



## Bombardier, Inc.: The 3 Biggest Obstacles Facing the CSeries

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) endured yet another setback on Thursday morning as **United Continental Holdings Inc.** agreed to buy 40 **Boeing Co.** 737-700 aircraft.

This means that the CSeries has still yet to secure an order from a major North American airline. And it hasn't secured any firm orders since September 2014. Bombardier maintains that the CSeries is "a top contender in several key campaigns," but this does not bode well for the plane over the long term.

So why is Bombardier having so much trouble selling the CSeries? We take a look below at the top three reasons.

#### 1. A need (and an unwillingness) to discount

The last day that Bombardier secured a firm CSeries order was also the last day that oil traded for more than US\$95 per barrel. That is no coincidence. As oil prices continue to languish, airlines simply have less incentive to spend big money on a fuel-efficient plane like the CSeries.

Making matters worse, both Boeing and Airbus have been discounting their planes in an attempt to keep the CSeries at bay.

Clearly, Bombardier needs to discount the CSeries as well, but as a smaller company it simply doesn't have the scale advantages of its larger competitors. So if Bombardier does discount the CSeries, then it will have trouble making profit. Even as it stands the company will not actually generate a profit from the CSeries until 2020.

#### 2. Opting for larger planes

The CSeries competes with the smaller planes from Airbus and Boeing. But none of those planes have been selling particularly well as airlines have generally opted for larger models.

One reason for this shift is a looming pilot shortage. As the baby boom generation retires, air traffic is quickly growing, especially in emerging markets. This is putting a premium on the remaining pilot

cohort, which incentivizes airlines to transport the same people on fewer flights.

For Boeing and Airbus, this isn't a problem. They have a complete suite of models. But for Bombardier, this is yet another obstacle that must be overcome.

### 3. Doubts about the future

There are legitimate concerns about the future of the CSeries program. And that in turn is hurting sales, thus creating a vicious cycle that's very hard to break.

It's understandable that airlines don't want a so-called orphan plane. It would mean owning a plane with little resale value and higher training costs for pilots. There are also cost savings by going with only one supplier; for example, **Southwest Airlines** and **Ryannair** get their aircraft exclusively from Boeing.

So Bombardier still has some major obstacles with the CSeries, and shareholders should not be expecting quick results.

#### CATEGORY

1. Investing

#### TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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