



Project Profile: State of Arizona

Impact Statement

With OEA funds, the Arizona Commerce Authority (ACA) created the AZ Supplier Database and developed of the “New Business Opportunities” Pilot Program, which helps promising companies identify their core capabilities, potential growth sectors, and develop a course of action for future growth.

Key Project Takeaways

The ACA hired a consultant to evaluate the New Business Opportunity Pilot Program. ACA wants to ensure continuity as the successes and lessons learned through the New Business Opportunity Pilot Program feed into the implementation of programs and services provided across the state by RevAZ. The consultant prepared a report on the pilot program process, including the recruitment and assessment of companies and the provision of customized services. This report contained recommendations for bringing the program to scale, including a true estimate of the costs associated with providing this type of comprehensive service to a company.

As all businesses operate differently and produce distinct products, the ACA defines company success in different ways. ACA plans to assess the percentage of new sales outside of military installations and will develop a diversification chart to show which program activities companies undertook and how revenue changed as a result.

Aerospace and Defense suppliers are accustomed to working with well-established prime defense contractors with rigid business procedures and procurement practices. For many, non-defense markets are unfamiliar and uncharted territory. The IR program allowed smaller firms to constructively question their established business models and practices and strategically examine potential new markets. Thanks to the pilot program, the ACA has systems in place to support future programs and the RevAz manufacturing assistance.

Project Description

Rationale

Research by the ACA indicates that the most dangerous risk facing Arizona is the impact of current and future Department of Defense (DoD) budget decisions. In 2011, the state had the fifth highest level of DoD expenditures in the nation, and DoD procurement comprised 4.99 percent of gross state product¹. Arizona is home to more than 1,200 companies specializing in aviation and defense. The aerospace and defense (A&D) sector contributes \$8.8 billion to the local economy and is responsible for over 150,000 jobs. Sequestration and future budget cuts could mean a decline in revenue for defense-dependent companies. Five major and several minor defense facilities also call Arizona home, including Luke Air

¹ [Sources: USASpending.gov, Federal Procurement Data System (FPDS) and Bureau of Economic Analysis (BEA)].



Force Base, Davis-Monthan AFB, Fort Huachuca, Marine Corps Air Station Yuma and the Yuma Proving Ground.

Understanding the economic implications associated with defense downsizing, ACA, the agency administering the Industry Resilience (IR) grant, sought to create a public database to catalogue information on the state's defense industry. The tool connects suppliers and enables ACA to tailor economic diversification efforts to specific businesses and sectors. Including an existing Advanced Manufacturing Jobs and Innovation Accelerator (AMJIAC) grant into the IR scope of work enabled the agency to better understand and strengthen defense clusters and networks throughout the state to enhance the supply chain information within the database.

Equipped with knowledge of the defense industry value chain, ACA then worked to create a comprehensive diversification strategy that helped Aerospace and Defense companies to identify new market opportunities through the Arizona Manufacturing Extension Partnership (MEP) Center, RevAZ. RevAZ capitalized on existing resources, partnerships, programs and delivery mechanisms to make the strategic plan actionable. ACA collaborated with the RevAZ to help businesses identify existing gaps and challenges to continuous improvement, technology acceleration, supplier development, energy sustainability and workforce development. This collaboration sought to devise sustainable solutions to fill these gaps and meet these challenges—both in the near and long term.

Program Activities

The ACA project covered two key deliverables: The creation of the AZ Supplier Database and the development of the “New Business Opportunities” Pilot Program. ACA outlined the following goals to help the state diversify through these project deliverables:

- *Organize:* Forge stronger connections between Arizona A&D suppliers and companies in other nondefense markets.
- *Analyze:* Develop a comprehensive understanding of Arizona companies directly and indirectly affected by Defense spending.
- *Plan:* Incorporate defense diversification best practices into the new Arizona Manufacturing Extension Partnership program.
- *Implement:* Diversify the product and/or customer base of 5-7 companies and support local government and economic development associations in planning for economic diversification.

Resiliency Impacts

Increasing Awareness of the Defense Industrial Base

IR support allowed ACA to refine an existing database to meet the needs of the private sector by adding new features, functionality and data identified through focus groups with Arizona companies. Local economic development and industry associations were instrumental in helping ACA convene these focus groups, and also gained insight into regional supply chains through these events and the data compiled by ACA. The agency continues to aggressively market the database as a business development tool,



working alongside the Governor's office to promote it to manufacturers. Currently, the public database contains approximately 250 companies.

Commercial Diversification of Defense Companies to Sustain the Industrial Base

ACA has found that a company's ability to grow is not defined by the products it makes, but by its core competencies. For example, a company may believe that a coil or spring constitutes core competency, when in fact engineering capabilities differentiate them from their competition. With support from OEA, ACA solicited applications from small to medium sized defense-dependent suppliers and selected seven to work in collaboration with ACA consultants to identify their core capabilities, potential growth sectors, and a course of action for consideration. Through the New Business Opportunities Pilot Program, RevAZ afforded opportunities for defense-dependent A&D companies to redefine themselves through core competencies, rather than products, and subsequently explore and enter new markets.

In addition to the MEP core capability training, ACA staff concurrently researched alternate industries with which A&D companies' core competencies may align. Much of this information informed a study of compatible growth markets and the barriers to entry. The research focused on high growth industries that are either showing great potential or maintaining stability through difficult economic times. Four of the seven pilot companies executed strategies for going to market with new products or new customers.

ACA representatives note that the power of the MEP system is collaboration. The cohorts built from the pilot program and market research helped in working toward diversification.