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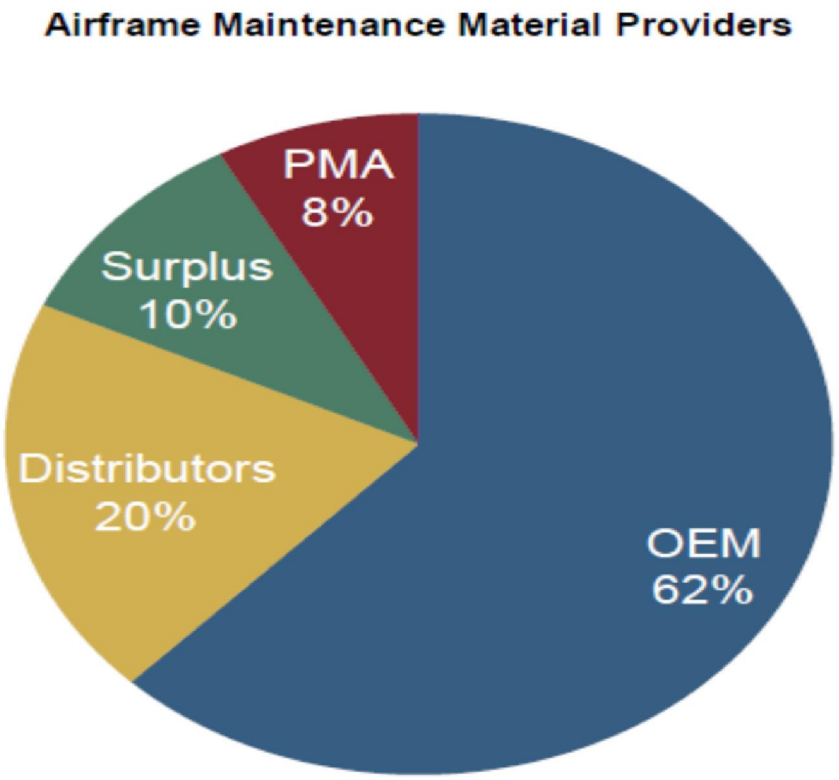
The Latest OEM DefenseTactics

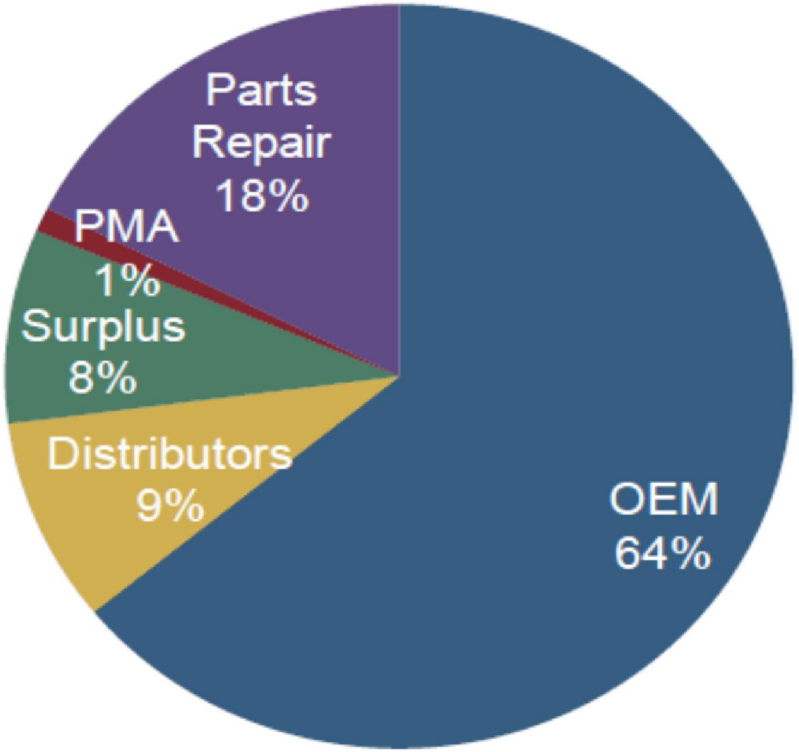
Gorham Conference- March 2016

The Players - Airframe



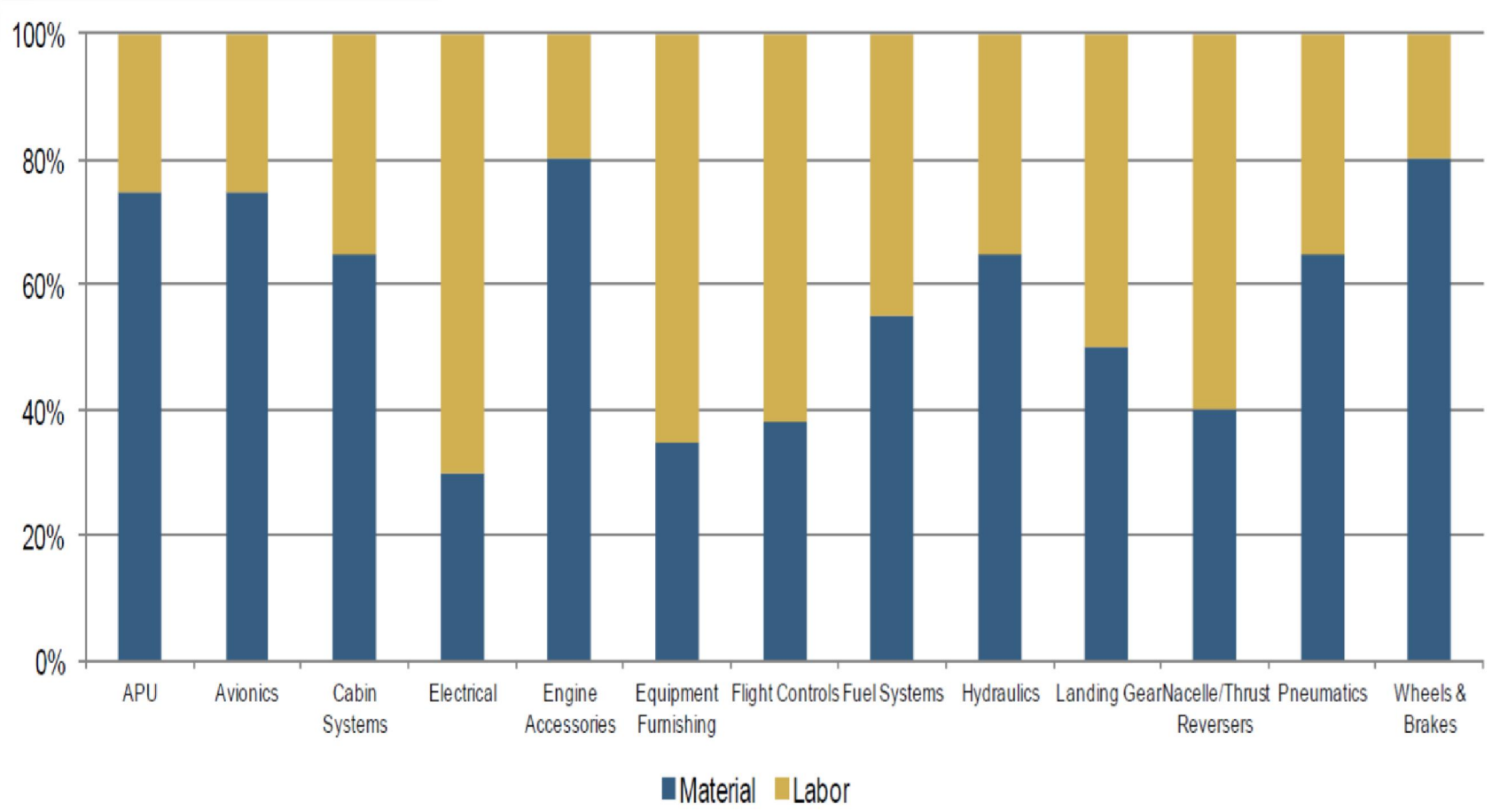
Source: TeamSAI Consulting Services analysis

The Players - Engine

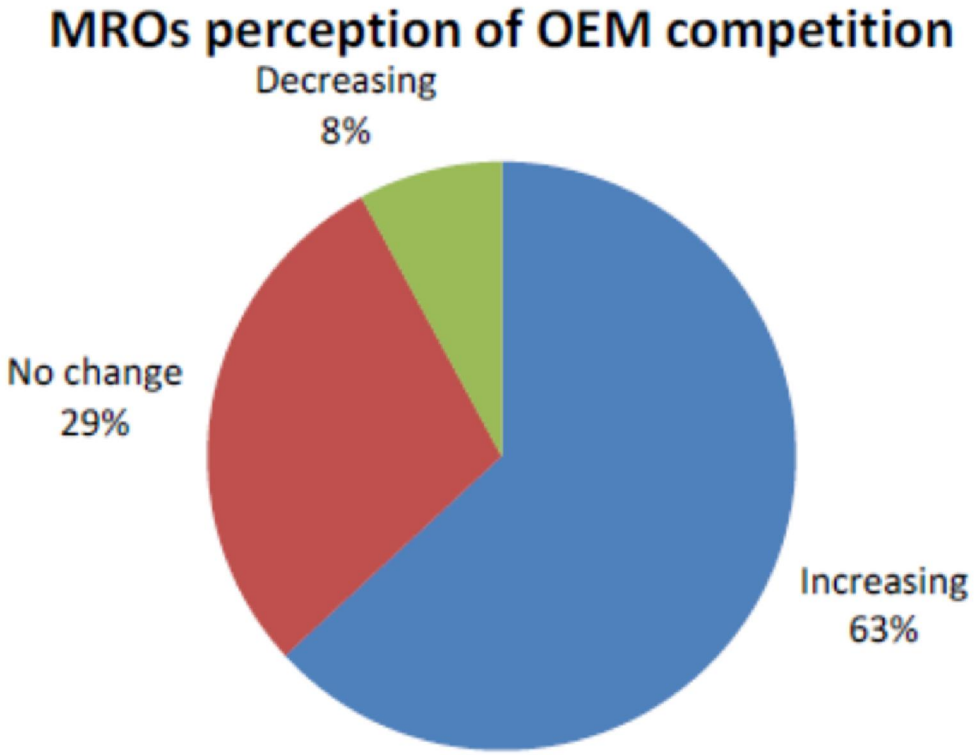


Source: TeamSAI Consulting Services analysis

Component Maintenance

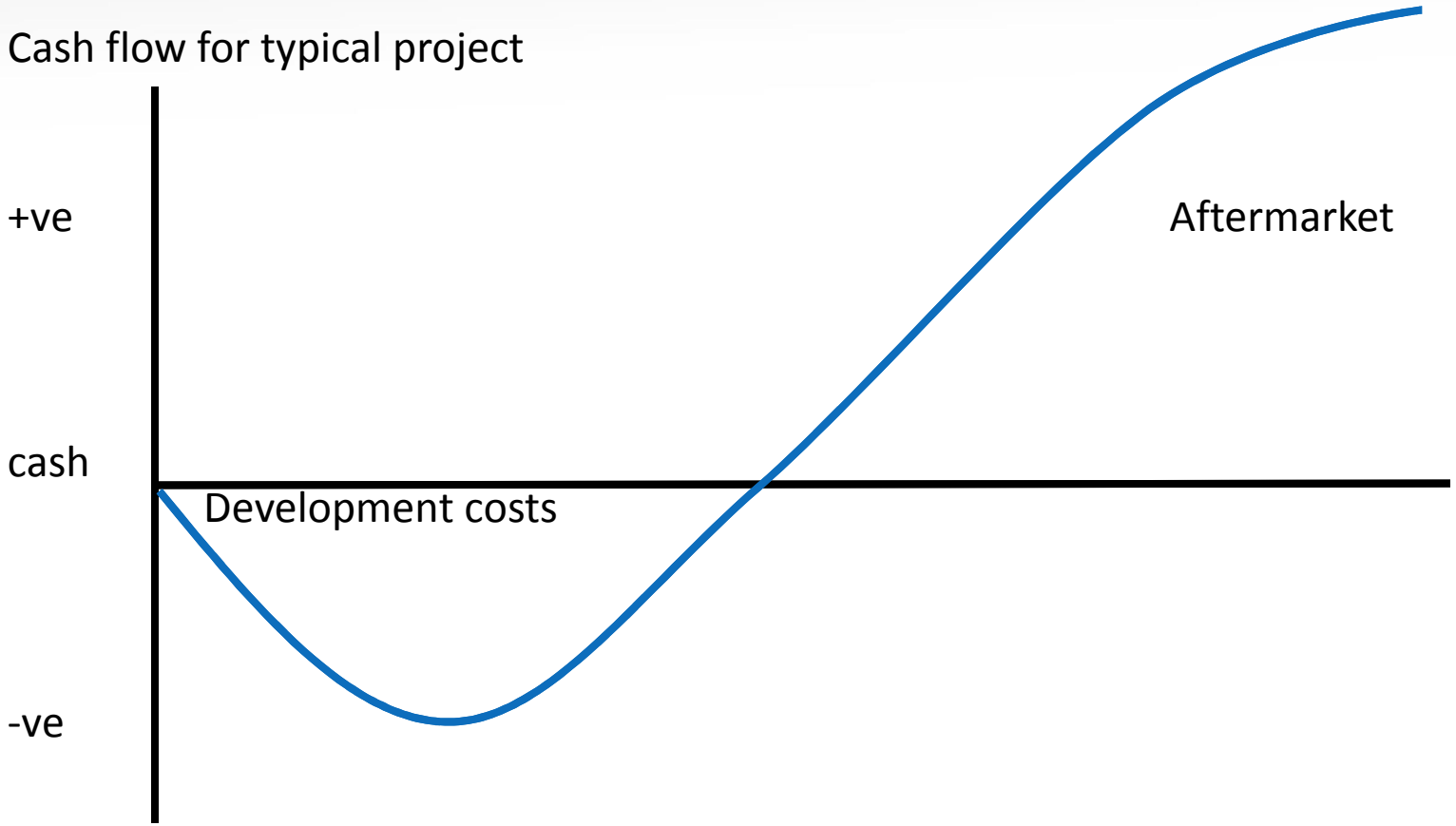


The Perception of the Market Place Pressure

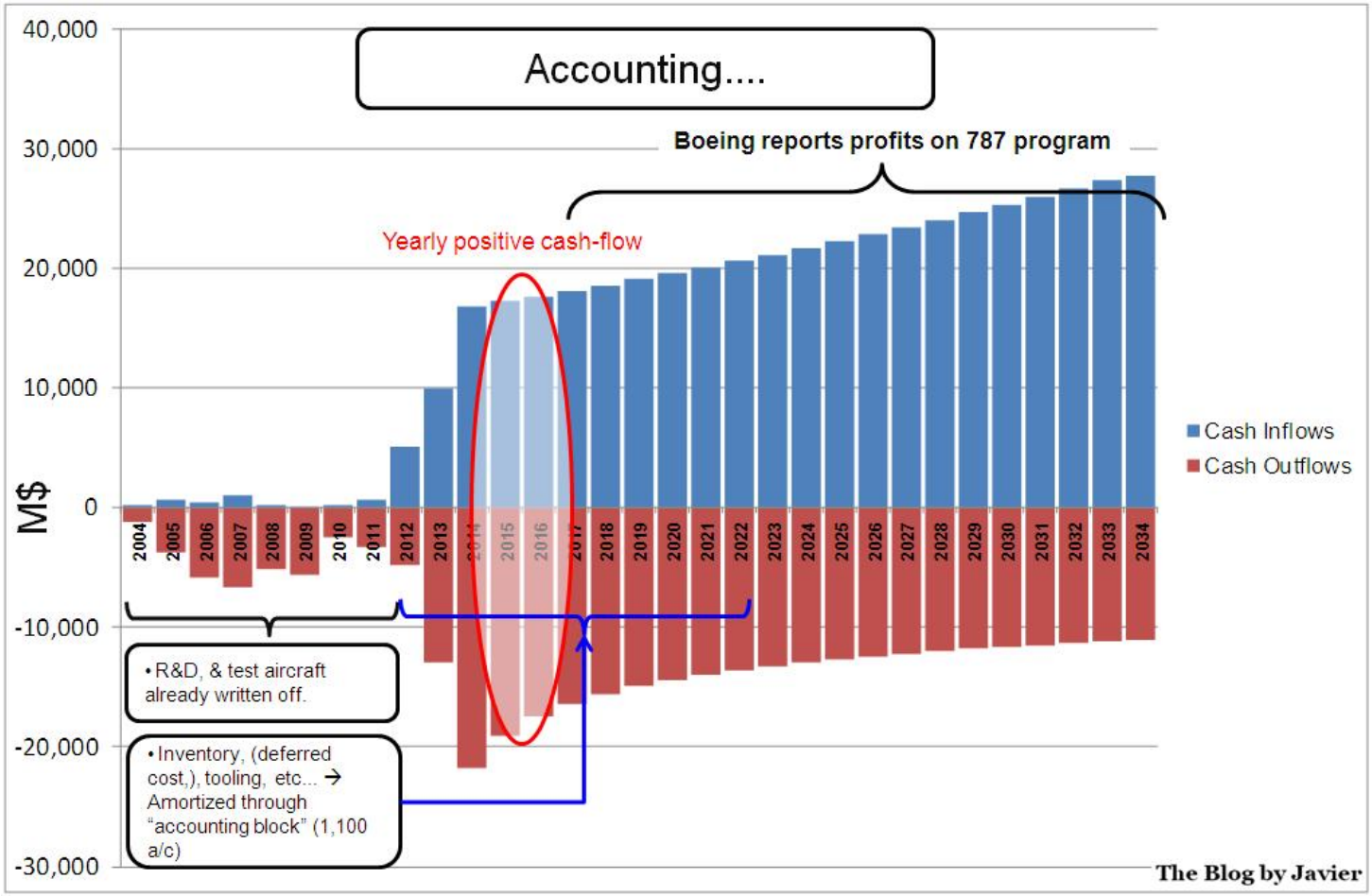


Source : Cannaccord Survey 2h 2015

OEMs and the Aftermarket



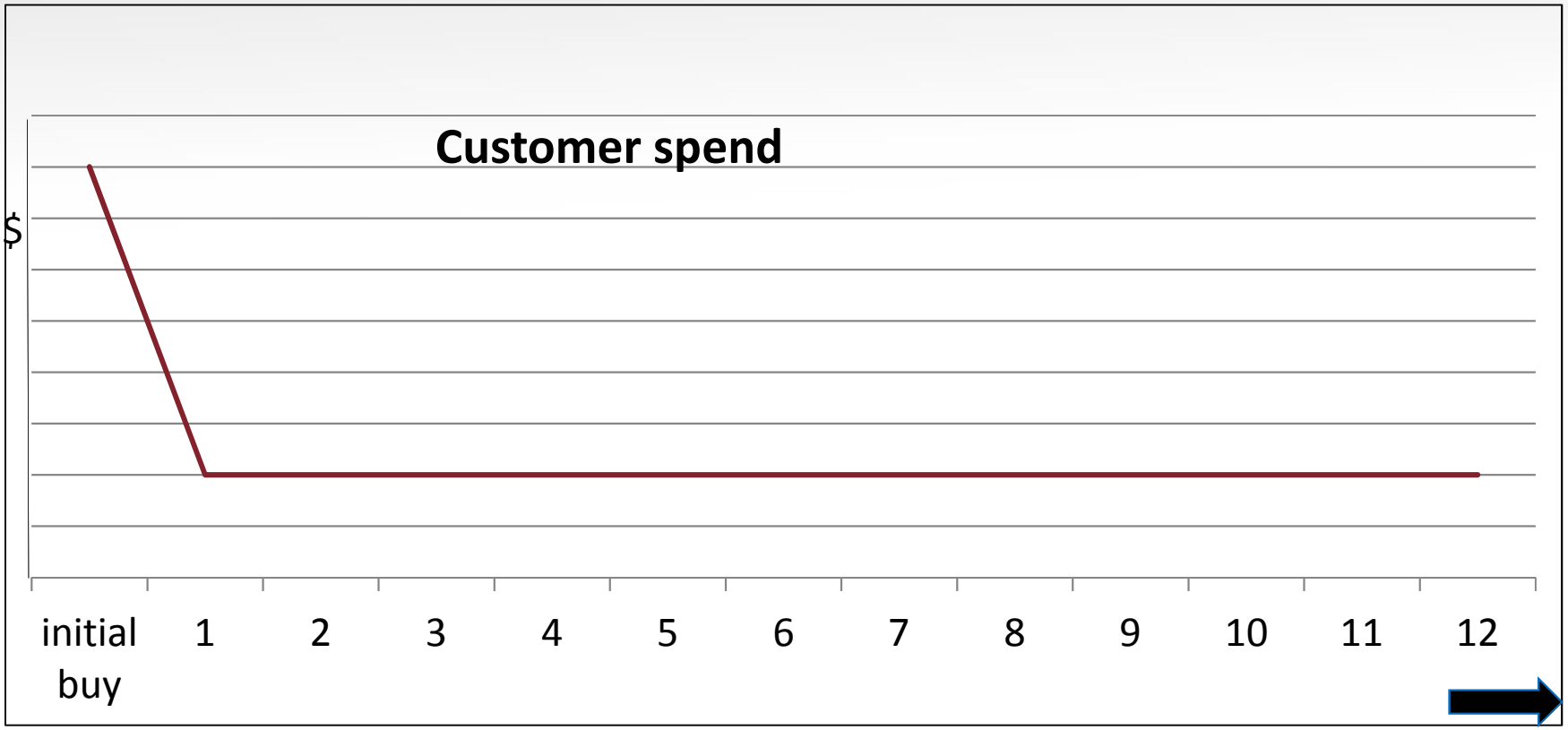
OEM Landscape – 787 Program



What are the OEM Defense Tactics to PMA/DER

- Power by the Hour
- Discounted part offerings
- Bundled Services
- Fear and discord
  - Reliability
  - Warranty
  - IP
- Surplus offerings
- Leasing company leverage

Long Term Maintenance Contracts (PBH)



- Customer buys insurance - pays fee/flying hour + escalation clause
- Risk of shop visit costs/timing/frequency are borne by OEM
- OEM now incentivised to keep engine on-wing and minimise cost of ownership

The Accountants “DREAM”

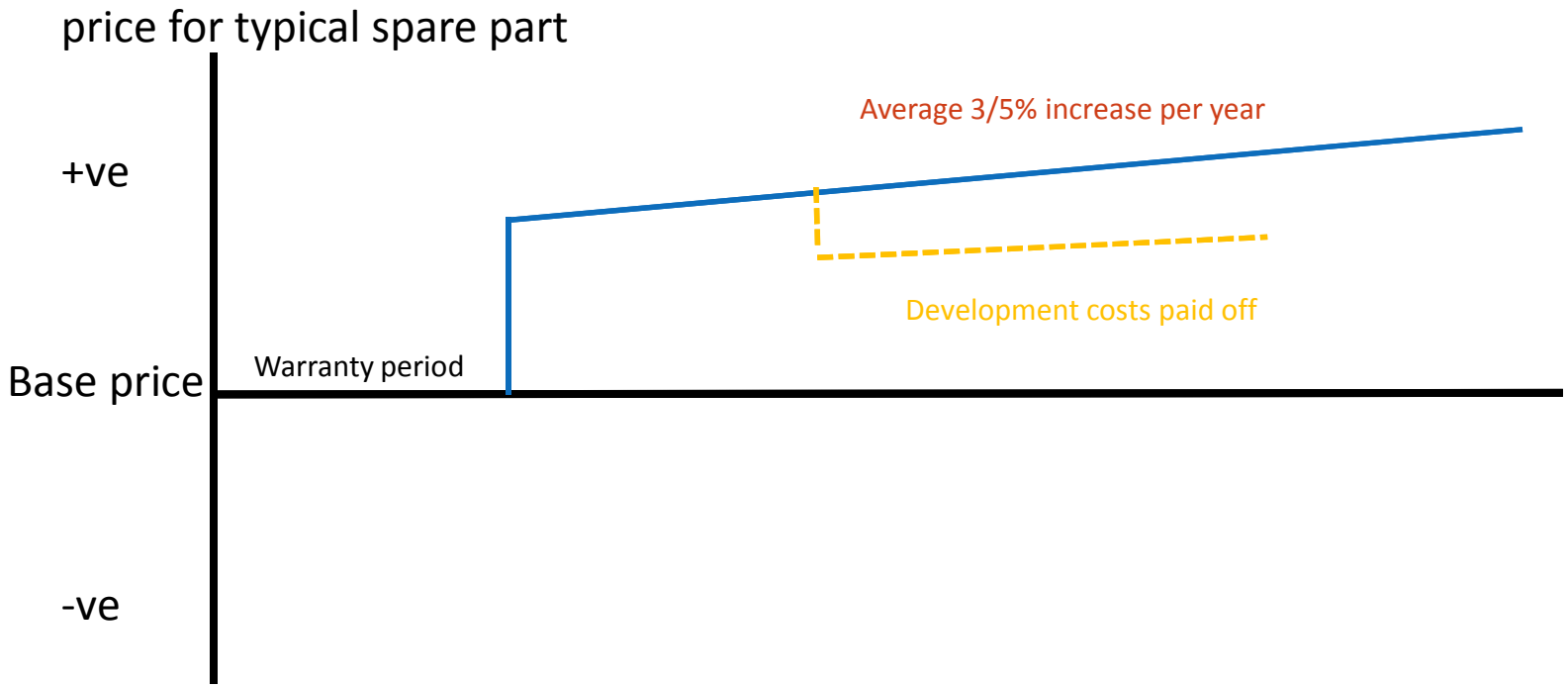
In 10 years time How Will I feel?

- Commitment to the company you already have “issues with”
  - Quality/Availability/Responsiveness
- No alternates, at the will of the OEM
- Increasing availability of PMA re-baselines maintenance costs
- Non OEM DER repairs banned
- Labor rates
- Material rates
- Loss of third party work
- No reward for learning curve improvements
- No incentive on OEM to do better – fixed price contract with escalations
- Keep the unit on wing – never mind the maintenance actions!!!!
- At the end of the contract – huge escalation to renew

The Spare Part Story

OEM's have standardized on Distribution channels:

- Airbus – Satair
- Boeing- Avial
- Hamilton Sunstrand - Avial



"PMA shouldn't be allowed because we have to earn back our development costs"

When does the price break happen?

Bundled Services

"If you sign for a PBH on your B737 Classic electrical generation components, we'll give you a smoking hot pricing deal on everything we support on your B767 maintenance"

"We'll give you the B787 IP to allow you to do third party maintenance if you sign an agreement not to use PMA on your B757 that we support"

European Union are gathering data to investigate 2 major OEM for creating an artificial monopoly in their repair stations via predatory pricing initiatives

It is a violation of the Sherman Act to deliberately create a monopoly without Congressional approval

The Reliability Excuse

“PMA parts aren’t as reliable because they aren’t OEM supported”

1. PMA developers have the benefit of understanding the OEM’s short comings
2. PMA developers often have newer materials, manufacturing methods and hold tighter tolerances due to the re-engineering process
3. PMA companies focussed on this market, not moving their engineers to the “next big platform”
4. Generally PMA developers avoid major problem areas that AD’s or major service bulletins have been written against

Do not confuse lower cost with lower Quality

The Warranty Play

"Your warranty will be denied if you use a PMA part"
If your equipment is under warranty why would you be using a PMA part?

"In the event of downstream damage, warranty will be denied if there's a PMA present"
Try getting downstream damage from an OEM UNLESS you have a big sales order pending!

Is This the Future?

The IP Smoke Screen

While not exhaustive, the FAA does not find the following DAH practices acceptable under the provisions of 14 CFR §21.50(b) and related ICA airworthiness requirements:

- Requiring the use (installation) of only DAH-produced or authorized replacement parts, articles, appliances, or materials.
- Requiring that alterations or repairs must be provided or otherwise authorized by the DAH.
- Requiring the use of only repair stations or other persons authorized by the DAH to implement the ICA.
- Establishing, or attempting to establish, any restriction on the right of the owner/operator to disclose or provide the ICA to persons authorized by the FAA to implement the ICA.

Source: FAA Draft Memo - Policy Statement, PS-AIR-21.50-01: Inappropriate DAH Restrictions on the Use and Availability of ICA

AC 120-106A

- **NOTE:** The proprietary or other confidential information referred to in this paragraph refers only to that information developed by an air carrier for purposes of its in-house maintenance. Proprietary or confidential information does not refer to other data to which the MP is entitled, such as instructions for continued airworthiness (ICA) under 14 CFR part 21, § 21.50(b), and in accordance with FAA Policy Statement PS-AIR-21.50-01, Type Design Approval Holder Inappropriate Restrictions on the Use and Availability of Instructions for Continued Airworthiness. **Such data that is required to be made available under the regulations may not be restricted by design approval holders (DAH) with respect to an air carrier's approved maintenance manuals, through restrictive language in the ICA, or through restrictive access or use agreements.**

Surplus offerings – Look I'm Your Friend

Pre-owned OEM parts versus PMA/DER parts

As an early OEM participant in the pre-owned parts market, Honeywell Aerospace Trading often is told by customers that they would rather avoid products containing PMA parts or DER repairs. Instead, these customers say they prefer the economics and value of surplus parts with OEM repairs and OEM warranties.

In saying this, we are not aiming to denigrate the quality or utility of PMA parts and DER repairs, but are just highlighting what for many customers is a market reality. Even when a particular customer is comfortable operating an aircraft which incorporates PMA parts or DER repairs, or both, that customer may feel – or may have experienced directly – that this practice may complicate and make more expensive the process of returning a leased aircraft to its lessor or attempting to sell an owned aircraft.

Source : Honeywell White paper : The Pre-Owned Parts Market: Strong Today, Stronger Tomorrow (Dec 15)

The Leasor Holder Trump Card

- Aircraft residual value reduction
- Inability to move aircraft across geographical boundaries (where regulatory rules are different on PMA)
- Inability to obtain financing: lack of understanding of PMA by banks

Negotiating Tip: If a lease holder asks you to sign a no PMA lease, ask him/her to prove to you that there's no PMA already on the aircraft

Conclusions

- Long term Care/maintenance agreements are great for finance people
- Power by the hour and similar programs limit flexibility of operation
- The IP argument is a total non-starter and the FAA has reacted to limit illegal business practices
- Bundled Services packages are being investigated for predatory pricing
- OEM's are now pretending to be your friend for surplus sales
- PMAs continue to deliver equal or better reliability than OEM
- PMA coverage is still increasing and remains a great competitive strategy

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Questions?