BUSINESS AVIATION

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The Business Aviation panel discussed a wide range of issues affecting the growth in demand for business aircraft and utilization of the existing fleet. Particular attention was paid to shifts in attitudes and priorities among corporations as they "reengineer" themselves to be more competitive.

Historically, the use of business aircraft has been dominated by corporations that place an extremely high value on the productivity and efficiency of its top managers. "Time saved" in air travel was seen as a multiplier of the productivity of senior management. Companies without aircraft were felt to be at a disadvantage, and so unit sales increased and the industry grew.

During the late 1970s quieter, more efficient, and more capable aircraft were introduced. They provided added rationale for purchase at a time when many companies were broadening the use of a corporate plane to include marketing and other new uses. Even midsize companies were expanding flight departments so they could handle "high priority" travel requirements throughout the company as opposed to just for the head office.

Further justification for purchasing new aircraft included a company's expansion into new markets. As corporations recognized the importance of international business, particularly in the 1980s, they sought more range and cabin space to accommodate longer trips. Some of these new aircraft were acquired with the added benefit of replacing older technology aircraft, which also reduced maintenance downtime and operating costs. In some cases, a concern about the effects of aging on safety affected the purchase. Some flight departments stated that their CEOs felt the aircraft should be replaced after 10 years to remove any doubt.

Rarely was an aircraft put up for sale for lack of return on investment (ROI). Usually, any downsizing or reduction in the corporate fleet followed other company cutbacks and/or a severe drop in company revenue.

During the late 1980s and early 1990s, more and more firms started applying demanding ROI measurements to the flight department. Management of air travel was put under the same magnifying glass as other processes such as management information systems, food service, security, and graphics. For some companies, the true cost of the flight department was an unpleasant surprise. Business seminars on managing the flight department became popular. Ways were found to cut costs including putting pressure on manufacturers to expand warranty coverage.

In more conservative companies, the value of time saved was withdrawn from the ROI equation causing a direct comparison between airline seats and cost for a

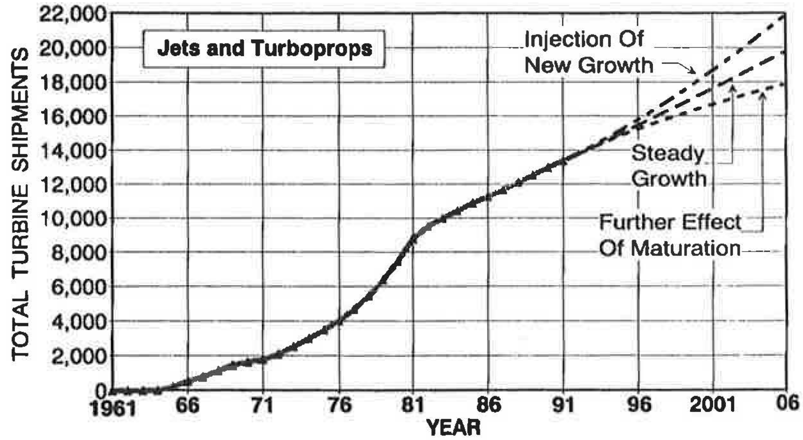

FIGURE 49 Turbine aircraft market, cumulative growth.

flight aboard the corporate aircraft. Since the cost of airline seats was held in check by oversupply, the cost of a new corporate aircraft (which escalated each year) became increasingly harder to justify.

It was said that the ratio of fixed costs to total costs of corporate aircraft in 1980 was 50 percent. Today it has moved to 75 percent because there are fewer tax benefits and inflation is at 2-3 instead of 10-15 percent.

Additionally, companies are now looking for cost reduction in nonstrategic services on the order of 50 percent. In order for travel services departments to gain those savings, major changes will have to take place across the board.

In summary, it took about 30 years for the business aircraft industry to exhibit the classic behavior patterns that are characteristic in other industries. (Figure 49) The 1960s marked the beginning of the industry, the late 1970s represented vigorous growth, the late 1980s modest growth sparked by new technology and new levels of need. The market of the 1990s is a mature market, especially in the United States, which accounts for over 70 percent of turbine aircraft sales.

Three things happen during a mature market:

- There is a shake-out of manufacturers and thinning out of product lines. Niche marketing prevails.
- New, innovative efforts are implemented to reduce operating costs and increase utilization.
- International markets are explored as new centers of growth.

A good deal of shake-out has already taken place. Most of the aircraft companies started by entrepreneurs are now owned by large conglomerates. New aircraft are being aimed at niches that could spur growth. In every case, the new product provide a reduction in cost of operation and/or a substantial increase in productivity (range times cabin volume times speed divided by cost).

New efforts are being made to increase utilization by lowering costs. Charter companies have begun setting up alliances with companies that own underutilized aircraft. In this way the charter company acts as a broker of available time. Costs are lower since a charter company does not have to carry the asset on the balance sheet. The company owning the aircraft benefits by receiving a portion of the charter proceeds. By working together, they have made chartering more economical, and thus more competitive with airline seats. One charter company has signed up over 80 aircraft owners and reports that business is booming. Another charter organization reports a 10-percent growth in activity between 1992 and 1993 due to a new approach in marketing whereby time is packaged according to corporate needs. 17 percent of this company's business is made up of clients that are new to aircraft chartering.

NetJets is a company that has found success by selling quarter shares of jet aircraft. NetJets buys enough aircraft from one manufacturer to acquire them at an attractive price. They then market flight time in packages that represent as little as an eighth of a share and gives the shareholder asset value and depreciation rights. All aircraft are painted and furbished similarly so they can be put in a pool. Owners are guaranteed to have an aircraft when they need it, flown by NetJets pilots. The owner may be flown to his destination in one aircraft and picked up by another. This allows NetJets to increase aircraft utilization to over twice the norm of the typical corporate jet owner, thus lowering costs per hour. Today the company manages about 30 aircraft that fly missions for about 120 owners. The concept allows everyone involved to gain simply by increasing utilization of assets.

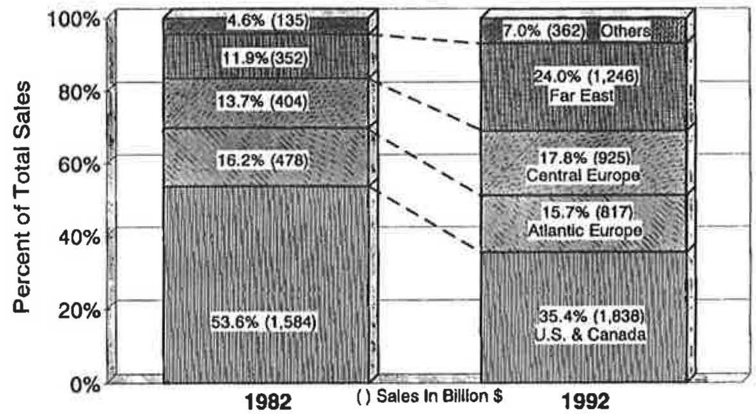

FIGURE 50 Geographic distribution of Fortune Global 500.

To help with the process of increasing utilization, the FAA might find it beneficial to look into making the switch from corporate to charter simpler. If operators under FAR Part 121 could switch to Part 91 or Part 135 depending on requirements, an increased number of aircraft could be adapted to a variety of roles.

While the business aviation market in the United States appears mature, new markets in Asia and Pacific Rim countries combined with the vast potential in Mexico and Brazil offer the industry hope for growth. (Figure 50) There is market demand for aircraft capable of global flights such as New York to Tokyo. This new segment will overlap airline capabilities, but on a time-sensitive basis. The market forecast for this new segment ranges from 400 to 1,000 units in the next ten years.

Taking advantage of the innovative marketing concepts to lower costs in North America cited earlier and applying them internationally promises new business opportunities for those with the vision and resources to make it happen.