

# The 'Safety' And The 'Reach'

**F**or those of us that have worked to help our kids prepare for college applications, we know the difference between the 'safety school' and the 'reach' choices. Everyone chooses to apply to a few schools into which (based on grades, scores and demographics) they would be almost assured to get accepted. The reach choices are those schools that are slightly out of range, based on the student's grades, scores or standings. Each person making this decision can decide for themselves the degree of 'reach' they are willing to attempt.

I had a client call me recently and ask if this would be a good time to put his aircraft on the market. He said he was thinking of a price that would push him over the edge of the decision to go ahead now and enter the market - and of course he had all the normal concerns about the world economy, our industry and the price of aircraft as a result of this uncertainty. Should he sell now, or sell later?

I listened to his thought on a sale price and said that I was not sure of the market embracing that amount - it felt like a 'reach'. I asked him to give me a few days to look at the market and connect the dots.

It is not a new phenomenon to have an aircraft owner call with an amount that would entice them to sell. It always seems to be a number that is higher, by some degree, than the market may bear at that particular time. In fact, I will sometimes take an airplane and put it on the market at a number that I feel may be slightly higher than I believe it will sell for, but with the owner's awareness of that difference between his or her opinion and mine.

I will only do this if we have an agreement that after a reasonable time on the market we reassess the landscape and lower to the price that the market seems to be relating to us (by way of market activity, current sales and possibly even offers we have turned down that are consistent with a price being too high).

What struck me this time was that we have recently experienced at the very high-end of the market (like-new or relatively new, low-time aircraft) a higher price being paid by a select few buyers who are so focused on this segment and the absolute thin supply of aircraft - based on the right set of circumstances,

equipment and airframe time. This is not the case at every level, and is not the case even slightly below the level just described. Many of those markets are still grappling with the bottom. Higher inventory levels and less distinguishing factors all contribute to segments that are far from firming or having a customer reach to purchase. There are just no compelling reasons to 'reach' into areas where a 'safety pick' will acquire all that is required to satisfy the buyer's aviation needs.

I challenged my staff to develop a set of criteria that we could apply to those people who have airplanes for us to sell in this very limited segment of like-new or relatively-new aircraft with very low time. I asked them to begin to think of this exercise as though they were applying for college: Pick the 'safety price' - that price we knew we could get, based on all recent past sales. It should be noted that the 'safety price' is not a "give

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away" or "fire sale" price - it would still take the proper amount of global marketing as well as clear effort to sell.

I then asked them to predict a 'reach price' - the price that someone would pay if they felt the airplane was exactly what they were looking for, and losing it may be more costly than paying a premium.

Among the price-setting factors are the following: Is a U.S. company buying, and a U.S. company selling? This makes for a much easier transaction. Is the interior in a configuration that is either exactly right, or very close to the ultimate desired configuration? Is the

equipment installed most-aligned with the customer's desires? Essentially we tried to develop a set of boxes that, if all or most were checked, would motivate a customer to pay a 'reach price'.

As with the 'safety price' this was not considered (in our estimation) to be a premium above rational thinking; this 'reach price' was supposed to emulate what would be the added value of all, or most of the customers "desire" boxes being checked.

Once we had accomplished this study I was able to go back to the client above and suggest that though his number was slightly higher than what we thought we could accomplish, it was not as far off as I thought it might be. Of course, the longer he kept the airplane, and the more hours he put on it, the harder the 'reach number' would be to attain, since it would begin to fall out of the very limited area described previously.

Even with the domestic and global economy acting like a roller-coaster, many large multi-national corporations are dusting down their transition and expansion plans and getting back to the idea of growth. This growth relates to a more immediate demand, and this immediate demand can sometimes justify the 'reach price'.

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