THE VALUE OF SUPPLEMENTAL LIFT

David Wyndam, President of Conklin & de Decker shares his views on supplemental lift

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Defined

If you have your own business aircraft, at some point it will be unavailable for flight, either due to scheduled maintenance or perhaps it is already flying a trip. When this occurs, we recommend charter as supplemental lift. It is ideal for those times when you need extra flying for a brief period, or if you need a capability that your current aircraft does not provide.

This report looks at the times when charter can be a powerful “force-multiplier” for an existing flight department. It can be a way for the flight department to better serve the air transportation needs of their customers.

Adding an Aircraft Without Buying One

Many corporate flight departments use charter, but on an infrequent basis. This may be that they are able to effectively meet the demand of their corporate users. They may only use charter when their aircraft is not available due to scheduled maintenance. There are many more reasons to add charter into the flight department, if you examine your needs carefully.

If your aircraft is capable of performing the trip, and is available, it is generally best to use your own aircraft. You have already made the investment in the aircraft, crew, hangar, training, and the other fixed costs. The next hour your aircraft flies cost you only for the variable expenses of fuel and maintenance accruals. When you charter, you pay for the aircraft and crew, plus an additional 7.5% Federal Excise Tax on those expenses. Thus you need to compare the costs of your...
next hour in your own aircraft with the cost of the charter.

Supplemental lift is not a cost-effective means to alleviate the need for an additional aircraft or to replace the one you already have. If you are flying several hundred hours per year, whole ownership is likely the best option.

The main benefit to using charter is that you only pay for the aircraft when it is in use. There are no contracts or long-term commitments. So it works best when you are unsure as to how many hours are needed.

With the use of a Jet Card, a short-term contract for a relative small set of hours is provided. This provides cost predictability and, in many cases, insures the types and quality of the aircraft to be used. Jet Cards can work as supplemental when the hours needed are small and predictable.

For the remainder of this report, I will use the term charter to mean both traditional, ad-hoc, charter and purchased Jet Cards.

Need Different Capabilities?

Charter can provide more, or less, of an aircraft than what you already have. This can be important in providing the best possible service at a cost-effective price.

We had one client who had a long-range business jet that was capable of non-stop trips from the US East Coast to all of Western Europe. Their business was growing towards Asia and they were looking at their air travel options. Their current aircraft could only make the trip with two, or more likely, three stops for fuel. The flight department also would need to pre-position relief crews at a fuel stop as their aircraft did not have a place for the supplemental crew to adequately rest. They thought their only option was to get an even bigger jet.

When analyzing their travel, the Asia trips were only few times each year. Spending $60 million to upgrade their current jet was not something they wanted to do. So they found a very long range jet and used that aircraft for the occasional trips to Asia by their senior leadership. Eventually they did
upgrade their aircraft, but only after seeing demand for the Asian travel increase so that the bigger jet was required.

Sometimes the need is for smaller. Your business jet may be restricted to runways of at least a certain length. But there are destinations that are closer to smaller airports. Why drive an extra two hours when you can land right down the road? The ability to charter a smaller aircraft with its short-runway capabilities keeps the aircraft doing what it does best - making the best use of your time.

Don’t forget that this supplemental aircraft may be a helicopter. That vertical take-off and landing can open up many options for point-to-point travel. If it is only for a few hours at a time, charter.

**Need Simultaneous Aircraft?**

There may be infrequent times when you need more aircraft than you have available. One company we worked with had a beautiful corporate campus in the countryside that was not conveniently served by an airline. When they had their Board of Director meetings, the used three aircraft in addition to the one they owned to transport their board members. Their board members’ time was important and this company recognized that. Charter was the only cost-effective means to go from one aircraft to four. Charter also is recommended when bringing in top clients for entertainment events, like the Super Bowl, or US Open.
You can send out your sales and client teams with each charter aircraft to pick up your top clients. Not only do you have their attention at the event, you have their attention while traveling. Any time that you need simultaneous aircraft for short periods, charter is a great alternative.

**Personal Use of the Corporate Aircraft**

It seems like every few years a major business publication “exposes” that the CEO is using the corporate aircraft for personal use without paying for it. While many of these cases are overblown, there are significant issues with the personal use of a business asset. The IRS sees this as imputed income. The IRS also may scrutinize the tax deductibility of all the aircraft expenses. Depending on how much personal use there is, the IRS rules may reduce or even eliminate the ability of the corporation to write-off the value of the aircraft.

This report does not go into the tax laws associated with personal use. Consult with your tax advisor. But they can cost the corporation, and the individual, money. The use of charter provides both transparency and verifiable costs for the personal use of an aircraft.

If the corporation wishes to allow a senior executive the use of a private aircraft, charter is an easy solution. The personal use travel is completely separate from the business use of the aircraft. For both IRS and stakeholder, the transparency is obvious as are the costs.

**A Fractional Share Owner is Still an Owner**

Adding a few hours per year through charter is far easier to manage than adding additional fractional owned shares. Fractional contracts generally run for five years for a set number of occupied hours. They allow for overages in any given year, but the total hours are set by the contract.

We had one fractional share owner who had 100 hours per year available. The problem was it stretched across four different aircraft contracts, all with different dates. To make matters worse, this owner was running out of available hours.
Managing these fractional contracts and tracking the hours was difficult and removed the ease-of-use benefit of the fractional ownership. Supplementing the fractional contract with 10 or 15 hours’ charter would have been simpler, and more cost effective.

The benefits to the whole aircraft owner can apply to the fractional share owner. Small amounts of flying for limited periods can best be served by charter.

**What Are The Costs?**

The costs of supplemental lift can vary considerably. Today, there are options beyond the traditional ad hoc charter rates where you pay for each hour the aircraft operates. There are Jet Card programs that offer you the ability to purchase hours by aircraft category (light jet for example). That is useful when you need a different capability that your current aircraft doesn’t provide. If you find yourself needing one-way travel, there are card programs that offer that as well. Some charter companies and brokers may customize a card for you based on very specific criteria, or they may offer discounts beyond the list price.

**How Do You Choose?**

The assumption in this article is that you already own an aircraft. If you employ your own pilots, they are the ones best qualified to represent your requirements and to help in the vetting of a possible charter provider or charter broker. Similarly, if you are under contract with a management company, they may have the charter ability themselves. A recommendation from a trusted friend who has used the broker or charter company can also be a good lead.

In general, the things to look for are safety and service. Safety can be best represented by the border or operator being certified or audited by a third party. In the US, there are three major third parties that do this: The Air Charter Safety Foundation (ACSF), ARGUS and Wyvern. The ACSF inspect and certifies operators only. ARGUS and Wyvern do their own operator certification plus certify charter brokers as well. Ask your charter operator, or broker some tough questions. The good ones will have the answers.
Here Are a Few Items to Consider:

1. Is the aircraft that you are being quoted, on the carrier’s certificate? If not, what auditing process is in place to ensure the aircraft being flown meets the highest safety standards? Are they independently audited and inspected by someone like ARG/US or Wyvern?

2. How experienced are the crew members? You and your insurance carrier have specified minimum experience levels for your own operation. What about the charter provider?

3. Do the pilots go through simulator training? How often? Once per year is the minimum, twice is preferred.

4. How is the safety record of your charter carrier? Have they had any accidents on their certificate or any other certificate that they have held? Have they received any safety awards?

5. In the event of an unexpected maintenance delay, will your charter carrier guarantee a similar replacement aircraft and honor the quoted price?

6. How frequently does your charter carrier have their aircraft painted and refurbished? What is the average age of an aircraft on their fleet? Their aircraft should be at least a nice inside and out as what you regularly operate.

7. How much insurance coverage is carried by the charter provider? $50 to $100 million is typical for turbine operators. Does your company require a higher amount?

8. What is the policy on flying into mountainous airports? If you are looking to operate into airports with special procedures, how does your charter company handle that?

If you are dealing with a charter broker, they should have all this information. Verify it. Verifying service levels can be via word of mouth. Ask for references as well. Like anything in business, relationships are important.
David joined Conklin & de Decker in 1993. His primary responsibilities include developing and managing new programs for the company, conducting consulting studies, managing aircraft cost and performance databases, and providing customer computer support. David was an Instructor Pilot with the US Air Force for eight years handling aircrew training, operations scheduling, and coordination of flight test support with civil and military test engineers. David has a Master of Aeronautical Science from Embry Riddle Aeronautical University and has a Bachelor of Science in Mathematics from the University of New Hampshire. He also has an ATP certificate.
Aside from utilizing information provided by our 3rd party safety auditing partners, Magellan Jets Flight Support and Compliance Team also provides another layer of due diligence when carefully selecting and approving aircraft and flight crews to meet our requirements. Made up of professional pilots, Compliance is responsible for carefully evaluating everything from DO85’s, Insurance, aircraft quality, incidents, customer feedback and operational knowledge of our providers. They are also pleased to work with your corporate flight department for any additional information or company requirements.

Magellan Jets does not own or operate aircraft, instead, we recommend the best positioned aircraft on each and every trip that our clients take. We take great pride in providing the best value to our clients using technology to locate the right aircraft from Magellan Jets Preferred Network (MJPN). All approved vendors in our network are FAA Part 135 air taxi operators, and are also required to adhere to safety requirements set forth by Wyvern and/or ARG/US, the leading 3rd party safety auditing firms in the country. Providing the safest and most experienced aircraft and flight crews in the private aviation industry, while providing competitive rates, is what sets Magellan Jets apart from the competition.