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Considering Consignments

Aftermarket suppliers weigh the benefits and challenges of selling stock on consignment



HORIX AEROSPACE

Keith Mwanalushi London

Managing surplus material on a consignment basis has gained popularity, but with supply chain issues lingering, MRO providers and parts traders are examining their inventory strategies carefully.

AJW Group has taken more than 30 airframes on consignment since 2021, for example, but the business rarely consigns material to other organizations, says Mark Elliott, director of inventory strategy. He says the only scenario in which AJW would consider passing on consignment stock would be if it is moved to a different sector or region of the aviation industry in which AJW does not operate.

“Given our regional presence, diversity of service and specialist knowledge, these opportunities are few and

far between,” Elliott notes. “The reason our consignment partners give stock to us is because they’re generally not aviation experts or traders and often don’t have a viable route to market the aviation assets they have invested in.”

This type of activity drives a return of over \$1 billion in proceeds to customers, says Jason Reed, president of GA Telesis’ Flight Solutions Group. Stocking is something he refers to as a “built-in” cost that comes with the activity.

CARRYING COSTS

“What we see these days is perhaps a different view of consignments, particularly when an operator wants to offer the asset to you but has an extensive list of over 300 parts they want to retain for themselves,” Reed says. If

the hottest parts are being retained by the operator, he questions what is left to sell and what profit could be earned by the buyer: “There is not much, and again, in today’s interest rate environment, the cost to carry those parts longer-term, not to mention the distribution floor space taken, must be a real factor. Overall, it must be a win-win for both parties.”

Selling surplus material on a consignment basis can offer benefits such as reduced upfront investment and improved liquidity. However, it also introduces certain challenges that warrant careful management.

“While consignment selling minimizes upfront costs, the seller may still incur carrying charges for storing sur-

Storing consigned inventory in Switzerland is expensive for Horix Aerospace, but the company still sees market advantages to the practice.

plus material until it is sold,” says Aaron Shellie, vice president for trading at Setna iO UK. He says these costs encompass storage space, maintenance, insurance and potential obsolescence. The company must strike a balance between minimizing carrying costs and ensuring material availability.

Shellie also stresses that collaboration with consignment partners is crucial. Clear agreements and terms are necessary, he says, to address issues such as pricing, ownership, liability and responsibility for maintenance and repairs. He cites effective communication and mutual understanding as vital to prevent confusion and disputes.

At Setna iO, the preference leans toward maintaining a minimized consignment business model. “We prioritize upholding comprehensive control over our inventory, encompassing various facets such as strategic locations, pricing structures, efficient shipment turnaround times and more,” Shellie says. “While we do engage in a limited number of consignment arrangements, we are acutely attuned to

the advantages and dynamics inherent in both approaches.”

The overarching objective revolves around sustaining ownership of stock and aligning seamlessly with a steadfast commitment to retaining complete autonomy and oversight. “By cultivating a primarily self-owned inventory strategy, we are empowered to ensure meticulous management, adaptability to market shifts and the ability to swiftly respond to the ever-evolving demands of our industry,” Shellie says.

LOGISTICS CONSIDERATIONS

Several industry experts note that one challenge of selling stock via consignment is the logistical cost associated with moving the stock to the location of the entity carrying it.

If stock is held by the consignor, AJW’s Elliott says it is important to maintain live stock position electronic data interchanges to ensure units are not being quoted if they have just been sold by the consignor themselves. Keeping data and the stock level system up to date is vital to consignment selling, he says.

Another challenging aspect is reporting. “If you are going to give someone a \$5 million bundle of components, you want to know what they are doing with it and how it is performing,” he says. “This puts a reporting and administrative burden on the people who are trading that stock on your behalf.”

There are also several logistic and administrative costs associated with consignment arrangements, but in certain circumstances, Elliott believes they can work. He says AJW has successfully managed significant quantities of consigned material for partners for many years, but the focus is on AJW taking the consignment, not using consignments as a method of trading its components.

Meanwhile, in Switzerland, Horix Aerospace has identified successes in the consignment supply model but also multiple difficulties, such as fixed costs for space, workforce, enterprise resource planning and selling platforms, variable costs for infrastructure and

logistic equipment, quality management on parts, and price fluctuations.

“The cost of storage for us is very high, because Switzerland is one of the most expensive countries in the world,” says Marco Taufer, chief commercial officer at Horix Aerospace. However, this is also a market advantage, he says: “It’s the guarantee of having the consigned parts as if they

“Buyers have capital to spend now and are willing to pay higher prices to secure assets due to strong competition in the surplus market,” he notes.

Magellan has a long-established track record of selling surplus inventory on a consignment basis and will continue to do so for the foreseeable future but with a more selective approach due to the high number of as-



AJW Group is focused on acquiring consignment stock rather than consigning materials to other organizations.

AJW GROUP

were held in a bank and the guarantee of contract law. This is why Horix is recognized as the Swiss trusted solution for aerospace components management.”

Overall, Taufer says it is a profitable business, and the company can plan the right material acquisitions, capture the right dismantling opportunities, standardize and streamline the internal processes, and find the right place to store the parts.

While selling via consignment might have spiked early in the COVID-19 pandemic and the early stages of the recovery, Richard O’Grady, vice president for trading and asset management at Magellan Aviation Group, argues that consignments are less desirable for both buyers and sellers today. He says sellers can achieve higher selling prices compared to low-value offers received during the pandemic that forced sellers to consign their assets.

sets already managed on consignment.

O’Grady sees several benefits of consignment, such as access to new engine and airframe product types, but he is also aware of the difficulties and considerations. “The primary challenge is that the minimum trace requirements from the consignor may be slightly looser than that of the customer,” he says. Magellan seeks to communicate this expectation early in the consignment process so that consignment partners can produce adequate records to surpass the requirements of the market space.

Managing surplus inventory packages also requires maintaining close collaboration and transparency with consignment partners. According to O’Grady, regular communication and reporting are necessary to ensure that both parties align on sales, inventory levels and any adjustments needed to meet shifting demands. ☉