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Confidence *...and the Need to Seek Balance*

Economists rarely agree, except for the importance that consumer confidence plays in a recovering market. Jay Mesinger expounds on analogies that capture his perception of market dynamics impacting Business Aviation.



As an individual who has devoted his career to Business Aviation, with emphasis on the resale side of our community, I keep looking for the fine balance of market forces that impact evaluation models for business aircraft, and thus stimulate confidence that our business decisions will be successful. Two very graphical analogies immediately come to mind.

First is the circus act of spinning plates on top of rods placed vertically. The plates sit on the very end of what are about four-foot long poles, and the showman starts them spinning as he moves quickly down the line, keeping all plates at the proper rotational speed and not falling. This balancing is accomplished by running up and down the row, constantly adding a twist at just the right moment. As long as their speed is maintained, the plates will not fall off the rod.

Another analogy is the bicycle wheel, with its hub and spokes supporting a rim and tire. As long as the spokes are intact the rim and tire remain perfectly round and a smooth ride is attained. If a spoke or spokes were to break, however, letting the rim settle unevenly, the ride gets rough.

Now let's consider the balance of market forces and the confidence that good balance creates. As the economic recovery lumbers along, it seems that just as we get the first plates spinning, the plates at the other end of the line start to slow and fall off of the rods. The same goes for the round wheel. You get one spoke replaced and another one snaps. Trying to balance economic recovery month after month, continent after continent, has been an enormous challenge. As soon as we get the US plates spinning, Europe's plates start to slow down and wobble. Hopefully we can get them all spinning sufficiently before one or more "plates" drops to the ground and shatters.

WHAT INDEED IS GOOD NEWS?

In the late spring, economists postulated that the US economy may be improving at a rate faster than forecast, which might cause the Federal Reserve to curtail

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What the Boardroom needs to know about Business Aviation

its supporting measures like buying US Bonds. Initial reaction from the stock market was highly negative. Imagine the idea that a more robust recovery requiring less government assistance would damage financial markets.

Next, a sharp increase in long-term interest rates, triggered by Federal Reserve statements just a few weeks ago, threaten sales of homes, cars and other big-ticket items. I believe some market watchers overreacted. Rate increases on interest-sensitive sectors likely will not be sufficiently severe to derail the recovery, say economists. Nevertheless, interest-rate news arrived just as the economy's lagging growth was showing welcome signs of improvement. The fear of unbalance among economic indicators raised worries among consumers and company executives.

Although interest rates may not be the dominant indicator or driver defining the market for business aircraft, uncertainly about borrowing effects the entire economy including our corner of the marketplace.

So now we have a new broken spoke and perhaps a slowing plate. The current utilization reports from our industry indicate that the charter industry remains flat and shows no decisive signs of improving in the near-term. Aircraft utilization among corporate flight departments and charter providers is always a key indicator of the health of our sector. Ultimately these flat forecasts will impact the market in general.

Whether picking up or slowing down, there is a trickle effect between the various segments of our market. For instance, many wonderful things occur if just one aircraft is sold to a first-time buyer: pilots are hired, maintenance facilities get engaged to perform inspections for the transfer of ownership, refurbishments are planned and executed, insurance policies are sold, hangars are rented, fuel is consumed. The entire industry gets a great boost.

Conversely when sales remain flat, the trickle effect works in reverse. It is a difficult task to maintain balance across industry and economic lines. But it is important to do so. Balance creates confidence, which spurs spending.

CREATING OPPORTUNITIES IN THE MIDST OF UNBALANCE

Even in the darkest cloud there can be a silver lining. Although at record lows, prices of business jets remain attractive and inviting for buyers. Once priced correctly, aircraft are selling.

If your company is considering a first-time purchase of a business aircraft, the time could not be better. If you have an existing flight department and you are considering a transition, the ability to complete this transition successfully is excellent. Of course the sales price of your relinquished aircraft may be lower than you had expected, but that fact may be balanced by a particularly attractive acquisition price for the replacement aircraft.

Spin the plates, check the spokes and ride smoothly and confidently into the future. The benefits to be derived from Business Aviation are exceptional.



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Recognize that business aircraft are effective business tools—vital to serving existing customers and essential for finding new opportunities as the economy deals with a variety of competing forces.

As I always say, "Getting out ahead of your competition and being able to be in front of your customer are the keys to success in this highly competitive business environment".

Do you have any questions or opinions on the above topic? Get them answered/published in *World Aircraft Sales Magazine*. Email feedback to: Jack@avbuyer.com
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