



Sun Mar 25  
Site Edition: US | Europe

## TODAY

News & Analysis  
Money & Markets  
Newsletters  
Opinion

## DRILL-DOWN

Commerce  
Culture  
Ideas & Strategies  
Media & Marketing  
Policy & Politics  
Site Building  
Special Reports  
**Tech & Telecom**  
World

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INDUSTRY STANDARD

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## Boeing's Big Move

Leaving Seattle is just the beginning: The aviation giant is going from bending metal to building networks.

By *Dominic Gates*



CONDIT IS PUSHING BOEING INTO NEW MARKETS.

SEATTLE – Phil Condit, CEO of **Boeing (BA)**, keeps trying to change the subject. In a lecture hall at the company's retreat center near St. Louis, Condit is meeting with his top managers, who are consumed with one topic: the new jumbo jet from their rival, Airbus. But Condit doesn't care about his competition right now. He's thinking about Boeing's investors, who want to see earnings per share continue to gain 17 percent a year. The problem is that making

airplanes has become a slow-growth business. That's why, Condit reminds his team, Boeing has but one choice: It must change with the times.

To sustain Boeing's rapid growth, Condit proclaims, the company must "dramatically reshape the way we do business." Condit is now pushing Boeing into the lucrative services arena: maintenance, modifications, financing and pilot training. He's also looking beyond aircraft and related services and is steering his company into a variety of information and communications businesses, including airborne Internet services and digital movie distribution.

"If you want to deliver double-digit kind of growth, you push into things like services, you start new businesses," says Condit. "And you start mining your technology for new ideas and allocate resources to the areas with the highest potential."

Emblematic of this new vision is Boeing's work in "network centric warfare," the high-tech future of armed conflict. Think of it as the Internet meets the battlefield: With every missile, plane, ship, tank and grunt a node in a global information grid, the U.S. military will be able to orchestrate distant battles from back home. It means, says one ex-military Boeing executive, "having all the dogs in the fight connected all the time."

Condit's changes won't come easy. A corporate citizen of the Seattle area since 1916, Boeing sent shockwaves throughout the Northwest last week when it announced that it would move its headquarters. Where is still a question, but Condit named Chicago, Dallas and Denver as possibilities. But leaving Seattle – a move that could cost as much as \$100 million – is only one part of a serious restructuring.

Boeing is a formidable company. The maker of the iconic 747, it is the biggest aerospace company in the world. In 1997, it merged with McDonnell Douglas, geographically dividing the operation between two airplane manufacturing centers: Seattle for commercial airliners and St. Louis for military jets and missiles. The two divisions remain Boeing's cash cows, bringing in 85 percent of the company's \$51 billion in revenue last year.

But that business is changing. Increasing competition from companies like [Airbus Industrie](#), the European consortium that produces commercial planes, and [Lockheed Martin \(LMT\)](#), the military manufacturer, has cut into Boeing's market share.

Still, after weathering its first loss in 50 years in 1997, Boeing has managed to keep its stock healthy enough to defy the current market dive: Its shares rose from \$38 in mid-March 2000 to \$52 a year later, thanks to acquisitions, productivity improvements and cost cutting. One of Condit's strategies has been to outsource more airplane-parts manufacturing – Boeing makes fewer than half of the parts that go into its digitally designed 777, for instance.

Meanwhile, a third division, Space and Communications (S&C), handles technology projects like NASA's space station, the space shuttle, National Missile Defense and space-based lasers. The division, formed by the acquisitions of Rockwell's aerospace and defense businesses in 1996 and the [Hughes Electronics \(GMH\)](#) satellite division last year, is adding to its futuristic arsenal a slew of efforts – like network centric warfare – that bring the communications revolution to the battlefield. In 2000, S&C accounted for 15 percent of sales. That proportion is expected to grow quickly.

THE NEW FLIGHT PLAN Moving beyond airplanes, Boeing's latest projects are based on information and communications technologies.	
Project Name	Description
Government Information and Communication Systems	Developing a "network centric" warfare infrastructure for battle management.
Missile Defense and Space Control	Integration of missile defense systems. Includes National Missile Defense (for which Boeing is the prime contractor), theater missile defense and space-based lasers.
Future Imagery Architecture	A major space reconnaissance system – a "spy in the sky" digital imagery project – for the National Office. May be worth \$25 billion over the next 20 years.

Connexion	Broadband Internet access on commercial airplanes via an antenna developed for the military; due to launch in U.S. by year's end. Company projects \$5 billion in annual revenue within 10 years.
Cinema Digital	Distributes Hollywood movies via satellite. Company projects \$5 billion in revenue over next five years.
Air Traffic Management	Overhauls the way air traffic is controlled using satellites and GPS locators on planes. Set up as a separate business unit, it's still at the lobbying stage.
Classified government projects	Not available.
<i>Source: Boeing</i>	