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Find your winning position in the MRO game

Maintenance, repair and overhaul (MRO) services play an invaluable role in assuring that commercial airliners remain safe, durable and profitable. As new companies enter the aircraft maintenance business and others change or expand their value propositions, MRO providers will be compelled to become more collaborative, more open – and more competitive. To position themselves for the future, these organizations must be prepared to take on new roles and heighten their value by working more closely with others.

An attractive and growing opportunity

Today's US$40.1 billion maintenance market for commercial aircraft is large and growing – attracting new companies and changing the roles of existing ones. The market is expanding at a 3.6 percent compound annual growth rate (CAGR), and is expected to reach US$58 billion by 2016.[1]

It's no surprise that financial indicators point to commercial aircraft maintenance as an attractive opportunity. The attractiveness of the aircraft maintenance business is underscored by the number of new companies entering the field, and the fact that existing MROs are shifting and expanding their roles.

Outsourcing: Extending MRO roles

Until the 1980s, airlines performed their own aircraft maintenance. Since then, these companies have been increasingly interested in trimming costs and reducing investments in what is often seen as a non-core activity. Consequently, more airlines are outsourcing MRO work. MRO outsourcing is currently at about 50 percent and is projected to reach around 65 percent in 2020.[2] Component and engine maintenance lead in outsourcing, each with over 70 percent outsourced.[3]

Today's growth in outsourcing creates fertile ground for MRO businesses old and new to play larger roles. Major airlines that outsource all or most of their MRO service today include Southwest Airlines, Northwest Airlines, Alaska Airlines and US Airways.[4]

Future scenarios for spare-parts providers

Figure 1 shows the primary elements of the aircraft maintenance business. Different companies can perform different roles. The immediate battleground may be over the control of PHM data. The owner of the aircraft possesses that data today, not the OEM. Different aircraft owners have different degrees of willingness to share that data with the OEMs. Operators of smaller fleets may be more willing today to share the data with OEMs, or even give over control of the data to those companies.

We observe four main entities in today's commercial aircraft maintenance business:

- Aircraft or engine manufacturers
- Spare parts manufacturers
- Service suppliers
- Airlines.

We see six possible future scenarios unfolding:

1. *OEMs take over spare parts, but outsource service to service suppliers.*
2. *Service suppliers take over; OEMs and spare-parts manufacturers act as suppliers.*
3. *OEMs take over, and service suppliers are left out.*
4. *Airlines focus on MRO in a big way.*
5. *Balanced OEMs and service suppliers, where s*ervice suppliers and OEMs control separate supply chains for specific aircraft.
6. *Service suppliers provide onsite support to airlines, while OEMs manage the "sense and respond" side of the business and schedule services.* Service suppliers perform the actual maintenance process; OEMs monitor aircraft health and schedule maintenance and spare parts based on the performance of the aircraft in flight.

We believe that scenarios five and six are the ones most likely to influence the paradigm of the future.

What to do now

A company can help decide how it will play in the MRO business by answering three key questions: How deeply to play? In what area to play? What value proposition to offer? As the MRO business becomes more competitive, companies will be called upon to strengthen key capabilities to compete effectively.

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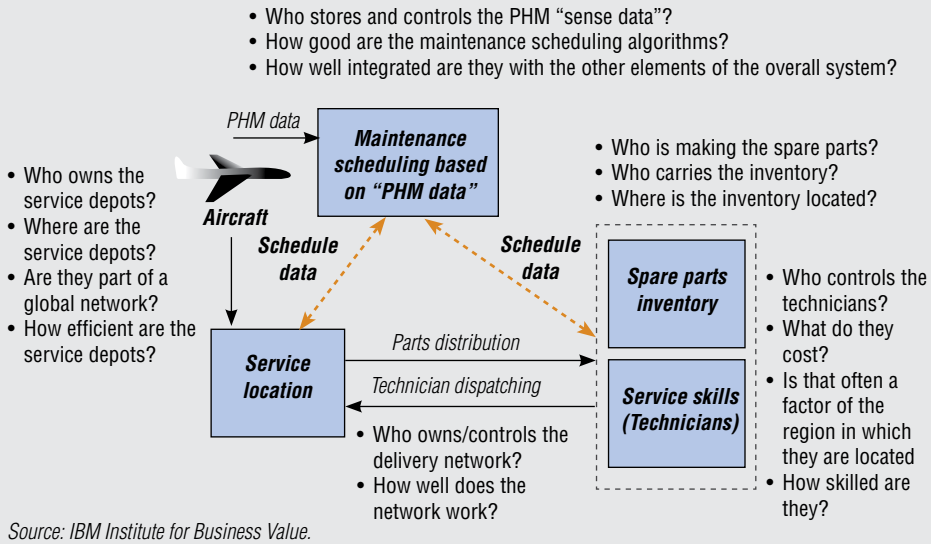
FIGURE 1.
Answers to key questions will determine the future of the aircraft MRO business.



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