

■ THE AVIATION LEADERSHIP ROUNDTABLE

MAKE THE RIGHT DECISION WHEN PLANNING A PURCHASE



Our office, like many others, is experiencing a new round of buying calls. Many are First Time Buyers who are lured to the idea by what appear to be, and are, great opportunities. These calls are from all

segments of the market. Individuals and corporations alike are slowly coming back to the idea of corporate aircraft ownership. The numbers, however, are not at all representative of a turnaround. In fact, the very reason for the calls is that the market is down and buyers are scarce. This month's article is for those individuals and corporations new to the market. For those who collaborate with an organization skilled in this field, these areas of consideration will sound familiar. For those who are just beginning the process and have not yet chosen a sales group to assist, this article will help prepare you to ask the right questions as well as understand this complex process.

As I organized my notes I came up with several key categories to review. This should help the new buyer strategize his or her thoughts into focused sections of consideration.

The first is always "**Mission Profile**." It is here that the process of organizing one's thoughts into patterns of prospected use occurs. While one certainly cannot anticipate every need or trip, it is possible the new entrant can begin to develop a list of destinations and trip patterns to start focusing on various aircraft categories. The mission profile begins to provide an understanding of annual use, required range and other considerations like required aircraft size. Obviously, compromises on aircraft choice can be made, as they will need to balance with desired capital outlay, operating costs and other factors. Developing a solid Mission Profile is the most important first step.

Reviewing the "**Performance Characteristics**" of the different aircraft is next. Understanding these against your mission will allow you to begin to make some choices of categories and segments to consider. Having a grasp of the manufacturer's product lines is vital. From this section of the process you can pick the contending makes and models; examine further what it is you want, and start to build the budget. It is in the budgeting process where decisions are made as to what kind of aircraft one might buy, should buy, or not even consider buying. There are also a few very important operational and support issues to consider.

I get calls all the time from people who are intoxicated by the idea of the cheap prices of certain planes. Usually there is more to the story than the 'First Time Buyer' knows. I hear people say that they have heard they can buy a Gulfstream II for \$2,000,000 or a Lear Jet for \$500,000. As I said in a recent article, "Don't Buy A Cheap Plane Cheap, Buy a Great Plane Cheap!" There are reasons some planes are so cheap, and by the way, will get cheaper. It is typically because of support. Manufacturers are going to begin to take advantage of the FAA Aging Airframe regulations to limit parts and field support for these older aircraft. Additionally, understanding that an aircraft must not only meet performance needs, but ultimately far more importantly, meet the greater test of "**Dispatch Reliability**," "**Field Support**" and "**Parts Support**" is critical. Look at these factors. Take away the idea of the cheaply purchased Lear and put into its place a plane that meets the support and operational tests as well as performance needs. The actual cost of the more appropriate aircraft can be very sobering.

This might even stop the process for some. Getting realistic about price and cost should be done up front and an aircraft professional can help you distinguish the differences of each aircraft in consideration.

The next step is to "**Build a Budget**." The First Time Buyer for this process will

take the projected total hours per year to be flown; calculate in the fixed and direct costs along with considering additional investments over time. Based on the choice of planes in the original mix, a direct cost per hour can be derived. There are several sources including each individual manufacturer's website to gather this information. The direct cost will include fuel, maintenance, catering, engine reserves, landing fees and any other hourly cost. Next, a fixed budget will need to be structured to add in those annual costs such as pilot's salaries, benefits, mechanics, hangar, insurance, pilot training etc.

I always build budgets over a minimum of a five year projection. To completely understand the total cost of ownership one must also look at a residual value component; projected inspection, modernization and refurbishment costs and tax consequences over time based on the final individual aircraft chosen for consideration. With manufacturers serving as strong competition to the pre-owned market, careful tax planning (given the bonus depreciation opportunities) can make new aircraft look very compelling in today's market environment. There are opportunities to be had when buying new. An aircraft professional on your team can even help you identify and procure those opportunities. Bring together your tax and legal as well as your aircraft sales professional for this part of your process.

There is no way to describe in detail in one short column the complete process. I hope this article will help new entrants stop and consider the complexity of the process. Look around the industry and choose an industry expert to work with you and your team of legal and tax professionals. As I have said many times before build a winning team and go forward. This is a great time to buy!

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