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The Rehabilitation Of Boeing.

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Blain's Morning Porridge March 27th 2024: The Rehabilitation of Boeing.

"The 737 Max will be remembered as the airplane that trashed Boeing's global reputation."

Boeing desperately needs to get it right. Over the next 20 years, global demand will be around 35,000 new aircraft.

Supply is currently a duopoly of Boeing and Airbus. To avoid it



becoming an Airbus monopoly (bad for everyone), Boeing's new management need to completely reset the firm and focus back on fundamentals – which are people rather than numbers driven.

This might surprise regular readers: I am demoting Boeing from top of my list of the **World's Worst Companies**.

Instead... I am putting it top of the **Most Challenging Company** list as it faces a long and difficult path to rehabilitation. This week's defenestration (I know the CEO wasn't thrown out a window, but it's such a marvellous word) of top management, perhaps, opens an opportunity to put Boeing back on an even keel. "**Perhaps**" is the critical word.

Yesterday I was chatting to my chum Addison Schonland, Partner at AirInsight, and producer of some of the best data and information on Aircraft dynamics. Our discussion turned to Boeing's management shakeup, which he reckons is the most significant in their history. I agree, but it's even more important than that – it's a wake-up to corporates around the globe about mission and purpose.

Even if Boeing becomes a paragon of corporate virtue and stakeholder capitalism in the future, I will still give impassioned lectures to whomever will listen; students, bankers, investors or aviation executives, on the multiple reasons for Boeing's failure. Why did its culture turn so toxic? It will stand there as warning of what goes wrong when the allure of markets overwhelms common sense. Boeing's metamorphosis from the best aircraft maker on the planet to a firm consumed by greed, fixated on numbers, its market price and financial optimisation illustrates something truly scary at the heart of 21st Century Capitalism.



Current deliveries of new aircraft are massively below the level required to maintain fleets and extend aviation. However, there is not much chance the Airbus/Boeing duopoly will be overturned soon by new competitors – it will take decades to build the infrastructure and human capital (in terms of skills) for new entrants, including China's Comac, to realistically compete for orders. Therefore, there is everything still to play for in terms of Boeing getting over its current troubles and coming back better. (That said – I reckon there is a long-term opportunity coming: new energy/carbon/climate efficient travel on a 22nd Century model could emerge. Time for me to launch *Supermarine Hawker* as the UK's new high-tech aviation focus?)

To understand the potential opportunity at Boeing this week's management changes represent, you need to understand how and why what was once the only plane-maker that mattered got itself into in such an awful mess. You can read all about the mistakes, deaths and attempted coverups of the B-737 Max "satisficing" design, the multiple failures of industrial relations and bad HR that led to doors falling off planes, the mis-alignment of management and customers, toxic culture and bad corporate governance in many places; search the Morning Porridge Q function, or watch the Netflix film.

They all highlight one thing – at some point Boeing turned evil. It was managed in pursuit of financial returns to the management. Stakeholders counted for nought.

I last wrote about Boeing just a few weeks ago in the wake of the US Federal Aviation Authority's audit of the firm's production lines: Boeing – [Frying Pan into the Fire](#). It left the company little alternative but to make radical changes. Sometimes big corporate reorganisations are little more than cosmetic window dressing – occasionally they are desperate throws of the dice in ^

order to save a failing company. This week's C-Suite massacre at Boeing falls in between – but is certainly a shift in the right direction.

CEO Dave Calhoun is out the door – officially at year end, but more likely when his successor is picked. Board Chairman Larry Keller is “retiring”. Commercial head Stan Deal is “retiring”. The current COO, Stephanie Pope becomes head of commercial (the critical crisis role), while former engineer Steve Mollenkopf becomes the new chair and will lead the search for a new CEO.

The simple truth is bad corporate governance at Boeing allowed management to prioritise themselves by focusing almost exclusively on markets and the financialization of their products, rather than ensuring they were building the best aircraft. The management came to believe announcing buybacks to push up the short-term prices (and the value of their bonus packages) was more important than long-term investment plans. But the rot at the core of Boeing goes even deeper.

It's a story about how to treat people rather than numbers. Around the globe the critical people in aviation are not the cost accountants that run the companies (OEMs and Airlines), but the aviation engineers and designers, the pilots, the crews, the ground staff and the airline booking teams. For decades now they have been treated as costs and undervalued. The result is flying is no longer fun for any of us. The experience has become a struggle rather than a pleasure.

Today a series of delivery problems dogs the aviation markets. Airlines are going crazy because promised delivery schedules of new aircraft are being repeatedly delayed. New fuel-efficient engines on newer aircraft are requiring more regular time-



consuming servicing. Older aircraft are being retained longer and are in demand to make up the capacity new aircraft were expected to fill. Across the entire aviation ecosystem there are problems from finding slots at airports, from service centres booked out and creaking systems.

Yet, the fundamental problem in Aviation is not aircraft, the cost or availability. It is people. There simply aren't enough skilled engineers and motivated crews to cover all the necessary functions in aviation – which at its most basic means they aren't properly valued: not paid enough.

As Addison told me yesterday – you can't manage aviation engineers by KPIs (Key Performance Indicators), yet that's what Boeing did. When Covid struck Boeing laid off its older engineers and even dispensed with line safety inspectors. Today, these older employees are back on the factory floor, firefighting the problems as very much more expensive and less loyal contractors.

The priority for Boeing now is to go back to its fundamentals – the factory floor. It needs to focus on motivation and the company ethos by embracing the 156,000 Boeing workers building the aircraft. That is Stephanie Cole's new role as COO, at the “*coal face*” of the plane builder. She needs to convince them they are valued. Without being sexist – its probably a great time to have an empathic woman in charge. To rebuild the reputation of the firm she needs to make workers proud to be building the product and ensure there are no more hammers left rattling in the winds, a ladder famously left inside the tail-fin, or unused doors left unbolted.

That leaves the question of who should be CEO. Apparently the head-hunters are being bombarded with CVs of executives who



want the role. They should rip up any application from anyone who says they want the job – this is not a role for a glory hunter wanting to put “*turned around Boeing*” on their resume. Putting a hired gun into an already toxic C-suite would be a disaster.

Pat Shanahan, from Spirt, is being touted as possible CEO, but he's Irish apparently with a temper to match. He also came up through the Boeing school of management – which could be exactly the wrong signal to be sending the fraxious workforce. GE's Larry Culp is also said to be a shoe-in for the job, but the Jack Welsh school of management is exactly why Boeing is in such a mess today. A key factor to watch when determining if Boeing can be saved will be the choice of CEO. It's a role that requires strategic vision and to refocus the company back to basics – think of it as a barbell, with financialization the bit to sell.

Boeing's problems are made worse because it isn't even building the right aircraft. (This porridge is too space limited to discuss the intricacies of which aircraft for which routes; its complex.) One off the largest American airlines is already deprioritising the B-737 MAX 9 because it takes too long to turn around at the gate. (If can land its MAX 8s, unpack, take on new passengers, and take off in 40 mins.) The competing Airbus A321Neo is simply a better choice for airlines in terms of turnaround times, fuel efficiency and the number of routes its suitable for.

Once it can start building planes well, Boeing then has to be building the right planes – which will be a programme of embracing its customers to: a) Persuade them Boeing it is well managed and back on track. b) Back in competition with Airbus to deliver models that meet customer needs at costs they are willing to pay (not just the sticker price, but fuel efficiency and sizing.) And, c) Raise the capital it will require to deliver new



models. (It needs a replacement for the B-737 and a new mid-size plane – total cost around \$100 bln... not likely in its current state.

There is plenty to think about with Boeing. It needs to be watched very carefully in coming months...

Out of time, and back to the day job...

Bill Blain

Strategist, Author of the Morning Porridge

Wind Shift Capital

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