



Research contribution
on the
Business Aviation

Marie Robin
Mastère Spécialisé « Marketing, Management & Communication
Ecole Supérieure de Commerce de Toulouse
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Subject : The Business Aviation

The business aviation is a very attractive market despite the huge investments required to buy the aircrafts. Indeed, in order to differentiate themselves, firms in the business aviation has to customize their offering. Their approach of the marketing is a 1 :1 approach and seeks to personalize their services.

At the beginning business aviation was a luxury transportation for big firms who can afford it, nowadays it has become more and more common, even the big SME are tempted to use it. This had been possible for them with the expansion of financial solutions.

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The business aviation is born in the USA before WWI. It expanded in the 60's with the PANAM which organized for his bigger clients some transportations in planes wich were faster, smaller and more comfortable. Attracted by those advantages, the big firms decided to become users.

Popularity of business aircraft has increased dramatically over the past decade. The market extended itself at the beginning of the XXIst century, because of the reinforcement of the security controls at the airport. In fact, Economic, technological and security issues have played on the commercial aviation industry leading to a decline. « Overbooked flights, delays and lack of service are the norm for most business travelers. »¹ That is why many companies and individuals are turning to privately owned aircraft, in order to expedite business travel and gain significant competitive advantages. Indeed, Business aviation is a fast and convenient tool. "Business aviation is a very viable option for the business traveler who can't afford the delays and hassles of scheduled airlines," commented Christiansen. (COO and Executive Vice President of TAG Aviation, the world's largest private aviation company.)²

Because of the competition on this market, the marketing offering, provided by the various business aviation companies, should be in adequation with the customers' needs and desires. Those customers will judge the offer regarding three elements : the characteristics and the quality of the product, the quality and the combination of the services and at last the price.



Philip Koetler, « Marketing Management », Pearson Education, «the offer's elements » p.430.

As a consequence, these companies had to focus their marketing objectives on each of their customers. Their strategies emphasize personalized interactions with customers. The personalization of interactions is thought to promote greater customer loyalty and better return on investment. This kind of marketing approach is known as the One to One Marketing (also expressed as 1:1 marketing).

Thus, I will show you, in the first part of my development, how products and services in the business aviation are customized.

Concerning the price, because of the heavy financing, there are a variety of ways companies can own and operate aircraft : full ownership, co-ownership, joint ownership, fractional ownership, leasing and time-sharing, and therefore prices are varying.

Thus, the second part of my development will present you the various solutions available for business companies in terms of ownership.

My point in this following development is to analyze the marketing tools available for the business aviation, first with the marketing offering (products and services in terms of 1:1 that managers can provide (I) and to know the financing solutions available for those.

(II)

I) Business Aviation and the Customized Marketing Offering.

1- The “Product” in the business aviation : tangible and service dimensions.



This commercial activity allows passengers transportation with negotiated schedule and given route. Very used by business men, hence its name, who use an owned or rented (taxi plane) aircraft to go to their business meeting.

« The types of business aircraft vary widely, ranging from propeller-driven aircraft to jets to helicopters. The fleet includes everything from piston aircraft not much bigger than a car and capable of flying just a few hundred miles before re-fueling, to jets that seat more than a dozen people and are capable of making non-stop international flights. However, the vast majority of business aircraft seat six passengers in a cabin roughly the size of a large SUV and fly an average stage length of less than 1,000 miles. »¹

The most common types of « products » are :

- Piston Engine Aircraft,
- Turboprop Aircraft,
- Jet Aircraft
- Helicopters (see below).

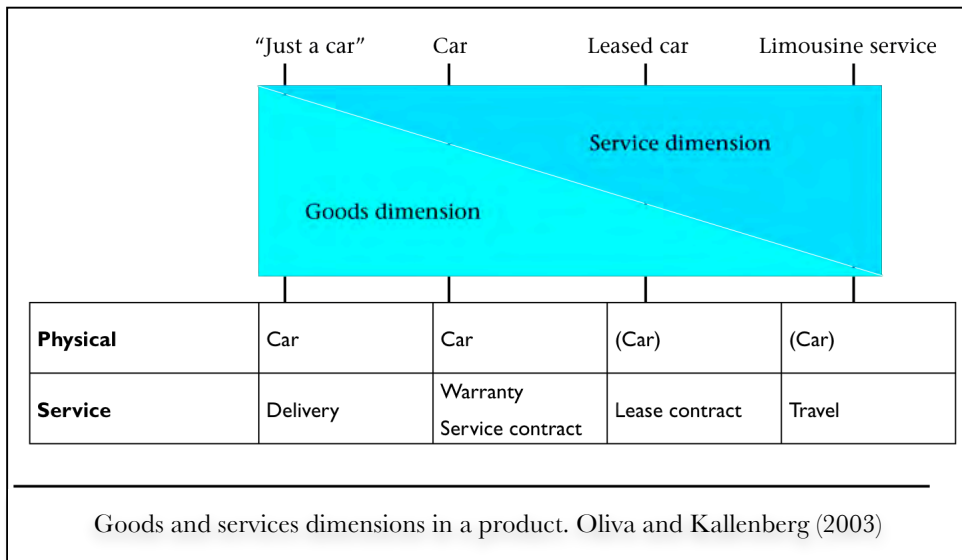


“The notion of product, makes us spontaneously think about some tangible goods but it also includes the services, the experiences, the events, the persons, the location or the ideas.”¹

In the business aviation area, the “product” corresponds to a service: transportation. The generic product (here a service) is composed of the transportation from A to B, whereas the global product represents the whole product and services. As most users of business air transportation do expect to get more than just the aircraft, and for a long period of time (ie safety, time schedule respected, snacks on board...) « the buyer expects to get a bundle of values – an augmented product » (Levitt²), also called the “whole product” (Moore³) or, when applied to services the “augmented service”. (Grönroos⁴).

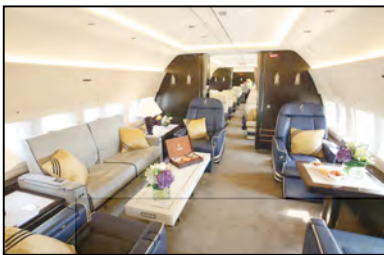
Many authors agree that differences between services and goods are often a question of degree or dimensions (Grönroos⁴). Oliva and Kallenberg⁽⁵⁾ talk about the product-service continuum when discussing the transition process of manufacturing companies into service providers. Their continuum model is also useful in trying to understand what constitutes a product. Thus, in each product both the service dimension and the tangible dimension are present in varying proportions (see Figure below with the car transportation).

1. Philip Kotler, Marketing Management, Pearson Education, p. 430
2. Levitt, Harvard Business School Publishing Corporation, 1983.
2. Geoffrey A. Moore, Crossing the Chasm : Marketing and selling High-tech products to mainstream customers, 1991, Harper Business Essentials.
3. Grönroos, Augmented service offering model, 1990
4. Oliva and Kallenberg, Managing the transition from products to services, international journal of services Industry Management, vol 14 n°2, 2003



2- Differentiation by the product : customisation.

According to David Woo (1) « Latest-generation business aircraft offer far more than transportation. They are sophisticated business centers with a profusion of enhancements for communications and control. »



Companies in the business aviation are leading that transformation with innovative technology and new applications that add astonishing levels of value and usability to the aircraft cabin and adaptability and utility on the flight deck.



« The digital lifestyle is pervasive in every facet of life, thus business aviation customers want the travel, the experience to be an uninterrupted, seamless transition from the ground to the sky and back again, so they are never out of touch. »¹

According to their customized strategy, managers of the business aviation should provide some personalised products.

Depending on their customer's needs business aviation firms should designed the aircraft.

If the target uses this transportation to contract on board, some basics should prevail : comfortable seats , paper & pencil, laptop plugs ...a general business atmosphere to place a trade.



Whereas, if the target uses this transportation in order to go to a business meeting, the aircraft should offer some bed and/or sofa, remote control for cabin temperature and lighting...a general relaxing atmosphere to feel like home.

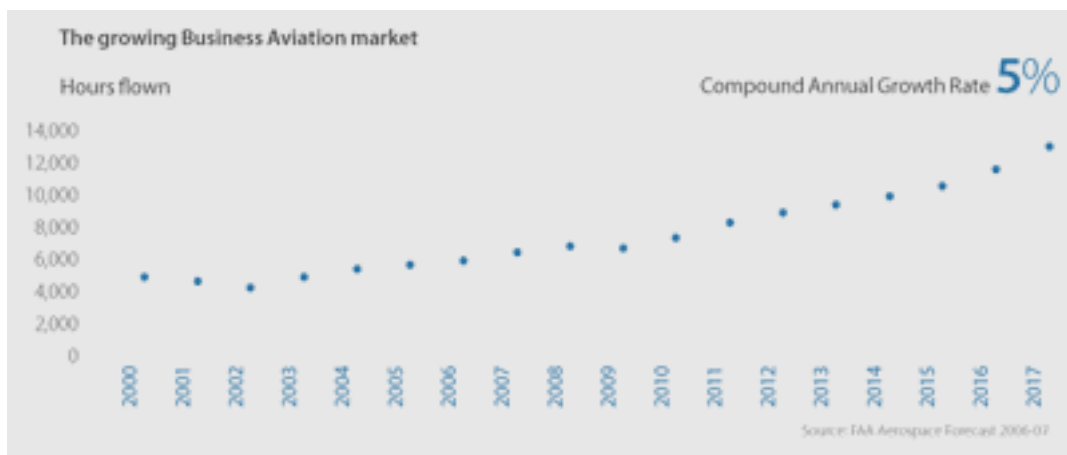


Some basics are necessary whatever the target is : safety, functionality, performance, durability... which i will not develop because of the technicity of the product.

3- Competitive differentiation by the service.

To gain a competitive advantage a company should differentiate itself from its competitors based on the attributes that are important, distinct, superior and profitable for the customer.

Since the business aviation is a very competitive market managers have to develop profitable services to their clients. (picture below gives you the forecasts of hours flown till 2017, Source FAA Aerospace Forecasts 2006-07. As we can see hours flown are expected to increase and the annual growth would be 5%) According to the website « researchandmarkets.com »², « Market will grow from \$2.1 billion in 2008 to \$2.5 billion in 2020 »



Business aviation firms should add some services to the private transportation they offer. According to Lendrevie¹, « there are two kind of associated services, the basic ones and the additionnal ones. »

The basics ones are the minimum expected by the customer. In the business aviation the basic services will hardly be those expected for a regular airline, such as : reservation, billing, payment, cleaning in the cabin...

The additionnal services potentially helps for differentiation. Those can either be free or available with an addittional cost. In the business aviation those additional services are those who really help the firm to gain a competitive advantage. Indeed, those customized services ensure customr loyalty and by the conséquence ensure return on investment.

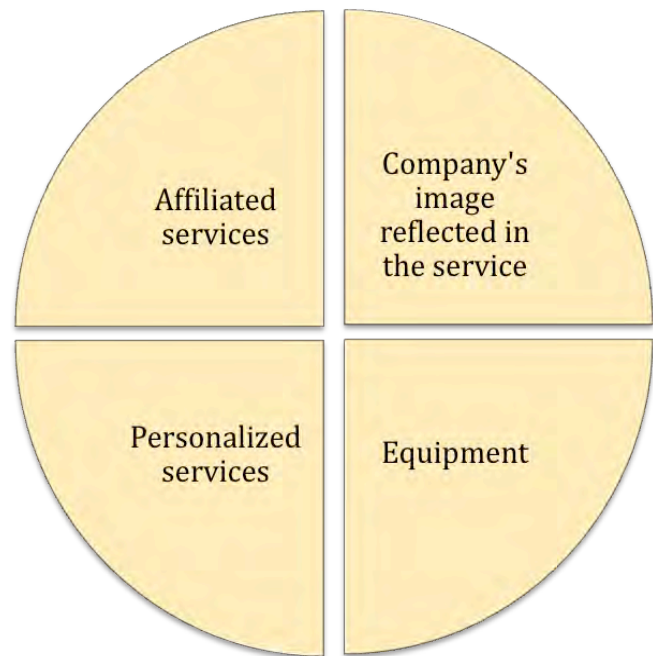
In order to offer profitable services to their customers, managers should know their customers' needs and desires, and if possible anticipate those.



1 - J. Lendrevie, J. Lévy, D. Lindon, Mercator 8° édition, septembre 2006, chapitre 5.

2- http://www.researchandmarkets.com/research/efc23e/business_aviation

Services presentation :



- **Affiliated services**

Those services are proposed in order to make the primary service (transportation) more comfortable :

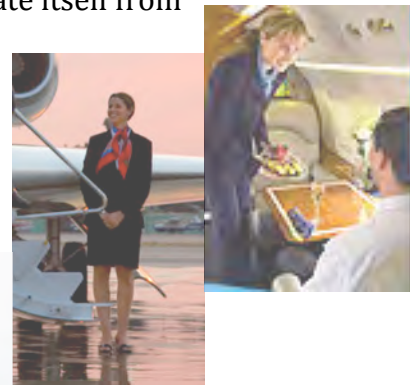


- Pilots' training
- Hotels' partnership
- Car renting
 - to come and go from the business airport
 - the company can either include this service in its offer nor propose a partnership with a car rental company.

- **Company's image reflected in the service**

Those services will help to build the company's image and to differentiate itself from the others.

- The Crew (internally or externally provided)
 - kindness and appearance of the flights attendants
 - Pilots' references



- Environment concern = lessening the impact on nature

One of the recent trends in the business aviation is « going green ».

The original market being clogged up the companies have to convince new types of companies or individuals. This involves being concerned by the pollution the business is making. Some companies compensate the CO₂ in the price they offer (often called « credits »), others do research a lot on that matter with the help of the Institute for Aerospace Research (IAR) in order to make use of fuels which are composed of materials that have less of negative impact on the environment. (ethanol, biofuels...)

- **Equipment services**

- Internet :



The idea is to provide information wherever you are and whenever you need it. This kind of services is becoming more and more popular :

- High speed Broadband Internet capabilities with a global satellite communications (Intranet, Voice Over Internet Protocol, Virtual Private Network Communications...) Example : SKYLinkSM by ARINC DirectSM 1

- Digital media center :

The main point in this service is to make the client feel like home :
According to David Woo² : « The digital lifestyle is pervasive in every facet of life, we want there to be an uninterrupted, seamless transition from the ground to the sky and back again, so you're never out of touch. »

- live broadcast TV
- High definition video
- Ipad connections and MP3 audi
- Digital imagery
- GSM antenna enabling the use of cell phones on board .



1 - http://www.arinc.com/products/business_aviation_services/skylink.html

2- David Woo, Rockwell Collins' Director of flight deck systems marketing, interviewed by Mark

- **personalized services**

Thoses services allows a company to customized its services in order to differentiate itself from the others. Here is a non exhaustive list of some services available :

- onboard spa
- onboard shower
- translator in case of international trade
- onboard lounge
- secreterial work
- hairdresser



This first part of my development was attached to present how the companies in the business aviation field were able to differentiate itself from the others by customizing their product and services. This kind of marketing is a 1:1 type, trying to satisfy each of the customers. With a good analysis of their customers' desires and needs, business aviation companies can provide what is necessary for each of them.

As i said before, there are a variety of ways companies can own and operate aircraft, the following development will present you each solutions available for them in terms of ownership.

II) Ownership means : marketing Tools in the business aviation



The various ways of owning an aircraft and operate it, are very efficient marketing tool. This will allow the companies to provide efficient service, ie transportation, by offering new marketing offers in terms of ownership. The marketing tools available in terms of ownership are :

- fractionnal ownership
- full ownership
- joint ownership
- leasing



Full ownership



Fractional ownership



Time Sharing Agreement



Leasing

1- Full ownership.



Under a full ownership structure, an individual or entity owns 100% of an aircraft.

The key advantage is that the aircraft operates at the full discretion of the owner. It allows greatest level of flexibility and control.

The aircraft owner is responsible for the level of safety, security, comfort and cost of business travel. Aircraft operation can be managed internally by a flight department or outsourced to an aircraft management company.

This advantage comes at a high cost burden since the company is usually unable to attain a sufficient level of utilisation. If the company plans to utilize the plane for at least 250 flight hours per year, full ownership is a good option.

Full ownership implies a heavy capital investment and also requires the company to set up a corporate flight department that has to attain certification, which is a costly process.

The company who owns the aircraft propose « rent » to its customer. It allows to access airports without connections. The utilisation flexibility is a convenient and fast tool for company members. Instead of adapting yourself to airlines' schedule, the aircraft renting adapt itself to your schedule. According to the National Business Aviation Association (NBAA)¹, 60 % of flight department use business aircraft renting to support efficient schedule .

Example below of AB Coprorate who offers aircraft renting.



AB CORPORATE AVIATION
Location d'Avions d'Affaires, 24 heures sur 24, 365 jours par an
Membre du MEDEF, de l'European Business Aviation Association

Devis & Réservation

AB Corporate Aviation par la Bande Dessinée

+33 (0) 1 48 35 88 88
• Fax : +33 (0) 1 48 35 86 27
• avions-affaires@abcorporate.com
• Rappel téléphonique

AB Corporate Aviation
Aéroport de Paris Le Bourget
Zone d'aviation d'affaires
F - 93350 Le Bourget - France

Vidéos

Louer un avion d'affaires Les avions d'affaires Les événements spéciaux

Accueil > Louer un avion d'affaires > Avec AB Corporate Aviation > La disponibilité

> La disponibilité
> La sécurité
> La garantie
> Le choix des aéroports
> L'accueil
> Les prestations au sol
> Les tarifs
> Les conditions de règlement
> Accès à l'aéroport de Paris le Bourget

Louer un avion d'affaires : La disponibilité

Avec AB Corporate Aviation

L'équipe de AB Corporate Aviation est à votre écoute et réellement opérationnelle 24 heures sur 24, 365 jours par an.

Pour vos déplacements urgents, nous pouvons décoller à destination du monde entier dans les 2 heures après votre commande (en fonction des disponibilités des avions et des autorisations nécessaires à l'exécution du vol).

Nous tenons à votre disposition une importante flotte d'avions d'affaires. Nous vous conseillerons les plus adaptés pour répondre à vos demandes de vols :

- ▷ jets d'affaires intercontinentaux,
- ▷ biréacteurs court et moyen courrier,
- ▷ avions d'affaires bi turbopropulseurs

2- Fractional ownership. “fractional jets”



« *Fractional Ownership* represents a new and innovative way of operating a business aircraft. Fractional Ownership blends the benefits of full ownership with the cost advantages of charter. » ¹

Historically the only way to enjoy private aviation was to buy a jet which then spent a great portion of its life in an hangar. By offering a timeshare model with guaranteed availability, it allows to reduce costs and increase utilization.

« With fractional ownership customers (also called owners) buy a share of an aircraft, rather than the entire plane. The price is also pro-rated from the market price of a full aircraft. Owners then have guaranteed access to that plane, from 50 to 400 hours annually, with as little as 4 hours' notice. » ¹

In other terms, individuals or firms purchase a fraction of an aircraft. These fractions (usually a $\frac{1}{16}$, $\frac{1}{8}$ or $\frac{1}{4}$ interest) translate to a number of hours per year (full 100% share equating to 800 annual hours) For example, if you buy a $\frac{1}{16}$ interest that would entitle you to use the aircraft for 50 hours per year.

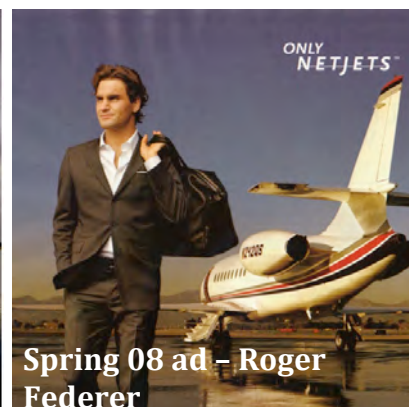
Fractional owners pay a monthly maintenance fee and an hourly occupation operating fee. The monthly maintenance fee cover the cost of upkeep upgrades, hangaring, pilot salaries and training. The hourly occupation operating fee covers the fuel and the service transportation.

The customers are charged only when they or their guests are on board, not when the plane is flying to pick them up or when it returns to base after the mission.

Owners have access to the full fleet of planes. In addition to the owned plane, co-owners gain access to other planes in the fleet. When desired they may switch to larger or smaller aircraft.

At the end of a 5 years term, owners sell their share back to the company at the residual value

The very first company using fractional ownership was NetJets in 1986.



3- Time Sharing Agreement . (US utilization only)



Time sharing is defined as « an arrangement whereby a person leases his airplane with flight crew to another person, and no charge is made for the flights conducted under that arrangement other than specified »¹

Through the use of time sharing agreement, an aircraft operator is able to seek limited reimbursement for a flight. A company is able to lease its plane with the crew to another individual or company.

The Federal Aviation Regulations allows time sharer to receive reimbursement for a specific list of out Pocket expenses associated with the flight. (fuel, oil, food, ground transportation, expenses for the crew, insurance...)

4- Leasing.



« In general terms a lease is a transfer of an aircraft without the transfer of title. The owner of the aircraft, retains legal title but transfers possession of the aircraft to the leaser. »²

There are a lot of leasing options available, each with specific advantages and disadvantages.

In practice there is two types of leasing : the dry lease and the wet lease. With the dry lease, the owner will provide only the aircraft, whereas the wet lease will provide the aircraft and the crew.

Leasing offers great opportunities in terms of taxes and legal protections.

Conclusion

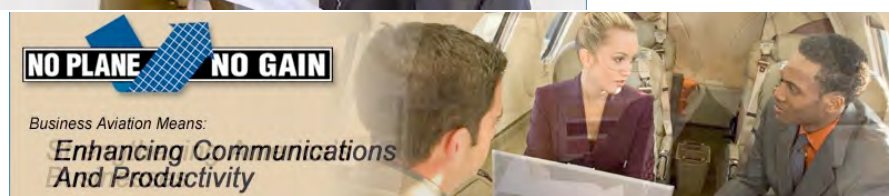
Thanks to new financial techniques available to own an aircraft, the number of firms working in the business aviation sector has increased a lot. Indeed, the various ways to own an aircraft help companies to start a business in the sector. In order to survive, due to the competition, they must customize their main product, ie transportation but also customize the services attached to it. They must have a 1 to 1 marketing approach with their clients, in order to meet their expectations, needs and desires.

Since last year, the business seems to have decrease because of the international economical & financial crisis. Many firms are cutting transportation budget. In order to react to this, the GAMA - General Aviation Manufacturers Association, and the NBAA - National Business Aviation Association, have launched a comprehensive new joint advocacy campaign with a familiar name : « no plane no gain ». The multi-media educational campaign aims to get the word out that business aviation is working for america. « It is responsible for well over 1 million manufacturing and service jobs, and is also serving as a lifeline for communities all across the country that are seing scheduled airline service being reduced or eliminated » said Pete Bunce (GAMA CEO) and Ed Bolen (NBAA president).

According to the campaign, national businesses need tools that will help them enhance productivity, maximize flexibility and maintain strong communications.

The campaign, will utilize a multi-faceted approach, including the following components, among others:

- ⇒ A dedicated “No Plane No Gain” web site, www.noplanenogain.org, which underscores the importance of business aviation and provides resources for the business aviation community.
- ⇒ Studies and surveys that will illustrate the value of business aviation, based on current, quantifiable data compiled by respected sources.
- ⇒ Paid advertising through various channels.
- ⇒ Webinars to educate audiences about the need for business aviation and give practical tools for justifying the use of a business airplane.
- ⇒ YouTube placement and podcasts outlining the value of business aviation.



Media Plan

In order to publish my article i tried to reach various persons from various supports :

- **The specific Marketing press :**

Despite being aware of the difficulty to be published in such press i tried to get in touch with « stratégie magazine » and some other famous ones. The persons i spoke to were not very interested in publishing such an article because of the specificity of the subject.

- **The specific aviation press :**

I am in contact with the Helico & Jet magazine. I have talked with the head redactor of the magazine who was interested in publishing such an article in his magazine and more over in English. I have tried to reach him since but i couldn't get him on the phone.

I spoke to Nadia Didelot, who Works at the AeroMorning internet portal. She seemed very pleased to publish my research contribution online in the « tribunes libres » area. She has agreed to publish the entire document on the « tribunes libres » or a 10 line article in the « bon a savoir » section. I will get in touch with her as soon as my final article is corrected and over.

I- Understand how the companies of the sector adapt their offer on the business aviation market.



- **« Principes de Marketing »**
 - Philip Kotler, Gary Armstrong, Emmanuelle Le Nagard, Thierry Lardinoit Edition Broché, 2007
 - 3rd part « construct the Marketing offer »
- **« Marketing, Management »**
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- **« Marketing, Business to Business»**
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 - 1st part « project marketing »
 - 4th part «strategic marketing »
 - 5th part « operational elaboration of the offer

II- Marketing Tools and approaches adapted with the business aviation market.



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 - Daniel Michel, Robert Salle, Jean Paul Valla, Economica édition, 2000.
- **« Marketing one to one en pratique »**
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- **« L'aviation d'affaires et aéroport du Bourget.pdf »**
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- **« Marketing Aéronautique et Spatial »**
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 - 1st Part « understanding of the market »
 - 2nd part « marketing process »

- **« Marketing d'affaires »**
 - Robert Salle, Bernard Cova, Dunod 2003
 - 2nd part « business marketing Tools »
 - 3rd part « competition approach, price construction process, marketing planification ».

- **« Marketing Industriel »**
 - Cécile Bozzo, Dunod 2007
 - 3rd part « Mix-Marketing in industrial sectors »