

The Argument for Air Charter

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Business Aviation – An Enterprise Value Perspective

Nexa Advisors recently released a report titled, "[Business Aviation – An Enterprise Value Perspective](#)" as prepared for the National Business Aviation Association. (Nexa Advisors, LLC, 2009) It explores the value provided to companies in the S&P 500 that use business aviation in comparison to those that do not. Additionally, the report attempts to identify the factors brought to bear by business aviation that contribute to value creation.

According to the authors, "This report carries a powerful message to company boards, government policy makers and industry leaders: business aviation is a tool that provides a unique competitive benefit to America's businesses, manifesting in higher shareholder and enterprise value. In this unique role, business aviation is without substitute." Anecdotal surveys of executives support the above. For example, "As noted by one executive, "We carry a wide variety of mid-level managers, sales teams and professional people to and from plants all over the country. It's all about operating more productively and bringing more dollars to the bottom line for our shareholders."

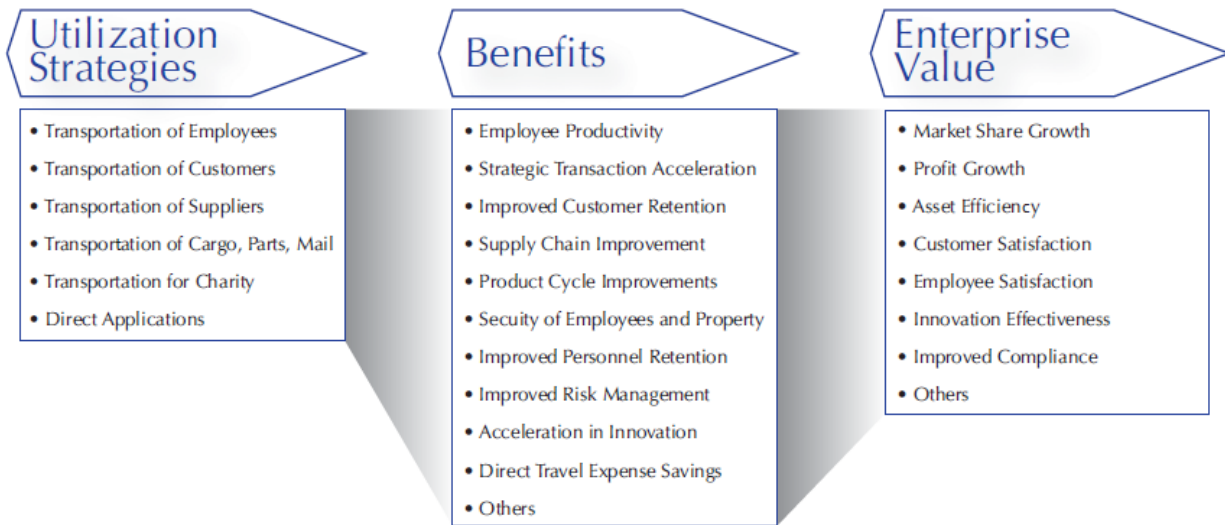
In regard to using existing airline service as an exclusive means to move company personnel and assets, several facts highlight the pitfalls of flying on the airlines. The following are what the report calls, "sobering facts":

- "Business aviation serves ten times the number of communities served by the commercial airlines."
- "A typical frequent business traveler flying from one of the 25 busiest U.S. airports can expect to lose one or more hours of productive work or personal time on the average trip. Airports and airline schedules are designed to rout travelers in a way that minimizes airline costs and not in a way that optimizes traveler productivity."
- "The need for air travel continues to grow, from 465 million annual domestic passengers in the U.S. in 1990 to 750 million in 2008. By 2021, according to the FAA, some 1 billion passengers will fly in the U.S. Over 40 percent will be business travelers."
- "More than 26 percent of all airline flights were delayed, diverted or cancelled in 2008, according to U.S. Department of Transportation statistics."
- "Airline business class and walk-up fares have increased over the last 10 years, and are not being offset by a similar improvement in traveler productivity."

The report goes on to ask, "What is the likely impact of an increasingly difficult air transportation system on competition, profits and enterprise value? Travelers are focused on door-to-door challenges, while

airlines are structured for gate-to-gate. Only business aviation can uniquely address emerging needs of certain business travelers in today’s complex, war-is-business environment.”

In analyzing business aviation, the authors used what they call the “UBV” framework. According to the authors, “In short, the construct recognizes that the uses or more formally, utilization strategies yield benefits which affect an enterprise’s value drivers. Abbreviated, this reduces to Utilization yields Benefits which yield Enterprise Value or UBV.” (Nexa Advisors, LLC, 2009)



How are business aircraft utilized? What benefits result from utilization? How is enterprise value affected?
Figure 1: “UBV” = USE YIELDS BENEFITS WHICH YIELDS ENTERPRISE VALUE (Nexa Advisors, LLC, 2009)

An example of a typical scenario might be; the company aircraft transports two employees to a vendor’s facility to work with the vendor to overcome an unforeseen problem with a critical piece of production equipment. With the help of the two employees, the vendor quickly overcomes the problem yielding both asset efficiency and profit growth for the company. The author suggests that, “Increased mobility is at the core of these gains – satisfying management’s need for greater organizational agility, knowledge integration and transaction speed.”(Nexa Advisors, LLC, 2009)

The following quotes contained in the report highlight the enterprise value of aircraft charter:

- “Berkshire has been better off by having me in a plane available to go and do deals.”
–Warren Buffet
- “Business aviation greatly enhanced our ability to expand from a 17 to 50 state market presence over the last 5 years.” – S&P 500 Executive
- “You can’t have a productive work day sitting in an airport and on a ramp. We typically see a time savings of 50 to 75 percent on certain trips using business aviation instead of scheduled commercial service.” – S&P 500 Senior Executive
- “Many of our plants and customers are located in regions not served by commercial aviation. Business aviation allows these companies to remain competitive, providing jobs and a tax base for their communities.” – S&P 500 Executive

- “We paid for our aircraft for an entire year because we were able to respond so quickly to one customer.” –S&P 500 CEO
- “Using our jets, we can accomplish in one 8-hour day what would otherwise take three 12-hour days using the airlines. Our employees are home at night. They come to work the next day rested and refreshed.” – Cargo Executive

Harris Interactive Survey of Companies Using General Aviation Aircraft

A recent survey conducted by Harris Interactive on behalf of The National Business Aviation Association and the General Aviation Manufacturers Association sheds light on how existing companies are using business aircraft. Several results from the survey are as follows (Krane, 2009):

Small companies operate the majority of business aircraft.

- The majority (59%) of companies operating business aircraft have fewer than 500 employees and seven in ten have less than 1,000 employees.

Managers and other mid-level employees are the typical passengers on business aircraft.

- Only 22% of passengers on business aircraft are top management; the majority are other managers (50%) and or technical, sales or service staff (20%).

Employees use their time onboard company aircraft more effectively and productively than when they are in the office or on commercial flights.

- Passengers dedicate the majority of their time aboard business aircraft to work-related tasks: an average of 36% of their time is spent in meetings with colleagues and almost one-third (30%) of their in-flight time is dedicated to doing individual work tasks.
- Passengers estimate that they are 20% more productive on the company aircraft than they are in the office. This is contrast to being 40% less productive on commercial flights.

A large majority of business aircraft flights (80%) are made into secondary airports or airports with infrequent or no scheduled airline service.

- Approximately half (47%) of business aircraft flights are made into an airport with infrequent or no scheduled airline service and another third (33%) are into a secondary airport. Pilots in the survey report that only one in five (19%) flights are into a large commercial airport, representing at most, 4% of total operations at the nation’s top ten airports according to FAA Air Traffic Activity Data System (ATADS).
- Pilots estimate that in the past year, an average of two in five (40%) trips were to airports in communities that never had scheduled airline service.

Harris Interactive reports that “the primary reason for using business aircraft, as reported by passengers, is to support business schedules that cannot be met solely with the use of the scheduled commercial airlines. Passengers estimate that on average, two-thirds (64%) of trips are made for the purpose of meeting such schedules. The next-most-common use of company-owned or chartered aircraft is to reach locations that scheduled airlines do not serve (19%).”(Krane, 2009)

Bombardier Skyjet Case Studies

The following are a series of [case studies](#) as found on the Bombardier Skyjet web site as of October 5th, 2009. (Bombardier Skyjet) They serve to highlight cases where the use of charter aircraft is beneficial.

Case #1

Travel Costs Can Be Reduced When Multiple Travelers Fly

The head of a Denver-based advertising agency wanted to bring his entire team, including junior staff, to present a new campaign to a customer in Omaha. The firm's travel agency was asked to book coach fares for the group of six. Only United Airlines offered a direct return flight to Denver in the afternoon, and the last-minute coach fare cost \$1,269, or \$7,614 for the six tickets. Skyjet quoted a price of \$7,456 for an eight-passenger Learjet 35A private jet charter, which would be a savings of \$158. In addition, Skyjet offered a six-passenger King Air 90 for \$4,687, for a savings of \$2,927. The agency opted for the faster and quieter experience of the Learjet 35A, for increased productivity during the flight. They were able to bring projection equipment and storyboards onto the jet with no hassles. And, when their presentation ran over the allotted time, the private jet was waiting for them when they were ready to depart.

Case #2

Air Charter Delivers Itineraries that Commercial Airlines Can't

It was important that a Cleveland-based CEO visit three of the company's manufacturing plants to make a key announcement. However, he was needed on other urgent business at the company's headquarters the next morning. He wanted to accomplish the trip in a single day, without sacrificing any of the plant visits. Although Cleveland is a major airline hub and all three plants were located in the Southeast, no commercial airline could get the CEO to Chattanooga, TN, Savannah, GA, and Gainesville, FL., in a single business day. In fact, no airline could accommodate any two of these cities in a single business day with enough time to visit the plants and return the executive to Cleveland that evening.

The itinerary proposed by Skyjet included a 6:00 a.m. charter flight from Cleveland, arriving Chattanooga at 7:39 a.m.; a 10:00 a.m. departure from Chattanooga, arriving Savannah at 11:15 a.m.; a 2:00 p.m. departure from Savannah, arriving Gainesville at 3:09 p.m. on a seven-passenger Learjet 35A. The CEO returned home to Cleveland at 8:10 p.m. The total cost for this charter itinerary was \$15,742.

With this schedule, the CEO was able to bring three executives along to revise the strategy for the next day's important meetings. Using a private jet not only made the difficult itinerary possible, but also kept the executives productive en route.

Case #3

Air Charter Saves Time and Eliminates Overnight Stays

Three lawyers needed to fly from New York to Charleston, SC for a full day of depositions and dinner with the client. The earliest airline flight at 8:30 a.m. wouldn't arrive until close to 11:00 a.m., so they would have to fly in the day before. There were no flights; departing Charleston after 5:10 p.m., so this meant departing the following morning. They asked their travel agency about other options. Skyjet

quoted a charter flight price of \$8,276 for a five-passenger Learjet business jet. The lawyers departed from Teterboro, NJ, near their homes, at 7:00 a.m. and arrived in Charleston at 8:57 a.m., working during the one hour and 57 minute flight. Because they were able to do the entire trip in a single day, they brought a paralegal to assist. After an early dinner with the client, they departed at 8:00 p.m. and were back on the ground in New Jersey by 9:45 p.m.

The cost of the jet charter was \$3,626 more than three coach fares (\$1,190 each on Delta or Continental) and a two-night hotel stay and meals (\$1,320) for three. But the gain in time and productivity more than offset the difference. The cost “premium” for a private jet was equivalent to 2.9 hours of the legal team’s combined billing rate, yet it saved them days away from home and many hours in lost productivity and unbillable time.

Case #4

Air Charter is Cost Effective for Last-Minute Travel

A corporate travel department received a last-minute call to fly six senior-level executives from Charlotte to Washington to attend an industry summit in Northern Virginia, but three of the executives needed to return in time for an important meeting later that day. US Airways was the sole carrier with nonstop flights to and from Washington-Dulles, with only one return flight at the time the executives required. The coach fare quoted by US Airways was \$815 or \$4,890 for the six executives. Skyjet quoted two different charter options: For a cost of \$4,127, the executives could fly on an eight-passenger King Air 200 turboprop, with a \$688 cost per passenger or a total savings of \$763 compared with the coach fares. Skyjet also quoted an eight-passenger private jet at \$4,879, approximately the same cost as the airline fares. While the light jet offered a slightly larger cabin, it wasn’t significantly faster, so the company opted for the turboprop. The one hour and nine minute charter flight departed exactly when the executives wanted to go and returned in ample time for their meeting.

The use cases stated above are typical of the missions flown and the benefits of using an air charter operator. Air charter often can provide a cost effective travel solution that yields productivity benefits from start to finish.

Making Fast Strategic Decisions in High-Velocity Environments

Can business aircraft be used to improve management and company performance? Research suggests that this may be the case. The above is the title of a research article written by Kathleen M. Eisenhardt of Stanford University. The following are two hypotheses that were supported by her research (Eisenhardt, 1989):

1. The greater the use of real-time information, the greater the speed of the strategic decision process.
2. The greater the speed of the strategic decision process, the greater the performance in high-velocity environments.

To summarize, companies in industries or environments where the landscape is rapidly changing benefit from a speedy decision making process. “Fast decision speeds may improve competitive performance across environments because fast strategic decisions lead to early adoption of successful new products or improved models that provide competitive advantages and early adoption of efficiency-gaining process technologies even in established industries”(Baum, 2003). For companies with a slow decision process, lagging performance is often the result.

In October 1984, Gavilan Computer filed for bankruptcy protection under Chapter 11. Despite a \$31 million stake from venture capitalists, Gavilan experienced delays and indecision that ultimately cost the firm its early technical and market advantages. The firm’s leading-edge technology became a “me too” one and competitors flooded its empty market niche. As the firm died, one executive mourned: “We missed the window”(Hof, 1984).

Avoiding the above scenario is of key importance to company management. In companies with a fast decision making process, decision makers “preferred real-time communications such as e-mail or face-to-face conversations over slower modes of communication”(Stepanovich, 1999). In addition, “fast decision makers attempted to integrate strategic decisions with one another and with tactical plans”(Stepanovich, 1999). Air charter can be a useful tool in helping to make real-time communications such as face-to-face meetings a frequent reality. In addition, the integration of tactical plans with the strategic often requires active involvement by management and can be assisted by the use of air charter.

Capture Benefits and Outperform Competitors

The primary argument for using air charter to fulfill business travel needs is that the time saved by using air charter will allow a company to generate more marginal income as compared to using an alternative. For a simplified example, if an executive has only two choices in traveling to Los Angeles from New York and the two choices are walking or air charter, the preferred mode of travel becomes obvious. The executive’s time is too valuable to allow him to choose walking as an option. As the performance of modes of travel converge, the travel distance between points gets closer, or the benefit to be derived as a result of the travel decreases, the air charter option becomes equivalent or suboptimal to certain alternatives. In many cases it becomes very difficult to quantify whether the benefits gained merit the cost. There are simply too many subjective variables that resist quantification. One factor, however, is certain. When an executive is not spending time actively working to solve a company problem or move the company’s agenda forward, company financial performance suffers. Ideally, executives would be able to work twenty-four hours a day seven days a week on the company’s agenda without any breaks. Since this is not realistic, many executives use tools such as air charter to achieve a maximization of time spent on the company’s agenda. As the research above suggests companies that move their agenda forward quickly do indeed capture benefits and outperform competitors.

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