

UNMANNED VEHICLES

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Analysis 2

The Market for Aerial Targets

Executive Summary

Unlike the unmanned air vehicles (UAVs) that have won fame for their exploits in Afghanistan, Iraq, and elsewhere, aerial target drones continue to labor in obscurity. These drones make their contribution long before the shooting starts, during training exercises and weapons systems evaluations.

Aerial target systems allow soldiers to hone their combat edge in preparation for battle. Without aerial targets and other training systems, soldiers would enter combat unprepared, likely resulting in higher casualties. Furthermore, target drones provide a means of realistically testing new and existing weapons systems. This testing enables a military to find defects and identify areas that need improvement.

New Targets Simulate Evolving Threat

By making soldiers more proficient and weapons more effective, aerial targets are helping keep soldiers alive. Thousands of aerial targets are expended each year by militaries in all corners of the world.

Drivers and Trends. No company involved in this market provides a line of aerial targets that can meet all training requirements. Some companies compete more than one of the market's segments, but none has tried to win contracts in all of them.

Firms involved in this market usually specialize in providing for certain target needs, and it is those needs that drive the market. Other factors play a role in shaping the market – such as payload, to some extent, payload flexibility, how well a system can meet the training requirements of a given military, and a decisive element.

The constant need on a worldwide basis to train soldiers to defend against the influx of new weaponry prior to battle has become one of the driving trends in this market: a consistent flow of production contracts and a growing number of competitors. Armed forces need to train their troops, thereby ensuring the continued procurement of aerial targets. As new strike weapons are developed, new aerial targets are needed to simulate them in training. Conversely, target drones are needed for the testing of defensive systems that offer protection from these strike weapons. Together, this demand helps keep production of aerial targets at a fairly steady annual rate.

Competitive Factors. The consolidation that swept much of the world's defense industry in the aftermath of

the Cold War also affected manufacturers of aerial targets. The 1990s saw an unprecedented number of mergers and acquisitions among North American and European companies.

As the number of firms involved in national competitions decreased, the opposite happened on the international market. Companies that once competed for only national requirements were now routinely challenging one another for international awards. Competition has become more heated as companies struggle for every defense dollar they can find.

Despite industry consolidation, more companies are attempting to enter this market, and some are succeeding in pulling business away from the dominant players.

Market Share. The market for aerial targets continues to be dominated by a relatively small number of defense firms. The greatest shares of this market are controlled by companies located in North America and Europe. Still, new entrants are beginning to make their presence felt.

The market share of these firms is usually dependent on domestic purchases. This is the case with Aviation Industry Corporation of China (AVIC). This company produces the most target drones and has the highest earnings, but it has very little presence in the international market. The vast majority of target drones built in China will be consumed locally.

Close behind AVIC in earnings is Kratos Defense, the U.S. firm that builds the BQM-167/177 subscale aerial targets. The company with the largest number of export clients is QinetiQ Target Systems, which offers a series of small target drones, including the Banshee and Voodoo.

Some companies owe their market share to the production of target drones for very specific needs, such as the testing of missile defense systems.

Conclusion. The market for aerial target drones over the forecast period will be worth \$5.2 billion. Of all the defense markets, it is probably the most accessible to new entrants and offers the greatest potential for a steady stream of production contracts. As Operation Enduring Freedom and Operation Iraqi Freedom have shown, constant and realistic training is a must if a military force is to maintain its combat edge.

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