

Protecting Our \$oil

Defense Sector a Driver for Indiana Economy

By Matt L. Ottinger

The United States military and the nation's private sector have enjoyed a long – albeit sometimes controversial – relationship. But in order for American soldiers to be properly prepared on the battlefield, they require top-of-the-line equipment, weaponry and armor, and many Indiana businesses have contributed to this effort through the years.

A 2011 report, *Building National Security*, from the Indiana Business Research Center at the Indiana University Kelley School of Business outlines the state's defense sector and its economic impact over the last decade:

- The value of defense contracts was \$1.8 billion in 2001. In 2008, the number peaked at \$7.8 billion
- Hoosier salaries that are supported by defense contracts averaged \$64,000 in 2010 (compared to \$44,600 for all jobs in the state)
- 38,600 Hoosier jobs are supported by defense contract dollars; 18,200 of those jobs are directly with defense contractors
- Transportation equipment manufacturing; computer and electronic product manufacturing; and professional, scientific and technical services were the three top industries to receive defense contract money in 2010
- Indiana's four largest defense contractors – AM General, Rolls-Royce Group, Raytheon Company and ITT Exelis – claimed 71% of the state's defense money in 2010, but thousands of companies have been military contractors since 2000

Defense contracts have provided access to jobs for Hoosiers in smaller communities. For example, Erapsco, Inc. in Columbia City was awarded a \$55.4 million contract in 2011 and has earned several more during the past two years from the Naval Air Warfare Center Aircraft Division in Maryland, to produce sonobuoys for the U.S. Navy. The Naval Surface Warfare Center Crane Division in southwestern Indiana (Martin, Lawrence and Greene counties) employs between 5,000 and 6,000 workers with a payroll as high as \$475 million (see the July/August *BizVoice* for more about Crane).

The public sector has added to its commitment to aide this alliance. The Indiana Office of Defense Development (IODD) was established by Gov. Mike Pence via executive order in January 2013 and received unanimous support from legislators in Senate Bill 529.

Leading the charge

While Indiana once had an Office of Energy and Defense Development, it was eventually pared down to become the Office of Energy Development. That left businesses in the defense sector without

Raytheon – one of Indiana's largest defense contractors – recently displayed some of its latest technology (left) at the Paris Air Show. This headgear allows military scouts to relay target information to planes. Battery Innovation Center (BIC) engineers conduct initial calibration and alignment of lithium-ion coating/drying equipment. BIC launched earlier this year in the WestGate @ Crane Technology Park.



a public agency to work with and spearhead statewide initiatives.

Conexus Indiana initially helped launch the Indiana Aerospace and Defense Council in 2011 as a means to develop and unify the sector.

“We were tasked with convening a statewide council of aerospace and defense industry executives and thought leaders,” explains Ryan Metzger, Conexus aerospace and defense initiative project director. “They wanted to figure out what investments needed to be made to grow the industry – not just money, but time, energy and effort.”

Metzger describes his initial revelation that key players in the industry were not as connected as first thought.

“It’s been a lot of relationship building,” he relays. “I was surprised, being from the legal community, which is very small. Many attorneys know one another because for the most part you went to school together. ... I was surprised to learn that – strictly from a personal relationship standpoint – how many (executives in the defense industry) didn’t know one another. For instance, executives in Fort Wayne didn’t really know the people in southwest Indiana around Crane; it’s more locally focused.”

A cohesive approach is now under way to help Indiana gain momentum in the sector. Duane Embree, a longtime civilian leader at Crane, is executive director of the IODD. He remains focused on maximizing the industry’s potential in the state.

Indiana ranked 23rd in the nation and garnered \$4 billion in defense contracts in 2010, although those numbers dropped to \$2.9 billion and 25th in 2012.

“(That was) primarily driven by the reduction in procurement of Humvees and other transportation equipment,” Embree qualifies, explaining the vehicle (produced by AM General in South Bend) accounted for roughly 60% of all Department of Defense (DOD) contracts in Indiana in 2010.

In 2010, more than 75% of the state’s defense contracts were concentrated in three industries: transportation equipment manufacturing (48%, \$1.9 billion), computer and electronics manufacturing (20%, \$800 million) and engineering and professional services (10%, \$400 million).

Embree contends the state has been – and will continue to be – well-positioned to capitalize on opportunities within the industry.

“Indiana has a rich heritage of serving the defense of our nation, and Hoosiers place a high value on Indiana’s defense installations and defense-related industry,” Embree states. “Indiana has the fourth largest National Guard and is consistently one of the largest military recruiting states on a per capita basis.”

He outlines the IODD’s top three goals: (1) increase the military value of Indiana defense installations to “mission essential” (a high standard, in this case measured by both DOD quantitative models and qualitative assessment) by 2015; (2) increase the Indiana defense contract awards ranking from 25th to top 20 by 2016; and (3) increase jobs created through the commercial use of defense technology and assets by 10% per year.

The IODD also hopes to help foster the development of an “Indiana Defense Innovation Triangle” in south central Indiana. The triangle would include the defense installations, universities and colleges, technology parks, and defense related businesses and contractors around Interstate 69, I-65 and I-64, and be intended to help brand the state as a defense hub.



The Indiana Office of Defense Development was created earlier this year so the government could help promote, drive and unify the state’s strong – but sometimes regionally segregated – defense sector. Duane Embree, shown after being introduced by Lt. Gov. Sue Ellspermann, is the executive director.

On the horizon

Metzger sees potential for the defense sector to expand and further capitalize on its resources.

“From a growth standpoint, Indiana probably stands to grow the most from getting small and mid-sized companies into this market,” he offers. “Our large companies can only grow so much, but our smaller and mid-sized companies could experience profound growth by becoming government contractors. Yes, it’s a shrinking DOD budget, but it’s still the biggest customer in the world.”

Embree adds that challenges persist due to projected reductions in contracts for defense and research and development as troop drawdowns get under way in Afghanistan. He adds that the threat of base realignments and closures has loomed for decades.

Embree says, however, that there is positive news for the sector.

“At the same time, Indiana is well positioned to adapt and prosper from these major changes in defense and national security strategies and budget,” he offers. “Since (a 2007 defense asset study conducted by the Central Indiana Corporate Partnership), Indiana’s major defense installations increased their military value in the eyes of the DOD. (They’ve also) increased their value to the state in terms of high-value jobs and opportunities to leverage defense technologies and assets into commercial applications, new Hoosier companies and additional jobs.”

Although the newly-formed IODD is striving to provide a unified front, Metzger acknowledges that efforts to promote the industry are often conducted regionally instead of using a statewide approach.

“It’s a little bit of a challenge getting everybody on the same page for a statewide initiative and showing it can be good for all the regions to enhance the state,” he notes. “We don’t have to be so parochial to our smaller community; think of the state as the community.”

“However, I don’t think (any of our challenges) are unique to Indiana when it comes to growing this industry,” he adds. “Those aren’t red flags that have to stop the growth. ... The good news is the state is moving in the right direction.”

INFORMATION LINK

Resources: Ryan Metzger, Conexus Indiana, at www.conexusindiana.com

Duane Embree, Indiana Office of Defense Development, at www.in.gov