Economic Development Planning, Summary 26

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Title: Aerospace, Defense & Security Industry in Arizona: Options for Advancing the Aerospace, Defense and Security Industry

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Source: L. William Seidman Research Institute, W.P. Carey School of Business, Arizona State University

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Summary: Aerospace, defense and security (AD&S) is a nearly $9 billion industry in Arizona, employing almost 94,000 people. The industry faces significant challenges to its growth in Arizona, including fierce competition from other states vying for defense jobs and contracts. If Arizona is to better support this key industry, it’s important to explore the industry’s needs. Perhaps most importantly, no single organization represents the interests of Arizona’s AD&S industry. An industry-led and focused organization could address numerous concerns identified in the report, including educating and working with state and federal representatives, connecting local suppliers and manufacturers, and facilitating communication among members. Such an organization would also allow out-of-state firms and entities to easily engage and do business with AD&S firms in Arizona.
**Sectors:** Aerospace, defense, security, and economic development.

**Geographical impact:** Arizona.


**Major challenges:** Defense budget cuts, highly competitive states like Alabama, Florida and Virginia, military’s changing technological needs and an evolving economic landscape.

**Progress to date:** Despite efforts to form a trade association, there remains no clear single point of contact for the aerospace, defense and security industry in Arizona. It has been difficult to gain support from companies, most of which have their headquarters outside of Arizona, to back formation of a trade association that would address the specific needs of the AD&S industry. Perhaps in response to lean economic times and competition from other states, Arizona’s federal delegation is viewed as now being more receptive to listening to concerns of the AD&S industry in Arizona.

**Major implications:** Arizona faces significant economic and political pressures in preserving and expanding its very significant aerospace and defense base. An industry-led, -focused and -funded organization would provide the aerospace, defense and security industries in Arizona with a more unified voice, more effective representation with state and federal officials and facilitate communication among members. Such an organization would also help raise the profile of the AD&S industry in Arizona and provide pro-active leadership in heading off potential threats to assets and taking advantage of opportunities to land contracts and other business.

**Opportunities for alignment:** As demonstrated by the unmanned aircraft systems proposal to win designation as a national test site, the Arizona Commerce Authority
can bring together leaders from the public and private sectors in a concerted effort. If appropriate, the ACA is in a position to provide some seed money to help fund an effort by private interests to form a trade association.

**Background:** The aerospace, defense and security industry is an important part of Arizona’s economy. In 2010, it contributed $8.8 billion in gross state product to the economy and created more than 93,800 jobs. The objectives of this report are to:

- Highlight key issues and needs currently not addressed by Arizona’s AD&S industry.
- Identify and examine best practices pursued by competitor states (Alabama, Florida and Virginia).
- Recommend a strategic roadmap to effectively address the challenges and issues faced by the AD&S industry in Arizona.

**Major themes:** In-depth interviews with five industry and government leaders in Arizona identified six major themes representing concerns and gaps in the industry. These interviews were supplemented by less-structured interviews with other industry stakeholders. The themes were:

- There is no clear single point of contact for the AD&S industry in Arizona. Entities seeking information about AD&S eventually find the Arizona Aerospace & Defense Commission, but it is limited in the types of activities it can pursue due to lobbying and gifting statutes in the state.
- The industry’s needs are not being adequately addressed by Arizona’s federal delegation. This is in contrast to other states that Arizona competes with for aerospace and defense contracts and jobs.
- Though there are many organizations representing various industries in the state, they do not represent the specific needs of the AD&S industry.
- The supply of engineers and some types of skilled workers in Arizona is reliable, but firms report difficulties in convincing senior hires to relocate due to perceived shortcomings in Arizona (low K-12 education ranking, controversial issues such as gun laws and immigration, housing market woes and a lack of minority professional communities).
- Firms are concerned with lowering the cost of maintaining a reliable supply chain.
- Firms generally favor establishing an organization such as a trade association in support of the industry. Support might include gaining federal backing for contracts, helping to attract high-tech firms to Arizona to support the industry and strengthening relationships between schools and industry,
including supporting STEM programs in schools.

**Best practices:** Alabama, Florida and Virginia having longstanding reputations for effectively advancing the interests of their AD&S industry, an analysis of activities performed by various associations in these states revealed several important best practices. They included:

- Creating an organization that serves as a focal point for the industry enables it to work with state and federal agencies, other supporting industries, military entities, research facilities, and other industry stakeholders.
- Setting up an organization as an industry-led, focused and funded entity enables it to engage in advocacy and lobbying activities not available to government agencies.
- Connecting member firms with each other creates synergies that lead to collaboration.

**Conclusion:** A single point of contact for AD&S is necessary in Arizona to allow out-of-state firms and entities to easily engage and do business with firms in the industry. The AD&S industry would benefit greatly from having an organization dedicated to addressing its concerns with government representatives. An organization is needed to connect local suppliers and manufacturers.

**Recommendation:** Establishing an AD&S trade association in Arizona would provide an advocate for the interests of the industry, ensure a single point of contact for companies looking to do business in the state, connect manufacturers to suppliers and foster collaboration among member firms, market the state to outside businesses, educate the public and others about issues vital to the industry and raise its profile, offer education services to small businesses and suppliers, and provide a mechanism for clear and effective communication between industry, government, research and the military, among others.