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Fleet growth is not the only reason why Asia Pacific and the Middle East are seeing a lot of MRO activity

By Arun Sivasankaran

THE CONTINUING EMERGENCE OF ASIA Pacific and the Middle East as the hubs of MRO activity and the impact of technological advances are among the major stories in an industry that is expected to continue the modest growth that it has seen over the last few years. Much of the industry’s growth will be driven by a steady increase in fleet growth globally. The contribution from the mature North American and Western European markets will be negligible, but the burgeoning Middle East commercial aviation market and the massive growth that is forecast in the Asia Pacific - the number of operating aircraft in the region is expected to nearly triple in less than 30 years - will make up for that.

Not surprisingly, the MRO industry is buzzing the most in Asia Pacific and the Middle East. According to a 2016 Frost & Sullivan analysis, Asia Pacific is set to become the second largest region for MRO services by 2024, with Western Europe pushing North America out of the top spot and into the third position. "MROs in Asia and places like Mexico, Brazil and Malaysia make money and there is nothing that we can do about it," said Giovanni Brullo, CEO of G Force Aircraft Maintenance, a company based in Fort Lauderdale. "Labor is so cheap in these places. In a place like El Salvador, you have employees working for $8 to $10 per hour."

"The MRO market is growing in North America," said Pierre Taschereau, International Client Manager and Aviation specialist for the Greater Fort Lauderdale Alliance, an organization that is focused on attracting high value targeted industries to the region. "We’re seeing here with the companies located in the Greater Fort Lauderdale region is continued growth at this time exemplified by the expansion of existing companies and the opening of new, small repair stations."

"Currently, the Fort Lauderdale International Airport and the Miami International Airport are growing their number of flights and carriers," said Taschereau. "This should provide a fertile ground for MRO demand. It is a very competitive market, but there is a lot of work," says Brullo. "Seems like there is more work now than before. I hope it stays that way."

Low Fuel Price a Boon

According to 10-year MRO market forecast by Oliver Wyman in 2016, the MRO industry is expected to grow at an annual rate of 3.9 percent until the end of the forecast period. A tailwind for the MRO industry is the delay in fleet renewal process because of the low price of fuel. With operators using ageing aircraft longer, experts expect to see an increased demand for MRO services on mature engines. This uptake, however, is expected to be short-lived, lasting a maximum of 5 to 10 years. According to 10-year MRO market forecast by Oliver Wyman in 2016, nearly half of the current global fleet will be replaced by 2026. Operators will phase out mature aircraft and replace them with next generation aircraft that are low-maintenance. Longer maintenance windows are bad news for airline MRO organizations among its clients. "Hainan Airlines acquired majority stakes in SR Technics, Avic International acquired Align Aerospace. There is an east to west wave in the industry, it’s a definite trend."

Fleet growth is not the only reason why Asia Pacific and the Middle East are seeing a lot of MRO activity, said Waart. "North American operators have moved heavy maintenance to Asia and Europe is warming up to the idea. Asian operators like to do their maintenance inside the region. We are also seeing narrow body work migrating to Latin America. Places like Morocco and Malta have seen growth as well. "MROs in Asia and places like Mexico, Brazil and Malaysia make money and there is nothing that we can do about it," said Giovanni Brullo, CEO of G Force Aircraft Maintenance, a company based in Fort Lauderdale. "Labor is so cheap in these places. In a place like El Salvador, you have employees working for $8 to $10 per hour."

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MROs. Offsetting the decreased demand for MRO services due to induction of new generation aircraft is the anticipated increase in fleet. Oliver Wyman predicts an increase of nearly 9,900 aircraft by 2026, an average annual growth of 3.4 per cent.

Trouble on the Horizon?
Waart believes there are challenges ahead. “Short term, there will be growth for independent MROs, but there are several trends that will challenge them,” he said.

The scenario, at first look at least, does not portend trouble and in fact, looks promising. Passenger volumes have gradually increased over the last five years and is expected to more than double within the next twenty years. Low fuel prices, among other factors, is pushing net profits to unprecedented levels. Fleet growth is steady and expected to grow at a healthy rate of more than 3 per cent annually. So, what’s there to worry? Quite a lot, in fact.

The continuing influx of next generation aircraft, competition from original equipment manufacturers in the aftermarket, the introduction of new technologies and the shift from reactive to predictive maintenance pose challenges to an industry that is still struggling to come to terms with the changes. With engine and airframe OEMs eager for a share of the pie and stepping in to transform the aftermarket, many MROs have been forced to rely on partnerships to survive. CHC Helicopters, which offers MRO services for helicopters, filed for bankruptcy in May last year and is currently working on a financial restructuring plan. It is not the only company in trouble, said Brian Kushner, Senior Managing Director at FTI Consulting. “There is a lot happening” he said. “A few companies are in trouble. There is some distress in the area.”

New Challenges
New generation aircraft will be no cakewalk for MRO companies that have infrastructure and background systems that are, in most cases, decades old. Newer machines, while light on maintenance, are much more complex compared to older ones and demand an updated skill set and better technical capabilities. The advances in data analytics is another reality that companies will have to come to term with. New generation aircraft are armed with technology that facilitates collection and transmission of huge amounts of data. As per the Oliver Wyman forecast, the billion gigabytes of data that is produced by the global aircraft fleet globally will jump to 98 billion gigabytes in 2026. “Analytic capability has increased in the last two years, but MROs have generally struggled to make good use of the data,” says Waart. “There is huge potential there, effective use of data improves utilization of assets. But with so much data, the challenge is in finding out what is useful and what is not. There is an issue of data ownership as well.”

The OEM Threat
The biggest challenge that MROs face is the increasing prominence of original equipment manufacturers (OEMs) in the aftermarket. The dominance is most pronounced in engines; Rolls-Royce, General Electric and Pratt & Whitney have close to absolute control through aftermarket support agreements. OEMs have started altering market equations in components and airframes as well. Prime examples are Boeing and Airbus, and their entry into the component and airframe MRO scene. The introduction of new, sophisticated aircraft gives OEMs distinct advantage over MROs. The increased availability of used serviceable material (USM) in the coming years, a result of the anticipated increases in retirement of ageing fleet, provides an opportunity for MROs to offer more competitive prices to clients, but OEMs pose a formidable hurdle here as well - they are expected to remain the largest customers of USM.

When You Can’t Fight Them, Join Them
Experts are of the opinion that the landscape has changed to such an extent that independent MROs that do not have any OEM or airline relationships will find it tough to survive. Expect more companies to start planning partnering with OEMs, airlines, fellow MRO companies or aftermarket component suppliers. That is, if they have not done so already.

Continued growth in passenger volumes and low fuel prices will benefit MRO providers with continued work as airlines could decide to retain their older-generation aircraft for a longer period.