

Erickson and Larry Bartledge, has the lead in rotorcraft certification. Working closely with industry, this office is dedicated to keeping abreast of the latest technological developments. For example, test pilots have already completed ground school, and they are training in simulators to prepare to certificate tiltrotor aircraft pilots.

Experts at our Atlantic City technical center are working on new ATC procedures, obstruction avoidance, steep angle approaches, and heliport and vertiport development. These efforts will make vertical flight safer and more efficient.

Within my area—policy, planning and international aviation—a part of our job is to make sure that vertical flight is an integral part of the system. My staff worked closely with HAI, AHS, and TRB to bring about this workshop. The System Requirements Branch, managed by Chuck Dennis, put together the Rotorcraft Master Plan and is responsible for many R&D studies. This office is also responsible for the overall FAA strategic plan, whereby we are trying to insure that vertical flight is integrated into the FAA planning process.

THE USES OF ECONOMIC DATA FOR HELICOPTER OPERATORS

Edward Walls
University of North Carolina, Charlotte

It is a thrill to be here. I have been observing the helicopter transportation industry for 23 years and never believed this would happen—operators, manufacturers, and FAA sitting down together to discuss common concerns. It is a truly historic opportunity that may not come again if we muff it.

The survey of operating and financial ratios of helicopter transportation firms recently completed by the HAI Economics Committee under the chairmanship of Brandon Battles is a significant achievement. In my business—studying and teaching corporate financial management—I quickly learned that data provided by industry associations and investment advisory companies such as Standard and Poor's and Moody's are the basic indicators of company financial strength and trends.

A look at a typical industrial sector summary published by such firms shows a classification of companies by size, measured in terms of assets and asset ratios. This permits comparison of companies of similar size. In some industry summaries firms are also listed by

With your help, we will become even more responsive to helicopter problems and concerns. Our co-sponsorship of this workshop should be considered but one step in the larger effort to improve our knowledge base and integrate vertical flight into the aviation system. We have a way to go before helicopters can operate within the system as easily as fixed-wing aircraft, but we are committed to that goal.

To step back just for a minute, look at the critical role the aviation industry plays our national economy. About 5.6 percent of our gross national product is generated through aviation. One out of every 14 jobs in the United States is either in aviation or related to aviation. As I mentioned before, southern California is a cradle of aviation development and activity, and it is particularly appropriate that we here today think about this. As we deliberate, we need to keep in mind the importance of aviation to our national economy and to the nation as a whole. We need to continue to care for and nurture this industry. This workshop is a small but very important part of the effort.

geographic region to reflect different economic conditions in various parts of the country.

With such data one company can be compared with others of similar size, or in different regions, or with similar product lines, and so on. This can be very enlightening for management as well as for lenders, investors, regulators, or anyone with access to company and industry data.

The recently completed HAI economic survey of helicopter operators—of which you will hear more from Brandon Battles later in the program today—fills a long-standing need in our industry.

There are a number of ways in which such data, reported annually, can be of use. The first that occurs to me is the education of new or small operators who have little or no experience in collecting and using financial information. Survey data can show them the margins that are normal, encouraging them not to underprice. The data can also give them an idea of normal cost structure—the percentage that goes maintenance, insurance, labor, and so on, thereby alerting them to the possibility they are skimping on something or paying too much for something else.

An expected result would be more widespread financial health in the industry and earlier demise of marginal firms which do not operate efficiently. Their

departure would be encouraged by market forces. If lenders have access to industry data, they will discriminate against operators who cannot demonstrate they can turn a loan or investment into an adequate cash flow through effective use of the equipment they have financed.

Another use of economic data that seems to be getting more attention now is to show the helicopter industry's role in the economy generally and the transportation network particularly. If heliports are to be accepted as a public good and if helicopters are to be recognized as a necessary element of the transportation system, the industry must be prepared to provide data to support these contentions.

If operators want to demonstrate that the industry is in poor financial health, they must have solid information to that effect. How can operators or HAI make the case for the industry without such evidence?

Other uses could be listed, but these should be sufficient to illustrate how an economic survey, conducted annually, could contribute to the short- and long-term strength of the helicopter operating industry. The value of such information is borne out by the fact that most industry associations initiated economic surveys very early in their history, much earlier than the

helicopter industry.

The primary knowledge needed to make use of these data is basic familiarity with helicopter operations and standard business methods. The calculation of financial ratios is simple arithmetic. It is interpretation of the results that requires understanding—not just of helicopter operations but also of financial statements, concepts, and techniques that are normal parts of financial management.

Those inexperienced in the financial side of business would do well to seek tutoring by a bank lending officer or to enroll in a financial management course at a local university or junior college. The tools and knowledge needed are also taught, in a helicopter setting, in the HAI Operator Management course.

The key point is that the knowledge required by helicopter operators consists chiefly of basic business concepts and tools that *any* company needs to survive and prosper.

This meeting represents an historic opportunity for helicopter operators to work more effectively with manufacturers and government to ensure that the capabilities of this unique machine are fully exploited to the benefit of the national transportation system.

COST MANAGEMENT

Robert K. Spear
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I am glad to be here. I am an accounting professor, but please do not hold that against me. I do not consider myself a typical accounting professor even though I wear dark suits, and I may wear wingtip shoes. I am not really oriented toward financial statements. My focus is on cost accounting.

What I want to talk to you about today is cost management. Simply put, if you know your costs, you can use them to manage your business. By that I mean that cost information can be a tool not only for planning, control, and evaluation of your day-to-day operations but also for the long-term management and direction of your enterprise.

Planning involves budgeting, both for the entire company operation and for individual contracts and jobs. With respect to control, if you know your costs, you will be better able to evaluate them and determine how to reduce them and plan for survival.

It is critical to measure **true** costs, which entails knowing what to measure and how to measure it. I dare say in talking to people who have come through the HAI Operator Management course that many operators do not realize what their true costs are. If you take a look at the shrinkage of the industry over the past several years, the truth of this observation seems to be borne out. The message is clear.

KNOW THY COSTS

There are four basic types of cost: direct, indirect, variable, and fixed. All can and should be used for planning, evaluation, management, and control. It is not always easy to determine how a given cost item should be classified. For example, what is a direct cost? Your accountant may have one answer, and you another. Most accountants do not have detailed knowledge of the helicopter business. Many accountants I have talked to confine their thinking to the Financial Accounting Standards Board (FASB) type of accounting.

That is not what you, the management, are really concerned with. Yes, that is what the financial statement