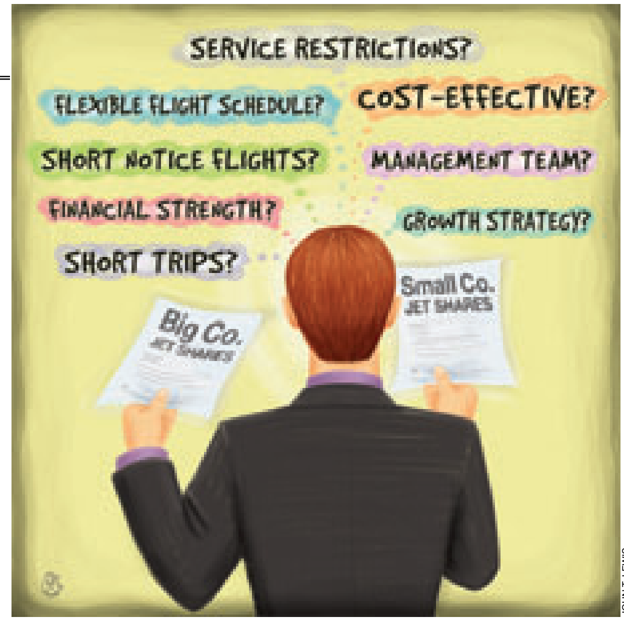
Should you sign on with a small provider?

You might save money, but could also face problems if you don't ask hard questions before you buy a share.



JOHN T. LEWIS

No doubt you've heard of the large fractional companies–CitationShares, Flexjet, Flight Options and NetJets. Indeed, since you're reading this article, there's a good chance you own a share in one of these programs. But over the past few years, new, smaller fractional providers have sprung up–companies like Avantair, PlaneSense and FractionAir. In addition, it seems as if almost every Tom, Dick and Harry with a couple of airplanes is repackaging his excess capacity as a fractional program.

Small programs may be a good option for you, especially if you tend to take short trips and know well in advance when you'll need to fly, as these providers typically use small jets and turboprop airplanes and require more flexibility in flight scheduling than the Big Four. You may find these programs to be more cost-effective than the larger ones, which provide benefits you might not use, such as the ability to fly on short notice, access to a smorgasbord of aircraft and travel to and within Europe.

That said, smaller programs generally lack the longer track records of the Big Four, so it's even more important that you do your due diligence before you buy. Here are the key issues to investigate:

Financial strength. The last thing you want is to receive a letter informing you that your provider has filed for bankruptcy and you and seven other owners you've never met need to make arrangements to deal with your aircraft. To avoid this nightmare, make sure you understand the company's financial resources and who provides the financial muscle behind it.

OK, the company may not have the backing of a well funded parent (NetJets is backed by Berkshire Hathaway, CitationShares by Textron, Flight Options by Raytheon and Flexjet by Bombardier) but what is its funding source and what funding commitments does it have? Also, is the fractional program making a profit and, if not, what is the business plan over the next several years to bring it to profitability? Does this plan rely upon charter revenues to the point where the provider is likely to be using your aircraft a lot to enhance its bottom line? Don't be fooled by references to a couple of celebrity clients. Look for the steak, not the sizzle.

Management team. Who makes up the management team and what is their experience in the aviation business? Often, smaller programs are backed by investment banking concerns that have little aviation background. Look for experienced hands, especially on the operations side. Also, find out how the company handles maintenance (in house or outsourced) and whether it employs its pilots full time. Ask for the job qualifications for all key positions. And don't just talk to the salesperson. Small companies should be happy to make their senior management available to you.

Growth strategy. Most small fractional programs don't intend to remain small. Yet a strategy for rapid growth can be difficult to manage. Going from seven aircraft to 50 in a short time involves much more than adding another dispatcher. It requires a totally different management and operations platform. Often, service suffers when growth isn't well managed.

Service restrictions. A program with seven aircraft and 60 owners can't, and indeed shouldn't, make the same service promises as a large program. For example, you may discover that instead of eight-hour advance notice to fly, you must give 18 to 48 hours' notice. You might find more days designated as "peak travel days," and on such days, you might not be guaranteed a flight at all. Other differences could relate to the size of the prime service area, limitations on the right to use two aircraft simultaneously and, importantly, the extent to which charter aircraft may be used to provide additional lift.

If you're not prepared to investigate these issues yourself, you can employ an auditor to do the job for you. Among other things, an auditor will review flight logs, maintenance records and pilot qualifications. If you don't want to hire an auditor, you can at least ask whether the provider has been scrutinized by one of the well established audit services–ARG/US or Wyvern. ❑

James Butler is an attorney and the chief executive officer of Shaircraft Solutions LLC (www.shaircraft.com), based in Bethesda, Md. Shaircraft represents individuals and corporations with respect to a wide range of private air travel investments.

Reprinted with permission of Business Jet Traveler ©2006
From December 2005/January 2006 issue.