

Bridge Over Troubled Waters

As we think about a recovery in our industry, we will need to determine what bridges will need to be built in order to connect the vital people and pieces back together. I think one area of our industry that may find itself on opposite shores from its customers will be that of the aircraft manufacturers. It seems that a vast divide exists for many people, and the method of rebuilding will be immense. It seems only yesterday the relationship between the customer and the chosen aircraft manufacturer was solid and bankable. Today as the dust begins to settle the scars seem plentiful.

About a year ago, I started receiving calls daily from customers who had future orders for new aircraft with the various manufacturers. As these customers began to sense a shift in the economic climate, they began to be worried about their ability or desire to complete the acquisition of the new aircraft. The reasons were varied. Some had lost funding commitments pledged years before. Some were seeing their own businesses decline, and others were just sure that as the market fell, prices would tumble and they would be overpaying for an asset. The 'what' and the 'why' this was happening was not as important as the management of the economic fallout, which was becoming essential, but it was also beginning to create a divide between the customer and the manufacturer.

I am sure that I was not the only broker getting these calls. I tallied the calls daily and thought that if in fact they were occurring across a broad base of brokers, the number of customers considering their next move was growing significantly.

My advice was always the same. Call your sales rep at the manufacturer and begin to have a dialogue with them directly. At this early stage of discussion the customer was often reluctant to have this conversation with the manufacturer. I began talking with my friends at the manufacturing companies and telling them of the increasing number of calls I was receiving from my customers. Since

they had not yet been getting these calls, it was like I was speaking in a foreign language to them. The manufacturer calls were lagging as the customers began to weigh their options. I urged customers to make the call to the aircraft company, as I felt that the sooner they reached out to them, the more flexible they might be with the solution. I was wrong.

My being wrong about the flexibility of the manufacturer was more about the enormity of the problem than it was about the manufacturer not being sympathetic to the customer's problems. As the customer's concerns or need to terminate an order became more acute, and the proximity of a next progress payment became more near-term, the calls to the manufacturers became more frequent. Thus, the problems for the manufacturers became more certain as backlogs began to erode.

Manufacturers were being challenged daily with the effects of the global economic meltdown as orders were being canceled in huge numbers and in many cases just prior to the completion of the aircraft. The position of the manufacturers had to be strict and in-line with the contracted terms of the liquidated damage section of the individual contracts in order to weather this storm.

The market began being flooded with these future aircraft positions as customers looked for ways to mitigate the loss of their deposit and alleviate the next progress payment by selling their position. As deliveries drew near and the next payment was soon due, the only option left to many customers was to relinquish the plane back to the manufacturer. This then led the aircraft manufacturer to the liquidated damage section of the contract, resulting in feelings between the two being often significantly changed.

The customer felt that the manufacturer was void of heart and soul. The manufacturer could not understand the lack of understanding of the customer. Survival became the only concern of each side. In that stance, the relationships that had been forged over years of doing business together, and years of

customer service and product support just vanished for some. Both sides were wounded and felt betrayed.

When you think about the cause and circumstance of these events

from a distance, the reasons for the cancellations and the reasons for the clear position of the manufacturers are obvious. The manufacturer cannot build planes they are not selling and cannot afford to have planes sitting on the ramp unsold at the time of their delivery. Likewise, the customer whose intentions had been solid when placing the order and paying the progress payments now finds their financial condition has changed dramatically or their lending source gone, therefore, they also had no choice but to cancel their order.

Both sides had credible reasons for their actions, and neither side could really see beyond their own survival needs at that moment. Yet, I am sure that at the core, each side understood the other's position.

Today as you look at most of the current aircraft listed for sale, you will find as much as 50% of a particular fleet are yet-to-be-delivered positions. The idea of getting a premium for a near-term position has vanished.

However, the economic situation we are all in will eventually end, and the world economy will heal. So, too, must the long established relationships between the customer and the aircraft manufacturer. The bridge between these two strong vital partners can, and must be rebuilt.

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