

# The Company Aircraft: To Keep Or Sell



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Credit: Nigel Prevatt/Aviation Week Network

A new flight department manager could be excused for not understanding the intricacies required to evaluate the department's current fleet. A new director might not have even heard of a fleet plane. A good manager knows enough, however, to realize they don't have the knowledge--much less the authority--to make the decision to sell, buy or keep the current fleet.

They need to meet with their own advisors, men and women with in-depth knowledge of the transportation situation and some of the solutions. That means aircraft brokers, MROs, current and former operators of the same aircraft type and consultants who can offer valuable advice.

One trusted advisor who should be on a new department manager's speed dial is an aircraft broker, called an acquisition specialist today. They live in the thick of aircraft valuations. A good one represents a key element in the keep it or dump it equation and should closely track the type of aircraft your company operates. Dave Coleman, an acquisition specialist at Duncan Aviation, said establishing an aircraft's value is based on several key factors every department manager should understand.

One is dispatch reliability. One strategy is to not fix what isn't broken. Coleman explained a visit to a large pharmaceutical company that was at the time operating a fleet of Gulfstream GIVs.

"Some of those aircraft had 11,000-12,000 hours on them, so I asked the department manager why he operated such old aircraft," he said. The manager pointed to a dry erase board that showed a 99.95% reliability. "Why should I replace airplanes that perform like that?" he said. When old aircraft become unreliable and responsible for numerous canceled trips, however, then talk often turns to replacement.

Then there's component of obsolescence. When a manufacturer stops supporting parts, it becomes the department manager's job to discover a tertiary supply. If they don't exist, it's time to upgrade to a newer version of that part, assuming one exists.

Engines by far represent the largest cost factor. If the aircraft is on a manufacturer's engine program, there are few cost surprises, although the hourly expense to remain in the program begins rising as the aircraft ages.

"There's a certain point where the total cost of the engine program over the life cycle greatly exceeds the actual cost if you were flying without a program," Coleman said. "Let's say an engine costs \$1.25 million over 5,000 hours to maintain to reach the midlife inspections and overhaul. That's about \$250 an hour per engine. But when the cost rises to say \$500 an hour per engine, people begin thinking about pulling the engines off the program because it may no longer be economically smart, unless the aircraft is worth say, \$10 million. But what if your Lear 31 is only worth 750 grand? I would take my chances on repairs and in a worst-case scenario just buy another Lear 31 and scrap it for engines and other parts."

There are, of course, mandates to contend with.

"RVSM was a big one back 20 years ago," Coleman said. "Without it, you'd be stuck below FL290 with an incredible fuel burn equation to contend with, or the fuel burns from a stage two or three engine. There have been avionics mandates like ADS-B and currently a CPDLC mandate for the North Atlantic tracks. Some of these in Europe are based on the aircraft age like the number of parameters on the flight data recorder. If too many of these all come together at the same time, you might have a perfect storm on your hands."

The easy decision is to dump the airplane due to the cost, but now that airframes are in such demand since the start of the COVID-19 pandemic, decisions have changed to keep many of the older aircraft. Along with the need, came an unbelievable increase in price for used aircraft as new ones began demanding 12, 18, 24 and 36 months to deliver.

## **Avoiding Mistakes**

Greystone Advisors, based in Knoxville, Tennessee, helps large organizations learn how to run their flight departments like a business. Jim Lara, a Greystone principal, also believes in the importance of mentoring because "business aviation has not done a good job developing leaders in the aviation space. The people hired are very skilled technically, but in terms of running a corporate aviation organization like a business, they just don't have the necessary skills."

Lara detailed some of the mistakes he sees not only new department managers make, but leaders higher up the chain of command when it comes to operating a business aircraft and the question about whether to keep or sell an airplane pops up.

"I've seen companies new to business aviation jump in over their heads by choosing a Gulfstream as a first airplane," Lara says. "We get calls from company controllers where it's clear no one really thought through the overall commitment or even the cost of maintenance for instance."

He detailed a call from a company controller who questioned a \$60,000 invoice for a set of brakes on the new company jet. Lara had to tell him the price was normal. He often reminds new aviation department leaders that, "owning an airplane is not for the faint of heart."

Lara said a new flight department leader can find themselves at the mercy of some of their higher-ups who make emotional choices at the golf course when CEOs begin comparing notes.

"But it's really not about equipment," he says. "More importantly, the new flight department head needs to understand how their company approaches decisions on capital equipment. I often get a

deer-in-the-headlights look when I ask that question. We partner with new managers when they visit the finance people for the initial answers like what is the company's risk tolerance for surprise expenses."

On an older airplane, of course, the risk of surprise expenses is much higher than on a new one under warranty. Another is how the company feels about spending capital on an old airplane's avionics knowing the return-on-investment is low. Lara said there's a rule of thumb on older aircraft; "a company might see a 50% return on your investment."

That means even the simplest of questions calls for the new manager to dig deeply for insights and answers.

"Whether to keep, upgrade or sell an aircraft takes understanding and knowing "the difference between need and want." Lara said. "To gather those answers, we sit down with a flight department manager and perform a mission versus capability analysis. We look through the company's stored travel records and plot the capability of the aircraft against how often the aircraft was used to its capability. Let's say the company needs a Challenger 350, but the boss wants a Gulfstream 650. You can figure out the capital costs of each, as well as the recurring expenses on both aircraft to create a delta between the two quantified in dollars. Now somebody in power can make a rational, quantifiable decision as to whether it's good for the organization or not. It's no longer a matter of emotion."

Lara said he's noticed something interesting about the new generation of business aircraft owners; they don't have their egos tied to their aircraft as owners did in years past.

"They're more focused on what they need, not what they want," he says. "They really care about the travel product of that asset." That might seem to make charter or fractional ownership an attractive option, but it may not be so much. That's because "travelers don't see the same faces in the cockpit on every trip," Lara says. "Nor do they see the same airplanes. Their schedules may be compromised because either crew or an aircraft is not available. A lot of the fractional programs, for instance, are sold based on the occupied hourly cost."

But around year five when the contract ends, the company principals get a taste for the residual value of an aircraft, which can be quite low. The manager who suggested these options might be called upon for some serious explaining on those decisions, he says.

New leaders learn that success in their job is often based on finding those trusted advisors. Take athletes, for example. "Half the top golfers in the world have at least three coaches," Lara says. "They have a head coach for their mind. They also have a swing coach and finally a short game coach. The best business executives have coaches too. Consider why the corporation has a board of directors to help with the most important decisions. Each of those members brings a different skill set to the table. When you're talking about making a \$20 million, \$30 million or an \$80 million decision, I'd want the best thinking that I possibly can get."

The questions surrounding a potential fleet change require the new manager to understand why the company operates an airplane in the first place. Lara explained a session in which he and a new manager met with that company's chief financial officer to ask that question. The aviation manager previously never thought to ask.

"We asked the CFO for aviation's value proposition to the company," Lara says. "The CFO thought about five seconds and said, 'fly to China and back in 30 hours. My executives need to be on the ground with the manufacturing contractor in China, he said, but their most value is here at the corporate headquarters. What we need is to get them over to China, make the decisions, press the flesh, and get them back here all in 30 hours.' With this fresh understanding, the aviation manager was able to easily focus on a longer-range airplane and the staging of crews along the way to reduce flight time."