

Peter Lewis, CEO of Alpine Air Support, offers some industry insight into the process of finalising helicopter part price lists.



The price is right

You would probably fall off your purchasing manager's chair if you really knew how much helicopter spare parts actually cost, and that would not be because they are too cheap. The material and labour costs associated with the physical part you are trying to procure are only part of a complex myriad of factors that OEMs have to incorporate into their final catalogue price.

Research, testing and development costs are normally the highest and the toughest figure to pin down. To recuperate them requires a considerable final mark-up factor. If an item is made as part of a speculative bid rather than for an in-house order, then the risk factor is much higher.

Material and labour costs are then taken into account, including tooling for each item. Finally, market placement strategy will impact sales price levels. This covers the consideration of your long-term targets and desired profits as well as competitor pricing.

Potential variations

There are at least four potential sales prices.

First, there is the price point at which an OEM sells a part to a helicopter manufacturer for its production lines. This figure is the lowest on the scale, probably somewhere in the region of 25% of the regular list price, as a guide.

Consider it to be like putting your corporate logo on the side of a racing car: it costs a fortune, but you hope to at least recover these costs when you start selling to the aftermarket after a few years.

Secondly, a price is set for a helicopter OEM to buy for its spare parts pool. Now, you are probably thinking the same as

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everyone else: why don't the helicopter OEMs just buy everything at production cost and save a fortune?

Well, it is not unheard of. In fact, it is simple commercial prowess to do exactly that – I have only ever met a couple of equipment OEMs that insisted on tying up sales of their production units with actual helicopter serial numbers to ensure that the numbers matched.

There is also a separate spare part price for authorised distributors or agents, who are probably under a commercial agreement to hit specific turnover and targets over a given period. This is frequently done when an OEM does not have a specific aftermarket sales department with networked or international customers.

The last price is the OEM's actual spare parts catalogue price. If none of the above three apply to you, then you pay what is generally considered to be the 'full', or 'regular', list price.

Tricky exceptions

That seems all nice and clear-cut, but what is happening these days, especially

in Europe, is that many helicopter manufacturers are insisting that OEMs sign commercial agreements to ensure sole purchasing rights.

This step kills the aftermarket in one fair swoop (see Collective Pitch, *RH* Apr-May 2016). Without the ability of recouping all their R&D costs which have accumulated over the years, the effective sales price is exponentially increased based on some loose 'guesstimate' that attempts to predict how many specific helicopters will be sold over the production period.

Pitch too low at the outset and you are on a hiding to nothing, bid too high and no work. It needs a little smoke and mirrors to ensure that you get your product onto the helicopter in the first place.

There are also helicopter manufacturers' own spare parts, meaning parts that they actually produce, rather than outsourcing and then just assembling them on the production line.

Airframe panels and fuselage structure parts are usually made in-house, and the cost of making spares for unknown future usage is a valid cost point that they normally have to bear without the luxury of having someone specifically paying for them. ■

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