What's bugging fractional owners?

by Chad Trautvetter

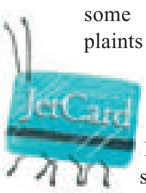
JOHN T. LEWIS

Fractional aircraft shareowners are a highly networked group. They frequently talk to one another about their lift experiences, sharing the good, the bad and the downright ugly. If a fractional provider spurns a customer, word quickly spreads through the shareowner community.

"This industry was built on networking," noted consultant Mike Riegel, publisher of the Texas-based *Fractional Insider* newsletter. "Negative networking is very bad for business."

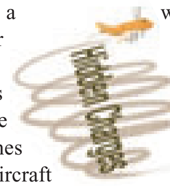
The good news for fractional providers is that most shareowners appear at least reasonably satisfied, since about 80 percent ultimately renew their contracts. But what about the less-than-happy campers? What problems bug them the most and what would they most like to see changed? To find out, we talked to five consultants who represent shareholders in their dealings with the providers.

Impact of Jet Cards



Jet cards probably top the list of shareowner concerns. CitationShares, Flexjet, Flight Options and NetJets–the four major fractional providers–now all offer them, though an outside party operates NetJets' Marquis Jet card program.

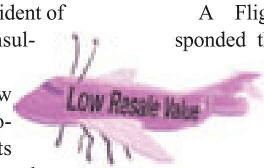
The cards allow the fractionals to squeeze more utilization out of their aircraft and personnel, which means more revenue without added overhead. The problem, Riegel said, is that "jet-card owners tend to fly in a compressed time frame, which puts much stress on operations." In other words, "jet-card owners are heavily competing for the same aircraft as the fractional operations," said Shaircraft CEO James Butler, a consultant and a columnist for this publication.



Since many of the jet cards are sold based on the available core fleet, accessibility becomes an issue. As demand for the aircraft increases from jet-card holders, the fractionals require more charter outsourcing to meet shareowners' needs.

Many shareowners contend, some loudly, that they didn't buy into a pricey aircraft only to be riding aboard a charter airplane. They want what they bought: flights on "their" aircraft.

The fractionals have reacted to such complaints by placing restrictions on the jet cards. Besides adding aircraft in the past 12 months, NetJets last summer announced that 10 peak travel days per year would be off limits to jet card holders. CitationShares took a different approach by capping the number of jet cards it will sell, and both Flight Options and Flexjet recently tried yet another tack by introducing jet-card programs that "shape demand with pricing incentives," according to Kevin O'Leary, president of fractional/charter consultancy Jet Advisors.



Flight Options' new JetPass Ultimate program offers discounts for flying during non-peak periods, which it defines as 1:01 p.m. Mondays to 11:59 p.m. Wednesdays; 12:01 a.m. to 1 p.m. Fridays; and all day Saturdays. Flexjet's 25 program, meanwhile, allows customers to choose how many preset days per year (275, 325 or 355) they can fly, with the 275-day option offering the lowest price in exchange for the greatest reduction in flexibility.

Hidden Charges

Shareowners aren't happy about what they see as a lack of transparency when it comes to costs, according to some fractional consultants. Complaints concern fuel surcharges, which typically add $500 or more to occupied hourly charges; pass-along pilot-pay increases; and last but not least, fractional-share resale values.

"Shareowners know that their provider needs to make a reasonable profit," Riegel said. "They don't mind paying enough to cover expenses and then some, but they want the pricing to be more transparent."

Butler echoed Riegel's comment. "Owners are willing to pay a fair price for service, but they don't like the hidden costs," he said. "They want providers to be more straightforward and they want to be treated like owners, not passengers."

The consultants do report that aircraft resale values are rising. Three of the four major providers now offer what the consultants call "acceptable" blue-book values.

In the past, industry watchers identified Flexjet and Flight Options as being less than fair when resale time came. Over the past year, however, Flexjet has improved markedly in this area, the consultants said, putting its resale values in line with those found at NetJets and CitationShares.

But the five consultants interviewed separately for this story–Butler, O'Leary and Riegel as well as Brendon Docherty of Docherty Aviation and Walter Kraujalis of JetRe–said they still field complaints about what Flight Options pays to repurchase shares. Several noted that departing Flight Options shareowners would be lucky to get half their investment back, as most have seen valuations in the 30 and 40 percent range.

A Flight Options spokesman responded that resale valuations in this range aren't typical at his company, while alleging that one particular unnamed consultant has a grudge against his firm.

Overall, at any rate, the fractionals appear to be taking steps to make shareowners happier, such as by managing jet-card demand better and improving service. It might be too little, too late for some shareowners whose contracts are up for renewal this year, however. Industry watchers say that 20 to 30 percent of shareowners are in this group, depending on the fractional provider. And a bad past experience can cause them to jump to another provider. ❑

Chad Trautvetter, a frequent contributor to these pages, is a senior editor at **Aviation International News**.

Here today, but what about tomorrow?

Shareowners at NetJets, Citation-Shares and Flexjet probably aren't losing sleep over the financial viability of their fractional providers, but consultants we interviewed said customers of Flight Options and the 20 or so regional and local providers have likely given this topic serious thought.

While the major fractionals are largely unprofitable, Flight Options has bled far more red ink than its competitors. It had an operating loss of up to $117 million in 2005 versus $40 million in 2004 and $34 million in 2003, according to SEC filings by parent company Raytheon. Flexjet, NetJets and Citation-Shares all claim they will be profitable this year or next.

Since the local and regional providers are private companies, it's difficult to determine their financial soundness.

Trouble at Nashville-based FractionAir has probably amplified concerns, however. The four-year-old firm's founder was ousted in 2004 when the board discovered he'd been selling shares in an airplane FractionAir was leasing. More recently, in late June, former Vice President Al Gore and football legend Troy Aikman, among others, learned they might lose the money they'd paid for their shares at this company.

That same month, a creditor said a Hawker 800 was the only airworthy aircraft in FractionAir's five-jet fleet. In addition, its Mitsubishi Diamond jet has been repossessed and one of its Beechjets has been stripped of its engines, according to the same creditor. Galen Capital Group has announced its intention to restructure FractionAir's debt, though the rescue plan is far from reassured.

A shareowner at Avantair, meanwhile, said he is concerned about its financial state, though less so since a new owner, Alfred Rapetti, acquired the company last fall. Despite having done due diligence on Avantair before buying his share, "I still have to rely on the company's management to stay on a solid financial footing," the customer concluded. *–C.T.*