

SIX TRENDS DRIVING CHANGE IN THE AEROSPACE INDUSTRY

(Source: ICF SH&E)

↑ New source of revenue and margin growth

- ↑ Natural fleet migration to more efficient airframes
- ↑ Likely production rate increases

Larger share of demand from newer generation aircraft

Growing interest in MRO markets from OEMs

Globalisation

- ↑ High relative growth in developing regions - market access
- ↑ Companies move activities to countries that offer comparative advantages

Continuing focus on cost reduction

Demand for integrated support services

- ↑ Economic imperative for airlines

Consolidation

- ↑ Predictable cash flow
- ↑ Small fleet sizes
- ↑ Attractive OEM and MRO value propositions

- ↑ OEMs: scale (breadth of offer, financial)
- ↑ Distribution: service, cost and logistics imperatives

#1 Growing Interest in MRO markets from OEMs

Aircraft OEMs are increasing their presence in the MRO market through programmes such as the Flight Hour Services (Airbus) and Goldcare (Boeing). It is evident that aircraft OEMs are increasing their share of the services market.

#4 Larger Share of Demand from Newer Generation Aircraft

The world fleet is migrating to more efficient airframes, driven by high fuel prices which make older generation aircraft economically obsolete. OEMs have been increasing the rate of production of newer generation aircraft to clear their backlog, while at the same time rolling out even newer models to meet insatiable demand from airlines.

#2 Globalisation

Aerospace OEMs have traditionally conducted most of their value-added activities in their home market. This is changing towards a new paradigm of managing value chain processes across dispersed geographies around the world. Companies are able to take advantage of comparative advantages offered by various locations such as human talent and lower costs. Globalisation has been made possible through advances in telecommunications and emergence of global service firms.

#5 Consolidation

Consolidation is occurring at all tiers in the aerospace supply chain as a result of various factors. These factors include the need to share complimentary technologies and R&D costs so as to create global aftermarket support network, leverage relationships or market, as well as to create complete system solutions and to utilise global low cost manufacturing or engineering sources.

#3 Demand for Integrated Support Services

Demand for integrated support services such as engineering & administration, asset management and MRO will increase significantly over the next decade as airlines continue to view maintenance as a non-core activity. MROs and OEMs are also bringing new and attractive value propositions to the market. Fleet sizes of new-generation aircraft are relatively small (but growing), so utilising integrated support services is more economically viable compared to developing internal support capabilities.

#6 Continuing Focus on Cost Reduction

Cost reduction remains an economic imperative at airlines for survival, in light of slowing global economic growth and continued growth of the low-cost carriers.

