Aviation Leadership Roundtable™

The Times Have Changed

It's not the time between here and there, it's the time between now and then...

It used to only be about mission profile: city pairs, frequency, and annual budget. First you created strategic profiling, then just picked up the phone and called the respective manufacturer to place your order. Then you sat back and waited for the big day: the delivery of your new plane. Sounds great, even easy, doesn't it?

In fact in those days, the idea of hiring a consultant or broker may have seemed somewhat unnecessary when buying a new plane. After all, the manufacturers would put your mission profile together, so who needed help? Well guess what, times have changed!

Now back to the title of this article: *It is not the time between here and there… it is the time between now and then.*

Today when you just pick up the phone and call the manufacturer, they will inform you that the backlog is in most cases 24 to 36 months. In some rare cases, the wait on a Hawker/Beechcraft or Hawker 400XP may be 12 months. Now, when you think of going to the market with an eye for a new aircraft, you might just find yourself willing to overbuy, paying less attention to the profiling or the time between here and there, and more attention to sheer availability, thus attempting to cut down the time between now and then.

Now the process of buying new takes on some challenges and twists. This set of barriers to entry, based on long lead times, are best overcome with professional market assistance. In many cases, where the wait is three years and the needs are for today, an interim plane is contemplated. A broker can help a buyer understand the present value of what's available and find a like-new or very near term delivery in the open market.

As much as I like transactions, however, the reality is that transactions have a cost. It is not only the buying that is critical, but also the remarketing in the next three years. Because of the uncertainty of a future market, especially against a backdrop of today's limited supply, a future market can be difficult to predict. So the idea of paying a premium for a near term or like new plane today, rather than buying an interim plane and trying to wait three years for a new delivery does have some definable value.

One cannot just say, "I am not going to pay a premium or top dollar for a plane today, I can wait this market out." That is not a valid consideration unless having this type of transportation solution comes at a higher price. Understanding where the lines cross amongst what might be considered too much to pay, the actual cost of an interim transaction, and the present value calculation of the money tied up in progress payments, may help one value the transaction differently. It may be weighted differently by individual needs.

We are doing a tremendous amount of acquisitions this year. Our focus is the near-term or like-new aircraft in every category and we are not out there alone. It is a highly sought-after market segment now. To compound the process, the international growth explosion is vying for that market as well, and that makes the supply demand equation more challenging.

I am hearing that planes come to market with literally minutes before they sell. Given what I just mentioned about some categories of planes having selling times in the market of days, the need for skilled professionals as selling agents is even more valuable than ever to the sellers.

The help in coming to the market correctly priced is key to that shortened selling time. As we all know, finding the buyer for a plane is only one part of the equation. The contract negotiation and pre-buy management is the place where most deals fall apart.

Bringing usual and customary practices from the business side in collaboration with the aviation attorney makes for a far smoother contracting event. The pre-buy has never been more challenging. All of the maintenance facilities are overbooked and overworked and the level of daily management required to keep a project on track has never been more important to the process. In fact, the expectation of the buyer has never needed more managing than today. The buyers feel they are paying top retail and they have greater expectations than ever, sometimes greater expectations than are attainable.

Just because planes are selling for more than ever does not change the basic deliverable. The pre-owned are sold with all systems functioning to manufacturers' specs, airworthy etc. Today buyers will strive for more reps and warranty type considerations from sellers. This pricing period we are in has each side more focused than ever, and all that focus will need managing.

One of the interesting challenges that is also coming from this short supply side is keeping the client or prospect committed without them feeling discouraged by this process. Remember, while the selling cycle shortens, the buying cycle for the pre-owned or like-new aircraft in this sought after space is increasing. One certainly does not have to wait as long for pre-owned as new, but deciding to buy today in most categories means a wait of at least three to six months before locating the appropriate plane. This can create tremendous frustrations, even causing some to abandon the project all together.

Bottom line, we as industry professionals and providers have a very delicate role to play today to support those people who want to come into our industry as buyers and sellers. We must work collaboratively to guide and inform those considering entering for the first time. Our challenges have never been greater, nor the distance between now and then, but our opportunities have never been brighter.

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