

Cut the scrap

How the Enterprise Asset Resale organization recovers value from excess assets

By Doug Cantwell

Brilliant ideas sometimes have commonplace origins. Ironically, it was smoke detectors that “sparked” this one. During modification of six Next-Generation 737-700 airliners into Wedgetail Airborne Early Warning and Control platforms, mechanics on the assembly line noted they’d been removing all-but-new smoke detectors—not required for the AEW&C design—and tossing them in a scrap tub.

This was in keeping with the legacy process. The logic was to cut losses by scrapping excess material to avoid additional storage and tracking costs. But the mechanics’ recent Lean training told them there had to be a better way.

“Today, we don’t trash excess assets—or store them. We stage them for resale,” said Joe Ferreri, who manages a program called Enterprise Asset Resale (EAR). The challenge, Ferreri said, was simply to find an efficient pipeline into the resale marketplace.

The EAR program, set in motion by Integrated Defense Systems in mid-2002 to capitalize on excess inventory, has exceeded expectations. It has added more than \$25 million to program profits as well as saving \$5 million that would have been spent on scrapping, inventorying, storing and insuring unused stuff.

Those smoke detectors, for example, cost \$2,200 apiece if purchased new on the open market. The EAR team, through its strategic partner Volvo Aero Services, found a commercial airline customer that pays Boeing \$1,900 for the excess units, which carry full Federal Aviation Administration airworthiness certification and their original four-year warranty.

Program managers began to back the project when they learned that resale revenues roll directly into their IDS business units rather than flowing into some distant aggregate account. For instance, the Wedgetail AEW&C program has so far recouped \$7 million, or \$1.4 million per aircraft, from resale of components stripped from the brand-new, or “green,” airliners during modification.

“The EAR program is a great example of maximizing value for the company,” said Maureen Dougherty, AEW&C program vice president. “It generates revenue from components that would otherwise go unused, boosts our bottom line and leans out our modification process.”

EAR has acquired several more customers, including the International Tanker Program, Global Transport and Executive Services (C-40 and C-32), the C-130 Avionics Modernization Program, Airborne Laser and, most recently, the Apache helicopter and the P-8A Poseidon. The EAR tracking system helps these customers find and sell spares and tooling as well as resell components stripped from green airplanes.

SETTING EAR IN MOTION

Once a business has identified and inventoried excess assets, it submits the information to the EAR Web site, along with suggested return values and an electronically generated manifest that certifies an asset’s flightworthiness, new or used condition, and applicable warranties. A contract and account also are established to allow electronic transfer of revenues back to the business.

An EAR inventory tracking tool provides global search capability, so Boeing businesses across the enterprise have first crack at acquiring material for their use. If there are no internal takers, the surplus is handed off to partner Volvo Aero Services



PHOTO: Boeing Enterprise Asset Resale Manager Joe Ferreri (left) and Phil Arroyo, Volvo Aero Services sales director, check the certification of a 737-700 tailcone, an excess asset created during modification of a new 737 into a Wedgetail Airborne Early Warning and Control platform. DOUG CANTWELL/BOEING



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for outside sale. Volvo performs a market analysis, finds interested customers and arranges terms, pending approval of the business that has consigned the material.

Once the business has made arrangements through the EAR site, Volvo sends a truck to remove the assets from Boeing facilities. This arrangement allows programs to make better use of storage areas or relinquish them altogether.

“We basically act as a sub-store or outlet for Boeing,” said Phil Arroyo, director of sales at Volvo Aero Services, “so the title doesn’t transfer on inventory until actual time of sale. But we operate on a 24/7 schedule 365 days a year, so we’re sitting on go when a customer has immediate need of a part.”

REGULATORY ISSUES

A major concern in the resale of aircraft components is certification—maintaining it, tracking it and keeping the documentation readily available for inspection. Without certification, these parts are not legal to use.

In designing the Asset Resale Model (ARM), Ferreri incorporated user-friendly technology that tracks each component’s FAA airworthiness certificate as well as its warranty (which is still intact on components of green aircraft coming off Commercial Airplanes assembly lines). The system provides seamless tracking of airworthy assets and secure, digital “signatures” to support compliance with regulatory requirements.

Volvo brings to the table an expertise in regulatory policy, both in the international military arena and in the commercial realm. “The program would not be successful without Phil and his team, especially their knowledge of FAA regulations,” said Ferreri. “There’s nothing that will shut you down faster than regulatory issues.”

PHOTO: Boeing mechanics replace an engine on the company’s 767-200 training aircraft, which was on assignment with the Italian Air Force. Enterprise Asset Resale partner Volvo Aero Services took charge of reconditioning and reselling the swapped-out engine for Boeing. **VICTOR BARUZZINI/BOEING**

STRATEGIC PARTNERING PAYS OFF

The success of EAR is a testament to the power of partnering. Ferreri and Arroyo hammered out a partnering agreement—not just a supplier arrangement—that has made the critical difference.

“The partnership we enjoy with Volvo eases administrative bottlenecks that would otherwise impede resale of excess assets,” said Val Chkautovich, supplier program manager for the International Tanker Program. “Because they have an insider’s access to our processes and policies, they’ve gained a working knowledge that allows them to streamline transactions.”

Another advantage Volvo brings to the EAR team is its global array of long-term customer relationships. In addition to its primary role of matching external customers with excess Boeing assets, the team has worked some procurement feats as well. In January, after a worldwide search, Volvo was able to locate, procure and express-ship an out-of-production Pratt & Whitney replacement engine for Boeing’s 767-200 customer training aircraft, which was on assignment with the Italian Air Force. Volvo then ran an analysis on the malfunctioning engine, determining that Boeing could recoup the most value by repairing rather than parting it out.

Pam Valdez, one of four IDS Product Support business partners and head of the EAR initiative, is pleased that ARM has attracted so many customers within Boeing and continues to gain more. “We’re happy to help other businesses replicate ARM,” she said, “so they, too, can leverage their unused assets and return that value to their programs.”

To learn more about the Asset Resale Model and how it might benefit your organization, contact Joe Ferreri at joseph.j.ferreri@boeing.com. ■

doug.cantwell@boeing.com