

Challenges and Results : : The Value of Business Aviation

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"With our airplane, we can grow our business 100% in five years. Could we do that with the plane? Absolutely not," says Pete Caye, president of regional construction suppliers – W.C. Caye & Company.

"I moved my 70-year-old family business from Atlanta to Augusta, where the lifestyle is more to my liking. The airplane allows me to leave Augusta at 7:00 a.m., do business in a remote city and be home for dinner. I don't want my business, my marriage or my body to suffer from my travel. I'm really surprised at how effective the aircraft has helped me to become," Caye says.

WHY BUSINESS AIRCRAFT?

Widely respected economist Donald Ratahczak, director of Georgia State University's Economic Forecasting Center, was recently asked why so many companies are using aircraft. "For one thing, leadership teams are smaller. That means fewer people make the business happen. High salaries make executives' time cost a major concern - shareholders get mad if the executive gets paid big dollars and he doesn't deliver. The cost of wasted travel time becomes a significant issue. Businesses are penetrating areas where the airlines don't go without taking an extra day to get there.

"And, there is no question the economy is becoming more international," Ratahczak adds. "Getting to several destinations within a foreign region in a timely manner is important. That is especially true in marketplaces like the Pacific rim, The Middle East and Eastern Europe. Yet, there is acknowledged fear of the poor safety record of many international regional air carriers."

"The Pacific market place has enormous potential for growth," says Dave Sheehan, retired head of worldwide air travel services for Mobil Oil and newly appointed CEO of Singapore-based Global Aviation. "The projection is for a near-term 23% annual growth rate in Southeast Asia and the People's Republic of China."

In good times or bad, top-level executives are concerned about creating business results. Jim Rice, a former successful management consultant, says, "Companies that buy and use aircraft as business tools become more strategic in their thinking, operationally more effective and more profitable as they grow rapidly." Rice believes so strongly in business aircraft that he has founded his own aircraft manufacturing company, VisionAire Corporation. The company's first product, the Vantage, is an entry-level, single-engine jet currently undergoing flight-testing in preparation for certification.



Rice continues: "when I had my consulting firm, my use of the airplane was strategic. I used the aircraft to reach our customers and important vendors. The purpose was to build top-line revenues. The result was improved bottom-line performance. As the result of my experiences, I believe an airplane can help build a business."

Many businesses continue to go through dramatic changes. "When I came to Ohio National I owned and flew my own airplane. But we were capacity limited with that aircraft," says David O'Maley, chairman and CEO of Ohio National, a large financial services organization. "We had to broaden aircraft user accessibility, so we bought our first professionally operated light jet. Last year, we flew about 400 hours; I was on board for about 150 of those hours. The rest of the time the aircraft carried a variety of people for a lot of different purposes."

It seems the mantra of many businesses is to do more with less...just in time. "Many companies, as they outsource, have found small [vendors] in remote sites provide improved cost savings and product quality. Commercial airlines cannot get you to those sites effectively," says Ed Bolen, president of the General Aviation Manufacturers Association.

Other companies have widely dispersed locations. One of the major rental car companies recently got its first aircraft. The company's CEO said, "You can't believe how effectively we are using this airplane. We're going to places we used to avoid visiting because of transportation problems."

Russ Meyer, Chairman and CEO of Cessna Aircraft Company, says "Business aviation is all about using your people asset more effectively. In the '90s I don't think an effectively managed company with significant transportation requirements can succeed without a business aircraft."

Roy Norris, president of Raytheon Aircraft Company adds, "We are moving more and more into a market-driven economy. There is a proliferation of competitors. Personal contact makes the competitive difference. In emerging markets, personal contact by top-level executives is essential. Without that contact opportunities may be missed and management will make bad decisions. You can develop the response to the specific concerns of that customer. The conflict leaders face is how to respond in a market-driven economy and run the business." That requires time and mobility.

David O'Maley points out one of the most important nuances of running a business in today's environment: "Our industry is going through a retrenchment. Many of our competitors cut costs with no 'touch.' They make the right decisions, but communicate them via faxes, e-mail and memos. The message they are sending is, 'just do it.' We are able to go out there and deliver the message in person in order to win over our people's hearts and minds to the outcomes we need. I believe we get better results."



Borge Beoskov, president of Boeing Business Jets says, "The major competitive challenge is getting to diverse locations with the right team of people. We now have business jets that can go 14 hours nonstop. A team of high-powered executives needs to be able to prepare, work and rest en route so they can arrive able to do business."

Roger McMullin, chairman and CEO of Aviation Methods, Incorporated, says "Our clients are investing in business aviation for a number of reasons. For one thing, there have been dramatic reductions in mid-management staff levels; the company expects more from the top executives. These top people are recruited to be away, where the rubber meets the road, but they still need to be in the office and home with their families. And there is growth in the internationalization of businesses...even among smaller companies. And with the state of airline service, you can't get reservations, you can't go directly to where you want to be, and you can't rely on airlines to get you there. Business aviation reduces or eliminates the travel hassle factor."

Jack Olcott, president of the National Business Aircraft Association, concludes, "We are in a communications revolution, not an information revolution. It has quickened the pace of business and increased the need to travel."

"Business aviation is a communications tool. It allows us to be in touch with customers, suppliers and other important people who influence our business," adds Roy Norris.

WHEN AND WHERE - THE VALUE OF BUSINESS AIRCRAFT

There are two basic kinds of business aircraft use: strategic and operational. Strategic trips have high risk or reward opportunities. Strategic trips often include customer interface and typically have extraordinary time pressures associated with them - to the point that travel costs are lesser importance in comparison to the potential outcome.

In a strategic situation the aircraft is much like a fire truck. It gets the right people where they need to be when they need to be there. Strategic value is not measured in miles traveled or in number of passengers carried. The value is in creating the desired outcome.

Some companies use their aircraft as strategic marketing tools to build and maintain long-term relationships with their customers. The aircraft bring groups of customers to company facilities to nurture their rapport. One well-known company has a sustained growth rate in the high teens. When the economy goes down, they fly more.

On the other hand, operational trips are usually part of running the business. Total door-to-door cost is a strong element in deciding the mode of travel for operational trips. Business aircraft are routinely cost effective on operation trips that include several medium-to-high-cost people going to multiple destinations over a one-or two day period. Business aircraft can also be very cost-effective on regional out-and-back trips to destination not served directly by the airlines.



The tangible and intangible value of travel can be understood by looking at its five primary factors (in typical order of priority): 1. Safety; 2. Time effectiveness; 3. Service; 4. Cost effectiveness; 5. Confidentiality.

Safety is paramount. Safety is as much an issue of performance as it is perception. The major domestic airline safety record for the last decade has been excellent. Corporate-owned turboprops and jets flown by professional crews have had an even better safety record. The reasons are simple. Corporate aircraft often have the same - or better - electronics equipment as the planes of the major airlines. Additionally, corporate crews are often qualified and trained to the same high standards. Finally, corporate crews have more flexibility in meeting the needs of their passengers and selecting the safest conditions for the trip.

A corporate crew isn't constrained to destination airports or schedules. For instance, they can look at the weather conditions forecast for a particular trip and adjust the route, destination airport, and departure and arrival time to assure the passengers get where they need to be.

And having a corporate aircraft affords the possibility of a true hands-on approach to safety. One top executive says, "When I board our company aircraft, I always stop and talk to the pilots for a minute or two. I want to look them in the eyes and make certain they are having a great day."

Business aircraft can be a source of enhanced travel safety and security. Bob Burke, retired assistant director of the U.S. Secret Service, is currently the director of Corporate Services and Security for Monsanto Company. He says, "Business aircraft travel enhances traveler security by controlling baggage, minimizing exposure to crime in the airport environment, reduces the risk of bomb threats, provides a secure conferencing area en route, and a secure storage site for sensitive documents. Additionally, the business airplane means being able to take along safe and familiar food, medicine and other supplies not only for the flight but for length of the stay."

The next highest source of travel value is time. Time is the most constrained resource a company and its executives have. The 55 to 65 hours per week many top-level executives invest on behalf of their companies and stockholders is not limitless. The company cannot buy and more of these people's time.

"The flattening of the corporate organization requires key managers and leaders to travel. These executives are giving all their time and the company is enhancing its investment with improved time of travel using business aircraft," says Dessault Falcon Jet's president, John Rosanvallon.

The time savings achieved by using business aircraft can be two or more hours for each leg of a regional trip. On transcontinental or international trips the time savings is often measured in days. Fourteen top executives at Milwaukee-based Johnson Controls Incorporated were recently asked how many nights away a year they save using business aircraft. The average answer was more than 20 travel days saved each



year. If you assume there are 250 business days in a year that is more than 8% increase in their availability to be productive. That is a huge benefit for the company, its customers and its stockholders, as well as the executives and their families. The quality and quantity of productive en route time is also an important concern. Passengers routinely report that they can be productive about 40% more of the time on business aircraft than they can on a commercial airliner. In addition, the quality of the work environment in a business aircraft is far superior thanks to the privacy and the passenger seating arrangements.

The third important element of travel value is service. Service is what business aviation is all about. Business aviation creates the freedom to go where you want and with whom you want. It fits your requirements, not the other way around.

Most corporate executives indicate cost is their fourth travel concern. The costs of using business aircraft are often perceived to be high. That depends. Traveling via business aircraft is not cheap, but the costs are often overstated or misunderstood.

Ohio National's O'Maley says, "People who lack experience with business aircraft often use a 'T' account approach. That isn't the way to do it. Instead, we ask, 'For the hours invested, what do I get back from the executive's time versus the cost of the airline ticket and the lost time traveling on the airlines. "That works well fairly far down in the organization.

"For instance," continues O'Maley, "we do 80 seminars a year. The corporate aircraft has allowed the seminar team to handle a rigorous presentation and travel schedule more easily. These people are worth a lot more when they get to work rested and refreshed. The 'T' account approach doesn't put any value on those things."

Jim Christiansen, president of Wayfarer Aviation says, "There are growing predictions that skilled people are becoming more scarce and expensive. That will lower the cost-hurdle for the increased productivity to be gained from creating mobility for key people."

Finally, confidentiality is a concern in certain situations. When a company is in the throes of a merger, acquisition or major customer negotiation, there is a very high need for discreet comings and goings. That isn't practical on the airlines, but it is easily achievable on business aircraft. In addition, anytime you have two or more people traveling together they are apt to need to, or want to, discuss things that are confidential. You can do that with impunity on business aircraft, but only at great risk of embarrassment or loss on the airlines.

Executive Jet Aviation's Chairman, Richard Santulli, frequently says, "An airplane, when used correctly is more productive than a computer."



THE RISKS AND CHALLENGES OF BUSINESS AVIATION

The most frequently voiced concerns about business aviation are cost and image.

Companies that operate aircraft often agonize over negotiating pennies off of fuel prices, filling empty seats and minimizing empty aircraft legs in order to improve their aircraft operating budget a few percent. Yet many of these same companies waste hundreds of thousands, even millions, of dollars in the selections, purchase, outfitting and sale of their aircraft.

The emotional energy around buying an aircraft is often similar to that experience when buying a car or a home. But the selection, purchase, and disposition of an aircraft should be handled more like a commercial real estate transaction. The assistance of a highly experienced internal expert, or a consultant, can save tremendous amounts of money, time, and frustration. Executives and flight crews should be deeply involved in the specification of an aircraft, but they rarely have the technical knowledge and market experience needed to achieve the desired results for the least investment. In addition, any reputable vendor appreciates the use of a competent expert in the sales and delivery process.

The image of business aircraft used to be a major concern. That's changed somewhat today. "Million-dollar executives wouldn't stand in front of their boards asking for multimillion-dollar airplanes if it weren't going to make a solid impact for their shareholders," says Wayfarer's Christiansen.

In the past, some executives agonized over what their customers, stockholders and employees thought. For most of these key constituents, a business aircraft is now seen as a tool of a well-run company. A union steward for one of the major automobile companies recently said, "I'm glad we have corporate airplanes. The shuttle aircraft help our members get around more easily among our facilities and the executive aircraft get the top people out where the business gets done. If they can't do that, we don't sell and build cars."

"Today, for CEO's or high-profile individuals, the legitimacy and respectability of business aircraft is not an issue. There is a worldwide belief that business aircraft have a productive role in companies," reports Bryan Moss, Vice Chairman and CEO of Gulfstream Aircraft.

Raytheon's Norris says, "There is a vast crowd of suffering thousands who are in need of business aircraft but are reluctant to take the first step due to various preconceived concerns. Going from a non-aircraft user to being a user is secondary to the experience of puberty. Getting past it leads to wonderful experiences."



ALTERNATIVES TO BUSINESS AVIATION

Business aircraft are the right tool for certain jobs. Public transportation is often the right tool, too. The NBAA's Olcott says, "The active users of business aircraft are prodigious users of the airlines, as well. Their requirement is to be face-to-face with their customers." The airlines' hub-and-spoke system most effectively serves existing centers of commerce. Emerging markets, the sites of the greatest opportunities for financial gain, are not yet well served by public transportation. And by the time they are, the high-value destinations will have moved on to the next developing opportunity.

Santulli adds, "Our airline system cannot get better as it relates to the business traveler. The airlines must fill their seats. That means a growing reliance on major hubs. Ninety percent of business destinations will continue to be without direct major airline service".

The other option is simply not going. There have been a lot of predictions that videoconferencing and other advanced technologies will greatly reduce the need for business travel. "Videoconferencing creates more opportunities where you have to be face-to-face. Technology enhances the need to do business in person. Personal relationships and trust are particularly important in Asian cultures," suggests Galaxy Aerospace's president and CEO, Brian Barents.

While it's true that technology supplants certain travel, it is likely to stimulate even more than it replaces. Consider this: all the major telecommunications companies in the U.S. have their own business aircraft. "If that is hard to understand, try managing your relationship with your spouse via videoconferencing," concludes Raytheon's Norris.

BUSINESS AIRCRAFT SERVICES OPTIONS

There are three basic ways for companies to get the business aircraft services they want. Two are traditional: aircraft ownership - in a variety of forms - and charter. The third has blossomed during the past few years: fractional aircraft ownership.

Ownership of aircraft provides the greatest control of the asset and its services are to the company's specifications. Those services are most often provided by an internal flight department staffed by company employees.

Occasionally two or more companies will enter into a shared ownership and operation of an aircraft. This ownership arrangement is not unlike sharing ownership of, say, a mountain cabin. For it to be successful, it requires that the attitudinal and usage patterns of the participants be complementary. There are tax and operational technicalities that must be addressed for this option to be done without dramatic surprises. It can be done, but it must be done right.

Some companies use the services of a management company to out-source the flight services of owned aircraft. Whether it is cheaper to operate an aircraft internally or externally depends on the individual situation. A management company must make a



profit in order to stay in business. This is an additional cost that is often offset by the economies of scale and purchasing power a management company can achieve. Typically, there is less than a 5% difference, either way, between internal and external cost of operations.

So why do most companies choose to operate their aircraft internally? Answer: Control. If control is not an issue, or if a company is venturing into business aircraft operations for the first time, the management company option should be included in the decision process.

The second most frequent source of business aircraft services is charter flights. Charter is very flexible and can be especially effective in supporting specific purposes. "There is no way to efficiently fly into Eastern Europe on commercial flights. That doesn't address the quality of the service. The routes just don't exist," reports Jet Aviation's Chairman and CEO Thomas Hirschmann. "The Pacific rim is a different story. U.S.-to-Asia airline service is pretty good. There the bottom line is moving a group of people within the Asian market."

Several reputable companies have geared up to meet that need. Global Aviation, based in Singapore, is working closely with China Southern Airways to provide access to 80 destinations within the People's Republic of China. These business aircraft are staffed by American-trained crews. In 1996, Jet Aviation opened full-service facilities in Singapore. Dassault Falcon Jet is also involved in Hong Kong-based charter services that support Pacific rim business travelers.

One of the biggest sources of charter flying is the support of excess demand of companies with their own aircraft. These companies routinely have their aviation professionals audit the local charter operators to identify the best ones.

While concerns have been expressed about charter aircraft safety, the Federal Aviation Administration has set high standards for commercial operators. While some charter operators have been less safe than the airlines, the better operators are every bit as safe as the airlines. The easiest way to identify the best charter operators is to look for ones that support major aircraft-operating companies.

The other main concern about using charter services is the cost. Charter services are usually more expensive than the airlines or the use of comparable business aircraft for a specific trip. However, they are a lot less expensive than owning an aircraft for a hundred hours or so of use per year.

The third business aircraft access option is the fastest-growing segment of business aviation: fractional aircraft ownership. The inventor of this ten-year-old concept is Richard Santulli and his Executive Jet Aviation's fractional shares unit, NetJets®. The next-largest fractional share company is Bombardier's Business Jet Solutions. Fractional share ownership is what its name implies: You can buy as little as an eighth of an aircraft, with an allocation of 100 passenger hours of use. The costs include the initial capital investment, monthly fixed charges and per-flight-hour charges.



Your fractional share is a part of a fleet of aircraft being operated for the collective group of owners. You can reserve the aircraft on notice as short as a few hours. A professionally trained crew will pick you up and take you to the destination of your choice. You are charged only for the time you fly in the aircraft.

An appealing benefit of fractional ownership is that you may be able to use more than one aircraft at a time. Another possibility is that you may, for an adjusted hourly fee, use an aircraft that is bigger or smaller than your own.

Business Jet Solutions' president Rob Gillespie says, "Seventy-eight percent of our customers are first-time buyers of aircraft. An additional 7% are former aircraft owners. The remaining 15% of our owners currently own aircraft and are seeking supplemental lift capacity."

NetJets' senior vice president, Kevin Russell, advises, "It behooves companies to investigate fractional ownership as a supplement to their existing investment in corporate aircraft." A case in point - Cessna Aircraft is buying a NetJets share to supplement its own fleet.

THE FUTURE OF BUSINESS AVIATION AS A CORPORATE TOOL

"The stresses on people to do more with less and faster and further are going to continue to grow. The ultimate constraint for a business is the limitation of its people," says Gillespie.

Pete Caye described the impact of business aviation for him when he said, "Sometimes I lie in my bed at night thinking about all the places I've been and the things I did that day. I couldn't have done it without my airplane."

Written by Pete Agur, president of The Van Allen Group, an Atlanta-area based management consulting firm that helps corporations and their flight service providers succeed together.