

How three-times ‘no’ will result in ‘yes’

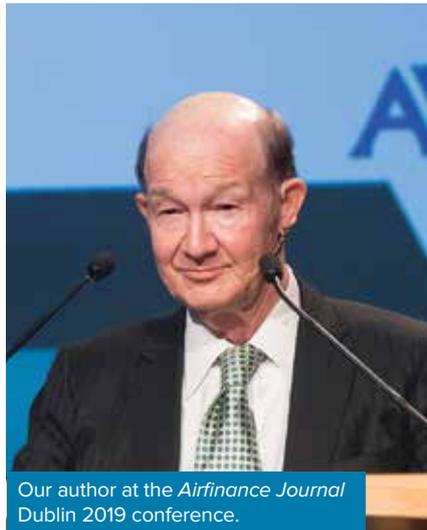
Adam Pilarski, senior vice-president at Avitas, believes Boeing’s New Mid-Market Aircraft will go ahead despite good reasons for the programme to be shelved.

The biggest decision facing aircraft manufacturers is the New Mid-Market Aircraft (NMA) considered by Boeing. This would involve the design of a brand new platform in between narrow and small widebodies. Such an offering would cost a fortune but potentially change the existing landscape of aircraft manufacturing. It could be the prelude to the development of a brand new replacement for existing narrowbodies, a possibility discussed and analysed for years but eventually shelved in favour of the re-engining programmes adopted by Airbus and Boeing. A launch of the NMA would drastically change realities for manufacturers, engine providers, airlines and financiers. It would alter the future values of existing aircraft.

The NMA is defined as flying 220 to 280 passengers at ranges of 4,000 to 5,000 miles in twin-aisle comfort at single-aisle economics. Boeing believes there is a market of about 4,000 to 5,000 units for such a platform planned for introduction circa 2025. The question is why would Boeing launch a dramatically new aircraft? Short term, the reality is that today the segment for such an aircraft is the Boeing 757 replacement. In that market Airbus is outselling Boeing by wide margins and is talking about further stretches and enhancements to its Airbus A321neo. It dominates that particular market segment. Hence, after continuous sales losses some analysts believe Boeing has to act.

In the long term, Airbus and Boeing are in a clear duopoly situation. With the acquisition of the CSeries part of Bombardier by Airbus and the tie up of Boeing with Embraer this duopoly is even more pronounced. Nothing on the horizon threatens it, not the Russian, Chinese or Japanese forthcoming products. Action by Boeing will affect only Airbus. The other potential competitors are years away from being real threats.

So, again, why would Boeing launch an expensive new programme? It does not make sense in the short term. A programme whose first deliveries are years away cannot salvage whatever campaigns are being lost right now to the A321neo. These sales losses are gone



Our author at the *Airfinance Journal* Dublin 2019 conference.

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and cannot be recovered. So the answer as to whether to launch the NMA should be a resounding “No”. The NMA may give Boeing an advantage in the long run but it is hard to believe it will drive Airbus out of business. A successful new product in this market segment will lead Airbus to design its own new product. At the moment, Airbus does not feel it needs added expenses because it believes it is winning the current battles. But it has the technological abilities to develop a new product that would truly be competitive to the Boeing NMA. If both of the duopolists have successful new products, the whole market will not increase. After spending tens of billions of dollars, Airbus and

Boeing will probably keep their market shares at today’s levels.

So the conclusion from a long-term strategic view as to whether to launch the NMA is also “No”. The third “No” comes from the financial side. Boeing is not in a desperate financial situation and does not need to gamble and spend serious resources to change its very comfortable financial situation. It is blessed with record backlogs, profits and stratospheric share values.

So why do I believe the final answer will be a “Yes”? It is important to remember that Boeing is still trying to recover from the 787 debacle. That first all-new aircraft in a generation produced a fairly successful platform but was very late, had serious birthing problems and suffered a grounding after battery problems. Big parts of the problems were related to the way Boeing was planning to produce the aircraft, giving up control of parts of the manufacturing process to outsiders. To regain its mojo, Boeing needs to have a clear success relying on its own internal resources. So the emphasis is not on the famed “moonshot” derided by its chairman. It is rather a simple platform with better control by Boeing on all aspects of the manufacturing. It also means a different business structure. The reorganisation of Boeing into three sectors (commercial, military and services) points to the way the NMA will be designed and produced. Boeing sees this as a kind of cultural revolution without the political connotation – a totally new way of producing aircraft for now and in the future.

The new product will lead to a new brighter future and let the current leadership leave its imprint on Boeing and on the future of aviation. So, will it happen? Right now the leadership has more imminent problems related to the Max. But I do believe that in a traditional Boeing fashion, the US manufacturer will take its sweet time to launch the programme – with a choice of one engine. It will be a few years late compared with the proposed 2025 service entry. But it will happen and eventually will produce another great aircraft in the best Boeing tradition. **A**