



Disparate Measures :: A Novel Approach

Looking at Corporate Aircraft as a Strategic Resource
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How a hard-nosed, cost-cutting executive committee came to appreciate the intangible benefits the company aircraft provided it

The following story dramatizes the challenges many flight department leaders continue to face. Although the characters are fictitious, many of the comments are ones I've heard from chief pilots and key passengers.

THE PLAYERS

- Jim Williams, Chief pilot
- Ed Hartman, VP Administration
- Holly Wainwright, Scheduler
- Bob Baker, Maintenance Manager
- Jeffrey Albright, Jr., Chairman of the board, President, & CEO

My gut is in a tight little ball. Ed Hartman is still talking but I don't hear him. Our flight department is in trouble. I didn't see it coming. And worse yet, the threat seems to be beyond my control.

Friday is one of my favorite days at the hangar. The excitement of the week's business is coming to an end. At 5 p.m., the place is getting quiet. The phone has slowed down, and folks are heading out the door.

I'm surprised when, as I glance outside, I notice Hartman, my boss and the company's vice president of administrative services, pulling into the parking lot. This is an unannounced visit—a rare occurrence from Ed. I lean around the corner and ask Holly Wainwright, our scheduler, if she knew that Ed was coming. She says, "No, he didn't call".

I meet Ed in the lobby. His response to my greeting is awkward. I have worked for Ed for a little more than six months. I began reporting to him as one of the many changes that had occurred when my former boss and the chairman of the board, Mr. Albright, Sr., retired last spring. He had founded the company nearly 50 years ago.

His first chief pilot, Ches Thompson, hired me fresh out of the military and taught me everything he could. He recommended me as his successor when he retired two years ago.

On my first day as chief pilot, Mr. Albright invited me into his office for a brief chat - that is, he chatted I listened.



"Jim, I know we need these airplanes. I also don't think we can justify them financially. But they help us get things done we couldn't do otherwise."

"Your job as chief pilot is to make certain we have the safest, most effective flight services possible. I want the highest level of safety on every trip for every passenger, whether it is on one of our planes or a charter flight, whether it is me onboard or one of our real estate assessors checking out a potential new piece of property. I know you will do a great job. Let me know if you need anything."

That was Mr. Albright... direct and to the point. He made this company what it is by making good decisions and trusting his instincts. When he gave you a job to do, you knew he expected you to get it done. You would move heaven and earth to make it happen. Everyone loved Mr. Albright. No one wanted to let him down. I guess that is the secret to his being the finest leader I've ever known.

THE BAD NEWS

When the senior Mr. Albright retired, Mr. Albright, Jr. assumed control. Junior is cut from another cloth. He was sent to Harvard and spent summers working in various jobs in the company. Since then, he has worked primarily at headquarters in a progression of management and executive slots.

In contrast to his dad, junior is a numbers man. He has aggressively pushed for improved controls and reductions in costs. The rumor is he has a tattoo with the message, "If you can't measure it, you can't manage it".

Since junior took over at the first of the year, the company has seen a lot of changes. No doubt our bottom line is better, but this is not the same company Junior's dad handed over to him. It is less kind, less secure, and a lot less comfortable. Ed is now telling me just how much less comfortable.

"Jim, I've just come out of a meeting of the executive committee where the major topic of discussion was that the company is behind its profit projections for the year. As you know, we are tightly focused on shareholder value. Lower profits mean lower stock prices. The EC has established a set of goals for the revenue centers to create increased margins or for cost centers, like yours, to reduce costs".

"Frankly, there was some talk about making some dramatic changes in the flight department. It is the single largest concentration of non-revenue-producing capital we have. However, Junior and a couple of others, including Jerry Bennett from marketing, indicated they want to give you a chance to do some benchmarking and present other measures that demonstrate the real value of your flight services".

"Next Friday they want each business unit to present its case for its amended business plan for the next six months. Some people are going to do some pretty aggressive lobbying to cut the flight department dramatically. Every extra dollar cut from your budget will be one less dollar out of someone else's".



"To your benefit, you have a number of members of the EC who are delighted with the level and quality of the service your group provides. They will likely support you if you can give them the ammunition they need," he concludes.

"Ed," I begin, "we provide you with monthly management information summaries that contain all of our operating data. That information compares favorably with the benchmark numbers we generated last summer as well as with the averages the National Business Aircraft Aviation supplied us. What else does the EC need?"

"Those numbers have been useful in giving top management a sense of comfort that we were doing many of the same things other companies are doing," replies Ed. "But, with the cost issues before EC today, that isn't good enough. They need something more definitive. Think about it over the weekend. See what you come up with, and let me know what I can do to help. I've got my hands full with my other units, but I'll do what I can for you".

As I watch Ed drive away, I realize I have no idea where to start. We had been told all along we were doing a great job and our services were "invaluable". I know we are making a great contribution to the company's success. Now we are being told there are limits to how invaluable we are. What will this mean for our pilots, mechanics, scheduler, and other staff? If I don't come up with some good answers, fast ...

That night at dinner I share my concerns and frustrations with my wife, Kathy. She is always a good listener. She also has an uncanny knack for putting her finger on the not-so-obvious options. "Why don't you talk this over with Roy and see what he says?" she asks.

SOME GOOD ADVICE

My friend Roy is a management consultant. We used his services on some team-development work last year. His perspective tends to be unorthodox, but always well founded. He tenaciously pushes for everything an organization and its members do to contribute to 'customer outcomes'. We have been working hard to that end. Now the time has come to see if he can help us put numbers on those outcomes.

Over Saturday-morning coffee at Roy's house, I finish describing my meeting with Ed by saying, "If this were a technical or people performance problem, I'm confident I could work it out. But I've seen this same situation come up at a number of other flight departments, and I've never seen a satisfactory answer. In the end, either someone in top management stepped up and defended and endowed the flight department, or the company made drastic cuts in aircraft, people, and flight activities. I can't believe either scenario would be good for our company, given our circumstances".

"I expect you're right, Jim," says Roy. "But, let's start at the beginning. Who are your customers, and what services do you provide for them?"



"Okay," I say, "we have two different categories of customers: First, the executive committee has top priority; second, the rest of the management team has direct access to the aircraft for themselves or their organizations".

"Describe for me the kinds of activities those passenger groups are doing when they get where they are going," Roy prods.

"Well, the members of the EC can be going to meetings with our company's strategic partners, board of directors meetings, financial community and investor relations meetings, and, lately, we have been doing a lot of trips for them as they pursue mergers and acquisitions to increase the company's rate of growth," I say. "The other VPs and senior managers typically use us for team visits to our various facilities, road shows, customer visits, a growing number of trips to bring customers to our other facilities, and occasional emergency trips to put out a fire at one of our facilities or at a customer's location," I continue.

"I see," says Roy "Tell me, what product or service do you provide?"

I look at him for a second to see if he is serious, because Roy knows what we do as well as anyone. "Our mission is to provide safe, effective transportation for or company's members and our customers. Is that what you mean?" I ask.

"Exactly!" Roy exclaims. "Your flight department produces destinations for your customers. In fact, if I understood what you said, you produce two flavors of destinations: strategic destinations and operational or economic destinations". "A strategic destination involves getting key people (top executives or specialists) on-site to handle an opportunity that promises either a high business reward or risk for the company. In a strategic sense, your department's services could be compared with those of a fire department," Roy explains.

"On the other hand," he continues, "an operational or economic destination is achieved by the air travel service that is most effective, such as many of the airline trips your passengers take or the company flights they take as business teams. Basically, they are looking for a destination solution that creates the best bang for the buck. Does that make sense?"

"It sure does", I reply. "But how do we measure those two different uses? And more importantly, how do we describe the value they create?"

"How do you measure them now?" Roy asks.

"That's just like a consultant, Roy. You answered my question with a question of your own. We report the same things as other flight departments: flight hours, miles flown, passengers flown, average passenger loads, cost per hour, and some others. Why?"



"I'll explain why", says Roy. "Let's pretend I'm a passenger. What does it mean to me how many hours you've flown, what the passenger load was, or what the company's cost per hour is to use the aircraft?"

"Well, if I provide you with a benchmark on how that compares with other companies and their flight departments, you can have a feel for how we are doing", I reply.

"From what you've been telling me, feeling good isn't enough anymore. They want to know what they are getting, right?" he presses.

"I guess you're right. But that takes me back to square one; most of the value they get seems to be intangible. And by definition, an intangible benefit is not measurable. This circular logic is frustrating. It's a Catch-22".

"Jim, there may be other ways to look at it. Let's take a look at strategic destinations first. What are three key benefits associated with your passengers flying on business aircraft rather than on the airlines when they are on a strategic trip?"

"Well, they can come and go on their own schedule; often they can travel more quickly door-to-door; they can meet privately en route to plan and debrief; and they can carry whomever they need. Those are the benefits that come to mind right away", I reply.

"That is an excellent start", says Roy. "What measurable activities occur that describe any of those results?"

"I think I see where you're headed", I say. "With respect to setting their own schedule, we can measure the amount of lead time a trip has. Many of are popup or short-notice trips are strategic in nature and have lead times as short as a few hours. We can take them when the airlines may already be booked or not available. Additionally, a strategic meeting may have no set schedule. We may have an appointed arrival time, but the crew is often on standby for the return of the passengers. They meet for as long as they need to in order to get the job done. Then they call the airport to tell the crew to prepare to head home. Those are the activities. But what do you measure to demonstrate them?" I ask.

"First, you can let your customer help define the measurements", suggests Roy. "That assures a level of buy-in as you begin to report your results. For instance, any trip taken by an executive committee member could be considered strategic because they are all deeply involved in the company's success. In other words, by definition, they are corporate strategic resources or assets. Their travel is a strategic event. In addition, you can include a place on your trip request form that creates a strategic trip category to raise its priority and make it easier to track its impact", Roy explains.

"You indicated that strategic trips must be more flexible, and the airlines cannot satisfy that requirement," he continues. "You could demonstrate that flexibility by tracking the number of major changes that occur to each strategic trip schedule - for instance, how often each trip's departure time is adjusted by more than a minimum amount, say 15



minutes; or, how often the manifest on a strategic trip changes. Those are both important activities that create substantial value the airlines cannot match."

"Those benefits must be compared with the cost of getting them. What does your Citation V cost you to operate?" he asks. "About \$900 per hour, direct cost. When you add in the indirect costs, it is about \$2,350 per hour."

"Jim, how you measure and present the costs of passenger trips is every bit as important as describing the benefits they're receiving. You may incur your variable costs on an hourly basis, but that isn't what the passengers are getting. They are getting destinations."

"In addition, your cost measurement must be in a form that is easy for your customers to compare it with the alternatives. Otherwise, they will use their perceptions of the cost, and in that regard, you are at a substantial disadvantage versus the airlines. The cost of an airline destination is perceived to be the ticket cost.

That could be as little as a few hundred dollars, and that sounds like a lot less than your fully allocated cost of \$2,350 per hour. The fact is those are apples-and-oranges dollars. What is the typical passenger load on the citation?" I reply, "3.2 passengers per leg".

"Okay, pull out your calculator and tell me what that cost is per passenger per mile", says Roy.

"That works out to \$1.86 per passenger, per mile," I answer. "But, isn't that a lot more than the cost of an airline ticket?"

"Correct," Roy agrees. "But when I travel by airlines, the ticket is not the entire cost I incur. What are the other costs?"

"Door-to-door those costs could include higher surface transportation costs because we can get into closer airports, automobile parking, additional overnight stays, but the biggest difference is in time. We can measure the difference in time between the airlines and your aircraft, but how do we calculate the value of that time?"

"Let your customers choose the amount of money their time is worth", Roy suggests. "But you can give them a conservative idea of that cost by simply accounting for the cost to the company for passengers' time: their salary plus benefits. The members of the EC are your company's most highly paid people - let's assume they average \$400,000 per year each. In other words, a passenger with a salary plus benefits of \$400,000 per costs the company about \$200 per hour. An extra hour on the airlines could cost the company \$200 more spread over the distance traveled per passenger".

"Roy, the NBAA has a new software program available, TravelSense, that calculates the dollar value of the time passengers save using business aircraft versus the



scheduled airlines", I say, "It sounds like it could be a useful tool for us to determine the objective costs of travel - including the time spent traveling".

"You're right", Roy agrees. "What we are discussing here, however, is the strategic and operational payoff from travel. What you measure must describe the outcomes the company gets for the premium, if any, it pays for using the Citation. But that brings us to another point. If the primary purpose of an airplane is as a strategic tool, it also creates value - like a fire truck - by being available. In other words, it doesn't create value when it moves".

"Jim, do you believe the EC feels that the primary reason the company has airplanes is to provide strategic destinations?"

"I think so, since members of the EC are on the majority of our trips."

"Then your indirect costs can be viewed as being fully invested in making the strategic resource available, right?" Roy asks.

"Yes, but what does that do for us?" I counter.

"It pays the overhead for operation destination," he answers. "In other words, the operational destinations you create with the same aircraft are achieved for direct, or variable, costs only. What are your destinations and passenger loads like on operational trips?" he asks.

"We tend to go to regional destinations that are difficult to get to on the airlines, and the passenger loads are in the 4.0 range."

"So if your variable costs are \$900 per hour, and you have a block speed of 394 miles per hour, your direct cost is \$2.28 per mile for the aircraft, or \$0.57 per passenger mile," Roy concludes.

"Wow, that's less than the ticket cost alone on many of those trips."

"That may be true," Roy continues, "but don't forget that the aircraft is a strategic resource. Your operational trips are performed during the slack time when strategic trips are not being made. Think of operational trips as delivering the mail with your fire truck: If you get too busy with the mail, you run the risk of having it too far out of position when the fire alarm goes off. If that happens, you have damaged the strategic value of the resource."

"I see what you mean", I say. "The strategic trips have priority on the schedule. We can add value by selling some of the slack time for operational trips. But how much of the slack time should we fill up with operational trips? I could easily fill the aircraft up with operational trips alone."



"Let the EC tell you that," Roy says. "They are the strategic customers, and they are the best judges of what balance you should strike between strategic and operational trips for the airplanes."

"Roy, I can't thank you enough for the suggestions and ideas. I better get busy with my scheduler and maintenance manager to define measurements that describe the intangible benefits our customers get. I'll let you know how it goes. Wish us luck."

"To paraphrase Mae West, I doubt if luck will have anything to do with it."

EPILOGUE

During the next few days, Jim met briefly with several of his most frequent passengers. He asked them to describe what they valued most from using the company aircraft. He then got together with his scheduler, Holly, and maintenance manager, Bob, to come up with measurements of those tangible benefits their services created.

At Jim's presentation to the EC, the members were surprised at the relatively low premium the company pays, in comparison with the airlines, for strategic destinations. They also showed strong appreciation for the innovative explanation of many of the benefits they receive. Not every member of the EC became a raving fan, but the flight department's value to the company was much better understood and appreciated.

Jim concluded his presentations to the EC, "Ladies and gentlemen, are there any further questions? If not, the flight department looks forward to continuing to provide strategic destinations for you, as well as the most precious operational destinations of the company. I thank you for your time and attention".

Junior spoke for the first time since the beginning of the presentation, "Jim, I have never seen the flight department's contribution to our business demonstrated so well. I see no reason for you to make any dramatic changes. I think I speak for the entire EC when I say, 'Keep up the good work' Thank you".

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