

Cathy pacific supply chain management issues



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Ans: The year 2007 saw a downturn in the global economy where aviation industry was severely hit by fall in air traffic. While airlines were struggling with declining profits, the complicity of the operations in the aviation continued to bother airlines throughout the world with Cathay pacific being no exception. The crisis challenged the efficient business model of Cathay pacific which was ranked as the best airline of year in 2006. Robert Taylor was dealing with inventory operations and following are the issues that have to be taken into account:

Inventory holding cost: Minimizing the holding cost was one of the most critical issues faced by the Cathay Pacific. Because of the convoluted nature of spare parts, it was not feasible to meet the demands of all the aircrafts. Given the fact that Cathay pacific has over 120 wide body jets comprising of airbus and Boeing planes, it was very difficult to fulfill the requirements of all the aircraft at the right time. As a result the airlines could lose its significant business and in order to avoid those situations, Robert can work on the timely routine checks of the aircrafts. This will enable the firm to come up with a more detailed data on requirement of the spare parts (repairable, rotatable etc.)

Buffer stock & Just in time: Initially the airlines incorporated the buffer stock management to meet the demand in the optimal time. But they still encountered several situations where a certain part was not available. It accounted for additional cost for Cathay pacific to set the buffer stock and also the spare parts in the distribution center was occupying a lot of space. Later the firm also tried to implement the Japanese model called just in time which works well in sectors like retail and manufacturing. But the airline

industry is all together a different scenario where an airline can't afford to wait for the spare part during the last minute check when the flight is scheduled to depart. This will eventually cause the further delay of flight and degrade the passengers experience of flying with an airline.

Reduce lead time: The rationalization of supply chain in the airline industry allowed the OEMs to monopolize the entire market. Irrespective of the demands, it is very difficult for the airlines to reduce their supplier lead time. Any reduction in lead time like suppliers or the transportation can help an airline to fix the problem in the stipulated time frame. Decreasing lead time of different supply chain components can increase supply reliability and help the firm to work in an efficient manner.

On the other hand there are certain issues that have to be taken into account for the procurement (Paul Barwell):

Switching costs: The spare parts can be classified in two criteria i. e. critical and non-critical parts. The complicity of the critical parts restricted Cathay pacific to switch suppliers because of the costs associated with switching. Also relying on the new supplier for the complicated parts was very difficult for Cathay pacific. On the other hand it had over 200 suppliers for the non-critical parts which required much of resources (time and money) to maintain the relationship.

Forecasting: Although Cathay pacific collaborated with other airlines to enhance exchange of information with respect to suppliers list and parts availability, it wasn't able to reduce its obsolete inventory by 100%. With the implementation of one platform that will help the airline to develop a supply

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management cycle to optimize supplier selection and collaboration improvement, the forecasting can be much accurate to meet the demands in time. At the same time, the platform should be able to generate real time data with its collaborators and suppliers through online communication.

What is Cathay Pacific purchasing power in aviation spare parts procurement? What are the possible alternatives for improvements in the procurement process?

Ans: Being ranked as the best airline in 2006, Cathay pacific was able to gain certain purchasing power in aviation spare parts procurement which is:

Strategic sourcing: Cross functional teams at Cathay pacific helped in gaining leverage on purchasing by applying a systematic process of reducing the cost of spare parts purchased from different vendors. This process is evident from exhibit 5 where it simplified the complicated process of sourcing and procurement. This process gave an edge to Cathay pacific in monitoring, evaluating and managing relationships with suppliers to ensure operational effectiveness. With its implementation, the airline was able to leverage purchasing power across different divisions and negotiate favorable prices with the suppliers. Strategic sourcing also focused to consolidate the suppliers database and chose the preferred ones.

Aerexchange system: Development of a collaborated supply chain system to expand the sharing and exchange of information (Spare parts availability and suppliers list) with different airlines gave an advantage to Cathay Pacific to select a supplier from the huge database. After its launch in 2000, technological advancement in Aerexchange made this system capable of doing numerous tasks which helped the airlines to be more effective in their

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procurement. E. g.: In 2001, Aeroxchange launched its e-procurement platform to integrate the partners for quote management and also it incorporated the service order management in 2005.

Although Cathay pacific invested a lot of time and money to improve their procurement, there are still many rooms for the advancement in their processes. The history of Cathay pacific (obtained from case study) says that they have always tried to lock the deals with the airlines and individual suppliers to enhance their procurement process. On the other hand, one point that should have been taken into account was establishing strategic alliances with the manufacturers (Boeing and Airbus) for the procurement activities. An alliance where manufacturers should focus on the materials management and help Cathay pacific to focus on core business activities. The integrated alliance with Boeing and airbus services will help to achieve greater transparency and efficiency in the resource operations. These services are acquired by most of the big players in the market like Delta airlines and Singapore airlines where they succeeded in generating good revenues by focusing on their core activities. The other alternative for improvement is to reward the suppliers to suggest the cost saving ideas. This will help the airline to develop a sense of competition among suppliers for developing a sustainable and cost effective model for procurement which will eventually result in increasing the productivity of the fleet.

What are the advantages & disadvantages for Cathay Pacific to use third party logistics (3PL) partners for their repair management and logistics management? What are the criteria for Cathay Pacific to choose her 3PL partners for repair management & logistics management?

Ans: Advantages:

Economy of scale and economy of scope: The major outcome for firms to switch to 3PL is the value they will generate from economy of scale which means Cathay pacific will have the advantage of large truck fleets and warehouses. At the same time, it can enjoy the benefit of economy of scope by reducing costs and boosting the net value of airline. The benefits of these economies are attained depending on the type of 3PL partner (e. g. – IT based or component based). Secondly these benefits can help the logistics to work effectively and efficiently which will also enhance the repair management by providing access to right spare part at the right time.

Capital investment: Outsourcing logistics and repair activities can help Cathay pacific to save cost and hence reduce financial risks. Assets required in establishing distribution centers and networks normally need a huge sum of money that encompasses financial risks and hence by outsourcing, these risks can be spread to 3PL partners. Once the hedging of risk in complicated processes is done, airlines can focus more on their core activities.

Cost effectiveness: To perform the activities of repair and logistics managers, Cathay pacific pays millions of dollars to labors. However outsourcing these activities will result in saving the capital which can be spent on further expansion of the airline.

Disadvantages:

Loss of control: Outsourcing 3PL partners will lead to loss of hold and control over their logistics and repair activities. The transparency in these networks would diminish to great extent and may lead to underperformance.

Discontinuity of services: There could be some sort of reasons on the 3PL partner side which could lead in discontinuity in their services. At the end of the day, the contract and law forces the 3PL to pay the compensation of loss but that wouldn't help an airline to continue the service efficiently during the specific time.

Difference of opinion: The opinion differences between client and 3PL partners can hinder the service of an airline whose fortune is derived from the time where every minute delay incurs a cost. On the other hand, it will certainly be a roadblock for the further expansion of the airline.

Criteria for choosing 3PL partner:

Formation of a team: While choosing a 3PL for logistic and repair management, cross functional team should be made from different divisions of an airline such as inventory management, control, quality testing etc.

Forming a cross functional team will help Cathay pacific to choose the 3PL provider that meets their requirements.

Objective setting: The objective setting will depend on the requirement of an airline such as cost cutting and focusing on core competencies. Once the firm has set its objectives, it is easy to select a 3PL provider that will best suit the needs

Service availability: Based on the needs and objectives of an airline, the next and most important step is to shortlist the 3PL providers who provide those services. Given the fact that logistic and repair management are the core activities that defines the performance of an airlines carrier, the cross functional team should consider all minor and major aspects to close the deal.