JET SET ECONOMICS

By J.K. Malmgren • Photography by Ron Sangha

Fed up with crowded airports, lost bags and missed connections? There's a faster way to fly . . . if you can afford it

Like almost everyone planning to take to the air this past summer, domestic business travelers have been forced to choose: take one airline that features two names, a diminishing level of service and a potential pilot strike, or drive to points south, where the skies open up a bit. The lack of competition hasn't done anything to lower airfares; with short-notice full rates becoming particularly prohibitive. Given that Canadian designer apparel darling Roots has pushed its planned entry into commercial aviation back to next spring, more than one company has begun to look at what was once considered the most decadent of lavish expenses, the corporate jet.

The boom economy of the early 1980s melded perfectly with the Me Generation, and 1982 saw delivery of corporate aircraft in the U.S. rise to record numbers. Then a faltering economy combined with airline incentives that could easily be turned into personal perks. Corporate flight departments became, if not a thing of the past, a shrinking section of the aviation community. But in 1995, the U.S. market, which tends to lead the aviation world, took a big swing back toward the corporate flight department and sales there are once again approaching records levels.

"There are surveys that show that over 90 per cent of all Fortune 500 companies now have a corporate flight department," says Jim Barret, chief pilot with Lignum Air (the in-house airline of Lignum Ltd.) and also co-chairman of the Canadian Business Aircraft Association (CBAA). "And they all attribute at least part of their growth to its existence. As it becomes more costly to fly commercially, the option becomes much more viable."

To some degree, economic viability depends on usage. Capital cost can range from $2 million for a small jet to $40 million for an intercontinental cruiser. Either way however, annual operating costs will run to seven figures plus – $1 million and up – for direct and indirect expenses (crew, fuel, hangering, the corporate flight department). Which means there has to be a whole lot of travel going on to make it worth eschewing the air miles. But what is really driving companies to consider becoming a small airline is the hidden advantages and efficiencies. Having an aircraft and crew at your disposal means no more scheduling concerns – no parking hassles, no missing flights, no unexpected delays. A group of executives can leave Vancouver in the morning for an afternoon meeting in Toronto and fly back that night. And the efficiencies aren't limited to cross-country travel.

"Corporate aircraft have to be justified on efficiency and convenience, not just cost," says Wynne Powell, president of London Air Services (LAS), a division of H.Y. Louie that not only provides air service to H.Y. Louie companies, such as London Drugs, but also stands as a corporate charter company. "The London Drugs people may do a series of store visits – in Calgary, Prince George and Kelowna – and be back the same day."

The corporate jet environment lends itself to making the best use of time in the air. Most company aircraft feature something beyond business class appointments, with full leather comfort for all, club seat cabin configurations and, on anything built in the last five years, full air to ground connections for phone and Internet, and even audio/video presentation capabilities. Planning for that Toronto meeting, or debriefing on the way home, becomes a natural part of the journey. Bringing corporate clients on the trip can also make an impressive

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APPOINTMENTS WITH COMFORT: An office in the sky onboard London Air Services

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statement and just might close the deal.

While the demand/desire for such efficiencies may have kindled the U.S. market, the introduction of fractional ownership has set it ablaze. The concept: companies buy a specific interest – anywhere from one-sixteenth to one-half – of a given aircraft (or as they put it, "portion of a tail number") and pay a fixed monthly rate for overall operating costs. For companies that find running an in-house flight department falls outside their range of core competencies, it can be an attractive alternative. Bombardier, whose Learjet, Challenger and Global Express aircraft are acknowledged as industry leaders in both sales and innovation, introduced its Flexjet program in 1995 with a core fleet of five Learjets. By now, that number tops 100 machines. Americans are the big users, but canny European and Canadian corporate types are taking notes and edging in too.

"Between 80 and 90 per cent of the people in the program are entrepreneurs, owners of small- to medium-sized businesses, mainly in the financial and high-tech sectors," says Flexjet marketing director Steve Phillips. "Eighty per cent of the people have never been involved with corporate aircraft, so the fixed costs have a tremendous appeal."

Fractional ownership also offers much more flexibility. Let's say you own that one-sixteenth of the smallest available jet (*aka* the shortest range), but need to travel farther. No problem. As a program member, you have access to other craft within the fleet, and even more than one at a time. While ownership is tied directly to a single aircraft, your allowed usage is a combination of your needs, those of the fleet as a whole and a sliding-scale 'clout' in terms of ownership. The more you buy in, the more access you have. This is a large part of what makes a fractional program work . . . and a big reason it's still a bit slow to take off in Canada.

"If you can fly YVR to LAX, then you can have fractional ownership with a U.S. operator," says Rich Gage, president of the CBAA. Gage explains that Transport Canada regulations makes points of both arrival and departure within Canada legal only for Canadian registered aircraft. Even if your one-sixteenth could be registered here, the fact that it may or may not be the jet you'll actually fly on makes the current programs not feasible for most Canadian companies. As well, Transport Canada sees multiple users of an aircraft as falling under 'hire and reward' operations, which means they need to be commercially licensed, another bureaucratic hurdle. But most believe fractional ownership will eventually find its way here.

"In the U.S., they feel that they've only scratched the surface of fractional ownership, and they've already expanded into Europe," says Gage. "In my opinion, it will come about here, but it will have to involve some sort of partnership with existing U.S. companies."

In the meantime, Canadian executives aren't left without options. Nationally, the number of private operating certificates held by companies operating their own aircraft has remained fairly steady this last decade at 120 or so aircraft. But B.C. companies seeking an alternative to commercial airlines are finding innovative and profitable ways to bring the 'for hire' service here.

"Industry is becoming world centered; you have to be ready to do business globally," says London Air Services' Powell. He acknowledges that London Air's parent company is its biggest client, but says that strength is a positive for all its clients. "LAS is fortunate to have a corporate anchor. It's what has made these aircraft available to the rest of B.C.'s business community." LAS has simplified its costing by eliminating any add-on fees and billing out at a flat per-mile rate, albeit with a $2,000 minimum. A price comparison against full-fare rates suggests you might even save money by taking nine of your best to Toronto and back with them.

Obviously, it does work. LAS began operations late last year with one Learjet 45. Today, business has grown so much, it bought a second Learjet at a cost of almost US$15 million. Meanwhile, it's keeping an eye on the competition.

Such as Omega Aviation which came at the game from the opposite direction. Once the in-house flight department for Fletcher Challenge, Omega is now an independent operation that offers corporate charters on everything from helicopters to its Citation CJ2 Light Jet. Meanwhile, Omega has kept its former owner as an anchor client while growing to meet the expanding needs of B.C.'s business.

"This setup can be much more effective [for Fletcher Challenge]," says Nelson Tilley, corporate development manager for Omega. "It's not on their books, but nothing has changed. We have a contract that gives them first access and fixed costs."

Current production of corporate jets can't keep up to demand – some models have a five-year waiting list – and the used market is always active. Even with the advent of fractional ownership, the number of companies opening their own flight departments continues to grow in the United States. B.C. companies that are awakening to the advantages will be happy to see they have legitimate options to consider. ■

J.K. Malmgren is a Vancouver writer with jet-set aspirations.

YOU'VE ARRIVED: 90 per cent of Fortune 500 companies find it the only way to fly