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Face to Face

Billson Details Ontic's Business Strategy[Aviation Week & Space Technology Aug 22, 2011](#), p. 38

Anthony L. Velocci, Jr.

Printed headline: OEM in Disguise

With numerous legacy commercial, civil and military aircraft in operation worldwide, continued support of these platforms is a critical part of the overall aviation marketplace. Ontic, part of [BBA Aviation plc](#), is one of the fastest growing players in that field. Editor-in-Chief Anthony L. Velocci, Jr., recently sat down with Peg Billson, president of BBA Aviation Legacy Support, to talk about Ontic and its direction and business model.

AW&ST: There are a lot of maintenance, repair and overhaul (MRO) providers supporting original equipment manufacturers (OEMs) and end-use customers. Ontic seems to have an unusual business model. What sets it apart from the rest of the field?

BILLSON: There are two things that make us unique. The first is ensuring a reliable supply of parts for the long term for mature legacy platforms—aircraft nearing the end of their production life or out of production altogether. The second is that everything we do is in full cooperation with the OEMs. We do not compete with them in any way.

There certainly are other OEM providers who have pieces of your aftermarket business, aren't there?

Yes, but I haven't been able to identify a competitor who specifically does what we do; we are quite unusual. Our value proposition is in making available OEMs' pedigreed parts for the long term, either through spares or repairs.

What's in it for the OEM—a continuous refresh cycle?

Exactly, so an original equipment manufacturer can concentrate on new product and technology development. As the life-cycle of a product progresses, they encounter resource constraints—either facility space, engineering bandwidth, capital, whatever. Over time, they will rationalize their portfolios. They license or divest their product to Ontic, and we go into the business under their full authorization of supporting those parts.

Given the range of aviation parts in use, how do you keep costly inventory from expanding out of

control?

What you are highlighting is the risk that we could spread ourselves so thin that we couldn't do anything well. We avoid this trap by focusing only on what we are really good at doing. Our product lines cover electronics, engine components and accessories, environmental control systems, heavy structures, flight controls and landing gear systems. Of these, I am putting a strategic emphasis on electronics. Those of us who have been in the industry for a while need to accept that electronics are legacy, and fewer and fewer people really know how to support these products for the long term. The military uses a phrase known as "swaptronics" to refer to how [these items] fundamentally are supported; you keep swapping cards from box to box until you get a good box.

Where does Ontic come in?

We are laying in the capability at repair and overhaul stations to install electronic boxes, test them and return them to service. We also are setting up a center of excellence that will then do diagnostics on cards, repair and certify them, and put them back into stock at MRO stations.

Just how big of a push is this new emphasis on electronics?

It has gone from 3% of my revenue to 30% through one very focused, strategic acquisition.

And tell me again why electronics—the margins?

Because of the need in the marketplace. There is fundamentally a gap in product knowledge. Fundamentally, it is no different from today's motor vehicles. A lot of people know how to tune a carburetor; far fewer people really understand how to maintain, repair and upgrade the plug-in electronics and how they operate. It is the same with aircraft. As time goes on, fewer and fewer people know how to weld a resistor on a board. In addition, you need to be able to test it and prove it is good.

You're touching on a topic in which Aviation Week has taken an active interest, and that is workforce, particularly as it applies to technical and engineering skills. What has been your experience?

I'll go back to the uniqueness of our business model. We spend a lot of energy looking at what are these legacy technologies. We have identified about nine manufacturing technologies that will need to be supported for the long term. Cadmium plating and aluminum dip brazing are just two examples. But the need for those manufacturing capabilities has decreased significantly, so there are fewer suppliers in those businesses. We are developing partnerships to secure access to those special skills, and at some point it might be necessary for us to in-source it.

What are the principal challenges to your business model?

Our reputation for execution. We tend to carve out old product lines, but we have proven to OEMs we have done that repeatedly and painlessly. The business model tends to be either the OEMs completely divest the technology or they license it. Once you have agreed on how you are going to pay for it, the work that has to be done is identical.

Which is . . . ?

We move the intellectual property in paper, people, tools and machinery, and put it in a new location and start it up.

Is there anything else unique about your business model?

Yes, our high-mix/low-mix volume. Whereas an OEM puts something into continuous production, a lot of what we do might be sporadic production. Part of the art of our business is deciding, “Do I do a last-time buy? Do I put up a production run and build two years of product and then put it into stock?”

So the whole concept of understanding the demand and figuring out the right supply to match with it is the essence of your business.

Correct. That’s the art—and pricing it right.

At times it must seem like a black art.

It’s dealing in the details. You can’t do it at a macro level. You have to do it at a micro level—airplane by airplane platform, product by product, customer by customer.

When you purchase an OEM’s inventory, does that include obsolete product?

When we buy that inventory, it comes lock, stock and barrel, including excess and obsolete product they have been carrying. We then will determine whether to keep it for the longer term or dispose of it.

So, back to my question about risks to your business. One risk has got to be making the wrong call on that sort of inventory.

My value proposition is making pedigree parts available and having the rights to them, along with accurately forecasting the demand and ensuring availability. We must be doing something right—Ontic’s business has grown threefold in the last four years.

I would think process is paramount to your success.

It is. We put the business through a major process reengineering in 2010, since we also needed to grow our ability to execute, and so we will continue to refresh.

Besides Ontic’s considerable growth, what has been the biggest change in the business in the last several years?

Probably our ability to not only deliver commercial washers but also do safety-critical, complex, high-dollar-value government contracting. That was part of the reengineering we did—learning and laying in the process to allow us to repeatedly deliver those different product types.

What’s your current business mix?

We’re 50% military, 35% commercial, 15% business aviation, 20% in Europe and 20% in Asia-Pacific.

How much change do you anticipate geographically?

Part of my strategic direction is to continue to shift more of the balance toward non-U.S. activity. And we intend to do that by not only focusing on where U.S. aircraft are flying globally and making sure we are supporting that, but also focusing on European-based platforms.

What impact, if any, is the production ramp-up in commercial aviation likely to have on your business in the near and longer terms?

I have observed the OEMs rationalize their portfolios in the last couple of years. They have made the hard decisions about what they are going to do with their assets, which ones they want to divest, which ones they want to keep. We had a very large list of business opportunities coming out of the Paris air show.

Tied to this portfolio rationalization?

Yes, spread across a large number of OEMs. For being in the industry for such a long time, I was surprised. There has been a fundamental shift on the part of OEMs; they have made the long-term decisions about what they want to do with their product portfolios.

And so these opportunities will take the form of product lines they want to offload?

Correct. So if you're ramping up your [Boeing](#) 787 content, you don't necessarily want to build a new facility. You may want to maintain the same footprint. For us, that opens the door to purchasing or licensing older product lines from first-tier suppliers, since they own the intellectual property to the equipment.

How soon are you likely to see some percentage of those opportunities translate into incremental business?

Over the next 12 months.

How vulnerable is Ontic's business to declining defense spending, not just in the U.S. but in many parts of the world?

About half of my revenue is on military platforms, mostly in the U.S., so I am paying very close attention to budget-related decisions in Washington. There has been a decision that the U.S. is going to reduce by \$4 billion the operations and maintenance budgets. That will first show up most likely in a reduction in flight hours, which will mean a reduction in the need for aftermarket parts.

So that is another risk to Ontic's future prospects.

That is a risk. On the other hand, 50% of the military platforms Ontic is on are helicopters, and we expect all kinds of helicopters are going to continue flying for quite a long time in support of peacekeeping efforts, as well as humanitarian missions.

Across your licensed manufacturing business, how much of the products you ship are brand-new parts for legacy platforms?

About 80%, of which 20% is in support of production lines. That leaves the remaining 20% of our business MRO-related. We are a full OEM, except for product development. We have all of the classic capabilities an OEM needs to build and ship new products—the engineering support, test equipment, quality assurance systems. That will continue to be our core competency.

Any plans to shrink your supplier base?

We are in the process in our California location of reducing our suppliers to 124 from 400 over the next 12-18 months. When I adopt a product from an OEM, I also adopt their processes and their supply chain exactly the way they were carrying it. So there is a continuous need to rationalize those supply chains and focus more on strategic partnerships.

Peg Billson

Age: 49

Education: B.S. degree in aeronautical engineering from Embry-Riddle Aeronautical University and an M.S. in aerospace engineering from California State University.

Career: Joined Douglas Aircraft Co. before moving to [Honeywell](#) in various leadership positions, including vice president and general manager of Airframe Systems, where she gained a detailed understanding of the challenges and opportunities in legacy support. Later, she was chief operating officer of Eclipse Aviation Corp. Billson joined BBA Aviation in 2009.

Did You Know? Billson has had a passion for aviation since she was 14. She is a pilot and owns her own aircraft, an SR22. "I love to look at airplane pictures," she exclaims.



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