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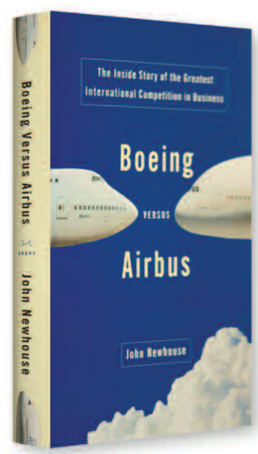
Titans of the Sky

The World's Two Largest Airplane Manufacturers Battle for Market Dominance

Review by Stephen Wolter

There probably aren't many journalists who understand the aircraft manufacturing industry better than John Newhouse does. Twenty-five years ago his book *The Sporty Game* examined the high-stakes business environment that exists in the manufacturing and selling of large commercial aircraft, commonly referred to as LCAs. A quarter of a century later, that book is considered a classic about the airplane business.



BOEING VERSUS AIRBUS
by John Newhouse
Published by Knopf, Copyright © 2007, 254 pages, $26.95,
ISBN 1-4000-4336-0

Now, in *Boeing Versus Airbus*, Newhouse focuses on the intense competition between the world's two largest manufacturers of passenger airplanes. He says the business of selling LCAs is an unsteady one at best and that predicting long-term winners in the industry is difficult, especially when fortunes seemingly change overnight.

The Big Two Emerge

In the prologue and first two chapters of *Boeing Versus Airbus*, Newhouse provides a brief history of how the LCA industry evolved over the last three decades, leading to the current situation in which just two manufacturers compete with each other.

During the 1970s and early 1980s, the business of commercial airplane manufacturing was divided among four companies, three of which were located in the United States: the Boeing Co., Lockheed Aircraft Corp. and McDonnell Douglas Corp. Of these three established companies, Boeing reigned as the market-share champion.

At the same time, on the other side of the Atlantic Ocean, a much smaller and relative newcomer to the industry was starting to make its mark. European-owned Airbus Industrie entered the airplane sweepstakes with the A300, while Lockheed and McDonnell Douglas were instead developing a pair of ill-conceived and almost identical wide-body airplanes. But when airlines showed a preference for the A300, Airbus could no longer be ignored by the big boys. After more than 35 years of successful production, Airbus announced in March 2006 that it would gradually phase out the A300 (as well as the A310) final assembly in response to market demand for its newer aircraft.

Airbus' Curious Makeup

To understand Airbus is to understand its unusual corporate makeup. Airbus is owned by a publicly traded corporation known as EADS — the European Aeronautic Defense and Space Co. Newhouse isn't shy about calling EADS a "curious and badly flawed structure." Curious indeed.

Initially, Airbus began as a consortium of four European national aircraft corporations, with representation from Britain, France, Germany and Spain. In 2000, three of the four partners joined in a united commercial enterprise and became part of EADS, which was based in Paris.

Today, about 22 percent of EADS is owned by DaimlerChrysler. The Spanish and French governments also own a part of EADS. British Aerospace — now BAE Systems — is not part of EADS, but it owns 20 percent of Airbus.

It gets even more complicated — or flawed — considering that although EADS owns Airbus, nearly 80 percent of EADS's revenue comes from this one subsidiary. And while EADS has two co-chairmen, one French and one German, their oversight of Airbus is minimal. Newhouse describes disgruntled Airbus staffers who wonder why EADS is even necessary to the aircraft manufacturer, as Airbus acts mostly as an independent company.

At the start of the 1990s, Airbus held only 15 percent of the market, compared to Boeing's whopping 62 percent. But the '90s were a decade of change, and by century's end, it was Airbus who would be the new industry leader. McDonnell Douglas and Lockheed were no longer players, and Boeing, through a number of management changes that affected its corporate culture, made a series of mistakes that cost the company its spot as the world's top commercial airplane manufacturer.

But Airbus' reign as No. 1 was short-lived. Almost as quickly as it made it to the top of the hill, the company faltered, and just within the last two years, Boeing has repositioned itself as the industry's primary force. Newhouse predicts that for now, Airbus will not be able to compete with Boeing unless the European manufacturer sheds the unwieldy managerial structure that currently intertwines it with EADS.

Rivalry Stories

After the initial two chapters, it becomes apparent that the book's structure lacks a single narrative arc. Instead, each individual chapter resembles a self-contained story that addresses a particular aspect of the Boeing/Airbus rivalry. Newhouse even abandons a linear chronology, choosing instead to shift between the present and the past, depending on the topic at hand. Some readers may find this method of storytelling too jarring for their tastes, but anyone with more than a passing interest in the aviation industry should not be dissuaded by Newhouse's decision to forsake a straight chronological history. His book sheds a great deal of light on an industry that is complex, risky and gigantic in its economic impact.

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The first rivalry Newhouse describes concerns the back-and-forth argument the two companies have engaged in over the issue of government subsidies — an argument that has waxed and waned for more than 15 years. Both Presidents George H.W. Bush and Bill Clinton took up the issue of subsidies on Boeing's behalf in the early 1990s. Boeing, along with the then-still-solvent McDonnell Douglas, claimed that Airbus operated with an unfair advantage that came in the guise of hefty European government subsidies.

In 1992, a deal between the United States and the European Union was reached that limited Airbus' government aid to no more than 33 percent of the development costs of any new airplane. Boeing's leadership, according to Newhouse, wanted a lower percentage, but privately accepted the agreement as progress toward a level playing field.

In 2004, however, Boeing decided to make subsidies an issue again. Picking a fight over subsidies at this particular time puzzled many within Boeing's management. Newhouse describes several theories as to why Boeing would want to revisit an issue that had seemingly been laid to rest more than a decade before. One theory is that by having to defend its subsidies, Airbus' attention would be diverted from development efforts of a plane that could compete with Boeing's new 787, due for release in 2008.

Another theory is that Boeing believed Airbus would be severely weakened if government subsidies were reduced, something Airbus could ill afford as it was heavily involved with its own major development project, that of the new A380 Superjumbo, soon to be the world's largest passenger airplane.

But Henri Courpron, who at the time was president and CEO of Airbus North America, believed that Boeing's intent had nothing to do with positioning for industry dominance, or with trying to gain an advantage in the head-to-head airplane development projects the two companies were concurrently engaged in. Rather, he saw Boeing's move to challenge Airbus' subsidies as politics, pure and simple. Courpron believed Boeing was attempting to win political sympathy as it steadily lost market share to Airbus.

Whatever the reasons, Newhouse views Boeing's attempts to cut Airbus' subsidies as a mistake on the part of Boeing CEO Harry Stonecipher. For one thing, opening a debate on Airbus subsidies encouraged Airbus to make counterclaims that Boeing often benefited from technology developed by NASA. While not packaged in the form of a direct government handout, the technology was nevertheless a benefit.

As the debate over subsidies continued, a weariness seemed to settle in on both companies. By the time Newhouse's book went to press, subsidies had become an issue between government bodies, with no resolution in sight, or as Newhouse puts it, "not much was happening other than talks about talks." One Airbus executive privately told Newhouse he hoped that some sort of deal could be made between the two companies, so that they could just get on with the business of making airplanes.

Building the Planes

The two companies manufacture products that are physically enormous and technologically complex. Newhouse provides details and histories about the numerous planes Boeing and Airbus have built over the years, but thankfully his technical descriptions of individual planes are never such as to be incomprehensible to the layperson. Instead, he focuses on the economic significance each plane has on its respective company, and what market niche the plane is intended to fill.

In the early 21st century, the two planes that consumed the bulk of development were the Boeing 787 and the Airbus A380. It is the A380 that has perhaps caused the most controversy in the industry within the last decade — not because Airbus has created an inferior plane, but because it may have overestimated the market demand for a plane that will carry 550 passengers.

The VLA Market

The idea of building a new, very large airplane, or VLA as they are known, was discussed in the early 1990s by both companies. Airbus, having established a strong position in the single-aisle market, now considered moving into VLA territory. The company was under the impression that Boeing was making its greatest profit from the jumbo 747, Boeing's crown jewel for almost 40 years. But Newhouse writes that Airbus was wrong, and that in fact the 767-300, a midsize plane, was Boeing's most profitable aircraft. Nevertheless, plans to develop a new superjumbo plane at Airbus advanced, and as it did, doubts among the industry's major players grew about whether or not the airlines really needed or wanted this plane.

Meanwhile, Boeing devoted its energy to the new 787, nicknamed the Dreamliner. Rather than trying to improve on its own VLA — the durable 747 — Boeing developed the 787, a midsize plane intended to fly long distances, but one that will avoid landing in hub airports. It is clear that Newhouse believes Boeing's investment may turn out to be the big winner.

The Airbus A380 will be able to carry twice as many passengers as the 787 — more than any plane in history — but it is designed to land at hub airports, where most passengers will be forced to change planes. Newhouse believes the industry may be ready for a new type of air travel, with ticket buyers welcoming the promise of fewer hassles — such as missed connecting flights and lost luggage—that the 787 will bring.

Still, Newhouse reminds the reader that longtime industry watchers remember when the same criticisms currently aimed at the A380 — lengthy turnaround times, time-consuming loading procedures, lack of airports that can handle such a large plane — were also directed at the 747 before it took to the skies. Yet the 747 changed modern air travel, according to Newhouse, in part by making it available to more people and helping to lower ticket prices.

The A380, which recently made its first flight to the United States, has nevertheless caused Airbus a great deal of worry. Last summer, the company announced a six- to seven-month delay in the delivery schedule for the plane, the second delay in as many years. Airbus has had to pay tens of millions of dollars in penalties for these delays, but it still contends that the market will support its new superjumbo.

Leadership Ups and Downs

Although Newhouse does not identify a dominant figure for either company — no Jack Welch, Lee Iacocca or Bill Gates — he devotes a lot of ink to creating portraits of the leaders of the two airplane manufacturers and showing how they affect their corporate cultures. Throughout the respective histories of Boeing and Airbus, Newhouse finds the mindsets at both companies swinging back and forth like a pendulum: both Boeing and Airbus alternate between aggressiveness and complacency, caution and arrogance.

Much of one chapter is devoted to the tale of how Boeing absorbed its former rival McDonnell Douglas in 1997, when Boeing was reeling from production problems. As Newhouse writes, Boeing lost money in 1997 even though it was a peak year for its airplane sales and as it was winning the battle for market share with Airbus.

At Boeing's helm during this time were CEO Philip Condit and President Ron Woodard, both of whom assumed their leadership roles in the 1990s. Although these two executives may have been as competent as any senior managers in Boeing's history, according to Newhouse, both caused the company the most damage, in part through the decision to pursue a merger with McDonnell Douglas.

That merger was viewed as a disaster by many within Boeing's commercial division who feared an unhealthy influence from the new acquisition. And sure enough, Boeing people were alienated almost immediately after the deal was completed, thanks to Harry Stonecipher, the McDonnell Douglas CEO during the merger (and later, the Boeing CEO who renewed the subsidies battle with Airbus). McDonnell Douglas had manufactured the underwhelming DC-10 wide-body, among other commercial products, but was mainly known for its work on military aircraft.

According to Newhouse, in his new role as a Boeing executive, Stonecipher was viewed

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by longtime Boeing employees as someone "who made no distinction between Coca-Cola or soap and Boeing's bread-and-butter product." That bread-and-butter product, of course, was the commercial jet airliner, but Stonecipher, blunt and impatient, tried to change the corporation's culture by shifting the company toward military aircraft production.

The whole story of the merger and its resulting revolving-door leadership makes up the portion of the book that most resembles a corporate soap opera. Stonecipher, who retired in 2002, was brought back 15 months later as CEO to guide the company after Condit was fired. But in early 2005, Stonecipher himself was forced out because of an "improper relationship" with a Boeing female executive. Although Newhouse puts Stonecipher in the category of a Jack Welch — in terms of management style — it appears his lasting notoriety will be limited to the airplane industry.

As for Airbus, its leaders assume more of a faceless role in Newhouse's narrative. Yes, there are key figures such as Jean Pierson, who retired as Airbus CEO in 1998 after 13 years of leading the company, and who remains legendary in the business. But for the most part, the Airbus executives take second billing to the company as a whole, with its strange corporate structure and the planes it manufactures. The A380, the plane that will determine so much of Airbus' future turns out to be a more dominant character in the story than most of the people.

What's most intriguing in Newhouse's description of the leadership at Boeing and Airbus is how each company's attitude ebbs and flows with its respective fortune. "Arrogance has changed camps now," Pierson tells Newhouse. The former Airbus CEO is referring to how his company took its newfound leadership in the early 21st century for granted. And Courpron echoes these sentiments when he says, "We failed to manage being No. 1."

Regarding the Boeing leadership of today, one anonymous executive working for a Boeing supplier tells Newhouse, "They don't know what they don't know. And there's no passion. They would be just as much at home with Procter & Gamble making soap."

No matter who's on top of this ever-changing, always-intense competition, it's almost certain that the leadership of these two companies will be second-guessed, criticized, despised and occasionally even praised. Both Boeing and Airbus are simply too enormous to escape from the strong opinions of the industry watchers. And with businesses as big as these two, *everyone* is watching.

The Continuing Competition

Newhouse's book is not without its flaws. As mentioned earlier, his decision to leap back and forth between the present and the past can be disconcerting. You may find yourself flipping to previously read pages in an effort to keep track of who's who at the two companies. And an early chapter devoted primarily to the airline industry (as opposed to airplane manufacturers), though interesting in itself, has much less to do with Boeing and Airbus than the rest of the book does. Still, there's no denying that Newhouse knows his stuff when it comes to the aircraft industry, and his book conveys a tone of authority throughout.

As for the continuing competition between the two rivals, Newhouse sees some potential dangers as Boeing increases its outsourcing of manufacturing to Asia. He wonders if Boeing can continue to fulfill responsibilities to its customers if it loses touch, over a period of years, with the methods and procedures that go into making an airplane.

As for Airbus, Newhouse believes its core problem goes beyond whether it will be able to compete with Boeing's 787, or whether the A380 will flop, and hinges on whether or not the company will be able to break free of its confusing corporate structure, with too many figures in authority in too many different places. If it can, Newhouse predicts Airbus will one day recover from its current downturn, proving a worthy opponent for Boeing. And this, Newhouse writes, will serve only to help airlines, engine makers, suppliers and passengers, all of whom benefit when these two companies are strong and competitive. ■

The author: John Newhouse is the author of eight previous books, including *Cold Dawn* and *Europe Adrift*. His most recent book, *Imperial America: The Bush Assault on the World Order*, was published in 2003. During the 1980s and early 1990s, he wrote about foreign policy for *The New Yorker*. Newhouse has served as assistant director of the U.S. Arms Control and Disarmament Agency, and later served as senior policy advisor for European Affairs in the U.S. State Department during the second half of the Clinton administration. Newhouse lives in Washington, D.C.

Published by Soundview Executive Book Summaries (ISSN 0747-2196), P.O. Box 1053, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corp. Published monthly. Subscriptions: $209 per year in the United States, Canada and Mexico, and $295 to all other countries. Periodicals postage paid at Concordville, Pa., and additional offices.

Postmaster: Send address changes to Soundview, P.O. Box 1053, Concordville, PA 19331.

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