

# **Services Spend: AA's Value Powerhouse**

**John MacLean**  
**VP Purchasing, American Airlines**  
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# Services Spend at AA

- Airport and aircraft handling
- Aircraft component repair
- Catering services
- Fueling services
- Outsourcing of certain services



# Tackling Services Spend

- Develop a strategy for every area
- Utilize market analysis and best practices to lower costs in an area that represents a large portion of AA's total spend
- Consolidate like spend for airport, aircraft, passenger and baggage services across the system
- Lower costs to repair aircraft components rather than buying new
- Simplify and standardize process and storage facilities
- Source globally if needed



# Challenges Encountered in Services Spend Arena

**Challenge** - Changing the focus from immediate local need to the longer term strategic plan

**Solution**

- Centralize procurement
- Create matrix organization structure to ensure market knowledge and customer satisfaction is met
- Focus on total cost/management of supply chain

**Challenge** - Working with a huge volume of technical parts and the logistics to meet the needs at maintenance bases and across AA's system

**Solution**

- Team environment with engineering, logistics and purchasing is key to ensure supply at a lower cost and in line with strategic plans for continuous improvement
- Looking at total cost of ownership for new versus repaired parts and sourcing accordingly



# Improved Processes in Services Spend Arena

- Improved communication internally and externally
- Developed and educated suppliers to improved RFP responses to ensure cost breakdown details and gain sharing opportunities
- Integrated audit capability of repair services from technical review and services rendered improve visibility to ensure lowest cost and highest quality for future sourcing requirements
- Stronger metrics, accountability and corrective action plans
- Tighter coordination between storage facility and the ramp



# Cost Savings in Services Spend Arena

- Year-over-year savings on base labor rates have been achieved
- Significant cost reduction achieved by repairing versus buying new
- Reduced time to repair and firm fixed-price prices year-over-year
- Manpower reductions through improved processes and outsourcing of small airports served by AA
- Incentive based and power-by-the-hour contracts have been successful



# Technology in the Services Spend Arena

- Electronic sourcing tools are being used effectively to reduce costs
- Communicating electronically improves the speed of document transfers (tear down reports, bill of materials, etc.) and the ability to cross reference services historically provided
- Marketplace applications are assisting with various other needs (part location, loan and borrow, etc.)
- Supplier utilized technology helps replace manual processes
- Improved communication between ramp and storage facility
- Back office invoicing processes improved via technology



# Next Steps for Services Spend Arena

