Competing for our future

Boeing's fundamental business is strong, but it faces tough new global competition and must keep getting better

In a Q&A with *Frontiers*, Boeing Chairman, President and CEO Jim McNerney discusses a range of issues important to employees, whom he considers "some of the most passionate, innovative and talented people I've ever met."

Q: Jim, as we head into 2011, what do you see as the strategic business priorities for the company?

A: First and foremost, it's to continue the outstanding performance of our core programs and our services businesses—and to maintain an enterprise focus on improving productivity and affordability for our customers. As everyone knows, we've had a tough time with some major development programs and there's still more work to be done there. We've been able to absorb the impact of those challenges and continue investing in other growth areas because of the phenomenal work our teams are doing on productivity and in core business performance. Those efforts have been our bedrock.

Q: And our priorities beyond that?

A: It's important we begin to face into some growing realities about the future and adjust our strategies to deal with them. For example, at Commercial Airplanes we have to prepare for the inevitability of more—and more aggressive—global competition from lower-cost, state-supported producers, including Canada, China, Russia and Brazil. These competitors (and their host nations) see the same massive economic opportunity in the commercial airplane market over the next 20 years that we and Airbus do. They're hungry, capable and they want their fair share of the action, which ultimately means taking some of ours.

Q: What do we need to do?

A: Right now, from an overall product strategy standpoint, I'd say we've got several years' lead over the emerging competitors, and probably a three- to four-year lead over Airbus. However, our lead was larger before we ran into

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– Jim McNerney
Boeing chairman, president and chief executive officer

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difficulties on the 787 and 747-8. Our priorities are to get those development programs done; ramp up production across all programs to burn down our 3,400-airplane backlog and open up more sales slots for customers (we don't want to steer them to our competitors because we don't have planes available when they need them); then, we need to take and extend our lead with either improvements to, or replacements of, our 737 and 777 families.

Q: Do you see similar realities for Defense, Space & Security?

A: The reality we're facing on that side of the business is an extended period of flat to declining budgets in the United States and Europe, along with pressure on our profit margins as customers tighten the contracting environment to stretch their limited dollars further. We also foresee a continued growing emphasis on unmanned systems; intelligence, surveillance and reconnaissance; integrated logistics; and cybersecurity.

Q: What does a "tight contracting environment" mean?

A: In the simplest terms, our government customers are negotiating harder to get lower prices for what we sell them, which generally means we earn less profit on our work (unless we offset the lower prices with reduced cost). They are also shifting risk to us through fixed-price contracts. This is important because the cash and earnings we receive from the products and services we deliver to customers gets reinvested in future programs, pays for our employee benefits, and is returned to shareholders in the form of dividends.

Q: Does all this mean our Defense, Space & Security business is bound to shrink?

A: No. In fact, the markets we serve are large and they're global. In the Middle East and parts of Asia, for instance, defense spending is on the rise. And our broad portfolio

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of reliable, proven and affordable products and services is a big advantage in tight budgetary times. With that in mind, our focus needs to stay on extending and growing our core businesses, winning an even larger share of international sales and services opportunities, and strengthening our capabilities in the higher-growth areas I just mentioned—through both internal investment and targeted acquisitions. We made good progress in 2010, but we need to go faster because our competitors are not standing still. They're reducing costs and making investments in their capabilities, too.

Q: You mentioned the difficulties we've had with some big development programs. Have we learned from these experiences, and what are we doing to prevent them in the future?

A: The answer to that question has to start with the recognition that game-changing innovation is never easy. It takes a kind of courage, perseverance and financial wherewithal that few companies have. But we've got to be much, much better executing development programs.

As we've discussed before, in hindsight our 787 plan was overly aggressive—incorporating too many firsts all at once—in the application of new technologies, in revolutionary design and build processes, in increased global sourcing of engineering and manufacturing content. And the systems and functional controls for monitoring progress and detecting problems early should have been stronger. On the 747-8, some early engineering work-scope and resource assumptions turned out to be wrong. We had similar issues on fixed-price development programs on the defense side.

We've made many changes along the way to get these programs back on track, such as strengthening leadership and organization structures, inserting ourselves deeper in the supply chain, and doing more manufacturing and engineering work at in-house Boeing locations.

We've also taken steps to address some more fundamental issues we uncovered—such as the reduction in the voice of engineering in key decisions (which we see as an unintended consequence of the evolution of integrated product teams), the need to restore the focus of engineering on technical excellence (in addition to people, processes and tools), and the need to be as technically excellent in supplier management as we are in engineering. Efforts to address these lessons are well under way and are being applied on other programs with good results so far.

Q: As employees, what's the one thing we need to stay focused on for 2011?

A: We have to keep improving—because our global competitors are getting better. Others can—and increasingly will—be able to do what until recently it seemed only we could do. While we may have the lead in many of our markets now, we have to work to keep it, and to regain it where we don't have it. We can't assume we're entitled to market leadership just because we're Boeing; we have to earn it every day with our customers, leveraging the strengths of "One Boeing" and always operating with integrity.

Q: You have served as chairman, president and CEO for more than five years now. Has your view of the company and its people changed over that time?

A: Yes, but my enthusiasm for Boeing and my appreciation for the caliber of our people have only gotten stronger. We're part of an important company that has a big impact on the world. I'm proud to be here, and I'm proud to work with some of the most passionate, innovative and talented people I've ever met. Yes, we are making changes where we need to make them, but our core businesses are strong and we are fundamentally a better company today than we were just a few years ago. As we look across the five-year run-up to our centennial in 2016, we see substantial growth potential. Many companies never make it that far, but I like to think we'll just be hitting our stride when Boeing turns 100. ■