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Aircraft management: a long term relationship

EVA talks to Mike Moore, head of Aircraft Management at Meridian

Very few business jet owners want the hassle of managing their own aircraft. The complexities involved are such that simply leaving it to the pilot is not going to get you very far. Moreover, many owners, but by no means all, feel that this new, expensive asset of theirs needs to be made to do at least a bit to earn its keep, which means that the owner has to decide how little or how hard they want to work their jet as far as the charter market is concerned. If they are going to do any charter at all, then the only realistic option is to put the aircraft into the hands of an experienced aircraft management operation that also has a strong pedigree as a charter operator.

Mike Moore, VP of Aircraft Management at Meridian points out that owners differ enormously in their preferences and expectations when it comes to deciding whether to charter and how much charter business they want. There is an additional wrinkle in the decision process because some US states do not require sales tax on business jets if they are going to be run on a Part 135 certificate. So Moore is accustomed to having new owners wanting to put their aircraft on Meridian's Part 135 certificate from the moment of purchase, even if they do not want to charter the aircraft commercially. They may well decide to only charter the aircraft occasionally to people they either know well themselves, or who come highly recommended by friends and acquaintances.

"We find that more and more of our clients are putting their aircraft on our Part 135, but are not doing any retail, or 'third party', chartering at all. They want the Part 135 certification purely for tax purposes," he notes. When owners want to go this route rather than certifying the aircraft under Part 91, they need to be aware that the regulations governing the operation of aircraft under Part 135 are considerably stricter than under Part 91. There are stricter regulations on pilot rest periods for example, and on landing field clearance distances. "Flying under Part 135 you have to be able to land within 60% of the available runway, plus adhere to a number of other rules that do not apply to Part 91. However, not paying sales tax on a \$23 million jet creates a good deal of incentive," Moore says.

Because of the complexities involved, prospective owners need to take detailed tax advice before making their decision as to which certification process they are going to go for. Meridian can play an important role in this process by setting out in a highly transparent way what the fixed and direct operating costs will be under either approach. In fact one of the keys to building an enduring, long term relationship with owners, Moore says, is transparency. "For many clients to charter or not to charter is a difficult decision. Some will say if you fly my aircraft for 200 charter hours a year, that will only make me a couple of hundred thousand dollars and will be bound to generate some inconvenience, so why do it? Others want to work the plane at least hard

enough to pay the salary of one of the pilots and something of the hangarage costs," he notes.

Owners also vary widely in their attitude to the jet they have just purchased. "We see both ends of the spectrum and everything in between. At the one end you have the guy who is hugely excited, can't wait to take delivery and is tremendously proud of their aircraft. At the other is the person who buys a \$40 million aircraft and walks right past it without a flicker of interest. For them the aircraft is a pure business tool, a convenient and fast way of getting from A to B, and that's the whole story. As an aircraft it doesn't attract or interest them much, if at all," he observes.

Aircraft management is a highly demanding business and the quality of the management company that a new owner chooses can have a massive impact on the ownership experience "In our world there are top tier management companies who really can manage aircraft to the highest standards. I would put Meridian forward as one such, along with the likes of Jet Aviation and the NetJets company, EJM. But we also have the middle tier companies, who do not manage enough aircraft to get any economies of scale going on fuel and suchlike, and who have no depth of experience in the organisation. We have been going since 1946, so we have a great deal of talent in the company," he comments.

Maintenance is a vital part of aircraft management and it is an area where the management company can really save the owner significant sums. "I still hear people say that all

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management companies are the same and the only differentiator is price. That is a staggering proposition when you think that what they are contemplating is turning over a \$20 million asset to the lowest bidder. You have to look at the company before you look at the price. You need to do your due diligence. Ask for recommendations from people who really know the industry, and follow up references. You want to say to the prospective management company: "Give me the names of five of your clients that I can go and talk to," Moore advises. If you find that one of the companies bidding for your business is on a cash only basis with their fuel supplier, walk away. Above all, go and inspect the facilities and see if the buildings are in good state or look run down or dilapidated. Look at staff turnover. "Our average staff tenure here at Meridian is between ten and twenty years," Moore says.

Owners also need to be very clear what exactly it is that they are getting for their management fee. There are a huge number of variables with every purchase, particularly with a pre-owned aircraft, and the figures change depending on the number of hours the aircraft is going to be flown. "What I tell prospective clients is: I can give you a general budget for a particular aircraft model, but once you identify the precise aircraft you want to buy, we will look at specific factors, such as where that aircraft sits in its life cycle, what the state of the engines are, what maintenance schedule it is on, which inspections are coming up and so on. If the aircraft is coming up to a \$250,000 service, that is going to impact dramatically on the cost per hour, and can push your direct operating costs from \$3,000 an hour

to \$6,000 an hour. I can tell an owner what a captain is going to cost in today's market, but landing fees, crew overnight fees, and fuel prices are variables that change depending on where you are flying to," he notes.

"The hardest thing to unravel in this industry is the lies that get told to owners and prospective owners. I take phone calls from owners who say that they have been talking to an aircraft management company who tell them that they can fly their Gulfstream GIV for 600 charter hours with two pilots. I have to tell them, no, you can't. If you are going to do 600 hours you need at least three pilots and possibly four, depending on your schedule. That's the way the regulations work. By the time you hire a third pilot you are not breaking even, so why are you doing it? Moreover, if you come to me with an Embraer Legacy 600 and two pilots and you want a large number of charter hours, your pilots are going to quit because you are working them too hard. Pilots' salaries in 2014 have increased 12% over 2013, and that is going to add to the strain for any owner who doesn't really have the depth of finances to run the jet without pushing for an unrealistically large charter quota," he notes.

Every aircraft has a different cash flow profile. Moore says that Meridian had no problems getting 700 charter hours out of a Challenger 601. "The owner did better than break even on the fixed and direct operating costs. But is that going to happen on every aircraft? No, absolutely not. You

have a better shot at it with a super mid-size aircraft, but a smaller aircraft is not going to do it," he warns.

As Moore says, maintenance repair and inspections are where Meridian looks to make a real difference. "Our mechanics do work on virtually every aircraft type on the market and they are experts at trouble shooting and diagnosing problems. Any licensed mechanic who can really trouble shoot an aircraft issue is going to save you significant sums. Experience really does count in this market," he comments.

Meridian's aircraft management business recently added four more aircraft to its managed fleet, which now stands at 25 aircraft, and according to Moore, discussions are underway with four more people who are about to buy aircraft. To support this increase in sales, Meridian has been growing its staff numbers in its aircraft management and charter side and in a major new development for the company, it is in the process of building a West Coast presence. "We have a lease at Hayward Executive Airport, near San Francisco, and we are building a new FBO at Hayward which will give us a coast to coast presence. The plans are going through the approvals process right now and we expect to be breaking ground on the FBO project in the Spring of 2015," Moore notes. ■



Squaring up to the big events

by Anthony Harrington

In our EBACE FBO Special Report we featured the preparations for the Brazilian Football World Cup. At the time there was only a few weeks to go to the games and the Brazilian authorities had yet to declare how many slots they were going to make available to business aircraft, causing some trepidation in the industry.

However, the Brazilian operator Lider, profiled in that report, assured EVA that the Brazilian FBOs and the Brazilian authorities would have everything sorted out by the time the games started on 12 June and that the 2014 Football World Cup would turn out to be an excellent event. Cynthia de Oliveira, Operations Director at Lider Aviação, the largest FBO operator in Brazil with an FBO at every one of the 12 host city airports, pointed out at the time that Brazil had already benefitted from two "dress rehearsals" prior to the World Cup in the shape of the Confederation Cup, the traditional pre-cursor to the World Cup, held in the host country a year before the main event, and the big sustainability conference, Rio +20, held in Rio de Janeiro on 20-22 June 2012. Both of those went well and created a substantial influx of private jet traffic, so that experience, plus intensive preparations by Lider and others on the ground underpinned her confidence that the World Cup would go smoothly as far as business aviation was concerned.

In fact, as Flavia Ribas, Vice President of Operations for Colt International's São Paulo office in Brazil, notes, everything really was "all right on the night"! "What we saw from our trip handling and trip support people was that the Football World Cup actually went incredibly well. We had great flight movements from here in the US and the arrivals in Brazil and movements in country between the games venues all went smoothly, considering the intensity of the event. Clearing

customs and getting the documentation sorted out for international flights to Brazil took longer than usual because of the demand pressure in the run up to the event, but we had no major problems. All our customers got to the games and to the cities that they planned to reach."

Jeff Briand, Senior VP of International Trip Support at Colt's Houston headquarters adds: "We were able to get slots for our customers very close to the times that they wanted. Maybe we didn't get exactly the time slot that every customer wanted, but people understood the pressure the Brazilian authorities were under and we had no big delays or major complaints. There was noticeably more pressure for the World Cup final, but even there we had no major issues. Minor delays at such a major event are to be expected and the key in these matters is to manage the client's expectations so that they know what is likely to happen and that any

delays will be temporary," he says.

Briand points out that to conclude a major event on this scale successfully takes sustained preparation and planning. "We had a full team involved in planning for the Football World Cup for more than a year before the games started. We had meetings with the authorities and we ran a series of training programs for our own staff. We put agents in place to travel to the smaller airports in Brazil where they do not have much local support, so that our clients could stay in touch and get the help they require," he comments.

Ribas adds that where there were some complaints, these tended to come from regular customers who were flying to Brazil anyway on business, and who suddenly found themselves in a slot regulated world, competing for landing and take-off slots with private jets bringing in people to watch the matches. "A few people, despite all our briefings and all the advanced warning we sent out and also placed on our web site, still thought it would be business as usual in Brazil during the World Cup, and if you thought that, some disappointment was perhaps inevitable," she comments.

All the information people needed prior to attending this major event was available for free from Colt's special purpose World Cup web site built specifically for the event, and the site attracted plenty of traffic. "We design special purpose information sites for major events. In all we probably saw twice as many people using our special event web site on this occasion, which was gratifying," Briand adds.

He points out that Colt used Tam as its FBO provider in Brazil and they proved to be very helpful. One of the pleasant surprises of the whole Brazilian World Cup experience was that there was no real signs of the violent protests that had rocked the country prior to the World Cup. "We were a little concerned about security.



Teterboro is normally a slot free airport but during Superbowl the airport authorities decided to impose reservation system
Betsy Wines

However, we were delighted to be able to report that there wasn't a single security incident that we were aware of or that impacted our customers," Briand notes.

While the Football World Cup is big news around the world, Superbowl is the event that gets many American hearts beating faster. This year's Superbowl, which saw the Denver Broncos getting crushed by the Seattle Seahawks, was held in the MetLife stadium in New Jersey. The event had private jets flying in to New York area FBOs from all over the US. However, US trip planners and the FBOs at Teterboro are well accustomed to handling big occasions and things generally go well, be the event a presidential inauguration, a NASCAR meet or, indeed, Superbowl.

Betsy Wines, VP Customer Service and Human Resources at Meridian, the award winning full-service private aviation company based at Teterboro Airport, the closest business aviation airport to New York City, points out that ironically, dealing with Superbowl in particular this year actually turned out to be easier for her and her team than dealing with ordinary peak business periods such as the post-Labor Day weeks when the U.S. Open and Fashion Week are occurring.

"Things were tremendously well organised during Superbowl. Teterboro is normally a slot free airport but during Superbowl the airport authorities decided to impose a reservation system, fearing that the airport could be swamped by private jets. This actually made things a great deal easier for us. During any busy period outside of a special event like Superbowl, Meridian will handle 100 or more arrivals and departures, and while probably 80% of our clients give us some indication when they will be landing, some you only find out about when their aircraft is taxiing to our FBO ramp," Wines comments.

A reservation system at least has the merit of allowing staff to solve all the usual limousine or taxi transfers to hotels or into the city, plus room bookings for clients. The downside is that clients who were travelling to Teterboro Airport on normal business during Superbowl may have been disconcerted to find that they are suddenly faced with a slot system when they are used to coming and going at will.

"The reservation system during Superbowl had another major plus," Wines says. "Most people elected to stay over that night thinking it would be simpler to get away the next day, but that Monday we had a snowstorm. However, because everyone had an assigned departure slot we were able to schedule the de-icing to coincide with aircraft departures, which is a very effective way of doing things. Normally we can only start de-icing when the CEO or high net worth client actually arrives at the FBO. Because of the system, far from stressing us out, Superbowl was almost a non-event for us despite the

large volume in traffic," Wines notes.

"As a policy our daily staffing levels at our FBO are designed to cope with peak workloads so while we feel the increased pressure on a really busy day, we can still deliver the high quality of service that the customer expects. We have a great relationship with the airport authorities and if things get too congested on our ramp with aircraft departures, for example, the tower will go out of its way to move the aircraft off the ramp to designated holding areas. We handle high volumes very well here at Teterboro," she concludes. ■

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