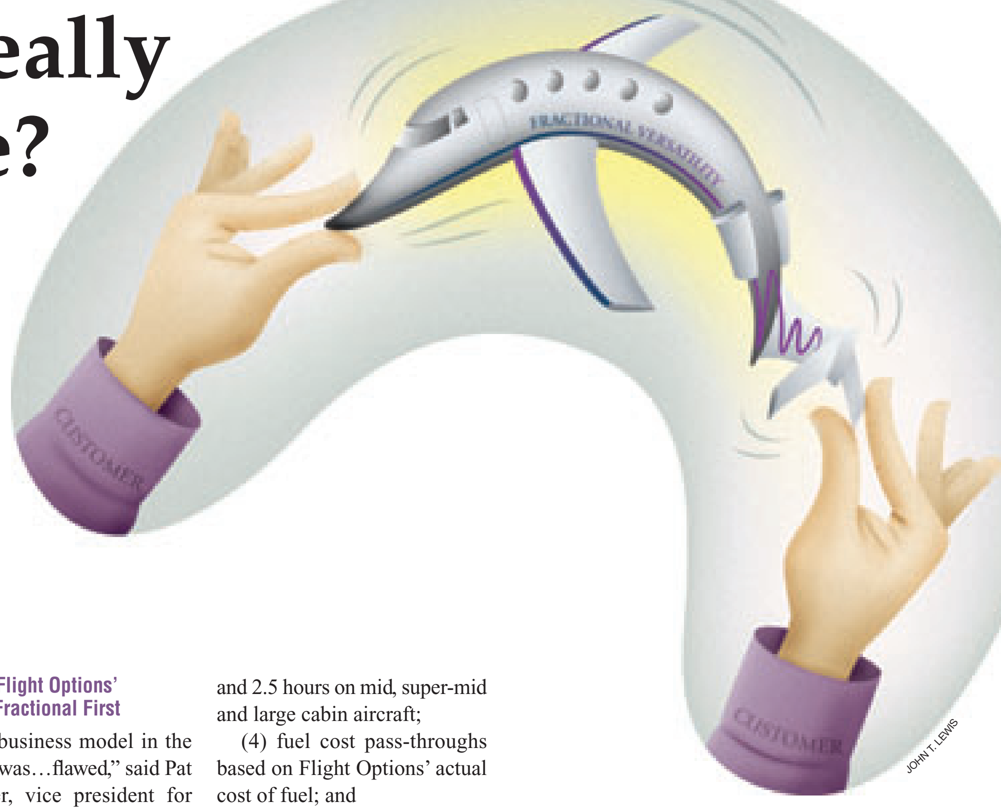
# Do fresh options really add value?




*As always, you have to look beyond the brochures and do your due diligence.*

While the major fractional providers are still selling plenty of business-jet shares, recent reports indicate that they're also repurchasing existing shares at a rapid rate. As a result, net growth (sales minus repurchases) is at the lowest level in years.

In an effort to reverse this trend, Flight Options and Flexjet recently have tweaked their programs. *(NetJets and CitationShares, the other two major fractional providers, have been making changes as well, but for space reasons and because both declined to comment for this article, neither is featured here. We hope to spotlight their latest offerings in a future issue.–Ed.)* Some of these initiatives may provide greater value for the fractional consumer. However, that depends upon your particular needs and, as with all things fractional, it's best to do your due diligence.

Here's a look at what has changed, and at how you may be affected.

### Flight Options' Fractional First

"The business model in the industry was…flawed," said Pat Gallagher, vice president for membership and partnership sales at Flight Options. The company spent more than $1 million on research "to try to understand exactly what it is [customers] were looking for, to get the growth rate back to where it was," said Gallagher. "What we found is that [customers] were looking for increased flexibility, greater simplicity in contract terms, etc.…and more transparency."

Last September, Flight Options launched its Fractional First program, which advertises five improvements:

(1) the ability to fly 80 to 120 percent of your annual flight hours and pay management fees for only the hours flown;

(2) elimination of taxi-time deductions (12 minutes per flight) from your annual flight-hour allotment;

(3) 20-percent discounts on hourly rates for flights beyond two hours in light cabin aircraft and 2.5 hours on mid, super-mid and large cabin aircraft;

(4) fuel cost pass-throughs based on Flight Options' actual cost of fuel; and

(5) ferry fees based solely on the cost of fuel to reposition the aircraft.

Fractional First addresses some significant fractional issues in a way that will add value for many fliers, while others may actually see their costs increase. The ability to underfly or overfly by 20 percent and pay pro rata management fees does tie those fees to hours flown, which was not the case previously. However, owners enjoyed the right to underfly and overfly under earlier Flight Options programs and, under Fractional First, if you don't fly all your allocated hours in one year, you lose the right to fly them later, a potentially significant detriment.

Thus, if you're a 1/16 share owner with 50 hours of flight time per year and you elect to pay management fees based on 80 percent usage of your annual allotment, you are entitled to fly 40 hours in your first year. If you fly 45 hours, you will be charged a higher management fee to reflect the additional flight time. However, if you fly only 30 hours, you will lose the right to fly the additional 10 hours in succeeding years. This "use it or lose it" feature is new and may work to the detriment of many Flight Options customers. (You may choose to pay management fees based on 100 percent use of your annual hours; however, under this "traditional pricing" option, you will still lose any unflown hours.)

Certainly, you'll benefit from not having taxi time deducted from your flight hours. However, you will continue to be billed for taxi time at your hourly rate, a distinction that may be lost on customers who don't read the fine print.

To be sure, distance-based pricing reduces costs for those taking long flights. However, because most fractional flights are less than two hours, the impact of this benefit may be limited.

It's encouraging to see the demise of fanciful fuel cost base rates and surcharges based on fuel costs that far exceed those actually paid by the provider. And it is beneficial that ferry fees essentially are limited to the cost of fuel. But fuel cost is a function of both price and consumption. Because Flight Options (like other providers) continues to add a significant percentage to the aircraft's actual burn rate to pay for deadheading and repositioning, owners' expectations that they're not being charged for deadheading and repositioning and that fuel charges are limited to the actual cost of fuel consumed on their flights remain to be fully realized.

### Flexjet's Versatility Plus

"Customer needs change over time," said Bob Knebel, vice president of sales for Flexjet. "A fundamental element of creating more value for our customers is to create a program that offers adaptability and flexibility." Flexjet's Versatility Plus unfortunately doesn't include benefits that are the focus of the Flight Options program, such as distance-based pricing, elimination of taxi-time deductions and fuel-cost pass-throughs based on actual costs. However, Flexjet continues to allow owners to

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carry over substantial flight hours from year to year without penalty and addresses another problem faced by many fractional owners–purchasing too many or too few flight hours–by allowing them to buy and sell hours through Flexjet.

Owners may commit up to 25 percent of their annual hours to a pool from which other owners may draw. Flexjet charges the purchasing owner a pro rata portion of the management fee for the aircraft on which the hours will be flown as well as the applicable hourly rate. Hours purchased through Versatility Plus may not be flown on peak travel days and multiple use restrictions apply as well.

Remuneration to the selling owner is based on a pro rata portion of his management fee, so there is a spread between what the purchasing owner pays and what the selling owner receives, with the difference going to Flexjet. Nevertheless, Knebel reported that over the past two years, more than 70 percent of Flexjet owners have used this program, from which selling owners have received almost $13 million.

Flexjet also has responded to owners' desires to fly to more warm weather vacation destinations without incurring ferry fees. For new owners (or long-time owners who are willing to sign new contracts at current rates), Flexjet has created a "secondary service area" that allows for flights to Bermuda, the Cayman Islands, the Greater and Lesser Antilles and all of Mexico without ferry fees. Call-in times are extended to 48 hours for this travel and other restrictions apply.

"We found that customers want greater simplicity in contract terms and more transparency."

Finally, Flexjet now permits owners to purchase concessions such as guaranteed upgrades and downgrades, guaranteed multiple use and short-leg waivers through its AnyTime Options program. Knebel admitted that these benefits have not garnered much interest, but he attributed that to the fact that these concessions are not highly valued by owners. However, many of these concessions previously could be negotiated into owner contracts and so the additional cost of purchasing these concessions á là carte likely is a factor as well.

Owners' search for flexibility, simplicity and transparency continues, as does the providers' search for a better bottom line. Each of these new programs has something to offer owners. Yet, in many ways this is a zero-sum game between you and your provider. One thing remains unchanged, however, and that is the imperative that you understand your needs and go beyond the simple brochures to ask hard questions that will enable you to make the best possible investment. ❑