad business rather than the business of satisfying customers' need for passenger and freight transportation, while competitors—applying then-new automotive, aeronautical and telecommunications technologies—developed attractive alternatives.

Now, I hardly would contend that our traditional defense companies are failing Levitt's lesson. Indeed, much about the industry's evolution since the inflection of the Cold War's end, from the diversification of the larger companies to the relocation of their headquarters to Washington, reflects obsessive attention to the Pentagon and a shift in its priority materiel needs from platforms to systems. We have come to call them *defense* companies, after all, just as Levitt no doubt believed the railroads should have strived to become *transportation* companies.

Nevertheless, the kind of inflection indicated in Austin's speech will be much harder this time around for even attentive defense companies to recognize and accommodate. There are at least three reasons for this:

- The most advanced applications of software solutions, which give special impetus to Austin's vision, are being developed and deployed outside our industry. Software is going to eat the defense world, too, and for however successful they have been at applying software to weapon systems, defense companies are not native to this industrial ecosystem as they were to the electronics ecosystem the industry comfortably integrated across the 1990s.
- The Conops animating integrated deterrence will generate needs that run across the grain of most defense companies' business models. Digitalization is reordering the value chain of systems on a trend line—from centralized ("mainframe") to distributed ("PC") to ubiquitous ("cloud")—that does not favor defense companies, which today are structured to address customer needs for "few-exquisite-complex" systems, not "many-smart-simple" networked nodes.
- Entrants from Silicon Valley to Detroit have put national security in their sights. SpaceX has utterly transformed space launch. Amazon's "HQ2" headquarters will enjoy a literal sight line across a highway to the Pentagon. General Motors just cut the ribbon on a new factory for its Infantry Squad Vehicle, "an indication that GM Defense is back in the defense game," says its president. By contrast, at our industry's last inflection point, technology firms eschewed defense, and multi-industrials exited the market.

To avoid the fate of the railroads, Levitt concluded, "involves far more than good intentions or promotional tricks; it involves profound matters of human organization and leadership." For defense companies, the time is now to take up the work of these profound matters. The customer is telling us from the very top that its underlying needs are changing.

The views expressed are not necessarily those of Aviation Week.