

Management Company or Flight Department?

More options are available, and owners count control, costs and complexity among the issues

by James Wynbrandt

Today the perennial either/or question of the best way to manage and operate business aircraft is colored by the growing complexity of operations, demands for more accountability and transparency, and new support options available to owners regardless of their management structure. Yet whether to use a management company or operate through a company flight department remains often as much a cultural decision as a logical one. Conklin & de Decker has no data on any operational cost differential

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between the two, and David Wyndham, president and co-owner of the consultancy, said he's seen no evidence of a shift in either direction. For every case of a company electing to put its flight department under a management company, another opts to manage its own. But the shifts are occurring. Here are some of the factors driving the activity, and their effects on those seeking to find or offer the best management arrangement.

Priester Aviation has seen "a spike in interest from flight departments looking at other methods of managing their aircraft resources," said Charlie Hughes, senior vice president management sales at the company. Often the growing complexity of today's operations and regulatory environment "paves the way" for exploring the management option, Hughes said. "A flight department with only a couple of airplanes, three or four pilots and a couple of mechanics…may simply not have the resources, time and personnel to keep up."



Charlie Hughes, senior vice president management sales at Priester Aviation

Hughes and other operations professionals are quick to clarify that it's not flight departments themselves, but rather the executives they answer to who typically reach out to management companies. "It's not unusual for the flight department to report to the vice president of HR, and the vice president of HR doesn't know beans from apple butter" about aviation, Hughes said. "They feel some wisdom in having a team of aviators making sure they're abiding by best practices."



Solairus Aviation chairman and CEO Dan Drohan

At Solairus Aviation, chairman and CEO Dan Drohan reports an increase in flight departments among its new management clients. "Somebody [at these companies] is saying, 'It makes sense for these people and these assets to be managed and handled and housed in an entity that is separate from our core business,'" said Drohan. Such owners see third-party management "as a way to bundle it all together, and get a statement at the end of the month that says, 'Here's what it cost you to own your airplane.'"

Meanwhile, perhaps in response to growing operational complexity, Don Haloburdo, vice president and general manager of flight services at Jet Aviation, sees "more first-time buyers opting to have the aircraft managed rather than go through all the steps it takes to set up their own flight department." Yet Conklin & de Decker's Wyndham, while acknowledging a good management company is "potentially a godsend" to new owners, believes "a well run Part 91 flight department" is fully capable of operating independently, and internationally, particularly with resources such as NBAA and an expanding array of support services. "If it's a single ship and a single global business, [flight-planning services] Universal and Jeppesen are more than willing to step in and support them," Wyndham noted.



Don Haloburdo, vice president and general manager of flight services at Jet Aviation

Companies that want to keep flight departments independent can still turn to management companies for external review. "They don't want to use a management company, but they want to make sure they're doing everything right," said Jason Middleton, CEO and co-founder of Silver Air, which "audits" flight

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departments when requested. "We look at everything from a non-biased perspective and give them recommendations," Middleton said. The first audit step is reviewing the P&L statement. "We take a forensic look from a cost perspective: how many hours they flew, what they spend on maintenance, fuel, the hangar, and tell them if there are any anomalies," said Middleton.



Jason Middleton, CEO and co-founder of Silver Air

But "a lot of lead pilots fear" management company intrusion into operations, said Dave Weil, founder and CEO of Flight Department Solutions (FDS), which offers a la carte support services to flight departments. Pilots should consider the potential benefits, he advises. For example, outside experts can become the department's advocates in operational matters. "If a management company, rather than the pilots, is trying to talk to the owners about [the inadvisability of] pilots flying 20 hours a day," it can have more impact, Weil suggested.



Dave Weil, founder and CEO of Flight Department Solutions

For companies or owners that haven't previously thought about it, weighing a switch to management makes sense if a company or owner is "transitioning from one type of [aircraft] or flight profile to another" said Haloburdo, such as "from a Citation to a Global 5000," or from domestic to international travel, which "changes the infrastructure required" for operations. The retirement of a chief pilot or flight department manager is another potential moment of change.

The Flight Department Transition

When a change is made, management companies say they try to make it as smooth as possible, recognizing concerns within the flight department about the switch. As Hughes noted, "If somebody came to me and said, 'Somebody is looking to take over Priester Aviation,'" he'd feel similarly anxious, adding, "Our job is to make it a pleasant, positive transition. Our objective is not to replace people, but to provide assistance and help do things better. We want to work within the existing teamwork; we're not looking for other ways to do things."

Often when Solairus takes on such a client, "Folks at the flight department level are a little reticent because they feel like they're being shut down, or the management company is going to do something drastic." That concern has sometimes been justified, said Drohan. "I think historically some management companies have handled this really poorly," instituting "sweeping changes" imposed with "an iron fist." Nonetheless, Drohan believes "the boogeyman notion of management companies" within flight departments is dissipating, as recognition grows of the support that a major firm can provide.

"It's a partnership," said Haloburdo. "Everybody needs to have the mindset that as a collective team we're here to support the people riding in the back of the airplane. We don't want to take over their jobs."

Indeed, management companies say few jobs or employees are lost in such transitions. Flight crews typically become employees of the management company (assuming they meet all qualifications and standards, as operators say is overwhelmingly the case). An exception: Drohan cited the flight department of a public company that was moved to another state, with Solairus taking over management; all department personnel were offered positions. "Some chose to take it and others didn't," he said.

Flying Solo—the Flight Department Preference

Many factors can lead companies and individual owners to favor the in-house flight department. To begin with, some owners are inherently "not

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Some companies have positioned themselves as client advocates. They do not provide full services but offer customers volume discounts on such services as fuel and insurance.

good candidates for management," said Weil, because "they either want a high degree of control, or they question every little cent management spends, or they want their operations so customized that a management company can't meet their needs," Weil said. "I've had experience with all three."

Stephen Hofer, president and founder of aviation law firm Aerlex, believes "a desire to exercise complete and exclusive control over their own aircraft may be the greatest motivator" behind many moves to flight departments. The preference for autonomy may be well founded. "We see the traditional flight department as hard to beat in larger companies with multiple aircraft that have privacy and security concerns," said Wyndham, "where you want to be able to talk about proprietary matters among your own employees." Even large management companies, he noted, often outsource flight planning and handling functions.

A quest for greater team spirit within an organization leads some owners to exit management arrangements. Weil cited a company with a three-aircraft managed flight operation that approached FDS about establishing its own flight department for three reasons: "They want pilots and staff to have more sense of ownership with the company, rather than mixed loyalty," Weil said. The company is also on the management company's charter certificate and wants to stop chartering out the aircraft; and finally, "They also think from a cost standpoint they can do at least as well as if not better" than their management company.

Management companies have long contended that the discounts they can offer through their fleet buying power on fuel, insurance, training costs, hangarage and other expenses more than offset the management fees they charge, but clearly not all their potential customers are convinced. While the costs of starting a flight department "are not insubstantial," said Hofer, "companies that do it

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occasionally tell me, 'We think the cost savings we can realize in the long run with an internal flight department will more than compensate for the substantial up-front expenditure we will incur.'"

Professionals also cite poor communication or mismanaged expectations and a passion for privacy among other factors that lead owners to go independent.

Lack of accounting transparency, long a major complaint among management customers, is less of an issue today than it has been in the past. "Owners have gotten more sophisticated and ask a lot more questions than they used to," said Hofer. He traces the trend to the fractional industry. "All the providers sold products by saying, 'Here's what it really costs.'"

Whatever the motivation for going, or remaining independent, all flight departments "need to be sharpening their focus and capabilities with safety management systems," said Don Hitch, vice president of flight operations at Wonderful Citrus in Delano, California, which operates half a dozen jets and turboprops. Seven years ago the company hired Hitch, a pilot with extensive experience in both management companies and flight departments, to bring a "high-level profile of safety" to the organization, which many on both sides of the management company/flight department question say is a critical component of all well managed operations.

Charter Revenue and the Management Model Decision

Part 135 issues don't appear to play much of a role in current switching activity (the company Weil cited above notwithstanding). Most flight departments transferring to management oversight don't seek charter revenue, whether or not they choose to operate Part 135. And while management companies may be the easiest route to getting on a charter certificate and generating some offsetting revenue, even one-aircraft flight departments have gotten their own Part 135 certificates—for single-pilot operations no less—and handled their own charter.

Meanwhile, owners seeking charter revenue from their departments through a management arrangement can have their own crews fly Part 135 missions, or the management company can crew those flights. "It does happen that the management company would provide the crew for charter," said Middleton at Silver Jet. "It's not the norm, but if the owners don't want to beat the crew up, and reserve them for their own flight operations," it can be arranged. Middleton added that for owners who want crews to be their direct employees rather than the management company's, "We will absolutely do that. And if it's on a charter certificate, we'll do a third-party contract among us, the pilots and the owner."

Given their appetite for adding lift to meet charter demand, John Cosenza, senior advisor at FDS, said, "You can work the right deal with most charter management companies." But he added, "It's a mind game when an owner comes to me and says, 'I'm flying only 80 hours per year and I think I should put it on charter.'" Asks Cosenza rhetorically, "Do you really need an aircraft if you're not flying 150, 170 hours a year?" Chartering or fractional ownership would make sense at that usage level, he noted, given that fixed costs account for 75 to 80 percent of ownership expenses. "But people do it," Cosenza said. "There's some kind of strange psyche that goes into owning the aircraft."

The Hybrid Approach to Operations

Today flight departments don't have to make the stark choice between continuing to go it alone or turning over their operation to a management company. They can outsource tasks and responsibilities as needed, creating what some refer to as a hybrid operation. A growing number of firms like FDS and consultants offer menus of services that can help a flight department get off the ground, and/or keep it operating at peak efficiency.

"You can buy expertise as needed," said Hofer. This applies to owners of managed aircraft, as well. "The use of specialists to assist in supporting aircraft owners, whether in a flight department or part of a management program, is where the industry has gone in

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Discounts available through fleet buying power more than offset management fees, say management companies.

recent years," Hofer said. "I think that reflects the greater sophistication of the owner who really wants to, or has to, justify the cost of ownership, and who is really determined to shave those costs."

Aerlex clients are among them. "When it gets to the point where regulatory issues become too challenging"—Hofer cites LOAs or a single RVSM authorization—"there are people in firms like mine that will help you [solve them]."

That's in addition to "all kinds of expert auditors" available, Hofer said, citing a consultant who worked in the fractional industry for years "and now audits fractional bills for clients," and a former DOM for many Part 135 operators who provides maintenance oversight services for owners of managed aircraft.

FDS, meanwhile, goes "as far as setting up flight departments," said Cosenza. "We do every aspect of it, from hiring the chief pilot to maintenance director and putting ops manuals in place, and we have had an occasion where we've set up a hybrid organization. They might have a chief pilot or director of aviation running the operational side, and we'd handle the back office: HR functions, payroll, accounting taxes, financial reporting and so on."

In the late 1980s Cosenza established and then ran Citibank's in-house flight department for many years after transferring the fleet of jets and helicopters from Jet Aviation's management.

Management companies themselves might offer hybrid services. Middleton cites a company that prefers to keep all operations "very confidential," but contracted with Silver Air to manage its maintenance. "That's all we do," he said. "We tell them what's coming up" on the maintenance schedule and perform the needed work.

Since management companies might audit flight departments, Weil at FDS recommends that owners of managed aircraft have an outside expert review their accounts periodically to ensure "they're getting what their contract says they should be getting, or find savings that they're missing," he said.

The Advocacy Management Model

An "owner's advocate" management model aims at a form of hybridcy of its own, possibly appealing to flight departments and managed aircraft owners alike as an alternative to the "full service" offerings of major providers. These self-described advocate management companies, such as Solairus, Silver Jet and Sun Air Jets (all three California companies), might outsource virtually all services, eliminating what they see as a potential source of conflict of interest.

Silver Air in Santa Barbara has 10 aircraft, from light to large-cabin jets, under management. It grew out of a small flight department where Middleton was hired as a pilot when the owner put the aircraft under management to generate charter revenue.

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The management option is appealing to companies that want to eliminate their flight departments.

He developed the management model after seeing how, he believed, the management company took advantage of the owner. "Basically, it came down to advocacy: someone on my side of the table for everything, and not having any conflicts," Middleton said. These conflicts, advocates say, are inherent in the services many management companies offer, because of service fees added to the invoices. By outsourcing and getting bids for all services—hangaring, maintenance and the like with no markup, and getting all their income from management fees alone—these management companies claim they can truly advocate on behalf of owners while still providing volume discounts on fuel, insurance, training and other services.

Drohan said clients at Solairus, which has 130 aircraft under management, "really like the fact that we are an aviation asset management company and our entire infrastructure is built around that objective. We're not trying to be a real estate company or a fuel company."

Sun Air Jets, like Silver Air, is the outgrowth of an unhappy management experience. In the late 1990s owner Edward Atsinger III was new to aviation but had two jets and a helicopter under management. Displeased with the service, Atsinger brought aboard Brian Counsil, president and COO, to oversee the operation, and Camarillo's Sun Air Jets was born. Said Counsil, an accountant and tax lawyer, "He knew how he wanted to be treated as a consumer of aircraft services, and we tried to approach management that way when we started." The financial and analytical information Sun Air provides clients "is a product we designed for ourselves as our own first client, modeled on what we knew we wanted as customers," he said. "I'm in business to run an aircraft like a business. Everything we do is as a fiduciary on behalf of clients, and create a true win-win symbiotic relationship."

But advocacy management might be as much a philosophy as a set of operating policies, practicable in both small flight departments and large management companies. Whereas other advocate-style managers eschew offering any in-house services, Sun Air Jets has its own hangars and an office in Van Nuys and an in-house maintenance department. Does that not present a conflict of interest in comparison to other advocates?

"Generally, if an operator doesn't own any of it, [the company] is not much more than a relationship, a computer and a telephone, which has its place," Counsil said. "Sun Air Jets has a deep equity interest in what it does, and we have constructed and own facilities. When we do major inspections, we can control the process. We're not a retail shop that makes money on discrepancies. It's a service we provide in aid of the airplane." Counsil could be speaking of a savvy customer served by any operational model when he concludes, "Our aircraft owners take comfort in knowing who's flying the airplane and who's doing the maintenance. If we took advantage of clients, they wouldn't be here any more." ❑

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