Feeling the pinch

In the first of three exclusive market reports for Helitech International Daily News, Matthew Smith takes the pulse of the worldwide helicopter MRO industry and discovers that budgetary pressures are calling for a more innovative approach.

The global helicopter MRO market is substantial, with some analysts suggesting that it could be worth up to $20 billion by 2018. However, despite this impressive headline figure, growth in the sector is not strong and a recent report by market analyst TechNavio states it expects to see sales grow at a CAGR (compound annual growth rate) of just 2.41% over the next four years.

As a result of this subdued sentiment, MRO providers are looking to deepen relationships with existing customers and open new markets in order to fuel growth. Helitech International Daily News spoke to two industry leaders for their insights.

Striking a balance
Raj Rawana, director of marketing at Vector Aerospace, explained that the company has looked to balance their costs, with MRO budgets being stretched further and further. The slow recovery of the business and general aviation market has surprised many analysts, and global defence budgets – while still generally above where they were 15 years ago in real terms – also remain under pressure.

Recent years have seen the introduction of a new generation of high-tech helicopter platforms and the expansion of lease financing, both of which are driving growth in the aircraft market.

This is proving to be a mixed blessing for MRO companies. On the one hand, as operators acquire new platforms, this spurs an expansion in the second-hand market as old airframes are replaced. On the other hand, new technology means the replacement aircraft are less in need of MRO support.

‘Both military and civil segments are forecast to be generally static in terms of MRO potential, with the projected fleet replacement activity offset by the reduced depot maintenance requirements associated with many newer-generation aircraft,’ said Rawana.

However, this may be offset by growth in the repurposing sector, where older platforms are converted for new missions.

Anthony DiNota, VP commercial at Heli-One, explained what’s behind this growth. ‘Helicopters, unlike commercial airplanes, rarely go away,’ he stated.

‘They just move on to a new customer or a new mission. So a big part of Heli-One’s business is helping our customers transition their aircraft from their current use to their best use. For example, we might take the Sikorsky S-76C model in an oil and gas configuration and then help put it into a cargo or utility mission configuration.’

He said that in the past 18 months the repurposing segment had provided good growth opportunities and this was being driven by a number of elements.

‘Number one is new deliveries coming into the large offshore oil and gas operators – you have new-technology aircraft coming in from the likes of AgustaWestland, Airbus, Sikorsky. So that is pushing out aircraft, which are still good aircraft, but just not as well suited to primary oil and gas contracts. So we are repurposing them. We provide modifications and upgrades, reconfigurations and STCs – so this really draws on the kind of things we are suited for.’

Some relief may also be on the way in the form of a “bow-wave” of requirements from the EC225 and S-92, deliveries of which started in 1999/2000 and which are now on the cusp of their initial major inspection, the nine-year check, added DiNota.

Extended partnership
The MRO sector is competitive and costs are a key issue for customers. Both Vector and Heli-One use hourly rate programmes to flatten out expenses for airframe components or engines, but both also believe customers are increasingly looking for partners who provide more than just a simple repair and maintenance service.

DiNota argues that providing an integrated ‘one-stop shop’ which frees customers to focus on flying
is what differentiates Heli-One from its rivals.

If an operator only has one or two platforms, perhaps one Agusta and one Sikorsky, then they could be forced in theory to deal with up to four OEMs – one for each airframe and one for each engine. What we are able to deliver, because we have the infrastructure, the inventory, the equipment, the tooling, and the knowledge, is a comprehensive solution for that customer on those two aircraft, where they only have to deal with one service provider. So this frees them up to concentrate on their core objectives,’ he argued.

In addition to engineering, DiNota noted that Heli-One’s ‘holistic solution’ includes dealing with shipping, import/export, customs compliance, tooling, licences and regulation. ‘Our customers just want to fly helicopters so we take care of all that,’ he said.

Rawana also sees changes in the way Vector’s customers are looking for support. ‘As aircraft acquisition costs continue to rise, many customers are opting to lease instead of purchase, and are also seeking hourly provisioning solutions, often mandated by leasing companies. It’s important as an MRO to be able to offer hourly rates and thus be positioned to meet the demands of this growing market,’ he argued.

‘Newer aircraft types generally have more condition-monitored or extended-TBO components (including engines), resulting in longer service lives and extended MRO activity. By comparison, older designs with hard time limits generally had more predictable business volumes resulting from their shorter TBOs. Operators of these newer types often seek predictable long-term maintenance coverage through servicing contracts and hourly programmes.’

This has a significant impact on the kind of capability MRO companies are expected to provide, with new platforms posing a different challenge to their forebears.

‘As older helicopters which were designed and manufactured in the 1960s and 70s are retired in favour of newer types, MROs must meet the challenge of these volume fluctuations by serving a larger fleet base and by expanding their capabilities to include data management,’ Rawana said.

Portfolio management

While there are many exciting new aircraft (and engine) designs now in development, MROs will need to carefully manage their product portfolios, focusing on ‘mid-life’ products while waiting for the newer types to reach their first maintenance cycles.

The introduction of new models of helicopter and the subsequent availability of second-hand airframes means there is strong demand for low-houred models and utility conversions.

‘Some of these aircraft are VIP-configured, so they are low air time and we convert those into oil and gas aircraft. Other times it’s taking an oil and gas machine and turning it into a utility ship,’ DiNota said.

‘A lot of that activity is being driven through the leasing companies. They are buying up the VIP S-76s and converting them into operators in new markets in the Middle East, Asia and South America means there is strong demand for low-houred models and utility conversions.

'We believe the need for a non-OEM-affiliated MRO partner is great.'
oil and gas configuration and then deploying them to their customers in Latin America and Asia.

This is also driving the move to develop increasing levels of local capability in emerging markets.

‘As a global MRO provider, this trend requires us to ensure that our worldwide presence is broad enough to fish where the fish are located,’ said Rawana.

‘Many countries and governments are pursuing the development of local MRO capabilities, which can require significant investment from providers, while also representing a challenge in terms of long-term capacity balancing,’

This outlook is reflected in Vector’s recent activity. In February this year it announced expansion in Singapore as part of plans to increase the company’s global footprint. It is investing around $40 million in constructing, tooling and equipping an 8,000 sq m engine centre at the Seletar Aerospace Park.

In Brazil its Helicopter Services North America subsidiary has signed a two-year agreement with local MRO centre Helipark to provide repair and overhaul support services for Turbomeca Arriel 1 and Rolls-Royce M250 engines.

**Extended reach**

Heli-One is also expanding its reach as it looks to tap into the same well.

The company’s Dane McGuffee said: ‘We’ve made investments in the right, most experienced people and organisations in multiple locations around the globe which allow us to support a global market. So not everything has to come back to Vancouver or Colorado. For example, we have facilities in Norway, a new facility in Poland. That’s where we differentiate ourselves from our competitors – we go where our customers operate so we can support them where they are.

‘We believe the need for a non-OEM-affiliated MRO partner is great. Without going into too much detail on our plans, I would say to you that we are looking at several countries around the world where we see opportunity to install an industrial footprint that includes a hangar and support activities, and which will form the entry point for us to capture market share in those regions.’

In a static industry it is clear that as demand grows in emerging markets they will become an increasingly important part of the MRO segment, and it appears that the sector is already positioning itself to take advantage.

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**Cycle repair MRO providers are waiting for the latest generation of airframes to reach their first nine-year checks.**

*Photo: Vector Aerospace*