



BOEING JUST GAVE UNITED A MASSIVE DISCOUNT

News / Airlines, Manufacturer



United Airlines confirmed yesterday that it has ordered an additional 25 Boeing 737-700 airliners.

This is in addition to the 40 737-700s the Chicago-based airline ordered in January.

This marks the second time this year that United has turned down fresher models such as the Bombardier C-Series in favor of the 737-700 that will soon be discontinued.

One major driver may be the serious discount United got from Boeing. I'm talking about a Black Friday kind of discount.

The 737-700 is listed with a price tag of \$80.6 million or roughly \$5.24 billion for the 65 airplane deal.

United likely paid just \$20 to \$25 million per plane, Airways News senior business analyst Vinay Bhaskara told Business Insider. Forbes contributor Scott Hamilton reported that United signed on at \$22 million. That's a whopping 73% discount!

Boeing declined to comment on the negotiated price of the deal, citing company policy. United wasn't immediately available to comment on the terms of the order.

Although airlines are generally able to negotiate price concessions on most airplane orders, they

are usually in the order of 10% to 30%. A discount of 73% is not unprecedented, but it's exceedingly rare.

So why go that far? Well, the Boeing 737-700 has a new competitor in the form of Bombardier's critically acclaimed, but slow selling C-Series jets.

Beating Bombardier

Although Bombardier just landed an order with Air Canada, it still needs a big endorsement from an independent North American carrier like United to establish itself. The 73% discount is a great way to take that opportunity away from Bombardier because smaller manufacturers just can't compete with that level of discounting.

Boeing can make this kind of move because the 737-700 is near the end of its run and needs orders to sustain the production line between 2017 and 2019 until it switches over to the next generation 737Max. Since Boeing's 737-700 production line has long been fully amortized, the airplane maker is afforded some extra financial wiggle room due to lower overhead.

To be sure, it's possible that Bombardier never stood a chance. Both sides of the merged United-Continental mega airline have long been steadfast Boeing loyalists. In fact, former Continental CEO Gordon Bethune, the man credited with saving the airline during the 1990s, once helped run Boeing's commercial airplane operation. The former Continental boss was known to personally take delivery of his airlines Boeing jets.

But even if it was never going to happen, this is a deal that – in Bombardier's Quebec headquarters – has got to hurt.

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