

Cleared to fly: Flight hour solutions are back in the spotlight

Flight hour agreements offer options to manage risk and cost for an airline.
Photo: StandardAero

Keith Mwanalushi examines the challenges in the flight hour programme sector caused by the COVID downturn but also highlights the new opportunities that are arising from the pandemic.

The impact of COVID on operators' views of flight hour programmes – these are usually contractual fixed hourly-rate payment solutions – will vary from segment to segment. Operators in those markets largely untouched by COVID (most notably business aviation and dedicated cargo operations) are unlikely to have changed their views on the pros and cons of such services, reckons Jason Johnson, VP, Sales, Marketing and Business Development, Airlines and Fleets at StandardAero. By contrast, Johnson feels those operators in segments significantly impacted by COVID – not least long-haul passenger airlines – may be reassessing their view of hourly programmes. “Such operators will have experienced a significant drop

in flight hours during 2020, and yet have faced the prospect of the fixed element of their flight hour obligations remaining unchanged – clearly a challenging prospect for operators in financial distress,” he observes.

While several OEMs are known to have offered temporarily relief to their flight hour customers, and while the underlying arguments for hourly programmes remain sound, Johnson feels it is likely that at least some operators will have been in discussions with their OEM service providers regarding the possibility of reducing their flight hour exposure in the event of a future COVID-type market impact.

The most significant reassessment of flight hour services in the wake of COVID



Jason Johnson, VP, Sales, Marketing & Business Development, Airlines & Fleets - StandardAero

will likely come from lessors, many of whom were left holding the baby in 2020 as financially strapped airlines chose to return their leased assets early. Johnson continues: “As such, it was the lessors who were often most exposed to the fixed element of flight hour programmes. With leased aircraft today representing approximately half of the in-service fleet,

it is inevitable that lessors will be leading the post-COVID reappraisal of the pros and cons of service offerings.”

Aside from the obvious challenge faced by airlines who have been unable to survive in the last 18 months, a typical type of flight hour solution relies upon a commitment to operate a baseline number of flight hours during a given a period. “Airlines simply haven’t been able to commit to the pre-COVID minimum hour obligations, nor have they been able to plan their flight schedules with any degree of certainty, so the flight hour programme services sector has been significantly affected,” notes David Shorter, PBH Customer Service Manager at AJW.

Shorter says the challenges created the need for flexibility and pragmatism as many operators sought suspensions, amendments and even terminations of support contracts. “AJW seized the opportunity and proactively offered flexible and fair solutions by offering short-term contract suspensions, ‘pay-as-you-go’ stop-gap solutions and opportunities to evolve the commercial



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framework of the service provision as flying resumed.”

Chas Richardson, Commercial

Manager at AJW has also noticed a significant shift in the service provider marketplace. He says that many of the primary flight hour providers of the last two decades face significant pressure to maintain solvency whilst also continuing to support valued airline customers who are similarly distressed and that the pandemic has created a supply chain “pinch point”.

At GA Telesis, they are seeing varying challenges both in terms of current agreements and forward deals. “It depends on the operator and the terms of the agreement, but most operators continued most of their contracts at reduced billing,” comments Meghan Burgan, Vice President, Programmes and Repairs. “We supported grounded aircraft with maintenance and extended payment terms with our flight hour customers while our cargo customers continued operations. GA Telesis also converted many customers into lease and repair management solutions since this is becoming a preferred future solution,” Burgan continues.

“Dollar per engine flight hour” maintenance solutions provide airlines



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Steven Fastenberg, Director, Geared Turbofan (GTF) Fleet Management Group

with several benefits, chief among these benefits is risk-sharing with the maintenance provider to provide known maintenance cost, maximised time-on-wing, and predictable cash flows. Pratt & Whitney's aftermarket service offerings are branded under the 'EngineWise Comprehensive' suite of product offerings that can be tailored to match various needs. Steven Fastenberg, Director, Geared Turbofan (GTF) Fleet Management Group says the solution provides the highest level of coverage for engine maintenance on a dollar per engine flight hour basis. "Without a doubt, the last 18 months the pandemic has disrupted business for the airlines, the OEMs and the MRO shops." Fastenberg indicates that within the GTF Fleet Management Group, they manage a portfolio of more than 50 contracts with airlines around the world. "We have closely partnered with our airline customers to assist with their operational needs as they manage the volatility of the pandemic."

While the impacts of the pandemic have been extremely challenging, Pratt & Whitney has taken advantage of this time to install retrofits into the GTF fleet to upgrade the engine configuration and position the fleet to capitalise on the expected recovery.

With a revenue model directly correlated to the hours flown by an aircraft, the flight hour services sector was especially hard hit during the initial phases of the global lockdown. "As the recovery continues, there is still a significant impact, as the level of fleet utilisation is still far from the peak of 2019," points out David Greenwell, VP of Sales and Marketing at Kellstrom Aerospace. He says service providers needed to adjust to both the decrease in demand for material and the significant reduction to their cash flows.

"The industry has witnessed excess inventories released to the aftermarket. Some key flight hour providers took the downturn to exit the business model altogether," Greenwell notes. At Kellstrom Aerospace, they have seen a large increase in the volume of exchanges performed to support fleets from non-contracted solutions. "As the industry continues to conserve cash, they will look to flight hour exchange solutions to manage cost exposure, but providers must be prepared for the lower utilisation of the fleet."

Start-ups provide new opportunities

For airlines, Greenwell believes that flight hour agreements offer one of the best options to manage risk and cost for an airline, particularly a start-up, where the cost of the inventory needed to support the airline is proportional to the hours it has flown. "During the initial start-up phase of an airline, knowing you have a fixed costs risk management plan for aircraft components allows the finance team to plan effectively and minimise the risk of early component failures."

At Kellstrom Aerospace Greenwell reports that they are talking to several airlines who are either flight hour customers or would be looking to enter into an agreement to some extent. "It is worth noting that not all flight hour agreements provide universal coverage, so each airline should determine what components they include in the agreement, and which could be based on

a stocking strategy."

Johnson from StandardAero stresses that the importance of flight hour programmes to start-up airlines will depend on the support approach favoured by the operator, and on the type of aircraft being flown. "These programmes tend to be favoured for newer aircraft and engines, in part because they offer a degree of risk transfer relating to unscheduled engine events, and also because non-OEM support offerings tend to be limited in the early years of an engine's lifecycle." By comparison, Johnson indicates that start-up airlines operating a more mature platform such as the CFM56-7B-powered Boeing 737NG will be able to choose from a wider range of aftermarket options – "A start-up's interest in flight hour services will also be influenced by the prior experience of the airline's executives, and by the preferences of the airline's lease partner."

"From the perspective of spare engine procurement, given the supply of engines in varying stages of technical serviceability available in the market, flight hour lease contracts will play a role with some of the start-ups as a cost-effective means to secure a dedicated spare, suggests Joe Hussar, EVP and Head of Portfolio at ELFC. "Generally, it



David Greenwell, VP of Sales and Marketing at Kellstrom Aerospace



Joe Hussar, EVP & Head of Portfolio at ELFC

is more cost effective for start-ups to rely on leasing in spare engines to cover potential or scheduled maintenance events rather than signing up for a flight hour maintenance contract and have the expense of overhauling an owned engine themselves," Hussar cautions.

No doubt flight hour leases have been around for a long time. In the past it was common for older engines, those in the final stage of their product life cycle, to be leased on this basis, Hussar recalls. Since COVID brought about an unexpected shock to the supply and demand spare engine balance, mainstream engine types that will remain a core part of the world fleet for many years to come have been more commonly leased on a flight hour basis over the past 18 months, he observes. "Traditional lease structures are now returning to be more commonplace again, especially for those engines that are strong flyers," says Hussar.

AJW has successfully supported many new start-ups over the past year and understand that having a flexible flight hour provider is critical to the success of the airline.

David Shorter points out that there are the obvious cash benefits, such as the customer not having to invest millions of dollars on inventory and overheads, but ultimately a flight

hour support contract allows the operator to run a lean supply chain, where everything can be outsourced, including logistics, and provides complete transparency from a budgeting perspective as there are no hidden costs. Operationally, Shorter explains that a support contract with AJW can be negotiated to include guaranteed delivery and service levels as well as the provision of onsite inventory for no-go and critical items and for start-ups with brand new aircraft and AJW takes care of the warranty management with the OEMs.

Also, worth noting, Richardson reminds that conventional flight hour support agreements cover only the component maintenance portion of the aftermarket and maintenance environment – "AJW have a broad portfolio of products, which cover elements on top of the standard flight hour service and are making a concerted effort to integrate and develop them further to meet our customers' needs."

Despite the challenges of the last 18 months or so, the one thing that has not changed is that operators need to ensure uninterrupted operations and reduce the time the plane is grounded. "One shift we have seen is the airlines looking for options, no longer just a one-size-fits-all flight hour programme, says Burgan from GA Telesis. "We can offer flight hour programmes by PN or ATA, repair management, and main base kit leases with or without repair management. We also manage our airlines in their retirement planning by managing the teardown cycle. This ultimately reinserts their own product into their operations or into their current flight hour programme."

Evolving flight hour services market

It certainly feels like flight hour or capacity by the hour has redefined how aerospace products are now sold and serviced. Fastenberg agrees that the landscape has certainly changed over the past 20 years in aftermarket services. Where legacy fleets at the turn of the

century were rarely covered by long-term dollar per flight hour maintenance agreements, the fleets being delivered today are upwards of 80% covered by EngineWise agreements. "Most operators today are using the aircraft and engine point-of-sale to bundle a long-term aftermarket agreement, thereby locking in maintenance cost and managing their risk by leveraging the expertise and knowledge of the OEM.

"Additionally, the prevalence of aircraft lessors in the marketplace has grown with a large portion of the GTF fleet owned by lessors. We often work with both airlines and lessors to ensure we have a tailored product offering that provides the maintenance solution the airline needs for their operation as well as helping to protect the asset value for the lessor," explains Fastenberg.

As Richardson from AJW suggests, the flight hour model necessitated the development of online web portals to track order status as airlines began to manage service level agreements with suppliers more closely. "In recent years this has evolved as the aviation industry has started to catch-up with general retail. The days of faxing and emailing purchase orders or accessing clunky portals is clearly coming to an end with a truly digital marketplace obviously the next major step."



Chas Richardson, Commercial Manager at AJW

FLIGHT HOUR PROGRAMMES



Mechanics at P&W's Eagle Services Asia facility in Singapore inspect a GTF engine.
Photo: Pratt & Whitney

Burgan highlights that what has changed is the buyers of parts and the recent influence of large-scale teardowns and surplus parts value in the market. She says with a flight hour contract in place, operators benefit from not holding inventory or requiring the staff and processes to source, repair, or manage the inventory needed to keep the fleet flying. "On the services side, aftermarket companies are carrying that balance. In addition, the increase of material available allowed companies like GA Telesis to acquire aircraft, engines, and large inventory packages during the downturn, allowing us to be more competitive in our offerings. In turn, the operators are now benefitting from a lower rate per hour."

Perhaps the most important impact of flight hour programmes has been to assure engine OEMs of a steady stream of aftermarket revenue once a new engine enters service, reckons Johnson from StandardAero. "This provides OEMs with greater confidence regarding

the viability of the multi-billion-dollar business cases associated with clean-sheet large engine R&D programmes, and therefore ultimately benefits operators in terms of new technology being introduced into the market."

That said, Johnson feels the recent agreements reached between IATA and

two of the industry's largest engine OEMs confirm the preference of airlines to maximise their aftermarket support options wherever possible, and as such, flight hour services are likely to remain just one of the support offerings available to operators, alongside Time and Material (T&M) type services.



Conventional flight hour agreements may only cover the component maintenance portion.
Photo: AJW

A stylized illustration of a woman with black hair in a bun, wearing a colorful dress with red, black, and white patterns. She is holding a shopping bag with red handles and the AJW logo on it. The background is blue with gear and airplane icons.

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