

Market Segmentation

An Advantage in a Supply-Rich Environment

Segmentation of the market can be accomplished by aircraft age, configuration, total time and location in the world among other things, notes Jay Mesinger. Nevertheless, one person's pebble is another person's diamond...

Market segmentation can be helpful – with each of the segments allowing us to slice and dice the market for the gems. Whether you're looking for a low-time, standard interior configuration with US pedigree and registration, or a high-time aircraft with any configuration and no preference to registration, today more than ever before segmentation quickly determines price points that can vary greatly between aircraft of the same make and model.

It was the lenders who really began this discussion. Their appetites for lending are largely for aircraft that are no older than 10-15 years. In some cases this age requirement spans the whole of the lending period, not just the beginning of it.

Next, as the emerging markets grew between 2003 and 2008, a greater percentage of new aircraft were delivered to those distant markets than ever before. Many of the emerging markets were not only still building to a critical mass of aircraft, but were also still building towards having necessary MRO and day-to-day service and parts availability at hand. Never before have the effects of a global market and the different standards, maturity and experience in aircraft ownership played a part as they did now.

During that 2003-2008 period, buyers in the emerging global markets were willing to pay premiums of up to 20% to satisfy their demand for new or like-new aircraft, and lenders were willing to finance the new retail price of the aircraft that included the premiums. This helped set-up the awful fall in values that we experienced at the beginning of the downturn.

In my opinion there are two reasons why emerging markets only wanted new or like-new aircraft: First, since the money available to these emerging markets was considered new, everything the buyers wanted was new as well; and second, the lack of operational maturity in these emerging markets along with safety and reliability (of older stock) being questioned.

Several years have passed, and both reasons above are being replaced by the realization of the value in paying less than required to buy new and the reliability and safety of these aircraft as they age and are maintained to high standards.

Today there is as much supply in every market as the industry has ever seen. This inventory could even be considered an over-supply in many cases. Prices are still unstable in most markets, and buying is mostly taking place in North America. The idea that these airplanes were only created equal when

they were manufactured but change dramatically over time as they're operated in different parts of the world, and are maintained differently, to different standards drives segmentation in most areas.

Dissecting a Market!

Let's imagine we're shopping for a Gulfstream G550 and just look at the market from 30,000 feet: Supply would be our primary awareness. Just seeing that there are 31 airplanes for sale might lead us to consider this market 'ripe for the picking'. We can name our price, right? Let's take a closer look:

- Of the 31 aircraft, only 18 are registered in the US;
- Of those 18 aircraft, 13 are on RRCC or its equivalent;
- Of those 13, five offer an Aft Galley (which arguably would eliminate the aircraft from 80% of buyers' search, leaving a pool of eight viable aircraft);
- Looking at aircraft total time (500 hours annually is considered average utilization), all eight are at the average utilization, so all remain prospects; finally
- A close look at the eight aircraft, based on remaining configuration priorities as well as cosmetics, damage and type of operation would likely cut the list to just two or three viable options.

Thus, there is nowhere near as much choice or oversupply as you may have first thought from a cursory glance at the market. Increasingly, these intelligent reviews of aircraft for sale in a particular fleet are bringing buyers to the realization that the '30,000 foot review' is no place to view the markets from. The devil is in the detail.

Look hard, set good expectations, then go through logs and records with a fine-tooth comb. Have tight contracts with Delivery Conditions that leave you with the aircraft you expect when the deal is done.

Segmentation can be the buyer's friend. Yes, it may mean you pay a little more for your perfect airplane, but you can be sure this additional investment will last an ownership lifetime. ■



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