



“Commercial and Military Aftermarket – Current State/ Future Trends”

The Los Angeles Chapter June 2015 Meeting

Presentation by

**Bill Ball, MRO Sales Manager,
CIRCOR Aerospace & Defense California**

**Brad Beck, President and CEO,
United Aeronautical Corp.**

**Brian Zaumeyer, Principal,
Odyssey Investment Partners**

Moderated by

**Lee Schwartz, Principal
Schwartz Profitability Group**

Article by

Lee Schwartz - Principal
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Over the course of the last year or so, there have been several presentations made at the Aerospace & Defense Forum that in some way touched upon the commercial and military aircraft industry. Topics have included the lofty predictions for commercial aircraft production . . . as highlighted and reaffirmed by a recent Boeing forecast. Over 38,000 new planes to be built in the next 20 years. \$5.6 trillion to be spent. 58% of the production will support the anticipated growth.

Meeting attendees have also heard about the effect of sequestration on military aircraft construction, the supply chain challenges brought on by increased demand and the expanding use of composites, and the impact of low interest rates.

The presentation at June’s meeting from a panel of esteemed and experienced industry experts offered a different perspective from what has been previously shared. The panel presented their thoughts related to “Commercial and Military Aftermarket – Current State/ Future Trends,” addressing issues that have impacted the aftermarket space and will likely continue to have impact, issues such as Parts Manufacture Approval (PMA), supply chains pushed to their

limits, the business climate in So. California, credit availability and the effect of 3-D (additive) manufacturing.

Accepting the notion that today's commercial and military aftermarket is different than it was just five years ago, the first question posed by moderator Lee Schwartz to panelists Bill Ball, Brad Beck and Brian Zaumeyer asked the trio to comment on the differences over the last handful of years and why they exist.

Whether it was from the commercial market perspective or from the military standpoint, the comments were eye opening. Commercially there has been a "tidal wave" of change as described by Brian Zaumeyer. The cause? With the "old guard" transitioning out over the last 10 years, today's new breed is much more bottom line focused. Bankruptcies, the emergence of Southwest Airlines and deregulations contributed to this condition.

Brad Beck described the changes as "monumental," believing that the transition began more like 20 years ago rather than over the last five years. Access to cheaper capital, according to Brad, is a primary contributor to the shift. What used to be considered a risky investment is no longer viewed as such.

So that this summary does not rival a Harry Potter book in length, as only 25% of the presentation has been covered thus far, let's take a different approach moving forward. Bullet point summaries will provide a flavor for what was shared and attempt to convey the amount of substantive information provided by the three panelists.

Q: How will a strained production supply chain affect the aftermarket?

- Smaller companies will find it harder to compete as larger companies move downstream.
- The massive burden to comply with regulations and red tape will also challenge smaller companies even though they are very capable of producing a safe, flyable part.
- Larger aftermarket companies are reverse engineering parts and then going to FAA for PMAs.
 - Big barrier to entry for PMAs are FAA requirements and obtaining separate approvals from each airline, who now have their own PMA staffs. It is a long process.
- Because of the huge backlog that currently exists, relationships with the FAA are critical.

Q: What are the challenges doing business in California/ Southern California?

- Let's first put into perspective the size of the A&D industry in California. At \$62B annually, it is the 2nd largest industry in the state and exceeds the combined income of agriculture and entertainment (per study conducted by AT Kearney and co-sponsored by the A&DF), yet . . .
- There's no "mouthpiece" for this massive industry. "No one is paying attention to this business."
- City governments are very limited. Few strings to pull with Sacramento holding the controlling reigns.

- With other states . . . think Texas and Gov. Perry . . . aggressively marketing and poaching business, companies continue, if it makes economic sense, to move out of the state.
 - One example offered. The California drought receives coverage across multiple media outlets regularly. How much attention was given to Northrup Grumman moving their headquarters out of So. California? Proportionately no comparison.
- L.A. Mayor Garcetti has an ear for the A&D industry. It is up to those in A&D to step up and get involved. A&DF co-founder Ivan Rosenberg shared these organizations for places to get involved . . .
 - Southern California Jobs Defense Council - <http://laedc.org/our-services/jobs-defense-council/>
 - AMP (Advanced Manufacturing Partnership) So. Cal. - <http://tinyurl.com/o6zl4g5>
 - Aerospace States Association – www.aerostates.org

Q: Additive (3-D) manufacturing’s impact of the aftermarket?

- Some panel disparity in opinions in this area. Covered the spectrum from not much impact to “game changer.”
- Biggest use in foreseeable future will be for tooling, jigs, small production runs although Boeing is currently using 3-D for production parts.
- Some companies are stuck in the 2-D world. They will not convert/ have not adapted to 3-D. Very little hybrid adaptation, i.e. application of both 2-D and 3-D within the same manufacturer.

While the panelists humbly resisted the labels of “esteemed” and “experts” it was quite obvious that they knew their stuff. Their insights and perspectives left attendees knowing more about the commercial and military aftermarkets than when they arrived.



Lee Schwartz, former CEO and President of manufacturing and distribution companies, is principal of the Schwartz Profitability Group (SPG) that, for 14 years, has uncorked the operational bottlenecks of manufacturing and distribution companies, boosting their bottom line results. Lee’s clients range from smaller family run companies to Fortune 500 firms, including those in aerospace and defense. His work helps his clients find solutions related to process improvement, supply chain management, inventory control, workflow design, and operational performance. Results consistently include cost reduction, improved efficiencies and increased profitability.

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