SPONSORED EDITORIAL

Increasing airline profitability with alternative materials

Access to alternative parts and materials can reduce engine maintenance expenses, particularly for older equipment.

Andrew Farrant
CHROMALLOY

The global airline industry has never had it tougher. With fuel prices on the rise and an unsteady recovery in the world economic markets, operators are looking for every opportunity to reduce expenses and boost narrow profit margins. Two significant opportunities exist to help operators. One is access to alternative parts and materials, which can significantly reduce expenses associated with engine maintenance. The other is use of new-generation, fuel-efficient aircraft and engines – accessible to a cash-strapped industry through the leasing market.

Unfortunately, rather than being able to maximize these opportunities, operators often have to choose between the two. The time is right for the leasing industry and alternative parts and materials industry to work together toward the goal of creating value for operators that lowers costs and creates opportunities for increased profitability.

An operator that takes full advantage of the alternative parts and repairs market can save as much as $1 million per engine on a major shop visit, not to mention extend engine life.

Consider these facts. According to the International Air Transportation Association the global airline industry lost almost $10 billion in 2009. In 2010 the industry rebounded and made about $16 billion, a nice recovery until you consider the associated profit margin – a meagre 1.4%. The current forecast for 2011 has been ratcheted down to a $4 billion profit or 0.7% profit margin.

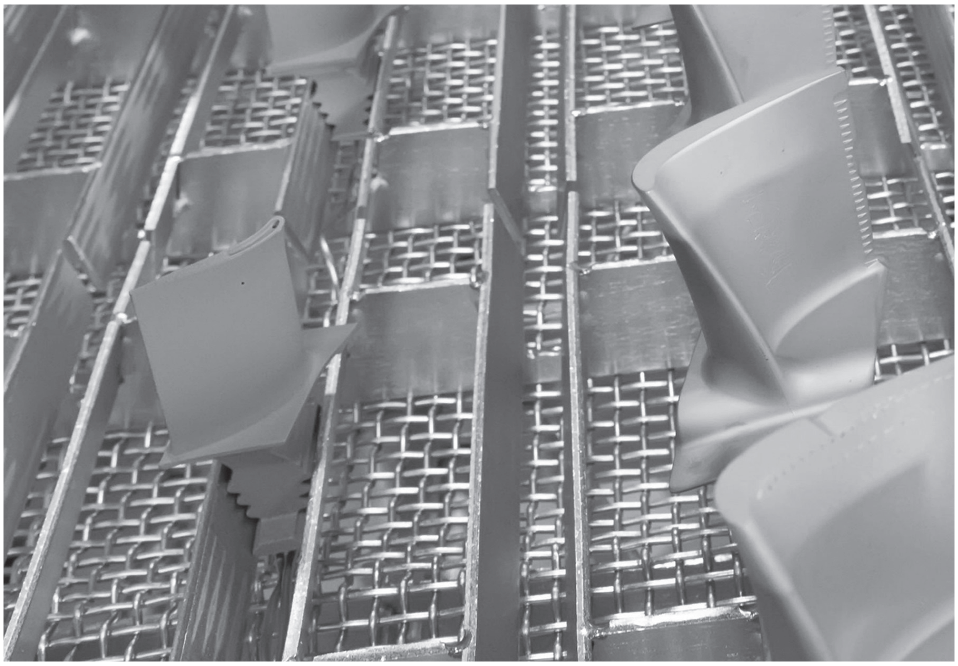
Is it any wonder that operators around the world are turning over every stone – from baggage, legroom and snack charges to preferred check-in charges – in search of revenue? While commercial airline service fuels the growth and prosperity of the global economy, it is an industry that is struggling for survival.

While airlines have become creative in sourcing alternative revenue opportunities, they have also worked hard to identify safe, approved methods of reducing costs. Fuel remains the number one cost driver for every airline, at about 25% of all operating expenses. In second place is maintenance, which comprises anywhere from 10% to 15% of all airline costs.

The biggest cost driver in the maintenance bucket is engine material – parts and parts repair. To help control engine-related parts and materials costs the airlines have for years relied on what is typically referred to as the alternative materials and repairs market. This industry is subject to the very same safety measures and regulations as the original equipment manufacturers, and provides operators with safe, regulatory approved alternatives – while injecting valued competition into this critical market.

An operator that takes full advantage of the alternative parts and repairs market can save as much as $1 million per engine on a major shop visit, not to mention extend engine life. This is real money – and by virtue of the Bilateral Aviation Safety Agreement between the Federal Aviation Administration, European Aviation Safety Agency and every major regulatory agency in the world – these parts and repairs are approved worldwide. Add to this a stellar safety record and it is not hard to understand why operators have such an interest in this alternative approach to engine maintenance.

Another significant savings opportunity for airlines can be found in the new generation



of aircraft and engines. Aircraft and engine manufacturers have been designing equipment to be greener and more fuel-efficient for years. This new equipment is finding its way into the operating environment – thus providing operators with a major advantage in their efforts to deliver profitable performance.

But how does an airline that is fighting for every dollar find the resources to retool its fleet? The answer can be found in the aircraft and engine leasing market.

The leasing industry has grown significantly over the past decade and leased aircraft make up as much as 40% of the worldwide fleet, with all indications pointing to additional growth. By leasing aircraft or by managing sale/leaseback agreements an airline can gain access to more fuel-efficient platforms and protect another precious commodity – cash.

The only problem for the typical airline is that once the lease is signed, they often (unwittingly) sign away their ability to benefit from the savings opportunities available through the alternative parts and repair market.

Leasing companies have historically challenged the use of alternative and repaired material. Typically, unless an airline presses the issue in up-front negotiations, a leasing company will not permit the operator to take advantage of alternative materials and repairs.

The leasing market is becoming more and more crowded. In congested markets suppliers look for competitive advantages that typically come from addressing unmet customer needs.

The objections are well known to the industry and include concerns about global acceptance, remarketability of the aircraft or engine and reduced asset value. These concerns are discussed and debated throughout the industry on a daily basis – but discussion and debate create no value for the operators or airlines that desperately need the savings associated with alternative materials and repairs, and access to the latest fuel-efficient equipment.

The reality is that the alternative parts and materials market is growing quickly – and not just in low-value cabin components and shop materials. It is also growing in complex, advanced technology engine hot section components where the savings impact is dramatic.

At the 2011 Paris Air Show records were broken for orders on new aircraft and engines – many of which are going straight to lease or to sale/leaseback programmes. These two industries are healthy and growing, and they exist to a large extent because of the financial struggles of a customer base that is fighting to stay alive.

So, how can the leasing and alternative parts and materials industries work together to provide a better solution for their customers?

The answer is competition. The leasing market is becoming more and more crowded. In congested markets suppliers look for competitive advantages that typically come from addressing unmet customer needs. The leasing market is no exception.

Eventually, a leasing company trying to find an edge and gain first mover advantage will sit down with suppliers in the alternative materials and repair market to develop the win-win-win scenario created by the use of approved alternative material. This solution will take vision and creativity – two factors that have never been in short supply in the global aviation industry.

The only question is when will it happen and who will have the vision to make the first move?