



Business Aviation : : Business Results

Fortune September 18, 1995 Issue

*Peter v. Agur, Jr., President
The VanAllen Group, Inc.*

Do business aircraft really bolster business results? According to David Rockefeller, they do. "Without my aircraft I would never have been able to achieve what I have achieved in my life", he says.

Nonetheless, many executives and financial managers say they cannot justify business aircraft on a cost-savings basis. This is not necessarily a statement of fact, however, for the very reason that the accounting and economics models these executives and financial managers are using were initially developed to measure manufacturing production. But manufacturing measures are inadequate for service units like business aviation. Service business accounting tools are evolving...slowly. Activity Based Costing is a start. But ABC still focuses on process costs rather than the value (benefits minus costs) of specified outcomes.

Even without hard dollar date, most successful large corporations use business aircraft. Nine of FORTUNE's Ten Most Admired companies enjoy the benefits of business aircraft services. Ed Stimpson, president of General Aviation Manufacturers Association, adds, "92% of FORTUNE's Best Performing companies for stock holders use business aircraft."

Jack Olcott, president of the National Business Aircraft Association, explains: "Our members, about half of the companies that operate business aircraft in the U.S. today, are economic leaders. They employ 16 million people, generate \$3 trillion in revenues, and depend upon transportation for business development.

"Business aviation does not compete with the airlines," he adds. "It is a complementing resource. Companies use business aviation as a partner with the airlines in satisfying their transportation needs." In addition to being the world's most active users of business aviation, our members bought \$11 billion in airline tickets last year."

In other words, companies that have business aircraft exude unique energy and imagination. They are going somewhere, both figuratively and literally.

STRATEGIC AND OPERATIONAL TRIP VALUE

Companies get strategic and operational trip results from their investment in aircraft services. Strategic travel refers to high-risk and high-reward business opportunities. "911" trips must be made. AT&T had to take a "911" trips last February.

"As a result of AT&T's successful McCaw acquisition, British Telecom ended up with 35.9 million shares of our common stock," relates AT&T's aviation director, Bill Beversluis. "When British Telecom decided to sell its shares, an orderly and efficient



offering of the \$2 billion worth of stock became a top priority. So we did 'The Road Show.'

Simultaneously, in key financial centers throughout North America and Western Europe, senior AT&T officers sat down with institutional investors and large financial houses to describe the value in AT&T for their pension plans, mutual funds, trust funds, etc. 'The Road Show' had to be very quick and effective.

"Our teams made presentations in two or three cities each day," he adds. "This went on for about a week. Not only did they have grueling presentation schedules, but they had to travel and show up fresh for each meeting. They did it using our aircraft. They could not have possibly done it on the airlines. As a result, nearly 39 million AT&T shares were gobbled up and our shareholders' holdings stayed strong." AT&T's 911 call was made and answered...by business aviation.

For Sea Ray Boats, a trip to one of its operating divisions in rural Ohio could not have been more strategic. The division's computer system hard disk crashed on a Sunday. There was no backup. Without quick action, production would not resume on Monday. Parts were located and a team of four Knoxville-based information technology engineers was sent, via company plane, to Ohio. The flight took 55 minutes. The airline alternative would have required six hours of travel time, if flights and seats were available.

The team arrived, assessed the problem, and worked all night. It had the system running prior to plant opening Monday. The production line didn't miss a stroke. The information technology team stayed on-site for the entire week to monitor and work on the system.

Once the crisis was over, Sea Ray could have saved money by bring the team home on the airlines. But the company has a strong "people" culture. Its people are the source of its legendary quality and customer service. Consequently, Bill Barrington, Sea Ray's president and CEO, sent the company plane to get the team. On each man's seat were two personal "thank you" letters, one from his supervisor and one from Bill. The results of that trip will be felt for a long time...in both Ohio and Knoxville.

Strategic travel creates maximum control You go where you want, when you want, with whom you want.

Operational travel is more routine. But for companies like Lukens Incorporated, aviation has had a significant impact.

"Aviation has been a part of Lukens' culture since the '70's," says bill Van Sant, who assumed the helm in 1991 and has since steered the company through some of the most dramatic changes in its 185-year history. "As we transformed the company we have changed the way we use our corporate aviation resources. In the past, aviation was a tool used by senior management only, in a very discreet way.



"In the 1990s we wanted to make aviation an integral part of our strategic direction," he continues. Aviation is an important business tool that, if used right, can give us an advantage over our competition.

"To put that all into perspective," notes Van Sant, "we went from \$20 million in annual capital projects in 1992 to \$120 million in '94 and again in '95. In that same time frame we took about 135 salaried people out of our organization. We did six times the amount of capital investment in our future with less people. That could not have happened without the use of our business airplane and charter services."

For companies like AT&T, Sea Ray, and Lukens, a combination of tangibles and intangibles create Air Travel Value, no matter which travel mode is used. The components of Air Travel Value are:

- Confidentiality - Privacy and discretion.
- Cost Effectiveness - The full cost of the trip, door to door.
- Safety and Security - No pain and no fear.
- Service - flexibility, reliability, responsiveness, comfort, etc.
- Time Effectiveness - The quality of time required to go door-to-door.

WORLD AND DOMESTIC MARKETS

"In the last five years we have become a world marketplace," observes Roger McMullin, Chairman and CEO of Aviation Methods, Inc. "You may be a U.S. company with U.S. products but your customers, vendors, and competitors are from all over the world."

"Emerging economic well-being is shifting to the Pacific and Far East," indicates Stuart Matthews, president and CEO of the Flight Safety Foundation. "China will burgeon for the next 20-100 years. The former Soviet Union will be an important new marketplace for the world, too. They have very little ground infrastructure, so aircraft are a large part of their growth."

"When you are taking your business to new areas of the world, it is important to maintain control of your environment." Suggests Dick Van Gemert, executive vice president of KC Aviation. "It is important to get there to do business and it is important to get out when you are done."

Gary Hay, executive vice president of Cessna Aircraft, describes a dramatic example. "We were recently in five different cities in China over a span of six days," he notes. "We used charter aircraft for a good part of that trip. It enabled us to hold roughly 50 meetings. It was a schedule with on latitude for the availability or uncertainty of public transportation."

What happens when uncertainty turns into reality? Not long ago the chairman and the CFO of one of America's largest companies scheduled a trip to Japan to reinforce existing business relationships and seek new opportunities. Their flight department manager offered to take them in the company's long-range aircraft. The executives



turned them down, partly out of concern for cost. However, they did accept an offer of a ride to Minneapolis to catch the non-stop 747 flight to Narita.

The company pilots delivered the executives on time. They even watched the 747 push back before departing. Unfortunately, the 747 never left the ramp because of a mechanical malfunction. Hours later the airline let the passengers off and canceled the flight. A pair of very frustrated executives called Japan with their apologies and went home to reschedule the trip. The lost opportunity cost of that event may have easily paid for the business airplane's operating expenses to and from Japan.

John Lawson, president, Bombardier Business Aircraft Division, frames the issue succinctly. "If the only international routes business people needed to travel were New York to Tokyo or Chicago to Paris or London, perhaps the airlines would do a wonderful job for most business travelers," he says. "But we see growth markets in Eastern Europe, Latin America, China, Malaysia, Viet Nam, and other parts of the Pacific Rim. In these areas there have been serious questions about the availability, and reliability, of the regional air transportation services. Business aircraft not only can get a team of people there but it provides an en route work environment that permits so much more to get done,"

The marketplace is getting tougher, too.

"Customers are demanding high quality, high service, high speed, and low price," observes Jim Christiansen, president, Wayfarer Ketch, "all at the same time. To be competitive, the expectations of the customer must be met. That requires 'face time' so you know the customer's need. You develop and maintain the relationship that makes orders happen face-to-face.

"We excel at selling our products and services," says Martin Durant, senior vice president of AFLAC. "Our challenge lies in improving the persistency of that business - keeping it on the books once it is sold. We sell about as many policies each year in Japan as we do in the U.S. In Japan we keep nearly all that new business on the books. In the U.S. we only keep about half of it. That will change through improving customer satisfaction."

Durant stresses the importance of customer service.

"Part of keeping customers happy means responding promptly to problems," he explains. "in the future, when we learn of a customer with a critical concern, we will either take AFLAC to them or bring them to AFLAC. We will resolve the problem. The minor cost it takes to send our plane to do this will forever endear that customer to us. That will clearly separate us from the other players in the market.

"Yes, the use of aircraft is a cost," Durant continues. "We are actually lowering margin costs by deploying our assets more effectively and efficiently. Our future customer-responsive use of our aircraft will give us a net economic return by retaining 'at risk' customers. It is a lot more profitable to keep a current customer than to replace one."



INFORMATION TECHNOLOGY AND TRAVEL

"The anticipated impacts of high-tech business tools have had some counter impacts," says Dassault Falcon Jet's John Sosanvallon, senior vice president of worldwide sales and marketing. "The incorporation of advanced communications technologies has accelerated the pace of business so much that the need to be face-to-face is happening more frequently. Maybe our meetings with each customer or supplier are fewer, but our ability to do business with more customers has grown dramatically."

Many executives and manager who use video-conferencing and other electronic media report reduced business cycle times," says Bill Boisture, president of Gulfstream Aircraft, Inc. "However, they also say electronic media cannot replace being face-to-face in developing business relationships. Electronic tools help get business to the table sooner. But they do to override the need to be at the table to get the deal done."

MAXIMIZING TIME

Most companies are doing more with less. Many "right-sized" companies are taking it to the next level "tight-sized" and discovering growing time constraints.

"Stockholders cannot buy another hour of a key executive's time," observes Rosanvallon. "He or she does not have it to give. That person's time is already committed." Time is rigidly inelastic and completely perishable. Business aircraft allow passengers to allocate the extra travel hours or days it takes to go commercially to other, more productive, activities.

"No matter how much authority and responsibility a manager delegates, he or she must still 'be there,'" suggests Wayfarer Ketch's Christiansen. "You show up... or you run the risk of being surprised."

"I want just-in-time destinations," declares Mary McBride, vice president of marketing, Des Moines-based Pioneer Hi-Bred International. She echoes the view of many executives: they don't want to be early, and they don't want to be late.

Travel time productivity is also important. Astra Jet's Walter Krajaulis, corporate general counsel, says, "Executives are using aircraft as an airborne business environment. They are perpetually on the phone en route. You cannot do that on the airlines with any effectiveness and privacy."

Golf legend/business Jack Nicklaus for example, travels about 200 days per year. "My [airplane] is my No.1 tool in business- well, let me qualify that-that is probably my putter, because without it, none of this business would be here today. On a day-to-day, week-to-week, month-month basis, I rely on my airplane to make all my various business activities possible.

"It is my office in the sky," he adds. "We spend a lot of time on flights with different people from my company going over business, going over design plan, etc. We get a lot of business done at 35,000 feet!



"It's also my sanctuary," says Nicklaus. "I am able to fly to a place like Japan, arrive refreshed, well-rested and ready for a full day's work. I'm not slowed down by jet lag. I never have to take any risks adjusting or changing my day- to- day needs. Put simply, my [airplane] permits me to maximize my time and effectiveness in business. It has helped make Golden Bear International a successful international company by enabling us to accomplish things we wouldn't otherwise be able to do."

ENHANCING MOBILITY

"Yes, there were some well documented historic misuses of corporate aircraft," reflects Christiansen. "But in today's environment with shareholder scrutinizing expenses so closely, everybody is out there to run a successful business. A company must find the use of business aircraft of significant value or they will not risk the exposure. The vote is in. We are seeing more first time buyers. Folks are saying, 'Look, if we are expected to make these tremendous returns for the business, we need the tools to do it. That tool is mobility: business aircraft. Business aircraft allow us to do in a day, or less, what it may take two or three days to do on the airlines."

"The financial services industry is extremely cost-conscious and financially astute," says Russ Meyer Chairman and CEO of Cessna Aircraft. "With the competitive pressures of the deregulation of the banking industry, they have emerged as one of the biggest users of business aircraft."

"Entrepreneurs and senior executives typically are substantial personal stakeholders in their companies," observes Aviation Method's McMullin. "In the past, CEOs who used business aircraft may easily have been assumed to be taking advantage of a corporate perquisite. But today entrepreneurs and top executives are investing their own money, directly and indirectly, in aircraft. Why" Because business aircraft leverage their time and create mobility for them to do the deal."

FRACTIONAL AIRCRAFT OWNERSHIP

Historically, companies either nibbled at a few hours of charter at a time or they feasted on full ownership. For those companies with less robust appetites, there is now "fractional ownership." In simplified terms, a company can buy a 1/8 (or more) share of a professionally operated and maintained aircraft and leave the "driving and hassles to them."

The founder of the fractional share concept, NetJets, is Richard Santulli, Chairman of Executive Jet Aviation. His initial vision targeted wealthy individuals. "We currently have over 260 fractional share customers," he says. "Today only three of our customers have other aircraft. But businesses and their flight departments have changed the way they invest in aircraft. They are now seeking elastic travel capacity through fractional ownership. Fractional ownership is an excellent option for many of them."

"Fractional ownership is going to grow," predicts Art Wegner Chairman and CEO of Raytheon Aircraft. "It will add to the population of business aircraft users. In addition,



many companies can use fractional ownership as a way to add flexibility to their core business aircraft services."

"Many FORTUNE 500 companies already enjoy the benefits of business aviation," observes Rob Gillespie, president of Bombardier Business Jet Solutions. Fractional ownership will help the rest of the FORTUNE 500."

Fractional ownership addresses major opportunities to improve the efficiency of business aviation. Companies can gain an incremental increase in trip capacity without adding the full fixed costs of an aircraft or crew. In addition, it allows companies to handle trips away from home base without incurring the cost of relocating an empty aircraft.

THE END RESULT

Business aircraft are a people-resource positioning tool. Companies use aircraft to get the right people in place at the right time. New Orleans-based Entergy Corporation uses its aircraft to achieve multiple advantages.

"We are shifting our future focus on international markets," declares Ed Lupberger, Entergy's chairman and CEO. "International success is based on knowing the person, having a relationship over a period of time and building trust. So you need to go see them and they need to come see you. Everybody has a busy schedule. The business aircraft takes away the excuse for not going.

"Our international airplane was a big step for us," he adds. "I went to our board and said, 'Look, I think we have the potential and opportunity to go into a higher orbit. The tool that can do the most to get us into that higher orbit is an airplane with international capabilities.' It has now been a year and I'm convinced it's doing for us what I thought.

"During a recent visit to Brazil our team realized that if they could bring the people they were talking to up to see our facilities we could probably get in on the ground floor in Brazil," he adds. "We put them on the plane and brought them home. No problem. We showed them our facilities and signed a five-year letter of intent. That relationship can result in our being a major player in Brazil. Our people say we could not have done the, certainly in that time frame, with the airplane.

"To be successful in any kind of business you have to be out there," Lupberger advises. "You cannot do business sitting in your office." In other words, use business Aviation to get Business Results.

Written by Pete Agur President of The VanAllen Group, Inc., an Atlanta-based management consulting firm that helps corporations and their flight departments succeed together.