



## **Your Own Flight Department versus Aircraft Management – How To Decide**

By Dave Weil

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You finally made the big decision to buy a business jet. Now you need to figure out what to do next. You have some friends who use a management company and some who have their own corporate in-house flight department. You've heard a lot of conflicting information about each alternative. Which option is best?

There is no "one size fits all" answer to this question. There are many part 91 aircraft owners who are very happy having their aircraft managed and there are many owners who are pleased with having a flight department arrangement. Selecting the best option really depends on what issues are most important to a particular aircraft owner.

Exhibit A to this article lists many of the individual pros and cons for using an aircraft management company or an in-house flight department. However, in my twenty years of experience there are four primary reasons why an owner would decide to establish an internal flight department rather than use a management company: Cost, Control, Customization and Consultant.

### **Cost of Aircraft Management**

Some aircraft owners feel the cost of paying for a management company is not worth the benefits gained. There are usually both quantifiable savings from a management company's fleet discounts and qualitative benefits, such as a second level of oversight, established policies and procedures, etc. However, the savings often do not cover the fees. Thus it becomes quite subjective as to whether the incremental cost of using a management company is worth the qualitative benefits it can provide. An owner's cost sensitivity will determine how important this factor is in making a decision.

### **Control Desired by the Aircraft Owner**

Under the FAA regulations, the aircraft owner possesses operational control of a part 91 aircraft. This means certain basic decisions concerning the pilots, aircraft scheduling, etc. are always controlled by the owner. However, in practice there is wide variation in how the owner exercises this control. If an owner desires hands-on involvement with most aspects of the aircraft, then this involvement could result in incompatibility with the management company. For example, the owner's actions could cause the management company time delays in getting

things done or the owner's ideas on crew duty limits or eligible airports may be in conflict with the management company's policies. Hence, an aircraft management arrangement may not be best for this type of owner.

### **Customization Required by the Aircraft Owner**

Some aircraft owners are very particular in regard to certain aspects of their aircraft operation. For example, they may want to employ a unique aircraft scheduling process, their accounting requirements may be highly complex, or the level of involvement with the crew may be unusual. The greater the degree of customization required by the owner, the more difficult it is for an aircraft management company to bend their standard policies and procedures to satisfy the owner's requirements. Thus for highly customized situations, it is often best for the owner to employ an in-house flight department.

### **Aircraft Owner's Consultant**

Many aircraft owners use a consultant or broker to help them purchase their aircraft. Frequently these individuals have a strong preference as to whether a flight department or management company approach is best and will influence the owner accordingly. When the consultant is a pilot, frequently he or she will end up establishing and managing an in-house flight department for the owner. It is essential that an owner verify the credentials of any consultant or broker prior to retaining them.

### **Multiple Aircraft Scenarios**

The more aircraft an owner possesses, the more likely it is that cost, control and customization issues will result in the flight department option being selected. In addition, any cost advantage that a management company initially provides diminishes as the size of an owner's fleet increases.

### **Summary**

Both management companies and in-house flight departments possess unique advantages. Every owner needs to determine his or her own specific criteria for selecting between the two. If an owner's priorities involve strict cost sensitivity, tight control and/or significant customization, then often establishing an in-house flight department is the best option.

**About the Author:** Dave Weil is the CEO and Founder of Flight Dept Solutions, LLC ("FDS"). FDS specializes in helping aircraft owners establish and operate flight departments, and select and monitor management companies. For many years Dave served as the Executive VP and CFO for TAG Aviation USA where he and the management team built it into the largest (non-fractional) aircraft management company in the U.S. He can be reached at [dweil@flightdeptsolutions.com](mailto:dweil@flightdeptsolutions.com) or 650.619.5232.

## **Exhibit A**

# **AIRCRAFT MANAGEMENT AND IN-HOUSE FLIGHT DEPARTMENT ADVANTAGES & DISADVANTAGES**

### **Aircraft Management Advantages**

- Allows for the outsourcing of a non-core function to a specialized service provider
- Previously developed policies and procedures are in place to specifically address a business jet flight operation
- Less need to tie up corporate staff to support a specialized activity
- Able to take advantage of the management company's fleet discounts
- Provides an extra level of oversight over the owner's assigned flight staff

### **Aircraft Management Disadvantages**

- Even when a management company is involved, under Part 91 of the FAA regulations the owner retains operational control of the aircraft and retains the related responsibilities and liabilities
- Management company policies and procedures are written to best address its entire fleet and not the unique requirements of an individual aircraft owner. If a particular owner requires certain unique, ongoing procedures, it may be difficult for the management company to satisfactorily address these requirements
- For a management company arrangement to work best, the owner or its representative should remain involved in managing the management company and should have direct access to a senior officer of the management company
- There is significant variation in the level of sophistication and expertise amongst management companies
- Some management companies markup parts and services. If this occurs, the way it's done may not be transparent and can result in higher costs to the owner
- Frequently there are some conflicts of interest between what is best for the management company and what is best for the aircraft owner

## **In-house Flight Department Advantages**

- Avoidance of management fees
- Greater control over all aspects of aircraft management and operations
  - Greater focus on meeting the expectations of the Senior Executives and other passengers
  - Singular control over department staff as it relates to hiring, performance evaluation, salary, benefits, bonuses, etc...
  - Operations manual development and implementation that is specific to the company's mission and requirements
- Financial control and reporting systems that are unique to the company
  - Allows for more focus on reporting key indicators to corporate finance and administrative personnel who rely on such data
- Brings more recognition that the flight department is important to the broader organization
- No markups on parts, maintenance, fuel, insurance, hangar, etc.
- May realize better savings through more focused negotiation of specific maintenance events. No pressure to use the management company's maintenance facility

## **In-house Flight Department Disadvantages**

- Requires the company to get into the flight department business
- Requires some degree of support from other company departments (AP, Procurement, HR, Legal, Finance, etc.) as provided to any other business unit
- Certain volume discounts may not be as great as those available through a large management company, though there are ways for a flight department to obtain very competitive prices
- To achieve the best result, there should be oversight by a high level company executive and/or a knowledgeable service company representative