MROS ADD ANCILLARY SERVICES FOR REVENUE GROWTH

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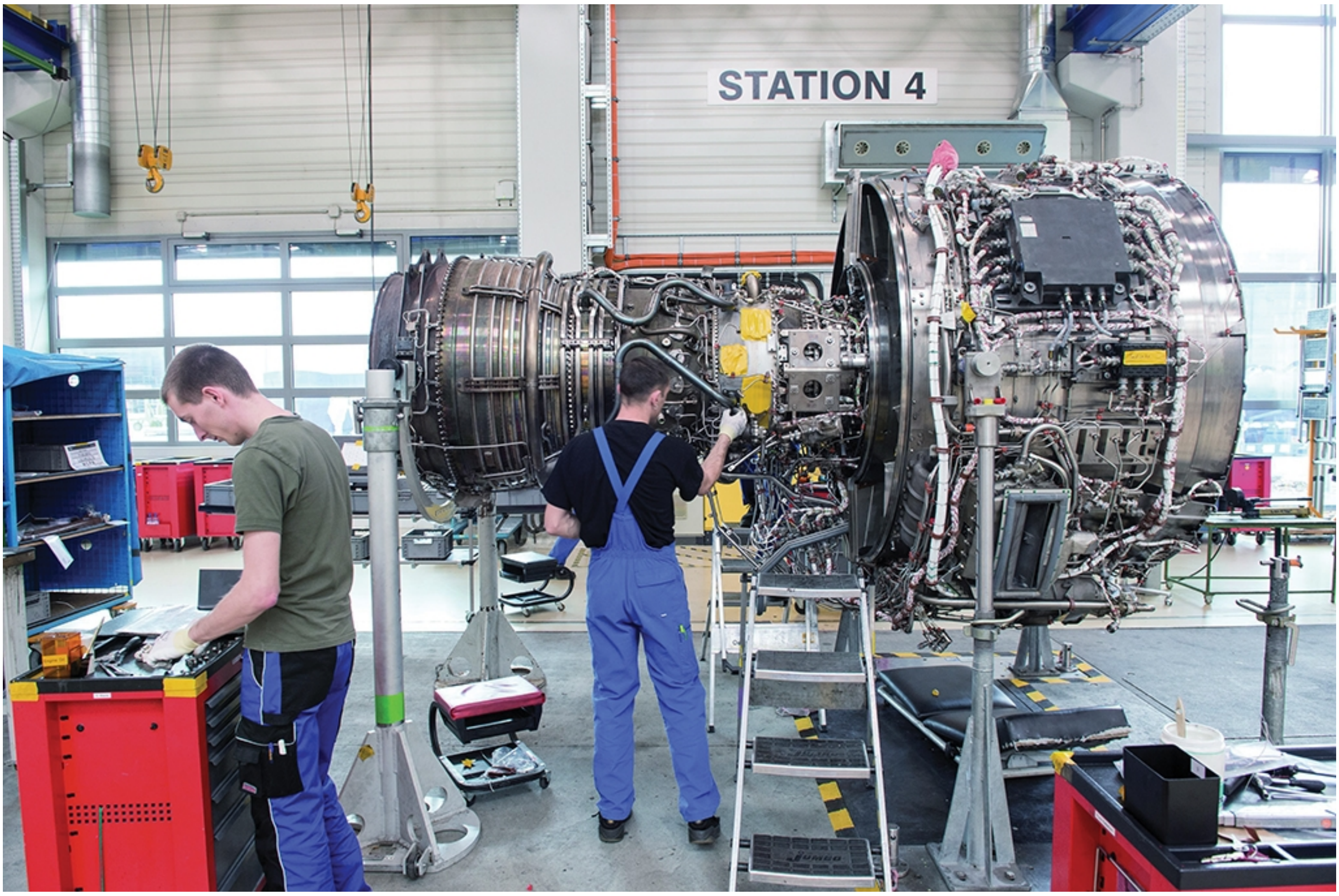

Despite high fuel prices and sluggish economies, airlines have stabilized their finances by cutting costs to the bone and finding new products to sell, or old products to sell differently. Airline ancillary services may be unbundled traditional services, or they may be innovative new services.

Successful MROs and OEMs prosper in much the same ways as airlines: by leaning out costs and finding new products to sell. In some cases, the two tactics go together. The effort to cut costs may generate a new business in helping airlines or other customers cut costs.

For example,Lufthansa Technik has built a joint venture, Lumics—with consultants at McKinsey—based on LHT's successful efforts at Lean.

LHT centralized its Lean efforts in 2007 and employs a core Lean team of 30 to 40 people. It aims for one Lean specialist for every 300 workers in LHT's six divisions.

There are common standards for doing Lean, a Lean Academy and certifications to motivate commitment to the principles. More than 5,000 Lean training days have been conducted, many for shop foremen and shift leaders who are expected to carry the concepts forward to other staff.

Results have been impressive: Average turnaround time for component overhauls was reduced from 15 to five days. With 300,000 component repairs per year, time and money savings are huge. Lean also cut LHT line maintenance labor-hours by 30% on average.

Success prompted a sister Lufthansa company to ask for Lean help, remembers Christian Langer, who runs Lean at LHT and is CEO of Lumics. Several external customers also asked for assistance. LHT did not want to add Lean staff, and McKinsey wanted to move more into shop-floor implementation, so it seemed a natural fit.

Lumics now has 15 consultants, works for the Lufthansa Group, is helping several insurance and pharmaceutical companies and is talking to helicopter manufacturers. Langer says insurance companies face money issues and pharmaceuticals face safety issues, so they trust people who have applied Lean to aviation without endangering safety. “And we can learn from what other industries do.”

On Lumics prospects, Langer says, “we expect, and shareholders expect us, to grow. We want to be a something like 80 to 90 people in three to four years.”

General Electric also turned cost- saving into a consultancy. It used internal analytical resources to provide two new types of expert services.

The first involves GE's practice of Treasure Hunt to look for savings. Michelle Ramsey, global leader of GE's environment, health & safety division, says 300 projects launched by the Hunt have saved GE $3.6 million, mostly in electricity and lighting bills.

“We are looking more now at raw materials, not just energy,” Ramsey says. “We are looking at different ways to manufacture, including 3-D. It's smart manufacturing, with less waste.”

Meanwhile, GE has turned Treasure Hunts into a service it sells for a fee. “It has met with rave reviews,” Ramsey says. If GE invites a partner to observe a Treasure Hunt at a GE site, the invitation is free. But GE charges when it takes the approach to a customer site.

GE's other new initiative, Flight Efficiency Services, grew out of internal analytic capabilities, plus acquisitions of BMB Fuel, Austin Digital and Naveris. The unit sells to airlines, air navigation service providers, airports and regulators.

General Manager Giovanni Spitale says Flight Services has more than 50 customers, three quarters of them airlines. About 140 people work in the unit, which also draws from GE engineers and data scientists.

The aim is to find optimum flight plans. Spitale thinks this will be a multibillion-dollar industry and says, “we want a big part of that.” He is seeking a dozen new customers in 2014.

The GE exec says he has an advantage over competitors: GE's combination of data science, physics and airline knowledge. “We bring together many kinds of data, and the wider the aperture, the bigger the results.” How big? “Airlines spend billions of dollars on fuels. We can save 1% of that.”

Flight Efficiency Services optimizes flight paths from A to B. Taleris GE's joint venture with Accenture, optimizes networks and asset utilization while minimizing costs of disruption.

Taleris started with GE's statistical prediction of system performance on helicopters, explains CEO Norm Baker. The company partnered with Accenture because it sought more than just prediction for airlines. “Accenture is good at system integration and marketing,” Baker explains. “They know airline operations and had technology for recovery of operations.”

Taleris now has 100 staff, and more than 24 airlines use parts of its suite of prognostics, disruption recovery, planning, management and scheduling.

Baker insists no competitor has assembled an entire suite of intelligent operations tools as good as Taleris's. “No one else does prognostics the way we do it. And our recovery application is best in class.”

What's it worth? Baker says manually planning for a major weather disruption takes three to five days, while Taleris runs the same scenarios in less than an hour. Moreover, airlines do not always have five days to plan for disruptions. Baker estimates carriers lose “north of $10 billion a year” to schedule disruptions. Taleris aims to reduce disruptions due to unplanned maintenance and minimize the cost of unavoidable disruptions. Baker thinks 80% of that $10 billion might eventually be avoided.

AAR's Spend Smart initiative has helped reduce sales and administrative expenses by 4% as a portion of total sales. But the MRO is also making major gains on the revenue side, sometimes by bundling previously separate services or by unbundling combined offerings. Depending on customer needs, unbundling may work better than bundling.

Jack Arehart, co-chief commercial officer, explains AAR sold component-repair services only from its New York and Amsterdam shops. Some customers wanted more total support, so AAR now bundles in landing-gear and wheel-and-brake repairs from Miami and back-shop repairs from Indianapolis. The result is a wider selection of component capabilities in accessories, avionics and structural components like flaps, slats and cargo doors.

AAR is also increasing pre-positioning of inventories at customer facilities to improve efficiency. Pre-positioned inventories cut transportation time and reduce freight costs and aircraft downtime. But pre-positioning also has costs. To achieve a positive balance requires deep knowledge of aircraft types and component requirements.

AAR long possessed formidable part and supply-chain capabilities in its MRO business. Now it offers supply-chain support as a stand-alone service. “We launched a major program with a large commercial carrier to provide logistics support for its MRO operations,” Arehart says. “This marks one of the first times we've taken an internal process and offered it as a high-value service to customers.”

AAR also provides supply-chain services for the OEM aftermarket, helping Liebherr support its products on Airbus jets and Rockwell Collins support avionics on A319s, A320s, A330s, Boeing 737s, 767s and Bombardier CRJs.

SR Technics' acquisition by the Mubadala Group has had huge implications for how the Swiss MRO does business. President Andre Wall says SRT involves itself in strategic discussions and fleet planning for airlines at a very early stage. “We add value by creating tailor-made maintenance and engineering solutions along the whole aircraft lifecycle." In addition to MRO, SRT now provides financing, training and VIP completions and refurbishments.

SRT started VIP design and modification services in 2010. It now has experienced design teams in Dublin and Zurich; the VIP unit has done six major and many lesser VIP modifications. "Work included complex new-to-market seat installations with IFE interface certification and seatbelt airbag technology," Wall says.

SRT financing by Sanad Aero Solutions differentiates the MRO and opens up wider opportunities beyond traditional work. Sanad partners with SRT in most major integrated component and engine services deals and manages $750 million in assets, on target for $1 billion in its first five years.

Helped by Sanad, SRT has doubled its engine-part repair work in the past five years. Wall says the MRO is testing new business models that cover the entire value chain of an aircraft; for example, providing complete aircraft and engine asset-availability packages.

The Swiss MRO also offers comprehensive technical training for maintenance professionals and provides vocational training for 200 apprentices in 13 different specialties, helping SRT maintain its own quality and earning revenue from training customers.

Air France Industries KLM Engineering & Maintenance has been trimming and adding steadily in recent years. AFI KLM E&M has its own Lean, Six Sigma and continuous improvement programs and exports these to certain customers, not usually for fees, but to strengthen relationships. For example, the MRO sent a Lean team to a North American customer to share lessons learned.

Lean suggestions often come from employees. "Some of these save big, 10 to 50 times investment," says Sebastien Weber, vice president of marketing, product support and development. The MRO gets 4,000 suggestions a year and saves 20 million euros annually from implementation.

Also on the cost side, the MRO has a Paris subsidiary, CRMA, specializing in low-cost repairs of GE90s. It has offered on-wing diagnosis of engines and nacelles to avoid or plan removals and is now expanding this service for nacelles.

On the revenue side, AFI KLM E&M has added two new tear-down facilities to improve its asset-management capabilities. A new U.K. facility tears down A320s and Fokker and Avro regional aircraft. It will soon add 737s so it can handle "virtually all narrowbodies," Weber says. A tear-down facility for engines in Miami disassembles all but the largest engines.

AFI KLM E&M continues to provide component solutions on a cost-per-hour basis, especially for new models like the 787, and access to spare engines, like the GE90. Weber estimates the company now does 80% of component business under long-term, cost-per-hour arrangements. A similar portion of GE90 overhauls are done under long-term agreements, as is about half of work on other engines.

Like other major European MROs, AFI KLM E&M has training and consulting divisions and can bundle these services with pure MRO offerings. Weber sees an increase in RFPs seeking these broader packages.

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