

Boeing turns page on troubled 2020 but strategy ill defined

By [Jon Hemmerdinger](#) 8 February 2021

Some analysts view Boeing's fourth quarter 2020 results as a case of a company clearing the decks – dumping a barrel of bad news at the end of a terrible year so as to focus on rebuilding in 2021.

Such might be the case. But a question remains: How does Boeing intend to overcome its multiple pressures?

Those who follow the Chicago airframer have for years waited eagerly for Boeing to firmly reveal where its strategic future lies.

And while chief executive David Calhoun made some mention of a new aircraft programme during the company's 27 January earnings call, details were spotty.

“Give us something positive, Calhoun, please,” says Michel Merluzeau, aerospace analyst with consultancy AIR. “It's been frustrating to see this absence of decisiveness.”



Source: Boeing

First flight of Boeing's 777-9. The company delayed first 777-9 delivery one year until 2023.

When might Boeing launch a new aircraft programme? Analysts are eager to know. But, they note, the company's recovery depends on more than the next aircraft. It depends also on the airline industry's recovery and how quickly Boeing can offload an inventory that includes hundreds of completed but undelivered jets.

Meanwhile, production cuts have created supply chain risks, and Airbus, with its A321neo, continues outpacing Boeing in the critical "mid-market" segment.

"This was a messy quarter for [Boeing], as the company appears to have decided to get all the bad news out in 2020," says a 27 January Credit Suisse report.

Investors "might say it was the kitchen-sink quarter the stock needed, helping to set up a cleaner story of more-consistent improvement from here," Credit Suisse adds.

Boeing lost a staggering \$11.9 billion in 2020, due partly to \$8.3 billion in charges, including a \$6.5 billion hit against the 777X and hefty charges against the 737 Max, KC-46A tanker and Boeing Global Services.

Boeing threw several other letdowns into its fourth-quarter results. It delayed the first 777-9 delivery by one year to "late 2023" and said it was tweaking aspects of the jet's design due to certification issues.

Boeing also postponed the first 737 Max 10 delivery two years to 2023 and disclosed it will continue pausing 787 deliveries until at least February, due to inspections.

ELUSIVE 'MID MARKET'

During Boeing's earnings call, Calhoun strongly implied the company will pull the trigger on development of a new mid-market jet – an aircraft broadly suspected of carrying some 250 passengers and having up to 5,000nm (9,300km) range.

The mid-market segment is "where our development efforts lie", Calhoun said. "We are not going to call out the point design at the moment... We are really progressing well."

Boeing's next jet will benefit from advanced manufacturing technologies and be powered by traditional turbofans, Calhoun suggested. Next-generation propulsion systems, such as hydrogen-powered engines, are not sufficiently matured, he added.

Merluzeau interprets Calhoun's comments as more of the same: lack of commitment, indecisiveness and aversion to risk.

“I’ve heard this thing for the past seven years,” Merluzeau says. “Just bloody do it. You take the initiative and you drive the market.”

For years, Boeing had hinted about a new jet known as the New Mid-market Airplane (NMA), which would have filled the segment once controlled by 757s and 767s, now led by A321neos.

Boeing shelved the NMA early last year.

“I’ve seen this great company pause to over-analyse what should be straightforward,” Merluzeau says. “If you are a market leader, you invest in R&D and you maintain your lead. You don’t just sit comfortably on your laurels.”

As Boeing waits, Airbus continues grabbing market share with its A321neo. Thanks partly to that jet, Airbus could hold 60% or more of jetliner share by 2030, according to Teal Group analyst Richard Aboulafia.



Source: Vistara

An Airbus A321neo operated by Indian airline Vistara
Boeing’s 737 Max 8 is widely viewed as ultra-competitive against the baseline A320neo, but no Max variants can match the A321neo’s range and capacity.

Credit Suisse analyst Robert Spingarn thinks Boeing’s delay in launching a new aircraft reflects an acknowledgement that Boeing cannot, at least in the near future, counter the A321neo.

“In a way, this is a lost decade. They know it, which is why [Calhoun] is not as anxious to” rush the next programme, Spingarn says.

Waiting a few years could let Boeing bring a new jet to market as the A321neo starts showing its age, he adds.

Spingarn envisions Boeing launching its next programme in 2022 or 2023, with service entry in 2030 or 2031.

Boeing's ability to rise from its current circumstances depends also on how quickly it can hand new jets to customers.

Delivering only the aircraft coming off Boeing's assembly lines might be hard enough amid a pandemic. But Boeing faces the added challenge of getting off its hands hundreds of stockpiled jets.

Through much of 2019 and into 2020, Boeing continued building 737 Max despite being unable to deliver them due to the grounding, which ended after 18 months in November 2020. Boeing has since resumed deliveries but still holds some 390 of the narrowbodies, according to Cirium fleets data.



Source: Shutterstock

Boeing 737 Max jets on the ground in Renton, Washington.

Also, in 2020 Boeing slowed and then halted 787 deliveries to accommodate inspections related to a “skin flatness issue” at “fuselage join” areas, Boeing has said.

The company had about 80 undelivered 787s in late January, it said.

“Boeing’s path to reducing cash burn and then to cash generation rests on unwinding 737 and 787 inventory over 2021-22,” says JPMorgan in a 1 February report. “Both platforms matter and 787 should be a particularly important contributor in 2021, based on ambitious delivery plans.”

“The problem, of course, is that long-range international travel has barely budged off the bottom and should take longest to recover,” JPMorgan adds.

Boeing expects to deliver the majority of the stockpiled 787s this year and the majority of the 737 Max by the end of 2022, it has said.

Meanwhile, it is cutting some widebody production rates, bringing the 787 to five jets monthly (from a high of 14) and the 777 to two monthly (from five). Boeing plans to gradually increase 737 Max production to 31 jets monthly in 2022.

SUPPLY CHAIN CONCERN

Market conditions could create trouble for Boeing’s supply chain, particularly for smaller suppliers – the “tier three and tier four” companies that feed components up the chain, says Alex Krutz, aerospace manufacturing consultant with Patriot Industrial Partners.

“Cash and liquidity... is going to be the biggest challenge in 2021,” Krutz says of the supply chain.

Suppliers likely took on more debt during the pandemic – debt that will need repayment. And while slowing aircraft production rates have enabled some suppliers to meet demand with existing inventory, at some point they will need to order raw materials and ramp up their businesses. That too, will require cash, Krutz says.

Such stresses could force companies to shutter facilities, close shop altogether or merge, forcing Boeing to scramble, he adds.

For that reason, Krutz stresses that Boeing must closely monitor its supply chain, using tools like supply chain health monitoring systems.

“It’s Boeing’s problem when their suppliers fail... It could very well happen,” Krutz says.
“The supply chain is [where] the majority of the aircraft [is] built.”