

Business Aviation... The Competitive Advantage

Flying 1997

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Imagine trying to maintain a marriage using only a telephone. Even with videoconferencing, it cannot be done. There is no substitute for being there. That is why business aviation has become one of the most effective tools employed by successful organizations. You cannot do business by phone alone.

But, getting there on the airlines is not the whole answer. Companies that use business aircraft still buy a lot of airline tickets. It's a matter of using the right tool for the job. One key executive explained it very succinctly. She said, "What I want is just in time destinations." That's what business aviation services are all about.

Business aviation usually meets two specific travel needs: Strategic and Economic.

Strategic trips create high impact. The travelers have to get there. Time-place mobility is of paramount importance. In this circumstance the aircraft is like a fire truck. Its greatest value is in being available and delivering the people on time. The value of being there is often priceless.

As an example, one manufacturing company has a fleet of jets and a helicopter. The jets are used daily to support the needs of the company and its passengers for regional and transcontinental travel. The jets' flight activity is similar to that of many other companies that use corporate aviation services. However, the helicopter flies much less than the norm. But it provides strategic impact.

Not long ago a group of potential customers came by corporate jet to the company's headquarters to view their products and facilities. The helicopter carried the visitors and their hosts to several plants and returned them to their aircraft. As the group's parted the lead visitor indicated commitment to over \$30 million worth of business. With results like that, the helicopter does not need to fly much!

Economic travel creates the best bang for the buck. It's amazing how often executives declare business aircraft cannot be justified economically. But that depends on what is measured, what it's compared to, and what you need in the way of travel support. Compared to the airlines, business aircraft can be an effective and valuable tool.

There are several companies in the Atlanta, Georgia area that also have major operations in Birmingham, Alabama, a distance of about 133 miles. The lowest refundable coach airfare with one week advance purchase currently available is \$553, over \$2.00 per mile. Each of these companies have done exhaustive studies and negotiations with the airlines and come to the conclusion their best choice is to operate



independent corporate shuttles between the two cities. They save themselves hundreds of thousands of dollars per year in airline tickets alone.

Business travel economics

The full cost of business aviation services depends upon its fixed and variable costs. The most efficient turboprops and light jets cost less than \$4.50 per mile to own and operate.

The door-to-door travel time of the airlines is often dramatically greater than that of business aircraft. The parking, check-in, boarding, arrival, and baggage recovery processes on the airlines can be very time consuming at least an hour and a half more than on business aircraft. That's before we even consider connecting flights, departure delays, inconvenient commercial airport locations, etc.

If your average business aviation passenger is compensated at a rate of \$150,000 plus benefits per year his or her hourly cost to the company is about \$100. If we assume the average business flight has a distance of 400 miles the time cost of four travelers is \$600 or more, or \$1.50 per mile. Their ticket cost will likely be at least \$300 each, or \$3.00 per mile for the group. That is a cumulative cost of \$4.50 per mile. If the average compensation of that team is \$250,000 the group's time cost goes up to \$2.50 per mile for a total cost of \$5.50 per mile. Connecting flights, higher ticket costs, larger traveling parties and higher salaries all dramatically skew the result in favor of business aviation travel.

If an aircraft is primarily being used as a strategic asset its fixed costs can be considered as committed, or sunk. It's value is in being available. When it's used either for strategic or economic trips. The cost to the company is only the direct cost of operations, about 45% of the total cost, or about \$2.00 per mile for the most popular turboprops and light jets. This is much cheaper than the airlines in many situations.

When to use business aircraft

Using business aircraft makes the greatest impact in a variety of circumstances.

- Strategic or high impact trips are the ones that help make the deal happen or respond to major challenges. They are the kind of trips passengers often tell their flight crews, "the aircraft paid for itself today".
- Less dramatic, but much more common, are the trips that allow two or three senior people to go out, conduct one or more meetings and be back home on the same day. With today's flat, lean and aggressive management structure many companies are actively seeking ways to keep these folks, and their families, committed and motivated. Business aviation services help do just that.
- The economics of team travel can be very positive. Two or three midlevel executives going to multiple destinations in a day or two can be extremely beneficial. These are the kind of trips that many people admit wouldn't be taken if they had to drive or fly on the airlines. Yet the business they conduct needs to be done.



- A growing use of business aviation is a part of the sales process. Many customers select their products and services based on the total value delivered rather than price alone. Nothing tells your story better than your people and your facilities. Nobody can create customer solutions better than your product or service delivery team. Your sales success can hinge on getting the customer in front of your operations, service, and support folks. Time and time again companies that do this, report outstanding rates of sales plus improved relationships with their customers.

The bottom line is this: business aviation services are routinely described by successful users as one of the most important tools for leveraging three of their most important resources: their people, their customers and their time.

Aircraft selection criteria

There are four major categories of aircraft selection criteria: (1) Strategic intent, (2) trip mission performance, (3) operating issues, and (4) ownership and operational economics.

Strategic intent addresses the basic question of what do you want to do and why? What message do you want to send to your company leaders and members, your customers, your shareholders, and other key stakeholders. Your aircraft and the services it provides, facilitate your strategic intent.

During a recent survey we conducted for a major airframe manufacturer, we asked a number of flight department managers about their companies' primary aircraft selection criteria. Number one was "mission performance" - being able to carry the people where they wanted to go with a minimum of restrictions. Mission considerations include trip purpose, passenger loads, runway lengths and elevations, range and speed, and specific trip frequencies.

Operating issues are very important, too. If the aircraft cannot go because of crew or technical constraints, the value of aviation services falls dramatically. So availability of trained and skilled pilots and mechanics is a major consideration. Mechanical reliability as well as easy access to the necessary parts and equipment that keep the aircraft in top operating condition are equally important.

The fourth major criteria in aircraft selection is economics for your company. Which is more important, or constrained, investment capital for the aircraft purchase or cash flow for trip operating expenses? If capital is the greatest issue a smaller or prior owned aircraft may be the best choice. If operational costs and reliability are driving factors then very recent airframe and engine technology and warranty provisions can become more important.

Types of aircraft

Business aircraft are often called "time machines." They are tools that compress en route time, reduce the uncertainty or lack of control of time associated with airline or



road travel, and greatly improve the en route productivity of travelers. Business aviation offers a wide variety of "time machines".

The needs of local area travel, within 50 or so miles, are the unique domain of business helicopters. In areas where road congestion is high or natural geographic barriers like lakes, bays, rivers or mountains are a concern helicopters often prove themselves quite valuable. For example, the Northeast Corridor, Houston, Los Angeles, the Appalachians and Rockies all have very active populations of business helicopters.

Regional travel has an interesting set of aircraft types from which to choose. Twenty years ago the only option was piston aircraft (usually with two engines) and turboprops like the venerable King Airs. Today, the choices have expanded to include single-engine turboprops and very efficient light jets. All of this is in keeping with the business mantra, "doing more with less even better".

In the next couple of years regional travel will become even more effective with the introduction of two light jets that go even faster and farther with more room and lower costs than their predecessors. Also joining the fray will be at least one single-engined jet.

Transcontinental travel has long been the domain of the mid-sized jets like Falcon Jets, Hawkers, Sabreliners, and Lear Jet larger models. These aircraft provide the range, increased cabin space and improved personal amenities that have made them so popular. Again, improved technology has allowed the emergence of aircraft for this mission that can do more with less; the super mid-sized aircraft. The Falcon 2000 was the first to fill the need and it will soon be joined by Raytheon's Hawker Horizon. Both aircraft offer spacious standup cabins with enough room for about 9 passengers yet have operating costs that rival the previous generation's light jets. Another approach to mid-sized aircraft performance is the Citation X, the worlds fastest corporate jet with a cruise speed of more than 90 mach.

With the continuing internationalization of commerce the most visible growth in business aviation services has been in support of intercontinental travel. The current choices of these manufacturers in this arena include Canadair Challengers, Dassault Falcon Jets, and Gulfstreams. This class of aircraft can go 3,800 miles or more with cabins that can be designed to the specific needs and tastes of their owners.

Improving upon long range and large team travel performance are three soon to be delivered aircraft; the Boeing Business Jet, the Canadair Global Express, and the Gulfstream V. Each of these aircraft will be able to fly 6,500 miles or more non-stop making trips like New York to the Pacific Rim within the commuting distance of business aircraft.

And finally, there are special purpose business aircraft. These include corporate shuttles and converted airline aircraft.



Aircraft acquisitions

Buying an aircraft is one of the two greatest opportunities to minimize the cost of aircraft ownership and operations. The other occurs with the trade or disposition of the aircraft. Most owners and operators are not thoroughly experienced in either process. The result is they often cost themselves tens of thousands, even hundreds of thousands, of dollars and untold frustration and disappointment by trying to do it all themselves. Indeed, buying your aircraft can be one of the most exciting, or most frustrating, parts of the business aircraft ownership experience.

While new aircraft are normally purchased through the manufacturer, prior owned aircraft are a whole different story. Prior owned aircraft can be an excellent, reliable, and very effective option - but there are important considerations that come into play. Nearly new aircraft often have the advantage of immediate delivery compared to delays and backlogs for an equivalent new aircraft from the factory. With a used aircraft you lose most, if not all, warranty benefits and you do not get to specify all the equipment, amenities, colors and interior configuration you might want. But you can get most of these elements in your used aircraft by thoroughly searching the marketplace. How? You can do a lot of detective work or you can employ the services of a used aircraft market specialist.

These folks come in three basic varieties; (1) the original airframe manufacturer, (2) used aircraft dealers/brokers and (3) acquisition specialists.

Most of the manufacturers sell used aircraft, too. This allows them to improve their ability to meet the needs of their existing customers who are trading existing aircraft for new aircraft. It also allows the manufacturer influence on the price and quality of their aircrafts' prior owned market.

Used aircraft offered by the factory are normally priced above an equivalent aircraft on the open market. Yet there are some important factors that justify that differential. These benefits include limited factory warranty, latest system modifications and updates, training for pilots and technicians, and the piece of mind gained by knowing the factory has gone through the aircraft before it is sold to you.

The dealers and brokers get their largest revenues from the aircraft they have in inventory or under contract to sell. Therefore, their motivation must be well gauged and monitored if you are to be certain they are acting in your best interests.

A good Acquisition specialist will act as your agent and consultant in the search, selection, negotiation, and delivery process. In selecting someone from either a dealer, broker or acquisition specialist to work with you should chose a firm that specializes in the class and type of aircraft you seek. They will likely have an up to the minute knowledge of the open market. They will also have sources for discovering the deals that have not yet become public. At the very least, a product specialist knows myriads of details about the aircraft you seek that can help you get the aircraft that is most likely to meet, or exceed, your expectations.



Whether you buy your aircraft new or used, it is imperative that the aircraft go through an extensive predelivery/prepurchase technical inspection. This should be done by an impartial party who is working on your behalf to make certain the aircraft, its equipment, all of its systems, cosmetics, and paper work are as expected and up to date.

I have been involved in literally hundreds of aircraft purchases and deliveries and I have only seen one delivery go flawlessly... and that was over fifteen years ago on a very basic aircraft. Get the aircraft inspected prior to delivery and you will have a greater assurance of fewer surprises, a higher certainty of initial operational success, and you may even discover items that permit improvements in the price or value of your aircraft.

An important part of buying an aircraft is how it will be paid for. Many aircraft buyers purchase with cash. Others use some sort of financing. One key point here. It can be very beneficial to keep the financing decision separate from the aircraft selection decision. In other words, unless someone is offering a special financing package that subsidizes the sale of the aircraft, it is very advantageous to shop for the aircraft financing separately. Whether you chose to lease or borrow, it can make a lot of sense to talk with institutions that routinely deal with the aircraft market. They usually understand the market for your aircraft and will probably be able to give you better rates and residuals as a result.

Operational options

In the beginning of business aviation there was only one way to operate an airplane - with your own flight department. The internal flight department continues to be the most popular source of business aviation services. However, there are several other choices; management companies, shared flight services, and fractional ownership operations are three of the most frequently chosen alternatives.

Management companies answer the need for classic external services. You buy the aircraft and the management company provides the expertise and services. If your corporate culture endorses the outsourcing of non-core services a management company should be high on your list of options. If a sense of direct control or privacy are major drivers in your aviation services then an outside operator for your aircraft may not be the best choice.

There has been a raging debate over which is the more economical operational choice: an internal flight department or a management company. A number of analyses indicate that it depends. Although an internal corporate flight department does not normally have a profit margin in its budget (hopefully a management company does, lest they not be in business long) it may not have the leveraged buying power, nor the synergies and economies of scale that a management company can achieve. In the end, analysis of these factors may economically offset each other and the final decision on internal versus external flight services can revert to cultural and operational preferences - it depends.



A hi-bred of ownership that has a variety of twists is shared ownership. In its purest form two or more companies combine their business aircraft into a single organization that then serves their individual needs accordingly. This form of ownership and operation boasts some gains in efficiency of operations but the primary stated benefit is reduced or shared capital and ownership costs.

Fractional aircraft ownership is the evolutionary next step from shared ownership. This is currently the fastest growing form of business aviation. It is designed as a turnkey product/service for individuals and companies that may not have enough demand to warrant full ownership but too much need to justify the cost and administrative responsibilities of charter aircraft use. Where charter services may be likened to those of taxicabs (hence the nick name air taxi service) fractional share ownership is more like owning a piece of a sedan or limousine service. If you have very limited need for business aircraft travel then charter aircraft services can do very nicely. On the other hand if your travel requirements are more demanding, fractional shares are very attractive. And if your travel needs are very specific or highly demanding, full ownership with either an internal or external operation is likely to be the best choice.

Business aircraft safety

Travel safety is a blend of perception and performance. Air travel, in general, is the safest mode of transportation - period. The safest of the safe are business aviation and the major airlines.

One of the reasons many major corporations invest in business aviation is safety. The single largest factor in aviation safety is the air crew - the pilots. Using business aircraft allows you to have a direct conservative influence on the quality of crew selection, their training and their decision making.

Many of today's business aircraft have performance, equipment, and avionics that exceed that of the airlines. That all enhances safety.

Key factors in air travel safety are the management and operational policies that guide air travel services. Business aircraft allow companies and their executives to be assured that their crews are well rested, under no performance duress, and are operating within the parameters that assure the blend of safety and destination performance expected.

Passenger safety is an issue of perception, control, and performance. One executive described it graphically when he said he expects his crew to prepare and preflight the aircraft prior to his arrival for departure. As he enters the aircraft he shakes the crew's hands, looks in their eyes, and asks them how they are doing. He wants to be sure they are going to have a great day.

Best bang for your buck and avoiding land mines

Don't do business aviation "on the cheap." The result is almost always more expensive than promised or expected. Additionally, cutting essential costs can easily reduce



reliability, service, and safety - three of the top reasons for getting into business aviation in the first place. "You can pay me now or you can..."

One of the most frequent areas of under investment in business aviation is staffing. Quality and quantity of staff are every bit as important as finding the right aircraft. Would you have surgery done at the newest and best-equipped hospital if they cut costs by hiring the cheapest doctors and nurses or overworked them? The same sort of question holds true for business aviation.

The other false economy is cutting training costs. It is sometimes said that professional flying is a job of seemingly endless hours of routine and boredom interrupted on rare occasion by moments of keen excitement. Today's aircraft and engines have become so reliable that most pilots never experience a true emergency. Yet they must be prepared to handle any eventuality. As a result, business aviation training vendors have simulators and programs at least as good as those of the major airlines. It is important for crews to be refreshed in their training at least once each year. The commercial standard is once each six months. Do it. The piece of mind is worth it and if something should happen... the performance is priceless.

The following is a summary of elements that can enhance your business aviation experience and contribute to getting the best bang for your buck:

- Confirm the style or level of operation and ownership that meets your needs. Select the right tool for the job; charter, fractional or shared ownership, or a traditional internal flight department or employing the services of an external management company.
- If you intend to buy a new aircraft, there are often dramatic price incentives normally associated with buying one of the first of a new model of aircraft (often prior to airframe certification). The drawback is new model aircraft often have unpredictable delays in their certification and delivery schedules, the interior options may not be as great as later in the production run, nor is the completion apt to be as sophisticated because of lack of experience with the aircraft.
- The other risk you run with a new model of aircraft is reliability. Although the manufacturers work tirelessly to design, manufacture, and deliver a perfect aircraft it is impossible for them to predict every point of wear, etc. Therefore, it is not uncommon for early serial numbered aircraft to experience problems that the manufacturer's technical representatives will gladly assist you with. They want you back in the air as soon as possible. As a result, the manufacturers routinely incorporate product improvements on their aircraft as field experience identifies systems or parts that need improvement.
- If you know you want a specific class of aircraft you may also have a preference for one brand over another. As you look at the market you may find that brand is priced higher or has a longer backlog delay before delivery. It may be a good idea to seriously consider your second choice in order to save investment capital or get the aircraft on line sooner. Additionally, it is not unheard of for a manufacturer to become more flexible in their timing and cost when a sale is uncertain.



- If you are going to buy a used aircraft, review the entire market, identify the best five or six aircraft, isolate at least two that most closely fit your needs and go after the one you like the most.

When it all said and done, having the right people to the right place to do the right things for a company and its customers is often essential for success. Business aviation services are a proven tool for getting them there. Business Aviation services can be your competitive advantage.