

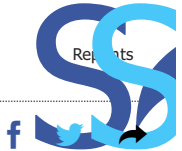
# Menu

The Canadian jet maker is going through growing pains.

Source: Bombardier

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from **Bloomberg Businessweek**

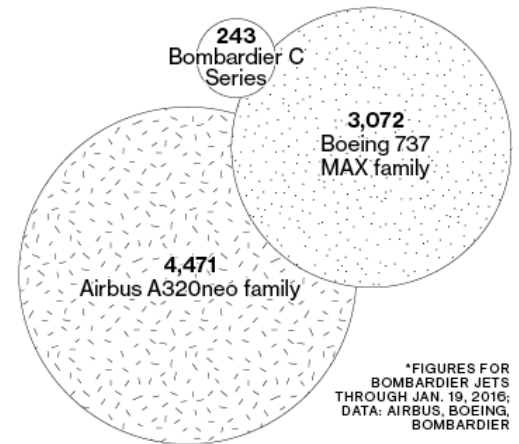


Pierre Beaudoin was just 40 days into his job as head of Bombardier Inc. in 2008 when he signed off on the biggest undertaking in the company's history—a family of transcontinental jets that would compete directly with giants Boeing Co. and Airbus Group SE.

What he lacked in engineering experience, the third-generation scion of Bombardier made up for in certainty. He was so convinced his fuel-efficient, 108- to 160-seat C Series would be a hit that he refused to offer bulk discounts to anchor carriers like American Airlines or United Airlines. It was a premium product that demanded a premium price.

## Low Flyer

Orders of fuel-efficient medium-range commercial jets through 12/31/15\*



"Yes, it costs more money but we have an exceptional aircraft," Beaudoin said on a [conference call](#) last year after he stepped down as chief executive officer amid ongoing troubles with the program.

Nearly a decade in, the C Series program has yet to gain traction and the company is in tatters. Bombardier is a penny stock, it's burning cash and has gone cap in hand to the Canadian government for as much as \$1 billion in aid to stay afloat. At stake is the survival of a 73-year-old plane and train maker that employs 24,000 people in Canada and contributes C\$6.5 billion (\$4.7 billion) to the Quebec economy alone.

How the grand strategy of one of Canada's most storied manufacturers lost so much altitude is a tale of misreading the determination of its competitors, falling in love with its own product and failing to grasp the way sales momentum is built in introducing a new plane. Bad timing hurt, too.

A series of interviews with former Bombardier executives reveals that the planemaker found itself completely unprepared for how swiftly its larger rivals Airbus and Boeing would be able to launch their own re-engined narrow-body aircraft and how aggressively they would use those planes to defend their turf.

With an initial budget of \$3.3 billion, the C Series was Montreal-based Bombardier's biggest bet since it got into the plane business with the 1986

purchase of Canadair from the federal government. The state-of-the-art C Series, with composite parts, promised to burn 20 percent less fuel than competing models and cut cash operating costs by 15 percent.

The new jet also put the Canadian company, founded by Beaudoin's grandfather as a snowmobile maker in 1942, in direct competition with Airbus and Boeing for the first time. Until the C Series came along, Bombardier's commercial aircraft primarily competed in the regional jet space with Brazil's Embraer SA.

From the outset, the Bombardier sales team became aware they weren't being given the same tools as their larger rivals, according to a group of former executives.

It was crucial in the aircraft's infancy to get some big-name airlines and low-cost carriers on its order book to show momentum, said Gary Scott, the former Boeing and Bombardier executive who oversaw the launch of the C Series until he left in 2011. He likens it to taking "rifle shots" at the big airline targets.

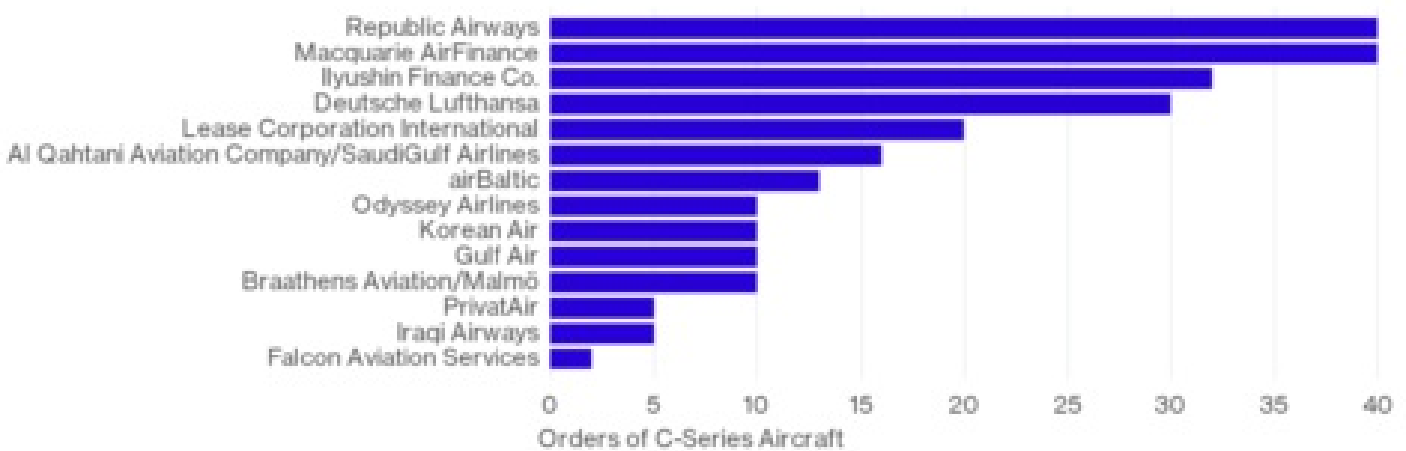
Yet when the sales team would come back and say Bombardier needed to be more competitive on price and service, upper management, including Beaudoin, would insist the C Series was worth the premium. One executive said the price gap was often just \$2 million to \$4 million on a plane that lists for as much as \$82 million.

Beaudoin, 53, now the executive chairman of Bombardier, declined to comment through spokeswoman Isabelle Rondeau.

"Those key customers you needed to land to really solidify the program—I don't know that it was a high enough priority," Scott said in an interview. "When we looked at what it was going to take to make a few more rifle shots, the company wasn't willing at that point, and apparently since."

## C Series Clients: Not All Household Names

Bombardier's C Series aircraft see orders from a diverse clientele



Source: Bombardier

Note: Orders as of Sept. 30th/2015

Bloomberg

Bombardier also lacked experience in selling this kind of jet. Beaudoin had run the recreational products side of the business before moving on to run the business jet and aerospace divisions. Guy Hachey, the former head of the aerospace division, and Mike Arcamone, who headed the commercial aerospace division, had automotive backgrounds. While they both had excellent pedigrees in lean manufacturing practices, they had little experience with aircraft sales. They were both unavailable for comment.

Bombardier underestimated the volume game Boeing and Airbus would play, charging less for their aircraft because they knew selling 200 planes at half the margin Bombardier wanted for 100 planes produced the same amount of profit, the people said. The discounts created a full order book and assembly line.

"Bombardier had never launched an all-new major commercial aircraft," Scott said. "They just didn't have the experience."

Another mistake was creating a global order book—something that the success of large airlines from established aviation companies. In a January 2012

Another misstep was creating a global order book—sometimes at the expense of large orders from established mainline carriers. In a January 2012 interview, Chet Fuller, then Bombardier's chief commercial salesman, vowed to secure 40 different customers on all continents.

"That initial strategy of building a geographically dispersed customer base excluded them going after a massive customer with a large order that would have given them the credibility they needed," Ernie Arvai, partner of the AirInsight consulting firm based in Windham, New Hampshire, said in an interview. "To me, that was their big failure."

Bombardier fell victim to its own ambitions when it launched two business aircraft programs—the Learjet 85 and the Global 7000/8000—alongside the C Series, stretching resources. One executive said when the new Global family was announced, he knew that the C Series was doomed because the company couldn't handle the programs at once.

Timing was not in Bombardier's favor either. The C Series was launched at the start of the financial crisis, and just as the planes are ready to be delivered this year, oil prices are tumbling, negating some of the fuel-efficient benefits.

Bombardier has won 243 firm orders for the new jet—none in the last 16 months—as most of the big global carriers have taken a pass so far. As of late January, Bombardier's order book included 14 airline and leasing customers—only two of which, Germany's Deutsche Lufthansa AG and Korean Air Lines, rank among the world's biggest.

The orders are 57 short of a goal to have 300 firm commitments by the time the C Series enters service for Swiss International Air Lines in the first half of this year. By contrast, Airbus had 4,471 orders at the end of December for its re-engineered A320neo family, which competes with the C Series and was launched two years later.

The C Series program is more than two years late and about \$2 billion over budget. Development costs have led to five years of net cash burn, and shares are trading below C\$1 for the first time in 25 years. The stock plunge has erased about C\$33 billion in market value since 2000, lowering it to about C\$2 billion.

Bombardier can expect a receptive ear from the federal government. The company employs 17,750 people in Quebec, which has already pledged \$1 billion. Bombardier represents the kind of value-added manufacturing the new government of Prime Minister Justin Trudeau wants to promote as the country tries to diversify its resource-based economy.

"Bombardier is viewed like a big American bank: For Quebec, it's too big to fail," Arvai said.

The fresh cash injection would buy some time while several carriers, including Delta and United, consider orders.

Bombardier's new CEO Alain Bellemare has shown more willingness to be flexible. Fred Cromer, Bombardier's president of commercial aircraft, signaled in December the company would become more aggressive on price to win big orders.

"At the right price, it is quite a competitive airplane," Delta CEO Richard Anderson said on a Jan. 19 conference call. "We are taking a very serious look at it."

—With Erik Hertzberg

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