AIRBUS WANTS A320 SUPPLIERS TO CUT PRICES

News / Manufacturer

Airbus is pressing **suppliers** on its **A320** aircraft to reduce **prices** by at least 10 percent by 2019 in order to make the company's main earner more competitive.

The enhanced efficiency plans echo Boeing's cost-cutting Partner for Success initiative, which has redrawn the relationship between suppliers and the plane maker as the industry gears up for record output.

Airbus's cuts are a part of an internal efficiency drive called SCOPe+ that also seeks savings through an examination of procurement and the way planes are developed and sold.

Airbus has told suppliers that the prospect of increased volumes and a longer lifespan for its best-selling jet, which has enjoyed a surge in sales for the A320neo, means it is time to "review all options" in its supply chain.

This includes a fresh look at the company's procurement strategy that could include extra use of twin sourcing for crucial parts: a strategy designed both to reduce costs and to reduce the risks of shortfalls as production increases.

Airbus is also looking at further shifting its business model to allow airlines less choice over accessories that they previously ordered direct, known as Buyer Furnished Equipment.

Also involved is a longer-term effort to weave manufacturing costs into the design process to prevent unintended overruns in costs on the factory floor, a tool known as "Redesign to Cost".

SCOPe+ aims to achieve a new baseline for supplier costs in 2019 that is "at least 10 percent" lower compared with 2015, according to suppliers and an Airbus document.

Though Airbus has confirmed the existence of the SCOPe+ initiative, its details have not been publicly disclosed.

The initiative "is part of Airbus' long-term commitment towards boosting competitiveness through operational efficiency and continuous improvement," a spokeswoman said.

TUG OF WAR

In 2014, Airbus spent about EUR€13 billion on parts for its A320 family of jets, with each plane containing three million parts.

The pressure on suppliers for price cuts comes as Airbus and Boeing are raising production of their single-aisle models to around 50 aircraft a month each, up from 42 a month, and pondering a further step-up to 60 a month.

Such increases in volume are traditionally the aerospace industry's most valuable lever for driving down unit costs.

But the SCOPe+ and Partner for Success initiatives aim to complement this with direct contributions from suppliers, driving profit margins further up industry's food chain. Boeing has told suppliers to cut prices by 15 percent or lose business.

While plane makers lead the industry in terms of revenues and operating profits, the top 20 companies in the aerospace sector by operating margin are all suppliers, according to Deloitte.

Manufacturers argue their willingness to gamble on new products, such as hugely popular upgrades of the A320 and Boeing 737 jets, is driving record sales and creating wealth across the industry that ought to be shared through lower parts prices.

But many small suppliers argue the efficiency campaigns mask a grab for part of their profit margins. They say they face their own challenges in investing in equipment to support higher production, with no guarantee how long the boom will last.

25 SEPTEMBER 2015

SOURCE: REUTERS
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