

**Scott C. Donnelly**

Age: 49

**Education:**

B.S. in electrical and computer engineering from the University of Colorado at Boulder.

**Career:**

■ Joined General Electric in 1989 as manager of Electronics Design Engineering for GE's Ocean Systems Div. Held a variety of management positions, culminating as president and CEO of GE Aviation.

■ Joined Textron in July 2008 as chief operating officer. Promoted to CEO in 2009 and elected chairman of the board in 2010.

## Reviving Textron

**“W**e’re going to shrink to win.” Scott Donnelly, the chairman, president and CEO of Textron, is referring to his strategy of cutting the company’s cost structure while simultaneously investing in new products and chasing new business. The question is whether he will ultimately be forced to execute that strategy on a larger scale. Textron, a 32,000-employee conglomerate and parent company of Cessna, Bell Helicopter, Textron Systems and Lycoming, has come under varying degrees of shareholder pressure for more than three years to sell off underperforming operations.

Donnelly left a 20-year career at General Electric—most recently as CEO of GE Aviation—to become Textron’s chief operating officer. The bottom dropped out almost the day he arrived in mid-2008. First, Textron’s overextended finance operation began bleeding cash from bad loans. Then Cessna, the Wichita-based business jet builder that has long served as the corporation’s profit engine, was hit by a brutal downturn and mass order cancellations. Textron’s stock would decline 90% by early 2009. “We were building a house in Rhode Island,” near Textron’s Providence headquarters, he recalls. “And I can remember, as the house was going up, passing by and thinking, ‘Oh my God, what have I done.’”

Donnelly was elevated to CEO in 2009, and the following year he was named

chairman of the board, putting him at the forefront of a drive to reinvigorate aerospace operations that had been overtaken by complacency. On a recent visit to Washington, he met with *AW&ST* Editor-in-Chief Anthony L. Velocci, Jr., and Senior Business Editor Joseph C. Anselmo to outline a turnaround plan that remains a work in progress.

Textron has strengthened its balance sheet and committed hundreds of millions of dollars to develop new business jets, helicopters and unmanned systems. Its operations are leaner, better organized, more focused and infused with new energy. But huge challenges remain. Cessna’s core market of light- and mid-sized aircraft remains mired in a stubborn downturn. And Textron’s defense operations must win new business and customers as they brace for deep cuts in Pentagon spending.

Can Bell capture more foreign sales and rebalance its business by clawing back into the civil helicopter market that it long ago ceded to AgustaWestland and Eurocopter?

Textron derives 38% of its sales from military products. With Pentagon spending set to be cut back by as much as \$1 trillion during the coming decade, the challenge for Bell is to find new customers to keep the V-22 Osprey tiltrotor and H-1 production lines humming. “Today we’re pretty solid through 2014,” Donnelly says. “It’s really when you get to 2015 [that

volumes decline]. I don’t think there’s any question that volumes are going to be lower on the U.S. government side.”

Fort Worth-based Bell is focusing on other adaptations for the V-22, including Foreign Military Sales. But it will take a lot of new customers to offset expected declines in sales to the U.S. Marine Corps and Air Force special operations. “The Israelis have been the most public in expressing an interest, but I don’t think they’re going to buy 100 V-22s,” Donnelly says. “There are going to be countries that will come in [and order] 10, 15, maybe 20. It is not an inexpensive aircraft.”

Indeed, some competitors maintain the V-22 is simply too costly to be a viable choice. Boeing, for example, partners with Bell on the V-22—but also competes against it with its less costly Chinook. Donnelly argues that the V-22 is worth the price. “It is actually most cost-effective in terms of what it can carry, how fast it can carry it, as opposed to some of the platforms it competes with.”

Tighter defense budgets could work to Bell’s advantage in its bid against Sikorsky, EADS and a Lockheed Martin/Eurocopter team to fill the U.S. Army’s Armed Aerial Scout requirement with an upgraded Bell OH-58. Bell’s solution, Donnelly contends, is “very low risk with very low cost.” And Textron Systems benefits from its strong position in unmanned aerial vehicles, a sector that is expected to fare relatively well in future military budgets. “It’s not obvious whether there will be a lot of new UAVs per se, but there’s going to continue to be a lot of upgrade opportunities,” Donnelly says, noting that the company already has contracts to upgrade data links and rewiring aircraft.

Textron’s commercial aerospace strategy centers on the revival of Bell’s civil helicopter business and of Cessna. Donnelly has committed to raising Bell’s research and development spending by at least 50% over five years, and a good deal of that will be devoted to Magellan, a project to develop a long-range civil helicopter. While the program is formally expected to be unveiled next month at the Heli-Expo 2012 trade show, details have been leaking out for more than a year. “Magellan is one of the worst-kept secrets in the industry,” Donnelly laments. The helicopter will be produced at a military plant in Amarillo, Texas, where Bell expects capacity will be freed up by lower V-22 volumes after 2014.

And then there is the matter of Cess-

na, which was Textron's crown jewel and profit engine until the onset of the global financial crisis in 2008 left scores of buyers unable to pay for jets they had ordered. The Wichita-based unit's backlog has since shrunk from \$16 billion to \$2.2 billion. In May 2011, Donnelly forced out longtime CEO Jack Pelton and replaced him with GE Aviation veteran Scott Ernest. But he dismisses the notion that Cessna should move up into larger business jets—which have seen demand recover more quickly. “The fact of the matter is the light- to mid-sized market is the core of what Cessna is all about.” He also notes: “The best thing for us to do is invest and strengthen that market.”

Donnelly believes Cessna was much too complacent about the threat posed by new entrants to the light jet market, particularly Embraer. “I saw what happened with Embraer in other market segments,” he says. “And I said . . . We can't sit back and say, ‘OK, we're going to give up a certain amount of share to the new guy.’”

On that count, Cessna unveiled two new products last fall, the Citation M2, which will go head-to-head with Em-

braer's popular Phenom 100 light jet and Honda Aircraft's HondaJet, and the Citation Latitude, which will compete with Embraer's Legacy 450. “Obviously there's more stuff in the works,” Donnelly says.

But that “stuff” will not include the revival of the Citation Columbus, a \$775-million project to develop a larger, super-midsized jet that would have competed with the Gulfstream 280, Hawker 4000 and Bombardier Challenger 300. Launched with great fanfare in 2008, it was scrapped a year later after the downturn hit. “I wouldn't go back and say Columbus was a poor decision,” Donnelly says. “It was a very logical, smart decision at the time it was made. The light- to mid-sized models were sold out for 3-4 years. So given that, you could afford to make investments to extend your product line. Unfortunately, that's not the reality of how things played out.”

Donnelly is convinced Cessna's core market will rebound. “I believe there is no fundamental change in why people buy light-to-mid-sized jets,” he says. Demand for aircraft that can travel 3,000 mi. or less “is going to come back to be-

ing a robust, vibrant, necessary marketplace.” He also believes Cessna remains a core part of Textron. “Let me assure you that Cessna is a very, very important part of the future of this company.”

Whether the same is true about other major pieces of Textron remains to be seen. With the company's stock having declined 22% in 2011—it has rebounded somewhat in early 2012—shareholders are demanding better performance. Donnelly prefers to talk about the possibility of strategic acquisitions, but he does not rule out the divestiture of a major operation. “If we thought there was something that didn't belong in the portfolio, we would pursue [a divestiture].”

In the end, a lot will depend on whether Donnelly succeeds at infusing a GE-like culture into Textron. “Get a good team of people together in a room and say, ‘Guys, this is what we need to do,’ whether it's cost, new product or performance,” he says. “Then let them have at it. You don't see complacency—you see a bunch of folks showing up that are going 100 miles an hour. And we slide food under the door every now and then.” ☛

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