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Charting Charter's Course

By James K. Coyne

NATA has long been known as "the Voice of Aviation Business," and usually that means we spend a lot of time promoting the interests of our members in Washington—primarily to policy makers, regulators, and the press. But over the past year or so, I've been talking more and more with a different group of querulous aviation neophytes: those wizards on Wall Street who call themselves private aviation analysts; and the number-one thing on their mind is always the same: "Where's private air charter headed?"

It is no secret that Wall Street is placing a big bet on private aviation, and why not? Profits across the industry are at record levels, world-class products are coming out of aircraft factories, and economic and demographic trends look very bullish. But in addition to all these positive "fundamentals," many new investors are convinced that demand for private aviation is poised to explode, thanks to a new era just around the corner with much greater public acceptance of and demand for private jet charter.

Niels Bohr famously remarked that "Prediction is very difficult, especially if it's about the future," and even if it's "just around the corner," it can be rather tricky. Most of us, therefore, are pretty cautious when we make forecasts and follow the example of our trusty local weatherman: we look for trends, patterns, and actual conditions in the recent past or nearby, make modest extrapolations, and then calculate if sunny weather or storms are in the offing. But unless we have complete data and a view of the whole system, there's always a chance that we'll miss the big one that's on the way.

Private air charter has been around for decades, of course, and lots of folks just assume that they *know* what it is and what it will always be. They *know* that it's a very fragmented industry. They *know* that many charter operators depend on owners who need additional revenue to lower their cost of ownership. They *know* that most charter companies are small with limited marketing resources. They *know* that most operators rely on, at most, a few dozen primary customers. They *know* that customers are price sensitive, and therefore margins are very thin. They *know* that federal regulations dictate minimum standards, but they also *know* that enforcement is weak. They *know* that many people who might want to charter don't because of highly publicized charter accidents. They *know* that charter prices, even with fuel surcharges, haven't kept pace with inflation.

They also *know* that the airlines have lowered their standards, especially in domestic first-class service. They *know* that airline security issues, delays, and inconvenience have increased the appeal of private charter. They *know* that some companies have closed their flight departments and shifted to charter because of Sarbanes-Oxley or other corporate governance concerns. They *know* that the fractional jet companies must charter thousands of flights to provide lift when their own planes are overbooked. They *know* that start-up charter companies placed orders for whole fleets of VLJs. In short, all the experts *know* where charter is today—but not where it's going.

My crystal ball isn't perfect, but isn't it possible that many, if not most, of those current "charter realities" holding the industry back can change, even reverse course, in the years ahead? Why must the industry always be so fragmented, poorly marketed, undercapitalized, and financially fragile? Why must "charter safety" be such a challenge? Why shouldn't the public conclude that "charter" means "the safest" and "the best?"

But some analysts keep coming back to the issue of cost. "Charter is expensive," they say, "and it will always have a very small market."

Nonsense. Cost must be compared to two other variables: value and wealth. I submit that the cost/value relationship for charter has been steadily and

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President's Message

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significantly improving over the past decade, and further improvement, due to new aircraft, better operational efficiencies, and enhanced service is inevitable. Also, almost all economists agree that the expanding wealth around the world will dramatically increase the affordability of services and products like private jet charter. It may be expensive to some, but to many, the luxury of private charter is now almost a necessity.

The saddest fact of all may be that right now we just don't get good data from the government about the size and growth of private air charter. But that will soon change, thanks to a renewed commitment by NATA and Congress to develop accurate statistics on the charter fleet and its commercial operations. Thus, I'm hopeful that within a few years we'll be able to track this industry's growth on a month-by-month basis.

One thing this information will show, I predict, is that charter is moving up and up, with annual growth rates of from 10 to 30 percent or more. The only big question is whether government and industry will work together to make this happen. With new headwinds from Washington and a risk of turbulence at the FAA, the forecast might not be as bright.

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The Part 135 Industry

The FAA Must Take Next Steps on Data and Staffing

By Eric R. Byer

One of the more amazing blunders the Federal Aviation Administration (FAA) has made over the last 40 years, and there have been plenty, is failing to assemble credible data on the size and scope of the air charter industry.

In 2000, NATA staff, working with then Congressman John Thune (the South Dakota Republican is now a U.S. Senator), addressed the issue of charter industry data, or lack thereof, by including a provision in the FAA reauthorization bill requiring the agency to conduct a study on the makeup of the Part 135 on-demand air charter industry. The FAA was not thrilled with this new provision and set the issue aside for more than a year until NATA once again enlisted key congressional assistance. The agency was then forced to hire a contractor and go through a lengthy process of reviewing the makeup of the Part 135 industry.

Regrettably, by the time the study was complete and then Transportation Secretary Norman Mineta had signed off on it, 2004 was in its last months and the data was already outdated! Although the study was antiquated before made public, it was the very first review completed by the feds exclusively on the Part 135 air charter industry.

This data is crucial for a number of reasons. Let me sum up the most critical:

- It provides key analytical tools (hours flown, annual revenue, fleet composition, etc.) to ensure proper FAA funding and staffing for safety initiatives involving the Part 135 industry.
- It allows for correct economic analysis in rulemaking. The lack of reliable, current data on the air charter industry may be the reason that the FAA, which focuses on the financial impacts to the Part 121 industry (on which it has very detailed data) when proposing regulation, rarely conducts accurate, complete analysis when it concocts a new regulation that will affect small businesses.
- It ensures that the National Transportation Safety Board provides accurate accident statistic analysis during its annual reviews.
- It gives the Part 135 industry key composition and economic data to provide to members of Congress and their staffs when advocating for important issues, including user fees, taxes, and federal fund usage.

- It supplies the Internal Revenue Service with knowledge and understanding of the financial makeup of the Part 135 industry. While some may cringe at this statement, I think it is important for the IRS to have a basic grasp of the industry. I believe that knowing the ever-growing financial impact this industry has on our nation's overall economic picture would certainly bolster the industry's advocacy prowess with the IRS.
- It leads to more suitable security oversight. It would certainly be more beneficial for the TSA to know what it is regulating instead of "guestimating."

Primary among the uses of industry data is the proper allocation of FAA staff and resources. After NATA pressed the FAA in 2004 and 2005, Flight Standards Service Director Jim Ballough agreed that the growth of this industry, as well as media portrayal of a few high-profile accidents, justified that a new directorate be stood up at the FAA with responsibility for handling charter issues. Today, under the direction of the very capable Hooper Harris, we now have the Commuter, On-Demand, and Training Center Branch within the FAA Flight Standards office.

The staff of six is responsible for all FAA policy and regulations touching the charter world, including emergency medical issues, rotorcraft concerns, and Part 142 matters as well as broad-reaching Part 135 policy affecting the entire industry. Is a staff of six enough? Absolutely not. But is it a start? You bet.

With the FAA reauthorization process underway, NATA has once again identified the need for Congress to order the FAA to undertake another

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Inside Washington

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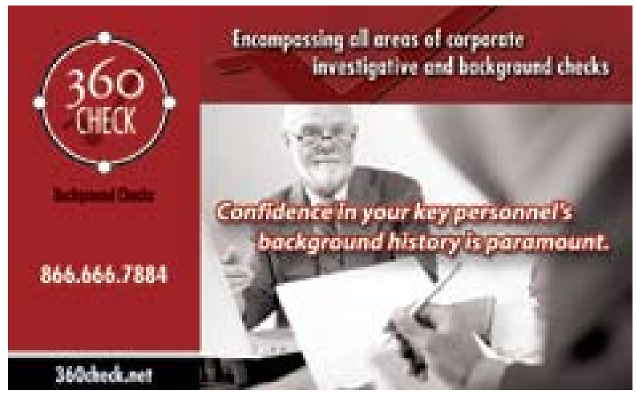
study of the Part 135 industry. We hope that with a congressional mandate bolstered by the sheer economic growth of the industry, the FAA will follow through and conduct a regular review of the Part 135 industry—once a year might be asking too much considering the limited resources of the FAA but certainly every two years.

An industry with exponential growth justifies conducting a thorough, accurate study of its size and scope, and not once in a blue moon but with prescribed regularity. It's time the FAA takes the next steps!



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SAFETY 1st WATCH

Mind the Gap!

By Russ Lawton

Those who have visited London, England, and traveled on that city's subway system (commonly known as the Underground) probably recall the signs that warn passengers to "mind the gap" between the platform and the train. There's a good reason for the warning, as not paying attention to the gap when entering and exiting the train can be hazardous to your health.

The same can be said about your company's safety program, where failure to "mind the gaps" can be hazardous to your company's health. How well is your safety program working? If your response is "It must be okay because we haven't had any accidents," you might want to read further.

NATA, through its Safety 1st Management System program and a grant from the Federal Aviation Administration, has developed a 54-question survey for evaluating your current safety program. This "gap" analysis survey was created to assist companies following the release of FAA Advisory Circular (AC) 120-92, "Introduction to Safety Management Systems for Air Operators."

The gap analysis survey guides you through a review of the four main elements of a Safety Management System (SMS): safety policy, safety risk management, safety promotion, and safety assurance. The survey questions correspond to the FAA SMS Standard in AC 120-92. Once completed, the survey provides a high-level summary of how well your safety program compares to current SMS standards.

Refer to the sample page from the Safety 1st Gap Analysis Survey on this page.

The survey begins with a fundamental question: "Is there a policy statement by top management that defines the safety goals of your company?" If you answered "yes," indicate where it's covered in company manuals and documents, e.g., operations manual, maintenance manual, training manual, etc. Any equivocation ("Well, we kind of, sort of do") in answering the question means you probably don't have a clearly stated safety policy and goals.

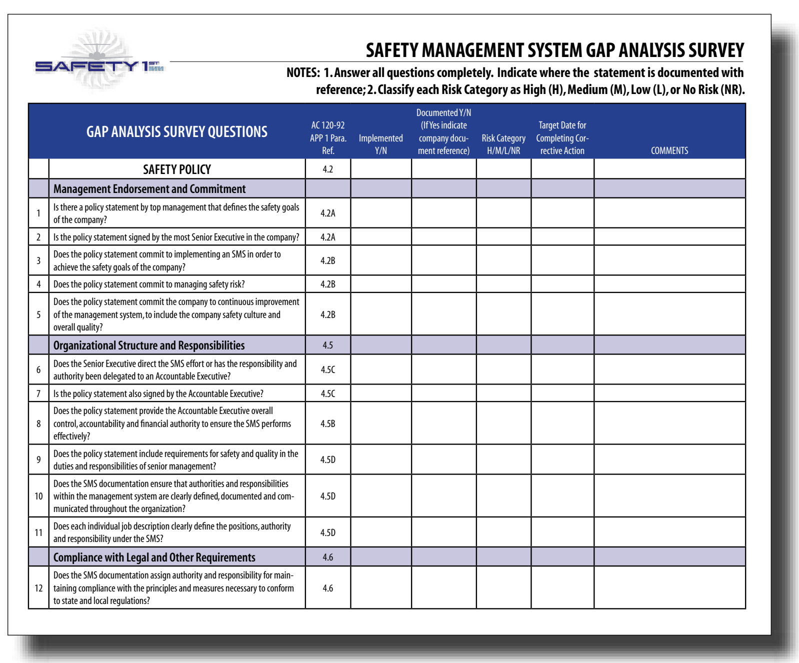
Exercise diligence when answering each question in the survey by listing the reference paragraph(s) from company documents for each question. This will identify holes or weaknesses (the gaps referred to earlier) in your current safety program. Areas where gaps are usually found include:

- Communicating safety information throughout the company,
- Company safety culture,
- Compliance with legal and other requirements,
- Confidential safety reporting program,
- Continuous improvement process,
- Documentation and records management,
- Emergency response and preparation,
- Hazard analysis and risk assessment,
- Internal evaluation programs, and
- Safety training.

Once you've identified the gaps in your company, enter the risk (high, medium, low) that the gap poses to your operation and commit to a deadline for correcting the missing areas. Completing the survey thoroughly and honestly will provide a concise comparison of your safety program with a fully implemented Safety Management System. It's the first step on the way to continuous improvement.

Repeat the survey every six months initially, and annually after your program matures, to ensure the continued elimination of those pesky gaps that can jump up and ruin an otherwise perfect safety record.

Don't have a gap analysis survey? Drop us a line at Safety1st@nata.aero, and we'll email you a copy.



SAFETY MANAGEMENT SYSTEM GAP ANALYSIS SURVEY

NOTES: 1. Answer all questions completely. Indicate where the statement is documented with reference; 2. Classify each Risk Category as High (H), Medium (M), Low (L), or No Risk (NR).

	GAP ANALYSIS SURVEY QUESTIONS	AC 120-92 APP 1 Para. Ref.	Implemented Y/N	Documented Y/N (If Yes indicate company document reference)	Risk Category H/M/L/NR	Target Date for Completing Corrective Action	COMMENTS
	SAFETY POLICY	4.2					
	Management Endorsement and Commitment						
1	Is there a policy statement by top management that defines the safety goals of the company?	4.2A					
2	Is the policy statement signed by the most Senior Executive in the company?	4.2A					
3	Does the policy statement commit to implementing an SMS in order to achieve the safety goals of the company?	4.2B					
4	Does the policy statement commit to managing safety risk?	4.2B					
5	Does the policy statement commit the company to continuous improvement of the management system, to include the company safety culture and overall quality?	4.2B					
	Organizational Structure and Responsibilities	4.5					
6	Does the Senior Executive direct the SMS effort or has the responsibility and authority been delegated to an Accountable Executive?	4.5C					
7	Is the policy statement also signed by the Accountable Executive?	4.5C					
8	Does the policy statement provide the Accountable Executive overall control, accountability and financial authority to ensure the SMS performs effectively?	4.5B					
9	Does the policy statement include requirements for safety and quality in the duties and responsibilities of senior management?	4.5D					
10	Does the SMS documentation ensure that authorities and responsibilities within the management system are clearly defined, documented and communicated throughout the organization?	4.5D					
11	Does each individual job description clearly define the positions, authority and responsibility under the SMS?	4.5D					
	Compliance with Legal and Other Requirements	4.6					
12	Does the SMS documentation assign authority and responsibility for maintaining compliance with the principles and measures necessary to conform to state and local regulations?	4.6					

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CELEBRATING 60 YEARS

Building a Better Mousetrap

Best Practices for a Safer, More Profitable Business

By Dan Kidder

It is said that a giraffe is a horse designed by a committee. And while it is true that committees often over-complicate a simple process, there is much to be said for the concept of putting some of the best and brightest experts in the industry together to discuss methods of ensuring uniform practices based on learning lessons the hard way.

In March, industry leaders gathered in Orlando, Fla., for the National Air Transportation Association FBO Leadership Conference to share ideas, learn from one another, and hear experts in various fields discuss policies in their businesses that help ensure better profitability and a safer workplace. During a series of roundtables, industry leaders discussed topics including human resource management, FBO real estate management, safety, regulatory and legislative affairs, and insurance and risk management.

What resulted was a laundry list of concepts and ideas known in various industries as "best practices."

Wikipedia, the free online encyclopedia edited by the public, defines best practices as "a management idea which asserts that there is a technique, method, process, activity, incentive, or reward that is more effective at delivering a particular outcome than any other technique, method, process, etc. The idea is that with proper processes, checks, and testing, a desired outcome can be delivered with fewer problems and unforeseen complications."

The concept has been around for more than a century, and some iteration of best practices have been adopted by NASA, major corporations, manufacturing industries, Wall Street, advertising, and countless other segments of business. The concept is even a major component of military strategy and training.

So it is not an earth-shattering event that leaders of the general aviation community gathered to discuss hard-learned lessons and the policies they have developed as a result. What may be earth-shattering is the actual policies that came out of this roundtable and how by implementing some of the procedures discussed, general aviation businesses can save money, return higher profits, and increase safety for their employees.

The roundtables were conducted by the NATA Business Management Committee. "The Business Management Committee's purpose is to help NATA members improve their company's management, operations, and financial performance," said Mark Willey, committee chairman and CEO of Bridgeford Flying Services in Napa, Calif. "We accomplish this by developing programs, such as NATA Safety 1st, benchmarking, and the Safety Management System, and providing ongoing oversight of all NATA member service programs."

Human Resources

The old saw that a company's greatest resource is its people has never been truer than it is today. Finding skilled labor with a passion for aviation is growing more difficult. Coupled with a growth in aviation businesses is a shortage of training programs to increase the stock of fresh new workers in the industry. Furthermore, competition in the aviation community leads to higher salaries, better

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Building a Better Mousetrap

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benefits, and a tougher time keeping the employees you have hired and trained. In short, there is a scarcity of this resource, which increases its value.

The downside of this scarcity for businesses is that it becomes increasingly difficult to find well-trained workers. It is time-consuming to post job openings, wade through applications, conduct interviews, and ultimately decide if the people in the current job pool are the best fit for the position and your company.

How do you find the best candidates for the position? How do you ensure that they have the skills and training really needed for the job?

"It seems that companies are becoming more and more aware of the high cost of turnover or of hiring the wrong person," said Reed Pigman, president of Fort Worth, Tex.-based Texas Jet. "They're spending more time and effort up front to get better people to fit with the company."

Retention is better than recruitment. Reward good employees. Help them feel as if they are an important part of a larger team. Equip and empower them through recognition, training, and instilling love for the industry.

The roundtable on human resources management produced the following best practices:

- **Trust those you know.** Have current employees recommend others and pay them a cash incentive for referrals that pan out.
- **Entice from afar.** Offer to pay moving expenses for those who already have the skills and training and may be looking for a change of scenery.
- **Train them to the job.** Implement a training program for new employees to ensure they master the skills for the job.
- **It pays to learn.** Chart employee's training progress, and create a sliding pay scale for completion of levels of training.
- **Trust but verify.** Pre-test candidates for knowledge, skill, dexterity, and personality before extending a job offer.

"I think we are pickier than we used to be," Pigman said. "It's taking us much longer to hire people. We do more of the personality testing, and there are some that won't take a drug test or can't pass a drug test. If you can't pass a drug test or say have a criminal history—there are so many things that can knock them out. And there seems to just be fewer qualified candidates out there."

Following are more recommendations:

- **Wisdom in a multitude of counselors.** Have several levels of interviews, including with H.R., executives, management, and peers.
- **Retention is better than recruitment.** Reward good employees. Help them feel as if they are an important part of a larger team. Equip and empower them through recognition, training, and instilling love for the industry. Publicly recognize their contributions, successes, and added value to the organization. Create badges or pins recognizing length of service, accomplishments, or training. Create learning resources so they can continually improve their skills and take on more challenging tasks.

"We try to identify where their strengths are and if there is anything that needs to be corrected as early in the game as we possibly can so they can make the change assigned," Pigman said. "Some people are willing to make the change, and some aren't."

Safety

Each year, general aviation accidents cost the industry substantially, and these accidents can also lead to injury or death. Ultimately, accidents cause increases in insurance premiums and decreases in repeat business. According to the U.S. General Accounting Office (now the U.S. Government Accountability Office), general aviation aircraft accidents in the air and on the ground resulted in more than $2 billion in economic impact in 2001. This included the cost of investigation of the accidents, loss of use of the aircraft, repairs, injuries, and increased insurance premiums. Some place the cost much higher.

"We had large operations sitting at the table, and we had a company that only had three employees, so it doesn't matter the size of the operation, all of these practices are important," said Dawn Letellier, director of safety and security for Encore FBO, Houston, Tex., and one of the safety and security roundtable topic leaders. "While everyone is in business for themselves, we realize that if we help each other we help ourselves."

Safety roundtable participants suggested the following best practices to improve ground safety.

- **Training, training, training.** Insurance representatives in attendance informed the group that participation in NATA's Professional Line Service Training Program and Safety Management System makes a difference. Additionally, ensuring that employees have the proper skills, tracking their learning process, and recognizing their achievement leads to fewer mishaps on the ground. Ideas such as signifying levels of accomplishment with patches, insignias, or varying colors of vests or uniforms will allow staff to easily identify workers who have received specific training and prevent the untrained from performing certain tasks. These tools will give employees a greater sense of accomplishment as they earn their stripes and progress through external and internal training programs.
- **Talk about it.** Have safety briefings before each shift to discuss areas needing improvement, explain new policies, award excellence, and rehash what has been working and what needs improvement. Regular discussions about safety will keep the concepts and practices fresh in each employee's mind and help ensure better compliance with safety procedures. These briefings should overlap shifts so the outgoing crew can brief the incoming.

  "Training and communication are really top out of all of the procedures we talked about," Letellier said. "And knowing an employee's skill level is very important."
- **Read, review, and sign.** Have each employee periodically read or review procedures and sign that they have read and understand them. This ensures that they are current on the processes and have agreed to comply with them.
- **Tow, tow, tow your tug.** Because most ground accidents occur during towing, have clear and inflexible towing procedures. Make sure every employee knows these procedures, periodically reads them, and signs off that they will be followed. Never tow a plane without wing walkers. Before the towing, have the supervisor briefly review the procedure with the wing walkers. Wing walkers must have whistles in their mouths during the towing procedure and should signal a stop if there is ever any doubt about clearance or if any part of the aircraft comes within two feet of another object.
- **Roll up the red carpet.** There are litanies of simple best practices that include placing the red carpet stowage policy on the carpet near the company logo. It should be the pilot in command's responsibility to roll up and stow the carpet.

  Other policies include setting proper chock size for various aircraft and insuring that the proper chocks are used; setting policies on limos, marshalling, and other types of vehicles on the ramp and making sure these policies are in accordance with your airport regulations; having standardized hand signals for various tasks; and requiring and tracking routine maintenance on tugs and other equipment.

"These are simple things that I think in the past have been taken for granted or are not thought of as something that is going to be useful," Letellier said. "I think the key is having safety briefings, communicating, retraining, keeping employees informed, having discussions with them on different issues. I don't think you ever get enough training or safety briefing."

Letellier also said that many companies take a customer service first attitude, which extends to their line crews. "I think your company has to have that safety culture that safety is first," she said.

Letellier said that preparing a customer's aircraft without damage or injury is part of good customer service, and she feels that most customers are going to understand if you place a greater emphasis on safety than speed. "Yes the customer is important, but safety is the priority and the customers will appreciate when you do your job and tow their plane in a safe manner," she said.

Insurance and Risk Management

Accidents do happen, and even minor hangar rash can result in tens of thousands of dollars in damage to a multi-million dollar aircraft. When that happens, the amount and type of insurance your company has can mean the difference between major losses and sufficient coverage for the event.

Every business major knows that the cheapest way to learn a lesson is at another's expense. Participants in the insurance roundtable discussed some of the hard-learned lessons they have endured and shared some of the best practices they have adopted to avoid repeating those mistakes.

"Reviewing contracts is a best practice," said Doug Johnson of Georgia-based Insuramerica Aviation and one of the topic leaders at the roundtable.

Johnson explained that FBO operators often sign contracts with individuals, airports, or other companies that may actually void their insurance.

"The thing you have to be careful of is that when the operator is signing a contract with someone else, are you assuming the liability of others? And

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Building a Better Mousetrap

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number two, are you exceeding the boundaries of your insurance protection when you assume that liability?" Johnson said.

"Oftentimes in contracts, what you see is unlimited liability. In other words, indemnification agreements where you agree to hold the other party harmless for anything and everything in the history of the universe," Johnson said. "No insurance policy covers anything and everything in the history of the universe. They all have limits, exclusions, limitations, etc. And to the best of your ability, you have to match up your insurance protection and the contract where you are exposing the business to the least amount of unprotected liability possible."

In the insurance arena, several best practices can help protect a business from substantial losses.

Document all policies and procedures, and always do things the same way. If a customer tries to blame an incident on your negligence, you can demonstrate those policies and procedures that would prevent you from contributing to the aircraft's damage.

Johnson recommends the following:

- **Review all contracts** with your insurance company to make sure you have not exceeded the boundaries of your coverage.
- **Use contractual language** to protect yourself from losses. One area Johnson especially recommends is hangar-keepers liability to hold the FBO harmless from joint and several liabilities for the reduction of value to an airplane as a result of damage even after it has been repaired. The contract should protect against consequential damages.

"The largest area of growth in hangar-keepers liability coverage is diminution of value and loss of use," Johnson said. "In other words, after an airplane is damaged and that damage history is reported on the marketplace, that airplane is likely to be worth much less than an identical airplane without that damage history. That being the case, if you damage a very expensive airplane, the actual, physical repair may be, let's say $100,000. But the owner of the airplane can potentially come back to you for two different things. One is loss of use. In other words, the airplane was not available to them for the time it was being repaired. The other is diminished value. 'Before you damaged my airplane it was worth $8 million and now it's worth $7.2 million, so please write me a check for 800,000 bucks.'"

- **Document all your policies and procedures**, and always do things the same way every time. If a customer tries to blame an accident or incident on your negligence, you can demonstrate those policies and procedures that would prevent you from contributing to the aircraft's damage.

  "Afterwards, when it is alleged that you put the widget in backwards, you can say 'No, we always put the widget in right because this is how we put it in, this is how we check it, and this is how we check it again and sign off,'" Johnson said.
- **Have a comprehensive safety program in place**, like the NATA SMS, and adhere carefully to the plan.

  "The number-one overriding purpose (of the SMS) is to prevent as many accidents as possible," Johnson said. "But the number-two purpose is if there is a problem and you as the operator are alleged to be part of the problem, your processes, procedures, and documentation can demonstrate that in fact you are not part of the problem. So spending money on the SMS probably is just as important as spending money on insurance protection. It absolutely pays for itself."
- **Shop around.** The insurance market is softening and becoming much more competitive. Get several quotes for comparable coverage. If you receive several lower quotes for the same coverage, go to your current insurance carrier and see if they can improve your current premiums.

  "The cheap deal is not always the best deal," Johnson said. "Be cognizant of the marketplace. Be smart. Jumping from company to company is not necessarily the best thing to do. It is more likely that if you are a good, long-term customer, then your current company is going to work very hard to keep your business."

Leasing

FBOs are often on both sides of the leasing fence. In addition to leasing property owned by the airport authority or municipality, many FBOs sub-lease hangar or office space to tenants. In either case, having a list of best practices can help protect the FBO from loss, violation of terms, and even forfeiture of assets. It is very important for an FBO to make sure that the leases it signs with tenants don't violate the terms of the lease it has signed with the airport authority. Tom Slavin, president of Million Air Cleveland and moderator of the leasing roundtable, provided the following list of best practices:

- **Maximize your lease term.** Most lenders are going to require that your ground lease term with an airport authority or municipality exceeds any financing terms by a factor of two to one.
- **Don't consent to "conditional renewal periods"** as a means of lease term extension. "This means that your ground lessor insists on on-objective criterion as a condition of your exercising a renewal option," Slavin said.
- **Beware of eminent domain.** Make absolutely certain, in the lease document, that any "taking" will be fairly compensated according to fair market value.
- **Get professional help** and be prepared to pay for it. If you are uncertain about the impact of any lease terms, make sure you seek out professional help. "The number-one rule is to make certain you engage an aviation professional that's both experienced and competent in land leases as your advocate," Slavin said. "Keep in mind that this professional advice is not inexpensive, and that allocating between $15,000 to $20,000 per service rendered, for competent professionalism, will typically save you money during the course of your lease term."
- **Run a credit report on tenants.** "Check out their financial background," Slavin said. "Know as much about the prospective tenant's business as you can learn. Keep that information in the tenant's file. If you have any questions, insist on a personal guaranty of the lease by the principals of the prospective tenant."
- **Know your total costs** and charge accordingly. "Include all the costs of occupancy, operational and capital, and break those costs down on a per-square-foot basis by space type or category," Slavin said. "For example, the renting of office space will carry a premium over the cost of hangarage. Utilities, taxes, land rent, repairs, and maintenance—add everything together, compare this to what your competition is charging, and make informed rather than best-guess rental decisions. Renting successfully is both a science and an art form."
- **Use the lease to protect you from damages.** "In your lease document make sure that the tenant names your company and the airport authority as an additional insured," Slavin said. And follow Johnson's advice and have your insurance company review all leases you sign both with the tenant and the airport authority.

Legislation and Regulation

Aviation is one of the most regulated industries in America. Each year decisions made by government agencies, Congress, or local municipalities have the potential to create a significant economic impact on FBO businesses. "It is very important for aviation businesses to stay abreast of these legislative and regulatory changes," said Eric R. Byer, NATA's vice president of industry and government affairs. "It is equally important for these businesses to be proactively involved in informing their lawmakers about how new laws and the resulting regulations impact their business."

Byer said the most common mistake made by most small businesses, generally because of their lack of resources, is waiting until a potentially harmful piece of legislation is just about to become a law before trying to establish a relationship with their congressional representatives.

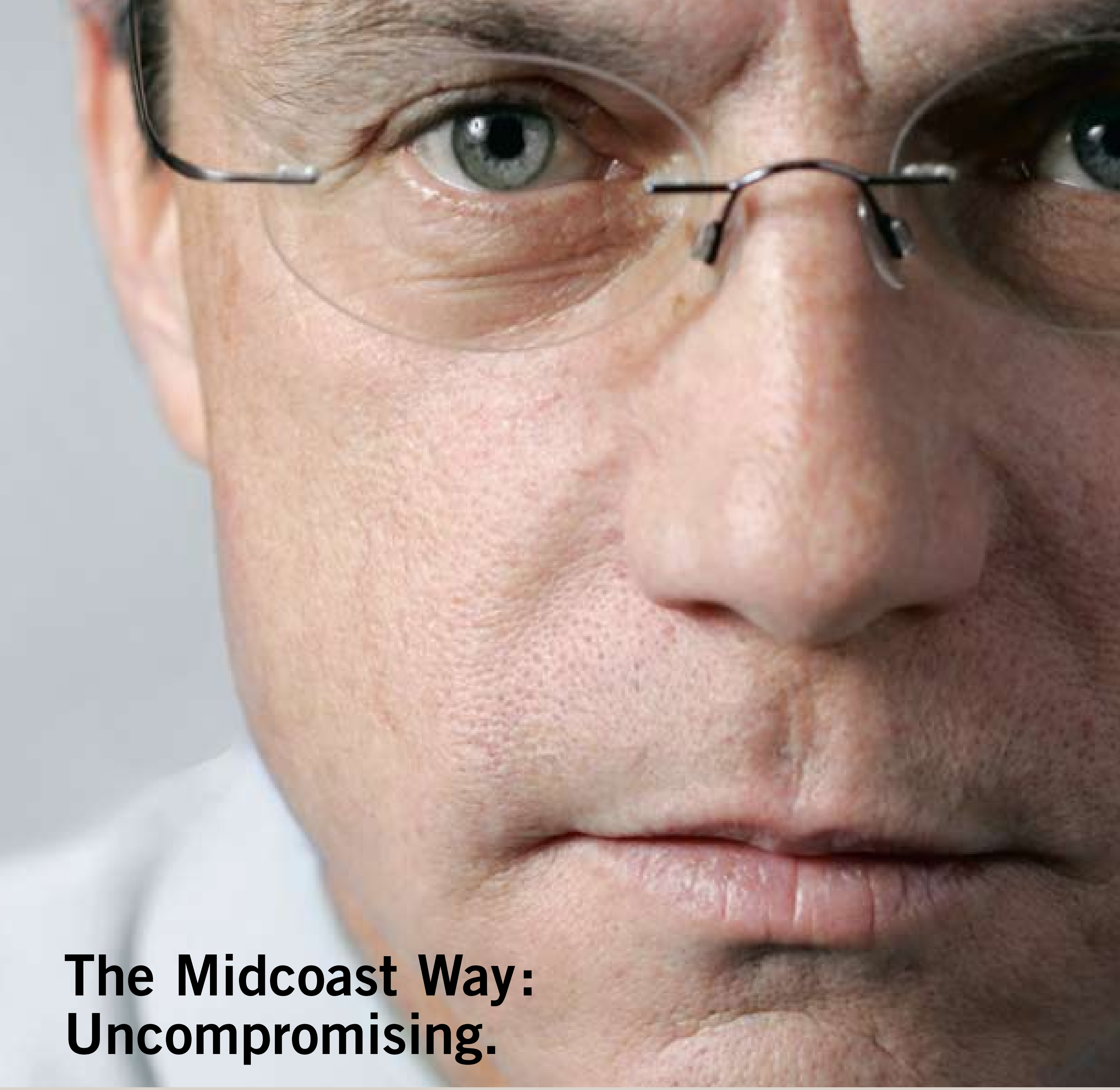
Stan Mackiewicz, NATA's government and industry affairs representative, discussed the association's 2007 legislative priorities, including pending user fee legislation. More information is available at www.nata.aero

Byer suggested the following best practices for monitoring and impacting aviation laws and regulations:

- **Be informed.** Use NATA's website, *NATA News*, legislative and regulatory updates, and its Daily Digest to stay on top of legislative and regulatory activities that could have an adverse impact on aviation businesses.
- **Be involved.** Make contact with your lawmakers long before you need them. Invite them to take a tour of your facility or meet with them during NATA's Day on The Hill event every spring. "Having a solid working relationship with your congressional lawmakers gives you the leg up on beating back legislation harmful to your business," Byer said.

  Members wanting to learn more about coordinating a congressional tour should contact NATA's Stephen Beaulieu.
- **Use your voice.** Make sure that your employees, staff, family, customers, and friends know when there are issues that can be harmful to your business, and ask them to contact their lawmakers.

The NATA Business Management Committee will compile all of the best practices suggested in the roundtables and combine them into a final white paper during its next meeting in June. The final document will be available for NATA members at www.nata.aero.



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MIDCOAST
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Aircraft Maintenance Technicians: Demand High, Interest Low

By Paul Seidenman and David J. Spanovich

Business has never been better for general aviation aircraft OEMs (original equipment manufacturers). According to just-published data by the General Aviation Manufacturers Association, the industry delivered 4,042 fixed-wing airplanes in 2006, a 12.9 percent increase over 2005. This resulted in a record $18.8 billion in billings, representing a 24.1 percent improvement from the previous year. The deliveries included nearly 1,300 turbine driven models, of which 885 were jets—an all-time high for that category.

Estimates are that the U.S. general aviation fleet will continue to expand. According to the FAA 2006-2017 Aerospace Forecast, the U.S. fleet, including fixed-wing and rotorcraft, will increase from 214,591 at year-end 2005 to 252,775 by the end of 2017. Factoring in new aircraft deliveries and the retirement of older units, that will be a net annual growth rate of 1.4 percent.

But while there is a spirit of optimism not seen since before 9/11, many in the industry wonder if the skilled labor will be there to repair and service the numbers of airplanes coming into the fleet today, as well as those yet to come through the pipeline.

Declining Enrollment

If the available statistics are any indication, the MRO industry faces a critical challenge. Joe Pappaly is the Oakland, Calif.-based president of WyoTech, which offers airframe and powerplant (A&P) mechanic training, and a board member of the Aviation Technician Education Council (ATEC), which counts 121 FAR Part 147 approved A&P schools among its members. He cited a just-released ATEC survey showing a sobering trend.

"According to the survey, which looked at 130 approved A&P programs, there were 13,827 students enrolled in approximately 130 FAR Part 147 schools in 2000," Pappaly said. "During that year, 4,978 people graduated from those programs, and 4,039 found employment in aviation. But by 2005, enrollment had declined to 7,680, out of which 3,226 graduated. Of that group, just 2,047 chose aviation jobs, a decline of about 50 percent."

WyoTech's Oakland campus is in line with these trends, Pappaly said. The campus had an enrollment of just 200 students at year-end 2006, down from 450 in 2000. He said the trend has resulted in some A&P schools and courses at community colleges being dropped. "With lack of demand, many cash-strapped schools have simply cut the funding for aviation courses," he said. "In fact, since 9/11, some 20 ATEC-member programs have shut down."

Increasing Demand

Despite declining enrollment in aviation technician programs, the U.S. Department of Labor's Bureau of Labor Statistics (BLS) indicates that demand for these skilled people will only grow. According to Terry Schau, a BLS supervisory economist in Washington, D.C., in 2005 (the latest year for which statistics have been published) there were a total of 137,610 people employed in aircraft maintenance. Of that group, BLS classified 115,120 as "Aircraft Mechanics and Service Technicians," while the remaining 22,490 were given a separate "Avionics Technician" classification. About 50 percent were employed by commercial air carriers, 18 percent by government entities, and 14 percent by the aircraft-manufacturing sector. The remainder were mostly employed by private operators, such as corporate flight departments or charter operators.

BLS economist Tamara Dillon reported that over the 2004-2014 period, there will be 18,010 newly created positions, including 15,911 for aircraft mechanics and service technicians and 2,099 for avionics technicians. But for the same time frame, job openings resulting from net replacement needs will be 33,688, which includes 28,100 aircraft mechanics and service technicians and 5,588 avionics technicians. This means that total industry requirements, due to a combination of newly created positions and net replacement needs, will be 51,697.

"The business aviation sector will be the primary driver for new mechanics through 2014," Dillon said. "Because of high fuel prices, the commercial airlines are not going to be able to expand their fleets as much as they would like. The business jets and the new very light jets will be where the jobs are."

David Marcontell, vice-president of Team SAI, a Denver, Colo.-based aviation operations and maintenance consulting firm, argued that there is

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already a shortage of qualified aircraft maintenance technicians and it will only get worse.

"The position of aircraft maintenance technician, both in the airline and general aviation sectors, entails a high level of expertise that is generally not compensated sufficiently, especially in relationship to the responsibilities involved," he said. "Wages and other compensation have not kept up with jobs in comparable industries for which the same skills are in demand."

This is particularly true, he stressed, for mechanics working in general aviation aircraft maintenance, which requires multiple skill sets.

"Unlike an airline, where a mechanic is able to concentrate on one aircraft type or system, an MRO company that caters to general aviation forces a mechanic to become an expert on more than one aircraft and subsystems, since they deal with so many more kinds of aircraft," he said.

Coupled with that, Marcontell said, is the perception among many young people that aviation today is a risky business. "They have seen the layoffs and cutbacks, which have even affected some senior people in recent years," he said. "That gives this occupation less appeal to new people, and consequently, smaller numbers are being trained today."

Fred Mirgle, chairman of the Aviation Maintenance Science Program at Embry-Riddle Aeronautical University, called the number of skilled people currently maintaining aircraft "adequate." Of primary concern to Mirgle is finding suitable replacements for the aging workforce.

"While I can't give you a precise number, I can tell you that the average age of the skilled labor force in aviation maintenance is not young," he said. (In fact, the BLS notes that the median age of aircraft mechanics and service technicians in 2005 was 44.1 years, slightly over the 44.0 median age for the U.S. workforce as a whole). "As the current crop of technicians approaches retirement age, the question is what can be done to attract a replacement workforce?"

Mirgle said that part of the problem with attracting people is a perception that aircraft maintenance is not held in as high esteem as it should be by the industry or the public. "In some cases, auto mechanics make more than A&P technicians," he said. "In fact, you still have aircraft maintenance operations trying to hire skilled A&P mechanics for under $10 an hour." (According to one industry source, the average pay range for an A&P mechanic, depending on experience, is between $15 and $35 per hour.)

Coupled with this is the issue of attracting young people to aviation in the first place. "Years ago, you had the typical airport kid who loved to hang around airplanes, but given today's security environment, it's getting harder to do that," Mirgle said. "It has become very difficult for kids to learn about aviation on a close-up basis."

One other area where the industry has fallen short, said Mirgle, is showing young people that aviation maintenance presents a definite career path. "For example, you could show a young person that he or she could have a career as an aircraft technician with the flight department of a large company, which normally means a good salary and excellent benefits," he said. "And since more big companies are buying aircraft and (establishing) flight departments with some in-house maintenance, there is going to be a lot of demand from that sector for aircraft mechanics. The industry and the schools have to get the message out that there's a life there."

That may be no easy task. Brian Finnegan, president of the Professional Aviation Maintenance Association, pointed out that once students enroll in an aviation technician course, it's often a challenge to keep their interest.

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Aircraft Maintenance Technicians

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"Generally, about one-third of the students who begin a course will drop out prior to graduation, and of those who do graduate, about half will go to work outside of aviation," he said. "With aviation credentials, you can work in many other industries where the money is often better.

Finnegan added that despite the emerging demand for aircraft mechanics in the corporate and general aviation sector, part of the MRO business will have inherent disadvantages with attracting talent. "In corporate aircraft MRO, many operators are looking for mechanics whose experience has been specific to the aircraft type they operate," he said. "The problem is that more experienced aircraft specific mechanics are even harder to find in today's corporate aviation world. And those with experience on a wider variety of aircraft are even more difficult to find."

Part of the reason for that, he said, is that the vast majority of aviation maintenance technicians work directly for the airlines or the large MROs that specialize in airline work. "This is only aggravating the problem of attracting mechanics needed for corporate and general aviation support," he said.

WyoTech's Pappaly said that due to airline competition, some corporate operators and business aircraft maintenance firms may have to consider hiring more entry-level mechanics. "There are signs that this is already happening because they are not getting the people they need," he said.

Kurt Sutterer, president of Midcoast Aviation-US MRO in Cahokia, Ill., agreed. "Today, we are hiring people directly out of A&P schools more than we ever did before, as well as out of the military and even from the automotive industry," he said. "Then we train them to our specific needs."

Sutterer noted that the MRO industry, as a whole, no longer has the supply of available people that it did as recently as three or four years ago. "At that time, we could fill positions immediately with experienced people," he said, "but now we have positions that remain open for weeks and even months. The skilled people needed to fill them are scarce."

That scarcity is particularly critical in such areas as structural repairs and electrical systems. In fact, he said, as all-digital cockpits, high-speed communications, and other new computer-based technologies are built into aircraft, the need for people with high quality troubleshooting skills is becoming an emerging issue.

"For this reason, we are now starting to recruit from vocational/technical schools outside of aviation that specialize in electrical systems instruction and then giving them the aviation-related training on top of that," Sutterer said. "Frankly, the A&P schools are not doing an adequate job of matching people to industry needs. They are meeting the minimum FAA training standards, but many are teaching their students to work on older technology aircraft. We are finding that they aren't being taught how to troubleshoot today's circuitry or how to use state-of-the-art tooling."

TeamSAI's Marcontel agreed that troubleshooting skills, especially in an age of digital cockpits, are critical. "While the aircraft OEMs are giving substantial help to the mechanics with troubleshooting and fault isolation, about 10 percent of the time they get into problems the manuals don't address," he said. "Even the aircraft's central maintenance computers only suggest the more likely cause of a problem. This means you have to have the knowledge to dig a lot deeper to find out the problem's exact cause."

In that regard, Sutterer feels that the MRO industry may have to take the initiative to work with the schools, even at the curriculum content development level. "At Midcoast, we actually worked with some of our partner schools to help them develop courses that are applicable to modern aircraft," he said.

Ruben Segura-Coto, director of technical services for Moline, Ill.-based Elliott Aviation, reported that his company finds it a challenge to fill the positions it has available. The company has four FBO locations including the Moline facility, which specializes in small to medium-size business jet work. "The technical schools are not graduating enough people to fill the requirements of the industry, and at the same time, it has become very difficult to recapture the trained people who left the industry after 9/11," he said. "Many are not coming back."

A Void of Critical Knowledge

Among the missing are those with critical knowledge and skills, particularly in the context of a single airframe family. "In the past, it was a lot easier to find people who had 20 years of experience on a specific airframe type," he said. "Today, people like that are staying with the same employer and not moving around. Those who are trained to work on many different aircraft do not have the depth of knowledge that comes from working at a single location on a certain kind of airplane."

Still, as Segura-Coto noted, many technicians are finding that career advancement is often tied to making a job change. "When they see that career advancement won't happen as fast as they'd like, they'll go elsewhere," he said. "This is particularly true for smaller companies that specialize in completions and modifications of business aircraft."

Segura-Coto said that the big draw today appears to be the OEMs, which he termed "the leading edge" of industry growth. "They are servicing many of the airplanes they deliver and stealing people from the independents like us," he said.

Mark Paolucci, senior vice-president of Cessna Aircraft Company in Wichita, Kans., agreed. "To some degree, there has been a shortage of qualified maintenance personnel," he said. "But we have been very fortunate because Cessna has always been very attractive to people who graduate from A&P schools. They view Cessna as an opportunity for career growth."

To assure a continuous supply of talent to staff its growing number of Citation Service Centers, which now total ten, the OEM has established partnerships with trade schools offering A&P courses. As Paolucci noted, Cessna is constantly looking at ways to expand this. "When we hire newly graduated A&P mechanics, we can easily bring them up to

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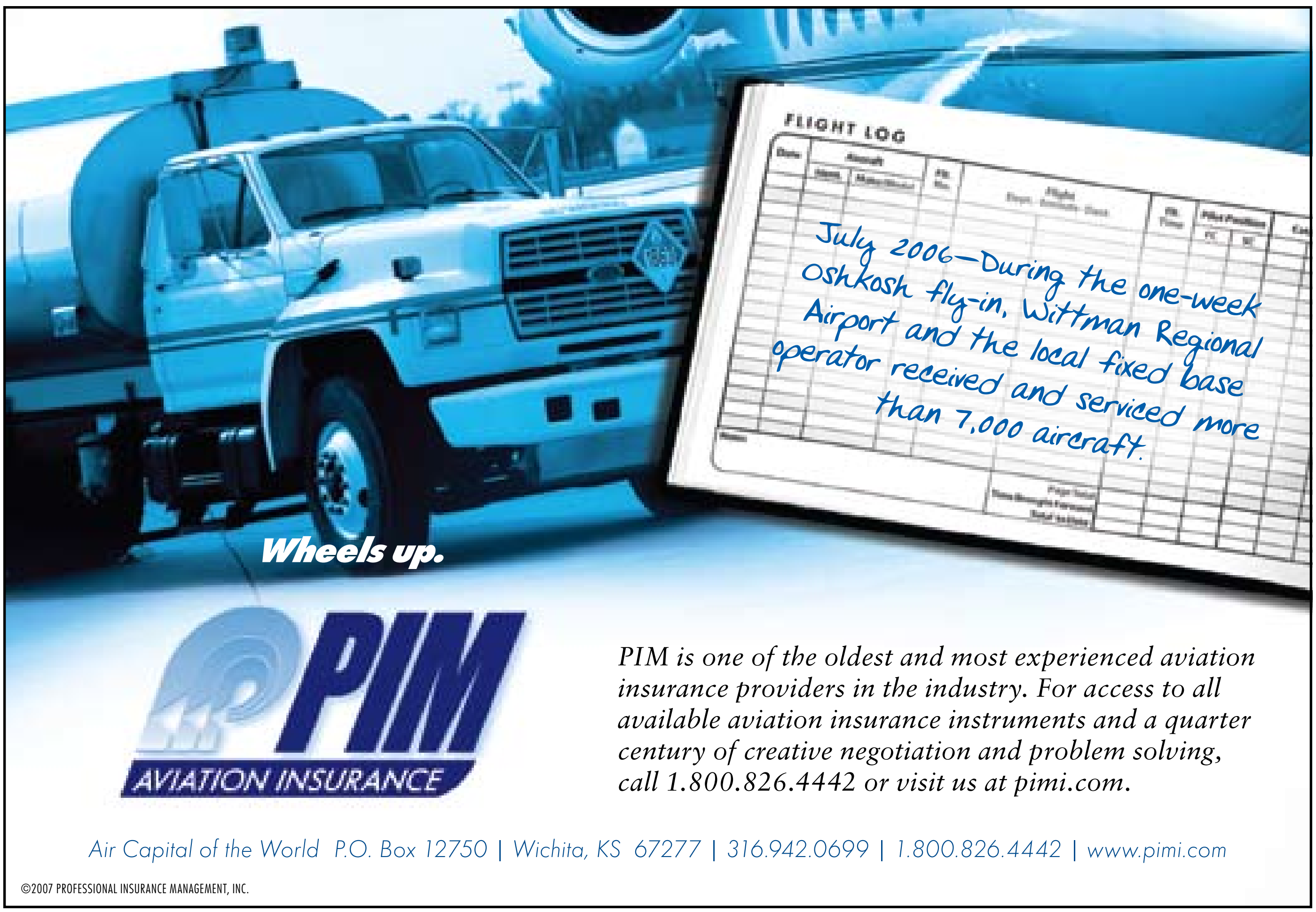

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Aircraft Maintenance Technicians

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speed on the aircraft we maintain," he said.

Establishing relationships with technical schools has also become a major recruiting tool for business jet and regional airliner OEM Bombardier, according to Bryan McCormick, manager of human resources-U.S. for the company in Wichita. This is done in combination with a policy to hire technicians with Bombardier aircraft-specific experience, some of whom originally worked for the OEM but left to work for competitors or customers.

Currently, Montreal-based Bombardier operates five company-owned Business Aircraft Service Centers, along with three additional line maintenance locations. The company owned and operated network also includes two facilities servicing Bombardier-built regional airliners.

"If there is a shortage of technicians, it hasn't impacted us," McCormick said. "In fact, we expect to add another 100 technicians this year to the 1,400 we already have on staff."

He pointed out that three schools—Pima County Community College in Arizona, Wichita Area Technical College in Kansas, and Fairmont State University in West Virginia—offer aviation technician training using courses developed to be Bombardier product-specific. He added that Bombardier has established agreements with three additional schools that offer more general A&P courses.

"An advantage to working with many of the colleges is that they are located near Bombardier facilities," McCormick said. "We believe that more partnerships will need to be developed."

Aaron Hilkemann, president of Lincoln, Nebr.-based Duncan Aviation, claimed that A&P schools, as well as colleges offering aviation technical programs, will be the primary sources for new maintenance technicians. The military will also continue to supply some experienced people.

"About half of our new hire A&P mechanics come from a two- or four-year college program," he said. "We also get some with prior military experience, either through an A&P school or directly from the military, if they have experience working on the kinds of systems Duncan maintains."

The A&P schools and colleges, Hilkemann said, have done a pretty good job expanding their capabilities to teach new technology systems over the past 10 to 15 years. "Some of the new technology does require aircraft-specific training, but we've found that there has been no 'hard transition' period when people go from older to new technology aircraft," he said. "That is particularly true in terms of troubleshooting and other maintenance tasks."

Nonetheless, perhaps the biggest issue the industry faces is simply getting more young people interested in aircraft maintenance training, especially at a time when schools are experiencing declining enrollment.

Duncan Aviation's Hilkemann noted that planting a seed of interest in aviation may have to begin as early as the grade school level if a future supply of mechanics is to be assured. "We have given facility tours to classes at both the elementary and high school levels," he said. "And we have learned from some of our new-hire technicians that these tours were what first introduced them to aviation."

Duncan also offers a summer internship program as well as an outreach program that includes school career days and job fairs. "Doing that means talking to the parents, as well as the students," he said. "We have to convince those parents considering a post-high school education for their children that there are some excellent career opportunities available in aviation. The more the industry becomes involved with programs of these kinds, the more value it will realize five years from now."

PAMA's Finnegan said that the bottom line of not attracting people to business aviation maintenance is that the industry may have to consider some unpleasant alternatives.

"The choice is very simple: we either continue to bring in people who are locally trained or we take the airplanes off-shore for work," he warned. "If we do, that will raise a lot of issues, such as the language barrier, terminology, and the fact that outside the U.S., there are different standards of safety and security. In corporate aviation, we can no longer count on stealing a mechanic from one of our neighbors."

Technicians Short, Capacity Adequate

Although getting the people to maintain the airplanes may be a challenge, indications are that the physical infrastructure needed to support the growing business and general aviation fleet appears to be adequate for the long-term, thanks to current industry planning.

In the case of General Electric (GE), maintenance base capacity planning for its CF34 engine has been driven by the growth of the powerplant's application to the Bombardier and Embraer families of regional jets. The engine also powers Bombardier's Challenge line of business jets and was selected for the in-development ARJ-21 regional jet program in China.

The CF34 is maintained by a network of facilities, which includes one that is GE-owned, along with three independents operating under GE Branded Service Agreements and another three licensed under GE's Engine Overhaul Support Agreements. As CF34 marketing manager Andre Robert explained, this network has easily absorbed the CF34s used on business jets, which as of April totaled 2,300. This is in addition to the 3,200 now powering regional jetliners.

"At this time, the commercial airline sector has five times the number of CF34 engines in service compared to business jets," Robert said. "But we expect that to grow to 15 times, as more 70- to 90-seat regional jets are delivered within the next ten years."

Over the next five years, he noted, GE projects sales of the engine will grow by 5 and 20 percent annually for business and regional jet applications, respectively. "Our service centers will be able to accommodate both our regional jet and business aircraft customers, based on this projected growth," he said.

Based on the current aircraft order backlog, Cessna's Mark Paolucci said that current maintenance capacity and planned expansions should be adequate for the next four to five years. That expansion planning, he said, includes a new Citation Service Center, slated to open in Mesa, Ariz., in 2009. The company also recently doubled its physical plant at its service centers in Wichita and Orlando.

"We are also looking at adding capacity in Europe, Asia, and the Middle East, probably through some kind of arrangement with independent companies," Paolucci said.

Duncan Aviation also instituted large expansion projects at its Lincoln, Nebr., and Battle Creek, Mich., facilities over the past ten years, to keep up with customer demand, according to company president Aaron Hilkemann. "We have done all our long-term planning based on the number of current and projected business aircraft in the fleet," he said.

Hilkemann said that as aircraft operating costs have declined over the past 10 to 15 years, maintenance hours have been dropping, mitigating the squeeze on physical plant. "There is more time between inspections and overhauls, and when maintenance needs to be done, we're seeing less squawks. All of this has helped us to leverage plant space and available maintenance technicians more efficiently," he said.

Part of that leveraging process has meant adding shifts and staff to maintain larger fleets that are being more heavily utilized. "At Duncan Aviation, we have added shifts which have shortened aircraft downtime," he said. "Getting aircraft in and out faster means you can accommodate that many more without having to invest in plant expansion."

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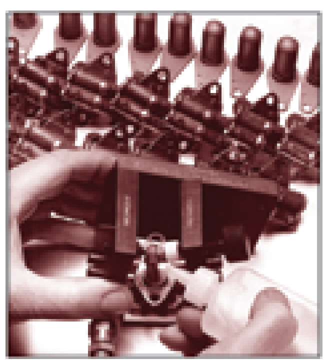

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Building the Field of Dreams

Generating New Revenue in a World of Shrinking Margins

By Dan Kidder

In 1989 Kevin Costner starred in the movie *Field of Dreams*. Most Americans are familiar with the ghostly voice urging Costner to "build it and they will come."

In a world of higher fuel prices, many FBOs are seeing shrinking profit margins as they jockey to stay competitive. For many of these businesses, it is more important now than ever before to build additional revenue streams to offset the losses they are feeling at the pump.

Universally, the experts interviewed for this article argued that not only is the "build it and they will come" approach foolhardy, but it is the shortest distance to failure.

At the recent NATA FBO Leadership Conference in Orlando, Fla., some of these experts described the lessons they have learned while expanding their franchises into additional business opportunities. Attendees heard a panel discussion on new business opportunities for FBOs with Mark Chambers of Aviation Resources Group International, Dale Froehlich of Business Aviation Services, Don Campion of Banyan Air Service, and Frank Milian of Jet Source.

Each of the participants described techniques for expanding FBO operations beyond parking planes and pumping fuel.

Airport Real Estate Investment

Chambers provided attendees with an inside glimpse of the process and pitfalls of building new hangar facilities and using real estate investment to improve revenue. While most airport leaseholds provide FBO operators with little incentive to improve property that will eventually revert to the airport, Chambers argued that there are ways to profit from these improvements.

"If done properly, real estate investment can be good source of growth and profitability," Chambers said. "The key is having a good relationship with the airport. If you don't have that relationship, get it."

Chambers gave an example of when the "build it and they will come" philosophy predominated the airport real estate market. "If you roll back the clock 10 to 15 years, it was a tough period as far as hangar space was concerned," he said. "We went into a real growth mode in the '90s with the construction of lots of excess facilities." As a result, the current hangars are aging and in poor condition. These hangars provide space but little protection or incentive for higher fees that could mean real revenue for their owners.

The risk is in tearing down what is a certain source of income, renegotiating long-term leases with the airport authority, finding funding sources, and taking on significant debt to expand these operations. "At some point, an FBO is going to be faced with taking on new debt to grow or selling out to someone who is willing to make the gamble that they can build the facility into a profitable enterprise," Chambers said.

Chambers provided some keys to making airport real estate investment succeed.

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- **Negotiate long-term leases with the airports.** If necessary, use the promise of expanded facilities to secure these longer terms. Many airports will include extensions tied to new development. These leases are often necessary before you can secure financing from local banks. "There is no national source of expansion loans," Chambers said. "You still need to look for funding from local banks."
- **Negotiate the elimination of terms you no longer want to live with**. If an airport is excited about expanding its facilities, then it may be more amenable to removing restrictions or terms you have formerly had to operate within.
- **Make sure that demand drives the decision**. Know the current need and supply. Talk to tenants to see if they are satisfied with their current facility or if they would pay more for better facilities. Secure at least a 50 percent capacity commitment before breaking ground on a new facility.
- **Negotiate infrastructure early.** Airports know that once you have broken ground and started building, they can toe a harder line on the services they will provide because you are already committed to the project. If water and sewer, taxiways, electrical work, or other infrastructure improvements will be needed, get the airport to agree to them while you still have the option of backing out. They will be much more amenable to either building these improvements or working with you to get them built before construction is underway.
- **Know your true costs and price accordingly.** Chambers said that too often developers know what the cost of the new structure will be but don't factor in all the planning, environmental impact studies, maintenance, operations, etc. The biggest mistake is trying to keep your rates so low that the return on investment is stretched beyond the lease period. Know all the costs, and don't be afraid to charge accordingly. "Nate Landow out at Dulles (Jet Center) got his commitments up front and is charging double what others are charging and getting it," Chambers said. The key is to build to the need and offer better than what is currently available.
- **Make the investment profitable.** Chambers said the tendency is to look at the new facilities as an extension of the fuel services. As such, many FBO operators don't charge what is needed to make the new facility profitable but look at it as a way to help boost fuel sales. "Everything should pay for itself and make revenues," Chambers said.

Chambers also said that real estate developments on the airport don't have to be hangar space but can encapsulate many other aviation-centered services, such as corporate offices, GSE maintenance facilities, and other types of construction.

Aircraft Management and Charter

Frank Milian, president and COO of Carlsbad, Calif.-based Jet Source, also referred to the "build it and they will come" myth. He said that many FBOs have a potential charter fleet sitting under their noses, or at least the roof of their hangars.

"I don't have a real hard number, but I would guess that 80 percent of all aircraft being operated in charter are owned by other people. They are owned by individuals or corporations, and these individuals and corporations have the means and ability to own an aircraft," Milian said. "They have a need or a business, and they use this airplane for that need or business. And the fact is they don't use them 24 hours a day seven days a week. The airplane is sitting there, it is available, and so the business relationship can exist with those individuals and the FBOs."

Milian said that many FBOs believe they have to go out and make a major capital purchase of one or several aircraft to begin a charter operation. "In the charter business you don't really need any hard assets, but you need people," he said.

He explained that the upfront investment for an aircraft management operation involves hiring knowledgeable staff who have a good understanding of the business realities, customer service, and operational control issues. "You don't need the bricks and mortar that you have when you are operating an FBO," he said. "You can operate out of an office. You can rent space out of an office and have your (FAA Part 135) certificate, you have the required personnel, and you have these business relationships with the individuals who own the aircraft."

While the hard costs for starting a charter or aircraft management company are not great, that doesn't mean it is an inexpensive proposition, Milian explained. He said the return on investment for an aircraft management company is often longer than for a typical FBO. "The lion's share of the revenue goes to who owns the asset," he said.

While there is a steeper ROI, the potential is still there for the operation to be a profitable source of additional revenue for a company. "The driver behind it is that we live in a world that requires people to travel around, there are many people who have the means to fly around on private aircraft, and flying on the airlines is horrendous and unreliable," he said.

Milian warned about promising the owners of the aircraft that this will be a means for them to make a profit. In most cases, he said, the additional revenue helps to defray some of the costs of operating, maintaining, and storing the aircraft.

"Placing an airplane into charter does not make money," he said. "What it will do is instead of writing a check for thirty grand a month, maybe they write a check for ten grand a month. It is offsetting that cost."

Milian explained that the larger the aircraft, the greater the savings, and there is even potential for the owner to see a profit, not factoring in the cost of the aircraft.

Before engaging in an aircraft management business, operators must have a strong familiarity with the FAA Part 135 regulations. "To some degree you can say this is an easy business, but to another degree it is not," he said. "I mean it really isn't. People who are going to engage in this need to make sure they have the right people to run it."

The three key individuals a company needs to hire, Milian said, are a director of operations, a chief pilot, and a director of maintenance.

"Part of operating a charter business is being able to understand the charter world, the regulatory side, the customer side, what customers are looking for, and that you don't have to go into it being the lowest cost operator in the area. We are not. We are one of the higher cost operators in the area, and we are okay with that because we provide a stronger product and a higher level of service."

Milian warned that operating charter is a 24/7 proposition and that charter customers expect a higher level of customer service than some FBOs may be accustomed to providing.

Milian gave the following advice to those considering charter or aircraft management:

- **Know the demand for charter in the area.**
- **Know the supply.** Get commitments from aircraft owners before hiring staff and making other expenditures.
- **Hire people who are very familiar with charter regulations.**
- **Do all of the heavy lifting.** Be responsible for shifting aircraft certificates, training pilots under Part 135, providing maintenance, booking, dispatching, cleaning, etc. Owners of the aircraft are not going to be bothered with these things.
- **Always get paid up-front.** Most charter customers are people of means and have the ability make large payments by credit card. Don't put yourself in the position of trying to collect on a $50,000 invoice after the flight is completed.

  "There are some people out there who really know how to work the system to their advantage," Milian said.
- **Never compromise on the things you can't do.** Don't exceed hours of service or take charters that would require you to violate regulations.

  "You get calls from customers who want you to take them to a destination and you explain that you can't because the flight time would exceed hours of service or some other factor, and yet somehow they manage to find someone else who will provide that flight. We aren't going to be the ones who compromised on that," Milian said.

Despite the potential pitfalls, Milian encourages FBOs looking to expand their operations to give it a go. He said the new contacts made in a charter operation could open multiple opportunities such as entry into aircraft sales and acquisition or corporate aviation.

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Generating New Revenue

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Aircraft Repair and Maintenance

Don Campion of Banyan Air Service said that many FBOs have shied away from adding maintenance operations, in part because it's so hard to find skilled people to do maintenance work. Also, the maintenance business is very detail oriented, requiring the implementation of complex systems.

"With all of the sign-offs and part procurement, troubleshooting to safely fix the airplane on time, done right, as quoted takes systems, and those who own an FBO often don't have a mindset to put that kind of energy and work into a successful maintenance shop," Campion said.

He went on to say that a maintenance shop often grows out of the need of a flight school, charter department, or aircraft sales, and the growth of the shop comes as the owners seek outside business to level out the peaks and valleys of the busy times.

"Maintenance is a tough business," he said. "Rarely is a maintenance department designed to stand alone until it grows above and beyond the needs of the department it was serving."

Campion said that those looking to create a successful maintenance operation should observe the following:

- **Study key areas of maintenance business.** Know what customers are available. Know your market.
- **Create a business plan** that looks at your strengths, weaknesses, opportunities, and threats (SWOT).
- **Focus.** Try to find, through your SWOT analysis, what brands you are capable of servicing, and limit your maintenance activities to those brands.

  "Maybe there are a few technicians that are working for you because maybe you have a few King Airs in your fleet," he said. "Don't start working on any and all airplanes."

Campion also denounced the Field of Dreams strategy. "I believe the idea of let's get into maintenance and they will come is a myth," Campion said. "It is based on referrals, doing small jobs, fixing discrepancies, and, again, doing it right, on time, as quoted. This will lead to engine changes, inspections, and managing the customer's maintenance."

Campion said the success of a maintenance shop comes not in being a "job shop" but in taking over the customer's overall maintenance management. "You need to aim to earn your customer's maintenance rather than being a job shop," he said. "I don't think job shops can survive."

He said it is imperative to be proactive in seeking out new customers and markets. He advised staying abreast of modifications approved for the types of aircraft you service, reaching out to those who own the types of aircraft you service, marketing your capabilities to those aircraft owners, and doing pre-purchase and insurance inspections.

Knowing the insurance adjustors and following up with them on a regular basis can lead to them having a good understanding of your capabilities, Campion said. "It can lead to a good shot at rebuilding, modifying, or fixing something that went off the runway."

Each of these jobs can lead to several hundred thousand dollars of work and also to a long-term relationship with that customer.

Campion also stressed the importance of having a person whose primary responsibility is seeking out new customers and marketing the shop to owners in a 200-mile radius.

He also recommended to frequently follow up with manufacturing representatives and to work on strengthening those relationships with the possibility of becoming an authorized service center for those manufacturers when slots become available.

Campion warned that a common mistake made by maintenance shops is not having a strong customer liaison to oversee the maintenance of the airplane and communicating that information between the customer and the service technicians.

"Where we have lost the most money is not having the right person being the liaison between the shop and the customer," he said. "Unless there is a good communicator—a real people person—who is also going to set certain guidelines and rules that they will not break (like extending credit, not getting the quote to them, or not informing about the bill total), you can have the best technicians back there fixing the airplane but the most unhappy customers on the front end because they are just not being informed."

Airline and Airport Services

Dale Froehlich, of Business Aviation Services in Sioux Falls, S.Dak., discussed several possible avenues of diversification, particularly in the areas of airline and airport services. "People need to diversify their activities and still make a decent return on their investment," he said. "Some of the wrong ways to diversify would be not knowing what your cost is, not pricing properly, doing services for which there is no demand or margin, or doing activities that require a lot of risk or a lot of overhead."

Froehlich suggested taking the same staff and overhead used in operating the FBO and using them in a wider range of services to generate revenue. These activities include managing corporate hangars; operating ground sorting facilities for major shipping companies; aircraft management; delivering mail from the airport to the post office; conducting jet-way inspections and repairs; performing push-back, parking, de-icing, and call out maintenance services; training; rental car servicing and maintenance; lost baggage delivery for airlines; local airport law enforcement contracting and training; and fire extinguisher inspection and servicing.

Froehlich said that regardless of how an FBO chooses to diversify or expand its operations, the first step is to have a staff person who knows the service you are looking to provide intimately. "You need to have someone on your staff who knows how to do that because it's a different set of skills than just selling fuel," he said. "Put yourself in the customer's shoes. If I am the customer, why am I going to hire you to do something you don't know how to do?"

Froehlich said the next step is contacting potential customers to see if they are looking to farm out some of the services you intend to offer. "There is no point in staffing up if the customers tell you they are not interested," he said.

Additional possible revenue sources Froehlich mentioned were rental of restaurant facilities, vendors and shops, conference and training rooms, business services, web hosting, pilot and office supplies, and the sale of in-terminal advertising. "Any airport that has airline service or major transient service probably has enough foot traffic to sell advertising," he said.

Froehlich warned any FBOs looking to expand operations to make sure their insurance coverage will also cover the expanded activity. He said that most insurance companies will require an FBO to provide them with all business plans and contracts for review before extending coverage to the new operation.

Doug Johnson of Insuramerica Aviation echoed this. "You can void your insurance by signing a contract where you assume the liability of others without getting permission from the insurance company first," he said. "You should always (send a contract to your insurance company for review) before you sign it."

"You want to be strategic, and you want to make sure that what you do is quality and not extremely risky," Froehlich said. "You need to know that customers want to buy it and pay you a fair price for it, so you need to do your business plan up front before you actually staff up and start the service."

Froehlich explained that each service should be a separate profit center but need not be a different company or LLC. "Every service needs to pay for itself," he said. "They don't need to be separate companies. FBOs can be the general service provider for anything aviation related on any particular field. You would set up an LLC when you want the protection of a corporate structure. So not only do you need to make a proper cost allocation assignment, but you would set up an LLC when the volume of your business or the risk involved in that business is considerable. You have to make the decision based upon what the risk analysis is and what the economic analysis is."

Regardless of the path an FBO takes to diversify, all of the experts agree on two things: it is vital in this economy for FBOs to expand their revenue opportunities and to do so in ways that avoid unnecessary risk and provide the best return on investment. For any of these new services or investments, the keys to success are knowing the business, knowing the market factors, and making sure the price not only provides a return but also a profit.

While these new business opportunities may provide ample opportunity for expansion, none of them will succeed on the "build it and they will come" model. However, if done correctly, any one may help a struggling FBO build its very own field of dreams.

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Total Value Proposition

In the Battle for Business, Fuel Price Isn't Everything!

By Dan Kidder

Your fuel is 80 cents a gallon cheaper than the large chain FBO. The smell of fresh-baked Otis Spunkmeyer cookies wafts across your marble lobby. Gourmet coffee can be heard brewing in the background, barely perceptible over the sound of Neil Cavuto on your 32-inch plasma television. Outside, a Falcon 50 taxis toward your gate and rather than turning its nose into your glass-enclosed, multi-million dollar terminal, the pilot keeps right on going to your competitor down the field and pumps more than a thousand gallons of Jet-A into his wing tanks.

Incredulously, you scratch your head. You did everything right. So why do large-volume customers keep taxing right on by to visit your competition? Don't you wish you could talk to the owners and executives at some of the largest fractional and charter operations and figure out what they look for in choosing an FBO? Well *Aviation Business Journal* has done just that. We interviewed these head honchos, and they told us that many of the things we think are important are little more than window dressing when it comes to selecting an FBO.

Best Overall Value

For many large-volume fuel purchasers, like fractional and charter operators, the decision is made by applying a complex formula of safety programs, service, facilities, partnership development, maintenance capability, and fuel price. Or what Todd Baumgartner, NetJets director of fuel and FBO relations, called the "best overall value package."

Across the board, the big guys were looking for a combination of factors that included much more than price at the pump. "It's not all about the cost," said Sanjay Aggarwal, COO of Flight Options. "It is about the quality, the service, and the cost."

But cost is still a factor, said TAG Aviation's Vice President of Corporate Communications Gil Wolen. Even though TAG is an aircraft management company and not a charter operator, it does purchase copious amounts of fuel for its management fleet. "You are particularly sensitive to cost," Wolen said. "Not every one of our management owners are quite as sensitive to cost. Some are very sensitive. And a penny will make them sacrifice facilities for cost if they will save money on the fuel."

Jon Winthrop, chairman and CEO of the Air Group, also emphasized the price of fuel but said in most cases those prices have been pre-negotiated with some of the larger chains. "If we go to a new airport or the FBOs change hands, fuel price drives our decision probably more than anything else," he said. "We probably wouldn't go to a real trash heap to save a few pennies because of what we do and who we carry."

Most of those we interviewed agreed that the facilities, while they should be clean, modern, and nice, needn't be the Taj Mahal.

"Whereas 30 years ago or 20 years ago, fancy executive terminals were all the rage, they aren't quite as critical as they once were," TAG's Wolen said. "At the same time, you don't want a lean-to tacked onto the side of a Quonset hut."

NetJets' Baumgartner was even more adamant. "I get nervous when an FBO starts spending 10, 20, 30 million dollars for a facility," he said. "Because ultimately we are the end consumer, and our owners are going to be paying the price for that facility. Most of the time, if we are doing our job correctly, our owners are in that facility for 5 to 30 minutes."

Adam Johnson, NetJet's senior vice president for logistics, made sure to add that because the company provides a premium service, "it is important that the facility help uphold the NetJets brand image as much as we can."

The idea of protecting brand image was universally echoed. Large charter operators and fractional ownership companies are selling convenience and a premium product. Their customers do not want to be waiting around the lobby of an FBO. In many cases, they drive their vehicle directly to the aircraft on one end and get picked up by another vehicle at the destination.

Additionally, large operators say their customers often do not distinguish between the operator and poor service by the FBO. "It is all part of the experience," said Flight Options' Aggarwal. "We are selling a premium service."

Service was a major consideration for most operators, both on the ramp and at the desk. Most have systems in place to monitor customer and pilot complaints on service. NetJets has an online pilot communications tool to provide instant feedback on

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Total Value Proposition

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the service experience, and Flight Options is currently building one.

David Jones, managing member of Air Direct, a charter operator in Texas, said they use the forums on AirNav's website (www.airnav.com) to read comments left about FBOs by other customers and to leave their own reviews.

Even a smaller charter operator like Teterboro's Air Charters, Inc., keeps an Excel spreadsheet of FBOs where they have had service problems.

"If he pulls into a palace and his car's not there, it doesn't matter how nice the facility is because he doesn't want to be there," said Air Charters' Eugene Bopp. "We have landed at some places, and they are almost not helpful. I mean they are there, they'll pump us gas, they'll do whatever we want, but the treatment of our passenger is lacking. And they are the driving force."

Service issues, such as not being met at the plane, line personnel not helping passengers with their bags, aircraft not ready for departure on time, and counter personnel who don't service the passenger and call them by name, can be real problems for operators.

Most of those we interviewed said they take feedback from pilots and customers very seriously and investigate complaints. In some cases, it may cost a business relationship with that FBO.

Another factor that played heavily into the total value proposition was the level of training and commitment an FBO places on safety. For several, the FBO's participation in the NATA Safety 1st Safety Management System (NATA SMS) is a must. Others require a mix of either the NATA SMS, a program offered by one of the fuel suppliers, or another industry-recognized safety program.

"NetJets requires one of those industry-approved safety packages," Baumgartner said. "We want to see that all of the ramp personnel have been trained on that program, and NetJets has some criteria that goes above and beyond some of those programs."

"We are active supporters of NATA's Safety 1st," said TAG's Wolen. "Our primary responsibility is safety. Unless we know they are trained properly and their insurance coverage is proper, the conversation doesn't even begin."

"We audit the FBOs," said Flight Options' Aggarwal. "If they fail the audit, then we are taking our business elsewhere."

Additionally, operators are looking for fuel quality control practices, the availability of Fuel System Icing Inhibitors (FSII), and the policies and procedures in place to ensure the FSII is used properly in the appropriate aircraft.

Price Always Matters

Although not the primary driving force, most large charter and fractional operators were concerned with price, especially with fuel prices at all-time highs. Most said they negotiate price with FBOs far in advance of pulling up to the pump. In some cases, these operators will seek price guarantees that extend beyond the life of the FBO and to any company that acquires them.

TAG employs a team, called TAG Fuel, that constantly monitors fuel prices and enters them into a database accessible by all of their managed owners, pilots, and staff via an intranet portal.

NetJets and Flight Options pre-negotiate fuel prices with FBOs and encourage pilots and owners to use only that fuel network.

"There is a difference between Flight Options and other providers in that we have a preferred FBO at every location," Aggarwal said. "We economically dissuade our owners from going to other FBOs. We tell them this is

the FBO you will go to, and that is part of our contract. In that way, we consolidate our fuel purchasing at a given location."

"If I am your largest customer, I want your best price," Baumgartner said. "What I don't want to find out is that someone who is buying less volume than us is getting a better deal. We'll do our best to be fair and loyal, but we want some reciprocity."

Price disparities aside, most large operators have selected their FBOs and rely on the long-term relationship they have established. Many FBOs employ sales staff to seek out new business from charter and fractional companies. In general, the operators said they are happy to hear about opportunities for new relationships, but in most cases are perfectly happy where they are. Additionally, new FBOs coming online at a field where these operators have already established relationships will need to prove themselves over time to work out the bugs, get their staff trained, implement a safety management system, and demonstrate that they are going to be there for the long haul.

Additional Services

While not as important to the equation, volume purchasers said they have come to expect certain amenities at an FBO, such as wireless internet access; pilot waiting rooms separate from the main terminal waiting area; websites with FBO contact information, airport information, hours of operation, and services offered; staff knowledge of the local area; and call-out repair and maintenance capabilities.

Many mentioned the importance of the pilots being able to rest in an area separate from the passengers but also being able to see passengers arriving either via closed circuit television or through a two-way mirrored window.

For most operators, the presence of a maintenance facility at the FBO was of minor importance, unless a plane needs repair. Most said they have maintenance agreements with the airplane manufacturers and only require service when a major malfunction occurs.

FBO Checklist

Price

- Contact large companies and try to get their business.
- Be willing to negotiate a price far below what you charge transient customers in exchange for much larger volume.
- Be willing to set a price based on a fixed profit margin of X cents over wholesale.

Safety

- Sign up for the NATA Safety 1st Safety Management System and ensure all staff have received proper training.
- Always follow approved processes and procedures for line safety.
- Have methods for monitoring proper FSII fuel procedures.
- Use safety best practices at all times.

Facilities

- Ensure facilities are clean, neat, and in good repair.
- Ensure bathrooms are cleaned several times daily.
- Make pilot rest lounges separate from passenger areas and provide the ability for pilots to see passenger arrival.
- Provide wireless Internet access and terminals for pilot use.
- Have call-out maintenance and repair capabilities.
- Have a kitchen or food service vendor available for crews.

Service

- Have friendly and helpful staff to meet aircraft and call passengers by name.
- Have information on local catering and cleaning services options.
- Have staff that know the area and can recommend hotels for crews.
- Have crew cars available.
- Have line personnel meet the aircraft and assist passengers with their luggage.

Partnership Development

- Be willing to make a long-term commitment with high-volume operators.
- Be prepared to be audited and comply with special requirements.
- Be willing to make changes to procedures and policies to comply with customer's special requirements.
- Be willing to integrate electronically with customer's systems.

Life Cycles of an Aviation Service Business

By Jeff A. Kohlman

Aviation service businesses (which include fixed base operators and specialized aviation service operators, hereinafter referred to as FBOs) are regularly being challenged by a variety of issues in today's business operating climate. Many of these issues can be directly tied to various points upon different "life cycles," including, but by far not limited to, the business life cycle, political life cycle, and economic life cycle.

The term "life cycle" is derived from life sciences but directly applies to business, politics, economics, and industries. As a comparison, a human is conceived, develops, matures, and ultimately dies, as do businesses, politicians and political initiatives, economies, and industries.

These life cycles have direct and indirect impacts on the success (and failure) of a business. Grasping the life cycles can be challenging because each individual life cycle does not have a consistent pattern, the various life cycles do not conform to one another (like a jigsaw puzzle), and many external influences that an FBO owner or manager cannot directly control impact each life cycle.

Therefore, to manage the individual and crossing undulations of these life cycles and ensure business success, FBOs must better understand the various life cycles, the individual stages of each, and how to maximize opportunities and minimize threats of the external influencing factors.

Further, an FBO must understand and respect that airport sponsors (both the political and management arms) are faced with managing similar life cycles. When FBOs and airports educate each other on their own unique life cycles and the corresponding challenges and, when appropriate and possible, cooperatively manage the outcomes of these life cycles, FBOs and airports will find common (and regular) success.

This article will identify the various stages of the business life cycle, political life cycle, and economic life cycle, with a primary focus on the business life cycle. Further, many of the issues FBOs regularly deal with will be discussed and related to each stage of the business life cycle. Finally, techniques and tools that will help an FBO owner or manager navigate the current business operating climate and undulating life cycles will be discussed.

Life Cycles

The business life cycle for an FBO includes four primary stages: inception, growth, maturity, and exit. The business life cycle shouldn't be confused with an industry life cycle, which may be similar in stages, length of stages, and resulting impacts. Further, there may be multiple business life cycles at work within a single business enterprise as different products, services, and facilities may have unique, individual life cycles and/or the FBO may develop new products, services, or facilities at separate times.

A political life cycle is often tied to local, state, and/or national elections; change of power by a political party and/or their elected, appointed, or hired representatives; and/or the successes or failures of a political party and/or their representatives.

An additional facet of a political life cycle can be attributed to manipulations of fiscal and/or monetary policies to influence the election or reelection of a specific individual or political party. This concept was first derived by German political economist Karl Marx and later modified by Polish-born engineer and economist Michal Kalecki. Marx and Kalecki surmised that before an election, fiscal and monetary policies are instituted to manipulate unemployment regardless of the effect on inflation. Once a party or individual is elected or reelected, deflationary fiscal and monetary policies are introduced thereby destabilizing the economy.

The general aviation industry today is certainly facing the effects of multiple political life cycles and their associated changes in fiscal and monetary policies. On a national level, the ever-changing security measures implemented by the Department of Homeland Security have primarily benefited the general aviation industry (excluding the Air Defense Identification Zone and numerous Temporary Flight Restrictions). These security measures have

burdened the commercial air carrier transportation system thereby extending the time (and increasing the headaches) associated with commercial air travel. We all know that "time is money," and therefore more people are using general aviation to save time.

The other notable fiscal policy before Congress is the FAA reauthorization proposal, which would significantly change the FAA funding mechanism to fundamentally a user-fee based system. General aviation fuel taxes would increase nearly four-fold, and additional user fees would be instituted on aircraft using specific airspace, facilities, and services.

To affect change in a political life cycle, one must exercise one's constitutional right to vote (keeping in mind that this could create a different and/or separate political life cycle), and voters must regularly communicate with and educate their elected and appointed representatives.

The economic life cycle consists of predictable long-term pattern changes in national income that are associated with the reoccurring expansion and contraction of the national economy. An economic life cycle is primarily associated with a private or free-enterprise economic system, better known as a capitalist economy.

The traditional four stages of an economic life cycle are recovery, growth, inflation, and recession, which continue to repeat themselves. These stages are primarily influenced by changing unemployment, productivity, housing, and interest rates.

Because the general aviation industry has commonly been referred to as a cyclical industry, a thorough understanding of the economic life cycle and its relationship to the general aviation industry are important. The general aviation industry's relationship with the national economy, while also cyclical, has typically lagged by several years. This is evident by tracking general aviation aircraft deliveries, fuel volumes, and inflation over the last 40 years. However, it is the opinion of Aviation Management Consulting Group that the industry's cyclicality has been softened and the lag has been lengthened with the introduction of fractional aircraft and the growing use of general aviation by privately owned businesses. Individuals and companies not having to justify the use of general aviation aircraft to shareholders reduce the impacts of the economic life cycle during the recession stage.

Business Life Cycle

INCEPTION. The FBO founder, owner, and/or manager identifies, acquires, and employs the necessary assets (financial resources, people, equipment, leasehold, products, etc.) to form a viable

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FBO business enterprise (or individual product, service, or facility).

During the inception stage, an FBO will face the realities of both the political life cycle (primarily as it relates to securing a lease and/or operating agreement from the airport sponsor) and the economic life cycle (as it pertains to obtaining sufficient equity and debt capital, but also as it pertains to a viable customer base).

Development and proper implementation of a strategic business plan will improve the likelihood that the inception stage will have a positive outcome and that there will be future stages in the business life cycle.

GROWTH. The FBO (if successful) will grow in revenues and profits if the required and appropriate assets are deployed properly and are supported by adequate levels of capital. Use of substandard assets or reduced levels of capital may diminish the rate of growth or the overall growth potential.

The rate of growth, the crest of the growth stage, and the point at which an FBO business transitions to the maturity stage often depends greatly on the type, level, and quality of management during the growth stage. Further, the successful use of life cycle management tools will contribute to the outcome of this critical stage in the business life cycle.

MATURITY. The FBO has reached full employment, and revenues and profits have stabilized. The maturity stage is often a period of good profits and excess capital. The owner/manager often has highly developed management skills and concentrates on improving efficiency.

The biggest challenge that FBOs commonly face during the maturity stage is the prospect of competition. Airports and other FBO investors typically see another FBO's maturity stage as the perfect time to develop additional competition on an airport. In essence, the existing FBO has invested the capital and time to incubate the market and sustain the development of products, services, and facilities during the growth stage.

A common misconception of airport sponsors (and sometimes FBO investors) is that competition is normal and competition is good. Based on the data maintained by Aviation Management Consulting Group, out of approximately 3,400 airports (with a hard surface runway of 3,000 feet or more), about 72 percent have just one FBO and about 17 percent have no FBO at all. Therefore, only about 10 percent of airports have more than one FBO. If all 5,270 public-use airports are considered, the percentage of airports with no FBO increases even more and the percentage of airports with more than one FBO decreases dramatically. Clearly, these statistics indicate that competition is not normal. However, everyone in the industry fully understands that there is substantial competition to each and every FBO at nearby airports and airports from which flights originate.

EXIT. An FBO owner will begin focusing on retirement and less on the day-to-day FBO business. Surplus financial resources may have accumulated during the maturity stage thereby allowing the FBO owner to rely less on the annual cash flows of the business. New investment in the business is diminished or eliminated.

An FBO owner (even a manager) should begin planning for the exit stage well before it begins. A proper exit strategy could include the placement of a qualified management team that will sustain (or grow) the business into the future, or some owners may use this stage to truly exit the business and orchestrate a divestiture of the FBO.

Well-informed FBOs are aware of the numerous FBO transactions that have taken place over the last several years and the high EBITDA (Earnings Before Interest, Tax, Depreciation, and Amortization) multiples that are being paid for FBOs located in primary and some secondary markets.

To maximize a transaction price, an FBO should prepare for an exit several years before the proposed transaction to secure a lease extension, maximize current revenue streams, position the business for future growth, and manage the operating

expenses (without hurting the business or the quality of the products, services, and facilities).

Life Cycle Management Tools

No matter the stage, the FBO owner and manager will face daunting challenges during each stage of the business life cycle, including direct and indirect impacts and influences from various life cycles, including political and economic life cycles.

Proper identification, implementation, and use of numerous life cycle management tools available, only some of which are discussed herein, will profoundly affect the successful navigation through the different stages, impacts, and influences of the various life cycles an FBO will face.

Strategic Business Plan

In addition to establishing and communicating the mission, vision, and values (philosophy and approach) of the FBO, a strategic business plan conveys the specific goals, objectives, and tactics that (on a collective basis) will serve as a game plan for the FBO going forward. Within this context, the strategic business plan typically encompasses the following areas: overview, market assessment, management plan, development plan, operational plan, marketing plan, financial plan, and implementation plan.

In essence, the strategic business plan provides a systematic approach for making decisions today that will have a direct impact on the FBO tomorrow. Beyond answering the questions of where the FBO is today and where it is going, the strategic business plan answers the question of how the FBO is going to get there.

Communication Is Key

Communicate regularly and often. The first thing to understand about communication is that it includes listening. However, as Peter Drucker so properly stated, "The most important thing in communication is to hear what isn't being said." This takes a unique talent and exposure to numerous communication opportunities. These opportunities can occur during formal meetings, casual meetings, phone calls, committee or board meetings, and correspondence. All decision makers or influencers, on either a one-on-one basis or in groups (in compliance with regulatory measures), should have the opportunity to participate in the communications—keep your friends close and your "enemies" even closer.

The primary goal is to better understand the political and economic needs of the airport sponsor so that a proposal can be properly positioned, questions can be promptly addressed (thereby eliminating any rumors or speculation), and valuable relationships can be developed and maintained.

Communications should not end once a decision is made on a proposal but should continue throughout an FBO's lease and/or operating agreement. This will allow an FBO to follow the political and business life cycles of the airport sponsor and promptly respond to known needs of the airport sponsor, to the benefit of the FBO and the airport sponsor.

Education Should Be Maximized

To maximize the overall value of the education process, FBOs should take on the role of both an educator and student. Education is always a two-way street. While a significant amount of education will take place during the communication process, FBOs, as a student, can read the relevant regulatory measures that an airport sponsor must adhere to, especially as it relates to leasing airport land and improvements. These regulatory measures normally include the following:

1. Primary guiding documents. A compendium of policies, standards, guidelines, rules, and regulations adopted by the airport sponsor that govern the operation, management, and development of an airport. In combination, these documents are designed to ensure the long-term financial health of an airport; facilitate the orderly development of an airport; ensure the provision of quality products, services, and facilities at an airport; protect the health, safety, interest, and general welfare of the public; and reduce the potential for conflict with tenants, consumers, and users.

   Primary guiding documents commonly include the following:

   a. Lease/rates and charges policy. An airport's lease/rates and charges policy sets forth the parameters for leasing airport land and improvements and outlines the process for establishing and adjusting rents and fees.
   b. Minimum standards. An airport's minimum standards are the qualifications that an airport owner/operator may establish as the minimum requirements to be met as a condition for the right to conduct an aeronautical activity on the airport.
   c. Rules and regulations. An airport's rules and regulations are typically established to facilitate the safe, orderly, and efficient use of the airport. The purpose of rules and regulations

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are to protect the public health, safety, interest, and welfare on the airport.

d. Development guidelines. An airport's development guidelines convey the standards and policies for development of aeronautical and non-aeronautical land and/or improvements at an airport. In addition to outlining the process for developing tenant facilities (both commercial and non-commercial), these guidelines provide the parameters governing the design, construction, and/or modification of such facilities.

2. Grant (Sponsor) Assurances. When an airport sponsor receives funding through the FAA's airport improvement program (AIP), the airport sponsor is obligated to comply with various regulations, which are identified in a document entitled Grant (Sponsor) Assurances. Grant Assurances are incorporated into the grant document executed by the airport sponsor upon receipt of FAA AIP monies.

The obligation of an airport sponsor to adhere to the Grant Assurances extends for up to 20 years or the useful life of the facilities developed or the equipment acquired. However, there is no limit on the duration of the grant requirements with respect to real property acquired with federal funds. In addition, an airport sponsor is required to adhere to the exclusive rights assurances for as long as the airport is operated as an airport.

While there are 39 specific assurances, all important and which every airport sponsor must remain compliant, there are three assurances that are directly relevant to operating an FBO on the airport and should be thoroughly understood by an FBO. However, a basic understanding of all 39 Grant Assurances (which can be obtained from the FAA's website) places an FBO at a huge advantage.

a. Assurance 22: Economic Nondiscrimination. While there are nine separate paragraphs within Assurance 22 addressing different areas where economic discrimination could take place at an airport, the first paragraph reasonably summarizes this assurance, as follows: "[The airport] will make the airport available as an airport for public use on reasonable terms and without unjust discrimination to all types, kinds, and classes of aeronautical activities, including commercial aeronautical activities offering services to the public at the airport."

It is significant to note the use of the term "without unjust discrimination" as it allows an airport sponsor to discriminate, just not unjustly.

b. Assurance 23: Exclusive Rights. Assurance 23 does not allow an airport sponsor to permit an exclusive right for the use of the airport by any person providing, or intending to provide, aeronautical services to the public. While many airport sponsors believe that the existence of just one aeronautical service provider may place the airport sponsor in jeopardy, the FAA specifically states "the fact that a single business or enterprise may provide most or all of the on-airport aeronautical services is not in itself evidence of an exclusive rights violation."

However, on the flip side, it is also important to note that having two or more aeronautical service providers on an airport does not imply automatic compliance with this assurance as actions by the airport could block use of the airport by others wanting to provide the same aeronautical services and therefore granting an exclusive right to the existing providers.

c. Assurance 24: Fee & Rental Structure. An airport sponsor must establish and "maintain a fee and rental structure for the facilities and services at the airport which will make the airport as self-sustaining as possible under the circumstances existing at the particular airport, taking into account such factors as the volume of traffic and economy of collection." The FAA provides general aviation airport sponsors substantial latitude in the methodology used to establish rents and fees. However, the FAA is focused on an airport sponsor making the airport as self-sustaining as possible and consistent application of the established rents and fees.

3. Regulatory measures, FAA advisory circulars (ACs), and FAA orders (order). There are numerous regulatory measures, ACs, and orders that apply to airport sponsors and FBOs. While no single person or entity is expected to know and understand each one (this is why professional advisors exist), there are some key ones that will provide a solid knowledge of foundation and a negotiating advantage.

a. State airport regulatory measures. Most states have legislation that governs the licensing, operation, leasing of land and improvements, financing, and governance of an airport within each state.

b. AC 150/5190-6 (January 4, 2007), Exclusive Rights at Federally Obligated Airports. As stated in the AC, "This AC provides basic information pertaining to the FAA's prohibition on the granting of exclusive rights at federally-obligated airports" and "guidance on how an airport sponsor can comply with the statutory prohibition on the granting of exclusive rights."

c. AC 150/5190-7 (August 28, 2006), Minimum Standards for Commercial Aeronautical Activities. As stated in the AC, "This AC provides basic information pertaining to the FAA's recommendations on commercial minimum standards and related policies."

d. Order 5190.6A (October 1, 1989), Airport Compliance Handbook. As stated in the order, "This order provides the policies and procedures to be followed in carrying out the FAA's functions related to airport compliance."

When attempting to identify and secure capital (equity or debt), knowledge of the financial markets, the application requirements and opportunity attributes commonly sought by financial institutions, and the financial institutions that are most familiar with the aviation industry will accelerate the funding process and substantially increase the odds of success. This information can be obtained from multiple sources including peers in the industry, professional advisors, and industry associations.

Recently, FBO industry leaders had a new opportunity to educate themselves on current industry issues and learn life cycle management tools at the 2007 NATA FBO Leadership Conference held in Orlando, Fla. Sessions included Leadership in Quality Service (presented by the Disney Institute); Motivating, Training, and Managing Your People; Aviation Business Forecast - The Next Twelve Months; Managing Margins - Everything Your CPA Forgot to Mention; Evolving Best Practices for Ground Service Providers; What the 2007 Regulatory Challenges Mean to Your Profits; FBO Risks and Rewards; and Successfully Working with Your Airport.

Beyond taking advantage of educational opportunities for FBOs, owners and managers should find every opportunity possible to educate local, state, and national politicians, elected officials and operating managers of the airport sponsor, and local citizens on general aviation, the airport, and the FBO facility by regularly inviting them to the airport and FBO and by hosting local functions and goodwill events. This exposure to general aviation and the FBO's day-to-day activities will provide a tremendous amount of goodwill to the industry, airport, and FBO and possibly generate some business opportunities. The time and effort dedicated to these endeavors will be rewarded in many ways, especially when proposing the expansion or development of additional FBO products, services, and facilities at the airport.

Celebrate Success

The general aviation industry, local airports, and FBOs (and the individuals managing them) unfortunately get more negative press than positive. FBOs should proactively celebrate their own successes through press releases, advertising, and announcements. Developing relationships with local, regional, and national publications, especially those writers that cover the aviation industry, can provide an FBO the opportunity to get coverage as well as provide an opportunity to comment on any potential negative press.

FBOs should also publicly and privately celebrate the efforts of the airport sponsor and airport manager. Historically, relationships between airport sponsors and airport tenants have been strained. Efforts to demonstrate that the objectives of an airport sponsor often coincide with the FBO's objectives will bring these two parties closer and create a positive working environment that will benefit the FBO.

Summary

This article has summarized just a few of the numerous life cycles that an FBO regularly faces. While the business life cycle was the primary focus, an FBO should identify all life cycles that may directly or indirectly affect the development, management, operation, and marketing of an FBO and associated products, services, and facilities. Once life cycles are identified, determining the current point on the life cycle is crucial in selecting and using appropriate management tools. While a few such tools were discussed, FBOs should identify and use all available tools to effectively manage the direction and ultimate outcome of a life cycle.

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NATA's Safety & Security Committee Provides Guidance

Do you ever wonder who helps oversee programs under the NATA Safety 1st umbrella, including the Professional Line Service Program, NATA's Safety 1st Management System for Ground Operations, and SMS for Air Operators? NATA's Safety & Security Committee provides this guidance and oversight.

The committee's primary purpose is to help develop safety and security measures appropriate to our member companies' operations, airports, and lines of business. The committee is responsible for developing safety and security standards, guidelines, and best practices for the NATA membership. As such, the committee's main duties include program recommendations to improve the safety and security of member facilities, equipment, employees, and customer aircraft; safety and security recommendations to control or reduce risks to enhance the member company bottom line; overseeing the development, marketing, and enhancement of NATA's SMS and PLST programs; and reporting and recommendations to the NATA Board of Directors for financial funding to enhance existing and new programs.

Members of the committee include representatives from other NATA committees, oil company representatives, insurance company representatives, aviation consultants, and safety executives from various member companies.

To read more about NATA's Safety & Security Committee, go to www.nata.aero.

Future articles will keep you up to date on some of the activities undertaken by the NATA Safety & Security Committee. In the meantime, please stay current with our online newsletters, the NATA Safety 1st eToolkit, and NATA Safety 1st Flitebag, all available at www.natasafety1st.org.

SMS Workshops Provide Additional Program Benefits

NATA has conducted eight safety management workshops across the country, including Teterboro, Ft. Lauderdale, Van Nuys, Dallas, Addison, Cincinnati, Orlando, and Savannah. Responses from attendees have been very positive. Participants said the workshops provide an opportunity to network with other similar businesses and ask questions concerning specific safety program implementation issues.

NATA's SMS workshops provide helpful assistance to participants in the development of their SMS manuals. In one day, attendees hear in-depth discussions on SMS concepts and receive helpful guidance and templates to assist with manual development. The presentations supplement ongoing monthly webcasts and encourage interactive participation with all attendees. Workshops average about ten attendees, allowing an intimate atmosphere with instructors and individual interaction to address specific questions. Attendees participate in actual job hazard analysis exercises for both ground and air operations.

SMS workshops have been opened to non-participants interested in learning more about what an SMS entails. Although non-participants pay a higher fee, the additional fee may be credited to the purchase an SMS program.

In-depth details and schedules for future SMS workshops are online at www.nata.aero.

NATA Presents Business Aspects of SMS at AEA Convention

A one-hour session highlighting the attributes and benefits of a Safety Management System (SMS) kicked off the Aircraft Electronics Association (AEA) 50th Annual Convention and Trade Show on March 30 in Reno, Nev. More than 100 attendees listened to Rich Abbott, a Federal Aviation Administration (FAA) system safety inspector; Amer Younossi, an FAA Safety research analyst team leader; and NATA's Amy Koranda, director, safety management.

Abbott discussed the Air Transportation Oversight System and Part 121-carrier participation. He indicated that all Part 121 carriers would have safety programs in place by the beginning of 2009.

Younossi talked about the FAA's intense focus on developing an SMS Advisory Circular for repair stations and maintenance organizations similar to the FAA's AC 120-92, *Introduction to Safety Management Systems for Air Operators*. He told the group that the FAA will comply with the International Civil Aviation Organization SMS implementation deadline of January 1, 2009, and will work toward a ruling on the books. He touched on the four pillars of an SMS: safety policy, safety risk management, safety assurance, and safety promotion. He said the FAA is diligently working on proof of concepts with air operators and maintenance to assure successful implementation and guidance. Younossi challenged attendees to consider SMS implementation strategies ahead of the FAA's mandate.

Koranda concluded the session by highlighting the real-world business benefits of participation in NATA's SMS programs for air operators and ground operations. Because of the programs' thorough business approach to safety management, NATA members have reported better communication and team pride, increased proactive risk management minimizing incidents and repeat events, better safety prioritization and oversight, better reporting systems, and overall cost savings. Koranda said that all of the more than 100 NATA SMS ground and 25 NATA SMS air operator companies have consistently said that implementation increased their awareness and gave them the tools and knowledge to experience more robust safety programs. Additionally, companies benefit from constant reminders about current safety issues and educational opportunities through ongoing educational newsletters, the NATA Safety 1st eToolkit for ground operations, and the NATA Safety 1st Flitebag for air operators.

In-depth information on NATA's Safety 1st Management System programs is available at www.natasafety1st.org or by contacting Amy Koranda, akoranda@nata.aero, or Russ Lawton, rlawton@nata.aero.

National Air Transportation Association

The National Air Transportation Association, the Voice of Aviation Business, represents the interest of the aviation service businesses before Congress, federal agencies, and state and local governments. NATA's nearly 2,000 member companies own, operate, and service aircraft. These companies also provide for the needs of the traveling public by offering products and services to aircraft operators and others such as fuel, aircraft maintenance, parts, aircraft storage and rental, airline services, flight training, Part 135 on-demand air charter, fractional aircraft program management, and scheduled commuter operations in smaller aircraft. NATA members are a vital link in the aviation industry, providing services to the general public, airlines, general aviation, and the military.

- **Advocacy.** NATA aggressively advocates on behalf of its members before legislative and regulatory officials in Washington, D.C., and at state and local levels. Contact Stephen Beaulieu at sbeaulieu@nata.aero.
- **Help When You Need It.** NATA's staff is ready to help you with questions or concerns when dealing with government officials and with other business issues. Contact (800) 808-NATA or sbeaulieu@nata.aero.
- **Weekly NATA News.** The latest information about how legislative and regulatory issues affect company profits is provided every Monday in an easy-to-read e-mail format and at other times in press releases and news bulletins. Contact Linda Pylant at lpylant@nata.aero.
- **Respected Industry Publications.** Members receive the quarterly *Aviation Business Journal*, *Flight Training Business Report*, *Arrival Times*, *ASC Update*, the annual *NATA Aviation Resource & Membership Directory*, and others. All publications are available at www.nata.aero/publications or by contacting lpylant@nata.aero.
- **www.nata.aero.** Instant access to current and archived information concerning legislative and regulatory issues, membership benefits, seminars, publications, and more is available to members 24/7 via www.nata.aero.
- **NATA Educational Conferences/Seminars/Roundtables.** Dozens of opportunities every year to meet peers and industry leaders and learn about a host of industry issues are listed online at www.nata.aero/events. Contact Diane Gleason at dgleason@nata.aero.
- **NATA Safety 1st.** The NATA Safety 1st program enhances safety by improving the knowledge and skills required of professional line service personnel and charter providers and assuring their competence through training and testing. Contact Louis Soares at lsoares@nata.aero.
- **Workers' Compensation Insurance.** Qualifying NATA members are eligible for workers' compensation insurance and year-end dividends underwritten by USAIG. Contact Ann Solemmo at (321) 751-3197.
- **Insurance Plans.** NATA offers Section 125 insurance premium plan, allowing employees to increase their take-home pay while decreasing the employer's payroll taxes. Contact Johanna O'Toole at jotoole@nata.aero.
- **NATA Compliance Services.** DOT-required drug program management, pre-employment background checks, and TSA-mandated fingerprint services are offered. Visit www.natacompliance.com or email Linda Pylant at lpylant@nata.aero.
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- **Human Resource Consulting.** MoneyWise Solutions, Inc. facilitates effective implementation and administration of human resource management activities through free telephone consultation for NATA members. Contact Frank Surface at (804) 561-1708.
- **Business/Personal Travel Discounts.** Available to NATA members and their customers. Contact bktravel2@msn.com or (888) 759-4011.

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