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Know Your Business

Don't let the market dictate the cost of buying a business airplane.

Board Members are faced with difficult choices, especially when markets are moving, observes Jay Mesinger.

Faced with the decision whether or not to acquire a business aircraft, Directors must weigh the cost of the aircraft against the cost of potentially delaying the purchase to a time when the market seems more stable with respect to pricing. Since aircraft prices have trended downward for 25 consecutive quarters, this analysis is not new.

Some industry experts see the signs that within the next year to eighteen months the fall in

asset values may flatten or bottom out. Others do not. Let's not get carried away, however, with discussions about times that are not yet here. This article is about the challenge that Boards face when they are asked to make buying decisions in markets that have not yet bottomed out.

Aircraft have always been unique buying challenges. They are either in short supply and therefore garner a premium, or they are plentiful and suffer rapidly declining prices. In either case the Board could be making a buying decision while feeling they are over paying for the asset. What should drive decision makers to move forward in what seems like paralyzing circumstances?

FOCUS ON NEED

A business aircraft is an effective tool that can grow your company, >

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DON'T SIT AROUND WAITING FOR THE MARKET TO PICK UP. WEIGH THE COST OF DELAYING PURCHASE OF AN AIRCRAFT TODAY.

What the Boardroom needs to know about Business Aviation

shorten customer response time, and enable interaction with your clients ahead of the competition. The list of positive reasons to buy far outweighs the fears of the incremental decline in the value of the asset. Each company can build its own needs assessment and develop the criteria and milestones for moving forward on this type of investment.

Consider tools the Board can use to make the “purchase-versus-delay” decision. Going back to the basics, solid cost metrics are needed. Begin with defining the Mission Profile. This exercise identifies the annual use, from which the annual budget can be developed.

Based upon Missions to be flown and costs to be allocated, company executives and their aviation experts can make a recommendation to the Board concerning what type of aircraft should be obtained. This selection will shed light on the capital cost as well as operational costs to be included in the proposed budget. Now the justification process can begin.

Will the ability to get out ahead of your competition and get in front of your client or prospect first create sales that might not have been made? Will interacting quickly with a potential client win his or her business, and keep the relationship robust when issues arise? Will Business Aviation enable your company to field a sales force in rural communities that are not served by scheduled Airlines and are too remote for surface transportation? These are all questions that when answered affirmatively help steer the Board and the executives to make the right buying decision.

AN ASSET TO BE USED

While retention of asset value is an important consideration, reselling your business aircraft is not the main reason it should be acquired. Obtaining a business advantage is the reason for the purchase, regardless of market movement.

A potential purchaser wants a fair price at the time of acquisition and a reasonable assessment of future market value in anticipation of an eventual sale or trade. Who would want to buy an asset as expensive as a business aircraft without a clear



WILL THE ABILITY TO GET OUT AHEAD OF YOUR COMPETITION AND GET IN FRONT OF YOUR CLIENT OR PROSPECT FIRST CREATE SALES THAT MIGHT NOT HAVE BEEN MADE?

vision of value today and into the future? No one. On the other hand, who would seek logical ways to grow one’s business and introduce new products into new markets as rapidly as possible? Everyone!

A business aircraft is a worthy investment for what it does for a company’s core business. Know your business and the decision to acquire such a transportation asset is not complicated.

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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TREND WATCHING

Resale experts are watching closely for changes in market prices of pre-owned business aircraft. Since the Great Recession burst onto the scene in the 2008/2009 period, asset values for business aircraft have fallen faster than what had been the norm for many years.

As the economy continues to recover, some market watchers see movement back to traditional trends. In particular they point to a sustainable reduction of inventory and a continued increased activity level for buying. This flattening out of asset

depreciation would need to last, in the opinion of some experts, at least three to four quarters for there to be a real strengthening in the market. What traditionally comes next is a change in buying habit.

Buyers will begin to pick off the best aircraft available and draw clear price distinctions between the models listed for sale in each segment. Once that culling begins and better aircraft enter the market, we may see an increase in prices (at least between the good offerings).