



The Importance of Strategic Partnership in a Global Competition

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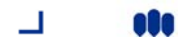
Case Airbus – Patria Aerostructures

Summary

Attachments

Strategic Partnerships:

- Why
- Some particular market aspects
- Some aspects on R&D, products, production, procurement and logistics





Strategic Partnerships, definitions

- Strategic partnership is a long term commitment of the partners with shared goals pursued through pooled investments, competences, technologies and resources
- Strategic partnership involves sharing costs, risks and profits
- Duration of strategic partnership can be anything from single project to a permanent arrangement
- The involved partners may or may not retain independent freedom of activities



Strategic Partnerships, definitions

- Importance of strategic partnership can be enhanced through different type of ownership arrangements
- Strategic partnerships can exist at any and all levels of business operations, for instance, in technology / product / production development, procurement / logistics and sales and marketing
- In case the buyer-seller relationship is in question, long term commitment for mutual benefit is an essential element for inclusion it to strategic partnership





Strategic Partnerships, some challenges

- Very important – if not the most important – challenge is to agree upon prior to start thorough, mutual understanding of the goals and objectives of both of the partners
- Strategic partnership will often limit possibilities to change the other partner(s), rapidly
- Ability and willingness to commit to the other partner's solutions even if they are not the most competitive ones for gains in other areas of partnership



Strategic Partnerships, some challenges

- Lucrative (short term?) opportunities might have to be sacrificed for longer term gains – what will be the needs of the partners along the changing time?
- Strategic partnership may lead to slow and rigid operations, versus benefits expected from the speed and improved efficiencies
- Management of conflicting interests in the other fields otherwise possibly undermining cooperation
- Unbiased partnership if the other partner is superior in size, market access, technology
- Framework from legislations (competition)



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- Particular challenge: in the aerostructures business, positive and negative cash flows will balance each other only over long period of time and only after having several contracts with different timing in simultaneous operations

= > long term commitment a very essential element !



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Patria Aerostructures' goals:

- Situation 2000: current build-to-print model getting more and more difficult from economic aspect

=> either move upwards in value chain through total turn around of the whole business unit with wide range of measures including said strategic partnership or close down the operations

=> expansion of scope of Patria Aerostructures activities to design-build world of civil aircraft composite structures. First tier partner to Airbus



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- A380 spoilers were the first contract of that nature. Pruning the contract portfolio and acquiring more, larger contracts from the customer pool. Build-to-print for composites will remain part of operations for cash flow management and optimising investment utilisation rate. Typically, build-to-print means lower requirements on non recurring investments at the supplier



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Case Airbus A380 Spoilers – Patria Aerostructures

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Case Airbus A380 Spoilers

First development agreement in 1997. Participation in the concept development at own risk during 1997-2001

Contract for delivery of the spoilers in September 2001

- 25 years contract, tacitly renewed for 5 years' periods thereafter, until 5 aircraft are in commercial service (expected to take place around 2040-2045)
- Intermediate check points (competitiveness, productivity development)
- Single source to Airbus
- Peak delivery pace: approx one ship set (i.e. spoiler set to one aircraft) per week
- Value: over 25 years approx 425 MEUR



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Case Airbus A380 Spoilers

- Considerable investments to facilities, machinery, tools, competences
- Heavy burden from simultaneous non-recurring cost (several years' design effort, including push through of major – for aircraft typical – weight saving campaign)
- Risk sharing approach

All the most important countries of Europe in aircraft industries involved A380 programme with similar approach.



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Case Airbus A380 Spoilers

Now in Airbus A380 Spoilers:

- Design phase is completed, design is tested and accepted, production process is accepted
- Certification of the first commercial aircraft is going on after which completion of the design of spoilers will be finally frozen, as well
- Production set up is existing, running with 100 % delivery accuracy and some 20 ship sets are delivered to final assembly line
- The ramp-up will be speeded up after the certification process is finalised and the first airplane is entered into commercial service



Case Airbus A380 Spoilers

Patria Aerostructures received from the strategic partnership:

- Positive solution for the business unit
- Major agreement with one of the prime companies at the first tier
- Several mutual development projects => expansion of know how / competence and technology level / pool
- Very good contact network with rapid and continuous information exchange
- New contracts
- Clear set up in many areas of activities because of the very demanding world class partner

Positive solution for the business unit is important for Finnish aviation industry and related universities, and has improved also economic activity in the city of Jämsä.





Summary

- Patria Aerostructures has utilized the strategic partnership with Airbus to major restructuring of its whole business and has stepped up to one of the international players in the supplier network for civil aircraft
- Due to the nature of aircraft industry, without this long term partnership the change would not have been possible
- As in many other businesses, the changes have required establishment and utilisation of complex network of many other international and domestic partners and a lot of hard work



Summary

- Special thanks will be extended to the Finnish Ministry of Trade and Industry, the Technology Development Agency as well as to the city of Jämsä and other institutions and companies for their role in making this change possible.





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Thank you.



Questions, comments ?



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Strategic Partnerships, why

- Creating of a better competitive edge than each of the parties would have alone in the (international) market place, improving market share
- Speeding up the launch of products / services at the market place and/or expanding the launching spread by pooling resources
- Creating economies of scale in sales and marketing, R&D, procurement, production, financing



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Strategic Partnerships, why

- Sharing of large project management responsibilities will make it possible to focus on core competencies
- Sharing risks
- Making it possible to get access to some critical resources, technology, intellectual property rights, markets / customers
- Managing challenge to get access sufficient amount of resources (human, physical, financial), or better terms for them



Strategic Partnerships, some particular market aspects

- Acquiring market information, right channels for right information at the right time for right actions
- Wider understanding on real customer needs, requirements and possibilities, including timing => better total solution for the customer
- Enhancing / creating ability to cover all the important aspects in total solution, including politics and media





Strategic Partnerships, some particular market aspects



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- Improving own competitive situation through appropriate exclusive arrangement
- Taking into account the context of local cultural aspects for correct actions



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Strategic Partnerships, some particular aspects on R&D, products, production, procurement and logistics



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- Pooling the know how, technology and resources for speeding up the development time
- Expanding the economics of scale at any or all levels of activities for improved competitiveness (productivity, net working capital, procurement, own costs, increasing of utilisation of investments, and for instance automation for existing and upcoming needs)
- Limiting risks in general
- Improving access to local human, technology and financial resources and know how, including universities and institutes



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┌ **Strategic Partnerships, some particular aspects on R&D, products, production, procurement and logistics**

┐ **Patria**

- Utilisation of opportunity to spin off from the existing product(s) and/or know how pool. Utilisation of existing or related learning curve. Consequently, lowering the risks to additional costs when needing management for less new issues, speeding up production ramp-up time. Cutting the needed amount of time for 0-serie.
- Improved access to local supplier / logistics chain
- Less own management resources needed while the partner will take care of management of its own share

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