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European aerospace components market

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Interviewee
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Market segmentation and tier structure

Answer:
The aerospace components market is most naturally structured through the classical tier system. At the top sit the major OEMs, followed by Tier 1 suppliers responsible for major subsystems such as engines, aerostructures, avionics and interiors. Below them sit Tier 2 and Tier 3 suppliers providing increasingly specialised components, manufacturing processes and built-to-print parts.

A vertical segmentation by product category can still be useful, but it overlaps with the tier structure. For example, C-class parts can sit beneath several different subsystem categories rather than forming a fully distinct value chain of their own.

As a result, product-based segments and supplier tiers should be viewed as complementary lenses: product categories describe what is supplied, while tiers describe where a company sits in the aerospace supply chain.

Customer relationships and bargaining power

Answer:
Bargaining power is strongest among Tier 1 suppliers in concentrated subsystem categories. Engine suppliers are a clear example, with only a small number of major players such as Rolls-Royce, Safran and Pratt & Whitney. Once an OEM has selected a major subsystem for an aircraft platform, changing supplier can require a substantial redesign and requalification effort.

This creates significant stickiness and supports long-term supplier relationships at the upper tiers. Tier 1 suppliers can therefore retain meaningful bargaining power despite the concentration of aircraft OEMs, particularly when they are selected early in a programme and supply highly integrated systems.

Bargaining power declines further down the value chain, especially for more commoditised built-to-print work. Lower-tier suppliers can strengthen their position through specialist manufacturing capabilities, certifications, quality, reputation and speed of delivery. Where only a small number of suppliers can meet a specific technical requirement, switching becomes materially more difficult.

Aftermarket economics

Answer:
Aftermarket exposure is increasingly attractive, particularly for major subsystems such as engines and auxiliary power units (APUs). The used-parts market is currently very strong, supported by scarcity of certain components and constraints in the engine supply chain.

Engine economics are particularly aftermarket-driven. New engines are typically sold at relatively low margins, while a large share of profitability is generated through servicing, maintenance and replacement parts over the engine lifecycle. Revenue may still be weighted towards new-engine sales, but the servicing stream contributes disproportionately to margin.

Shortages have also increased the value of used serviceable material. Some aircraft are being dismantled so that parts can be resold, while Tier 1 suppliers are moving further into refurbishment to capture more of this value pool. Honeywell, for example, operates programmes that take back used parts for refurbishment. This dynamic is much less relevant for aerostructures than for engines and other major subsystems.

Market fragmentation and M&A dynamics

Answer:
The aerospace supply chain has a pronounced pyramid structure. Aircraft OEMs are highly consolidated and the number of major Tier 1 suppliers remains relatively limited, while the supplier base expands rapidly into thousands or tens of thousands of companies across the lower tiers.

Northern Ireland provides a useful illustration: a single major Tier 1 operation can be supported by roughly 150 smaller local suppliers. Similar supplier ecosystems exist around aerospace clusters elsewhere, creating a broad base of smaller Tier 2 and Tier 3 businesses beneath a small number of large customers.

This fragmentation creates a clear theoretical opportunity for consolidation. Some acquisitions of smaller suppliers by international companies have taken place, but broad-based M&A consolidation of the lower tiers has not yet materialised to the extent the market structure might suggest. The expert therefore sees meaningful future M&A potential, particularly among smaller suppliers.

Input costs and contractual pass-through

Answer:
Raw-material, labour and energy inflation remain important risks, particularly for lower-tier suppliers with greater direct exposure to manufacturing inputs. The inflationary environment of recent years has encouraged suppliers to improve contractual protections and introduce more sophisticated price-ratcheting or indexation mechanisms.

The ability to pass through cost increases ultimately depends on contract design and negotiating position. Lower-tier suppliers can remain materially exposed when contracts do not adequately reflect changes in input costs, while larger and more sophisticated suppliers generally have stronger contracting frameworks to mitigate this risk.

C-class parts

Answer:
C-class parts should not necessarily be treated as a standalone supplier segment. Companies supplying these components often also manufacture other aerospace products, and the same supplier can participate across several component classes and tiers.

Typical C-class items include high-volume, relatively low-value components such as nuts, bolts, springs, washers and O-rings. Although the components can appear standardised, aerospace-grade products are subject to stringent quality requirements and testing. Depending on the application, they can still be technically complex or operationally important.

The competitive position of a C-class supplier therefore depends less on the label itself and more on manufacturing capability, aerospace qualifications, product quality and the ability to supply reliably at scale. Large industrial suppliers can combine higher-tier products with aerospace-grade C-class components rather than operating exclusively in this category.

Market drivers

Answer:
The long-term outlook for aerospace components is supported by steady growth in commercial aviation. Aircraft deliveries are expected to expand at a low-single-digit rate over the long term, providing a structural demand tailwind across the component supply chain.

In the near term, the market is also supported by a substantial backlog of aircraft deliveries. Supply-chain disruption during and after COVID constrained deliveries relative to demand, leaving aircraft owners facing limited availability while OEMs continue to ramp production.

The aftermarket is additionally supported by an ageing installed fleet and shortages in selected major subsystems, particularly engines. Higher defence expenditure amid geopolitical tensions represents a further potential demand driver, although the expert's direct market exposure is stronger in commercial aerospace than in defence.

Market headwinds and supply-chain constraints

Answer:
The main near-term constraint is the industry's ability to ramp supply quickly enough to meet demand. This issue is most visible at the OEM and major-subsystem level rather than among the smallest suppliers, with engine availability currently acting as an important bottleneck for aircraft production.

Labour, material and energy costs remain significant headwinds for manufacturing businesses, especially in the lower tiers. These pressures can reduce margins where contractual pass-through mechanisms are insufficient.

Supply-chain quality is another critical risk. Recent issues affecting Pratt & Whitney geared turbofan engines illustrate how a defect or quality problem within an upstream material supply chain can create widespread operational and aftermarket consequences. Aerospace suppliers therefore face demanding quality-control requirements throughout the value chain.

Chinese competition

Answer:
The emergence of COMAC and the C919 creates an additional long-term competitive consideration for Airbus and Boeing. In its current form, however, the aircraft still relies heavily on European and American subsystems and components, limiting the immediate threat to Western aerospace component suppliers.

Major systems such as engines and avionics continue to draw substantially on established Western supply chains, while Chinese content is more visible in selected airframe and aerostructure areas. The more important long-term risk is that Chinese manufacturers progressively localise these major subsystems as domestic aerospace capabilities mature.

ESG and decarbonisation

Answer:
Decarbonisation is particularly challenging for aviation because aircraft have fewer practical alternatives to conventional liquid fuels than many other transport modes. Sustainable aviation fuel (SAF) is developing and is increasingly supported by regulation, but current supply remains far below what would be required for broad sector-wide decarbonisation.

At the aerospace component level, decarbonisation requirements remain secondary to supplier availability, quality and delivery performance. OEMs and Tier 1 suppliers generally place greater emphasis on measuring and reporting supplier emissions than on imposing aggressive mandatory reduction targets.

Some suppliers are pursuing voluntary decarbonisation initiatives where practical, but the expert does not currently see a major industry-wide push that materially changes supplier selection across the broader components value chain.

Segment growth and manufacturing technologies

Answer:
It is difficult to identify one major aircraft subsystem that should structurally outgrow the others, because demand across engines, aerostructures, avionics and interiors is ultimately tied to the same underlying driver: the number of aircraft delivered.

More differentiated growth is likely to emerge at the technology level, particularly in composites and more fuel-efficient engine architectures such as geared turbofans. Aftermarket replacement rates are generally well defined, so unusual replacement demand is more likely to arise from unexpected failures or shortages than from structurally faster component deterioration.