

PARAMOUNT BUSINESS JETS

# Market Analysis of the Private Jet Charter Industry

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[ABSTRACT: The private jet charter market analysis was written while working as an intern for Paramount Business Jets for a writing competition.]

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## MARKET ANALYSIS

### *History & Market Definition*

Following World War II, the aviation industry has tremendously evolved and progressed in a way that none would ever have thought before. Due to the amount of surplus aircrafts left from the war, charter companies entered the business of air charter offering private flights for executives, high end travelers, sports team or even entertainers(Wikipedia). However, corporate aviation, air taxi, and air charter started becoming increasingly popular in the past two decades.

Till now, most buyers in the private jet industry market have primarily been large companies or wealthy. Today, a private jet, depending on configuration, run from \$3 million to \$45 million and are capable of seating anywhere from six to 30 people. Both NASA and the Federal Aviation Administration (FAA) have both argued that the current United States (US) air traffic system needs to be changed in order to accommodate the future demand as the current infrastructure is soon to become obsolete with the increasing demand(Gibbs-Dabney, Dillard, De La Rosa, & Kwon, 2002). The current system is one of the major flaws and has been the reason for the industry to not expand as quickly as some had anticipated. The costs associated with updating it are so high alternative methods are being researched.

However, over the years, despite the system flaws, the demand for business transportation is increasing. As explained by the National Business Aviation Association (NBAA) there are multiple benefits for businesses or even wealthy people to fly a private jet. The foremost reason is the increase in productivity of personnel(NBAA, 2004). Companies choosing to fly general aviation have the ability to virtually control every aspect of there travel such as instantly

changing itinerary. Private jet have been engineered and built to the highest standards in order to accommodate any VIP. Business aircraft allows passenger to conduct business enroute in complete privacy while reducing stress which is generally associated travelling on commercial carriers. By using private jet, corporate executives are able to use their time more effectively, both onboard and off board. In addition, they may minimize travel cost by reducing overnight stay and maximize flexibility.

Benefits for private aircraft include saving employee time, increasing productivity enroute, minimizing nonbusiness hours away from home, ensuring industrial security, maximizing personal safety and peace of mind, exercising management control over efficient, reliable scheduling, projecting a positive corporate image, and charging the entrepreneurial spirit(NBAA, 2004).

### *Private Jet Market*

Traditionally, executives or corporation could either own or charter a business aircraft. By using air charter companies have the ability and flexibility to choosing any operator and the aircraft type to meet the need of the trip. While it is a more cost efficient approach, it is heavily dependent on aircraft's availability and quality may not fully be controlled. On the other hand, corporation may decide to have full ownership of the aircraft. While there is high capital investment associated with that it allows great benefits such as it operates at the full discretion of the owner. The advantage comes at a high cost, as the corporation will have to set-up a flight department, hire pilots and is substantially adding a complexity to the firm which is way beyond its level of expertise(BRS).

Over the past few years, there has been a new business models which was developed called aircraft management contracts and fractional ownership. Aircraft management contract is a hybrid version of air charter and full ownership(NBAA, 2004). In this particular scenario, the aircraft is owned by an individual or corporation, but its operations are sourced out to certified operators. This is the case of Paramount Business Jets, one of the world's industry leaders.

Fractional ownership is a newer and more innovative way of operating private jet as it blends the benefit of full ownership while having the cost benefit of air charter. Through this method, corporation only need to buy a portion of the aircraft and based on their interest will be entitled to a fixed number of flying hours. The plane is managed, including maintenance and provision of crew, through the company running the fractional ownership program (FOP), and the customer only pays for the actual flying time used.

As compared to air charter, fractional ownership does not have the high cost associated with it.

While as compared to full ownership it offers a significant cost saving due to partial capital investment and the overhead cost is shared. Additional benefit of this program is that should the customer's aircraft not be available then the company will provide them with a similar aircraft(NBAA, 2004). Fractional ownership targets a customer segment that makes frequent use of air charter, but cannot justify the cost of acquiring and operating its own aircraft. It also allows the investor to have grater flexibility without the cost associated with full ownership.

### *Economy*

Aircraft operator all have one question in mind with higher prices and in a declining economy and that is how it will affect the market. The economy went from bad to worse, yet the aviation industry is holding its breath, and is trying to overcome this hard time. First indication about a

recessionary economy should have started when the stock market was fluctuating up and down September of last year. Within weeks, the United States economy worsened until the government agreed that it was in a recession and had been for the previous 18 months(Anderen, 2004).

During that time, oil barrel reached an all time high of \$147 per barrel which forced aircraft operators to reconsider the cost benefit of flying commercially over the exclusive private jet. However, with airlines cutting down on the total number of flights and seat available, some argue that customers may look at other ways to get to its destination and may allow some to start using air charter as an option when it would not have in the past. In addition, lots of current aircraft owner are selling their aircraft or fractional ownership as it can no longer financially support them. Because of the excessive amount of private jet being on the market for sale is thriving the sale price down which may potential force some to buy (Anderen, 2004). While many analyst have reported that their should be an increase in the use of private jet charter, upcoming reports are proving otherwise. JP Morgan Global Equity Research Business Jet monthly report: "Flight operation continues to slow. Flight operations into and out of the US declined 10.6 percent in July, the ninth consecutive decline and third consecutive double-digit decline." It continues to be emphasized that the trend is worrisome and that the market is rapidly falling apart.

### *Market Competition*

As mentioned earlier, should the economy not be as bad, there is a tremendous demand for private jet charter. Competition has been rising over the years making it harder for operators to stay in business. Today, competitors must continuously improve their products but most

importantly their service as that is what is mainly remembered and will push for customer loyalty.

Executive Jet Aviation (EJA) is the company which is responsible for the concept of fractional ownership in the US. They have been a major competitor in the US and have been working with NetJets, which was responsible for the same concept in Europe. The partnership between these two major companies offers a fractional ownership program to European customers and the possibility for the EJA's US customers to use part of their flying time on European flights. This partnership is especially powerful and has been one of the major threats to competitors operating within the same market segment. However, another competitor, which has been very successful in the rest of the world and now expanding more in the US, is Jet Aviation. It currently has 28 facilities worldwide, operates 130 private aircraft and operates the first truly European fractional ownership program (BRS).

## CONCLUSION

Although the economy is not at its best and despite the declining reports, analysts are confident that the market for private aircraft will grow and that the competition is needed in order to accommodate for that growth. Research has identified a minimum of 850 corporation within the United States meeting the criteria in terms of travel needs, size and ownership structure.

Database are being created in order to acquire a contact person and try to attract that corporation to use services such as the ones offered by Paramount Business Jets.

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