

AIRCRAFT



AMT Exclusive: An Interview With David Storch

BY RONALD DONNER ON APR 20, 2018



Ronald Donner and David Storch at the AAR World Headquarters in Wood Dale, IL.

Photo credit: AAR Corp.

David P. Storch is only the second CEO since the company was incorporated in 1955. Storch recently announced his plan to retire after 39 years with the company. AAR President and Chief Operating Officer John M. Holmes will become the next CEO. Storch will continue to lead the board as its non-executive chairman and work alongside Holmes on business strategy, talent development, and industry relations.

I recently had the pleasure of sitting down with David P. Storch in his office at the AAR Corp. World Headquarters in Wood Dale, IL. We discussed the aviation MRO industry, AAR, and his career.

Storch joined AAR in 1979 with responsibility for developing the company's aircraft engine business. In 1987 he was named president of the AAR Trading Group and became president and chief operating officer in 1989. In 1996 he assumed the additional role of CEO, and chairman of AAR in October 2005.

RWD: David, first thanks for taking time from your very busy schedule to sit down and discuss the industry with me. While preparing for this interview I found a 2012 article in *Smart Business Chicago* with this quote, "David Storch has a knack for seeing opportunities in desperate situations. Unafraid to take strategic risks, he uses this ability to diversify his company's business and expand into new markets, which has bolstered it through economic lows, industry changes, and technological transitions." With that said, can you talk some about your leadership style and approach to business?

DPS: Well, that's a heck of a lead-in Ron. I believe what's always driven this company is our ability to stay in touch with the industry and to understand what's happening in the industry; by networking and face-to-face contact with other leaders in this industry. To really try to understand and put ourselves in their shoes as to what challenges they are facing. Once we understand this we then figure out how to create solutions for their challenges.

The needs of the aircraft operator have changed and by staying very close and listening to the customer, we've been able to adjust our product offerings. Yes, I think that's been the skill of the company.

And, it's important to say doing all of this by maintaining our financial strength. Our financial strength has, at times, been challenged. However, we've always maintained the financial flexibility to allow us to pivot as our customers' needs have evolved and changed.

One example was taking on the former United Airlines maintenance space in Indianapolis. At the time, the airline industry was really in a bad way. The facility had been vacant for two years and I looked at it as an opportunity with risk; but an opportunity to fill a void that you could see coming.

The void you could see coming was the airline industry needed to focus on what they were good at: flying people and freight from point A to point B. There was a possibility that there could be growth in the third-party maintenance business as a result of that shift in focus at the airlines.

We went into that facility when airlines were either in or on the verge of bankruptcy. The requirements had definitely been diminished as the fleet sizes had shrunk or diminished. Moving into the facility at the time was risky. But if you looked to where the future was heading and how airlines were reorganizing you could make the business case.

RWD: So, talking about transformations, in a recent AAR press release announcing John Holmes as your successor you said, "We are well into the transformation of AAR with more actions coming to better serve the needs of the commercial and government customers worldwide." So, what are some of transformations yet to come?

DPS: So Ron, when 9/11 happened, we had an extraordinarily large percent of our business supporting U.S. commercial airlines. In the midst of the 9/11 recovery I said, "This is one of those life experiences I never want to go through again." Why do I say this? In the financial period directly after this, our revenues had dropped 30 percent from the period ending Aug. 31, 2001. So in a 90-day period we had a 30 percent drop in our revenues.

I then said, "how should we be looking at this company going forward because we don't want to be in this situation again." So I set out on a path to diversify the company in three ways. One was, I wanted 50 percent of our business to be domestic, 50 percent international. At the time it was 85 percent domestic, 15 percent international. I wanted 50 percent of our business to be military, defense, or government; 50 percent commercial. At the time, 85 percent of our business was commercial, 15 percent was military. And I wanted to go 50/50 on what I called front-end and back-end. At the time the company had little manufacturing businesses. I wanted more manufacturing because I wanted to have more control more or less over our destiny.

So over 10 years say 2002 to 2012 we diversified the company. We opened up more international business. We acquired defense-oriented suppliers and we acquired manufacturing capability to be more what I call front-end versus back-end only. In the 2015/2016 timeframe, we also sold off some of our front-end manufacturing business like Telair Cargo to focus more on our core competency of services and now there is less risk as airlines are financially more healthy.

So now for a company our size we're much closer to that 50/50 blend and it was out of a need to survive, quite frankly, and to be relevant. I'd say being nimble is one of the strengths of the company.

RWD: How does AAR set itself apart from your competitors?

DPS: As leader of this company, and I believe John will follow, is to look at the company from a 25-year horizon. My view is to separate the company from the rest of the world; whether it be OEMs or independent companies like us. To offer superior service, we have to be a little bit faster with more precision than the competition. I want to be listening to my customer, paying attention to their needs, designing a solution for the customer (not for me), and then execute a best in class solution.

As an example, if an airline is faced with a challenge around reducing span time and repair downtimes on their maintenance cycle, I want to be out there trying to take out a day here and a day there, two days here and two days there to provide more value to the customer. I want to win on providing superior service execution. I want to be constantly innovating to come up with solutions that help my customers not just survive but help them compete, and help them win. So if you do business with AAR I'm on your team and I want to help you win.

RWD: AAR has many segments and markets; MRO, the composite business, the airlift business, and so on. Can you talk about how they do or don't fit together?

DPS: We think about the business more integrated than just the pieces like you said. For instance, our composite operation is really a composite capability inside of our MRO activities. Our MRO and supply chain work together in that our supply chains provide all the components parts, the piece parts, for our heavy maintenance. I think about these businesses as aviation services and we believe that's part of what's giving us a competitive advantage.

We want to grow at a rate faster than the industry is growing – which means A: we want to ride the growth rate of the industry, but B: we want to take market share by doing things I mentioned.

What I want to have is more capability in these buckets. I want you to be comfortable turning over your operation or your aircraft to us. That might either be a commercial or regional airline or a government. We have successes in each of these areas.

RWD: Speaking of international, last year was the purchase of the two Canadian facilities and the recently announced joint venture in India. You've used the word international expansion a lot in our short conversation. Can you talk more about this?

DPS: Ron when people like you and I came into the aviation business, the U.S. made up a very significant percentage of the business. Over time that's changed. And, you know, my goal is to follow the fleet. So as the fleet grows outside the United States, we have to physically go outside the United States.

Historically, we've been a U.S. domestic centric company but when I think of MRO, I look at foreign markets and I want to proceed with caution because I recognize that the key to success in MRO is matching your workforce and your mechanics. I don't want to be presumptuous and assume that we understand how different cultures operate around the world. So, by teaming as we did in India with a local businessman, we have a better chance, we believe, at being successful. And a much better chance for success with a local partner.

Our partner in India is a very ambitious business man. We see the same market he sees. He understands the local domestic markets in ways that we'll never understand. I think the partnership is very powerful because of that. We understand aircraft maintenance as well as anybody in the world. Our partner, in this case, understands the local market better than most.

Local Indian airlines are the target audience and assuming success, there's the possibility of bringing on aircraft from outside India.

To some extent, Canada, I think of differently than some of these other markets. We didn't necessarily feel we needed to partner in Canada the same way as we think of other markets.

RWD: The other piece that's interesting is the African market. Last summer during the Paris Airshow I had the pleasure of meeting Cheryl Jackson, president, AAR Africa.

DPS: I think we view Africa like a new frontier maybe. It's a large population base with a lot of different cultures inside the continent. One of our experiences is that we understand and appreciate that. I believe it's going to be very critical for the African continent leaders to develop air transportation systems that allow for commerce to flourish. Without an air transportation system, you really can't have a flourishing economy.

Currently we have a PBH (power by the hour) program with Kenya Airways for component support, do some similar technical support for SAATechnical, and we've had an engineering service contract with Ethiopia. We're looking at different things in Nigeria and western Africa. So, I think stay tuned but it may be a little slower.

RWD: What are some of the biggest changes and maybe challenges yet to come in the MRO business?

DPS: I think that if I were to find one key phrase for this industry over the past 40 years it would probably be the acceptance of outsourcing. One example is when I was trying to get business from an (unnamed) major airline years ago, I can recall talking with the CEO and he was telling me that, "Yeah. I get it. This makes sense. However, my vice president of maintenance doesn't want to see us give up control. And if we give you work we're going to be giving up control."

I tried to convince him that I would be under his control and you don't lose control. It's just that instead of having your own employees, you have my employees. But I can do it more flexibly. I can be more comprehensive. I can give you alternatives and, at the end of the day, make you more competitive. And, you know, they resisted it on the basis of giving up control.

The government was the same way. The people looking over the budgets might say, "Hey why don't we outsource this?" The people responsible for the platform would say, "No way I'm not going to give up control."

I think the kind of acceptance over time of outsourcing your supply chain or outsourcing your maintenance to a third-party provider has really been a big change, a big adjustment.

RWD: Is this more accepted today?

DPS: Yes. And I think there's more to come. As companies like us build track records, show that we are capable, and show that we are as focused on safety of flights and quality, we can be the extension of the aircraft operator.

RWD: What would you say has been the most rewarding part of your AAR career? Is there any one single accomplishment that is at the top of that?

DPS: I see AAR as the people. We're a team of people working together to support our customers. In the case of commercial customers: help them compete with a focus on safety on flight. In the case of our government customers and the case of the military in particular, it's to be there for the war fighter and give the war fighter the tools he or she needs to perform their mission.

I'm most proud that we as a company have gotten our people excited about these two large missions. And I think we've performed pretty admirably in this way.

RWD: That's certainly a testament to you and the leadership that you have provided.

DPS: Thanks Ron, but my satisfaction is watching people do really well. I'm just one person and we have 5,000 plus people. It's the leadership's responsibility to make sure that the people inside the company are connected to the mission, the goals, and the objectives. For me it's been fun.

RWD: David, this was such a great honor and a pleasure for me. Thank you very much and all the best to you and to AAR Corp.
