



Flight Department Liquidation - A Case Study

What happens when circumstances call for closing a flight department and liquidating its aviation assets? Citing his recent dealings with a client, Jay Mesinger discusses the best actions.



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The year ahead will certainly bring increased aircraft buying and selling activity. Some activities will be spurred on by healthy reasons and some, as always, by pressing needs of owners to sell. We have been speaking throughout the past year about determining the right time to begin the process of buying and/or transitioning during what looks like a recovery period in our industry. We should now consider when change is caused by less than favorable circumstances.

A sudden shift in fortunes or a pressing financial need might dramatically alter the timeline for selling the company aircraft. Such urgency removes flexibility from the process of selling based on an orderly transition. Although I anticipate fewer transactions in 2015 will be "bail-out" situations, the need to sell based on financial reasons can be

more complicated and problematic for the Board. Thus I will share a real-life case study.

To maintain privacy and because the specific operator and aircraft type are relatively unimportant to this story, I will focus on the circumstances of the situation and the actions taken to accomplish this sale. Simply stated, the firm discussed is a privately held, US-based corporation that had operated a private jet for over 10 years and had a well-established flight department.

Consider the steps that led up to the discussion to sell the aircraft: First and foremost, the company and its Board started to see a decline in overall business revenues and revenue sources. The overall health of the company was not critical, but quick actions to reduce costs were a major priority of management as well as the Board. The benefits of the aircraft to the bottom line were not questioned. ➤

The 10 years of operating the flight department had all been positive and had contributed to building the company's business. In this case, however, management felt a shift in market dynamics as well as product penetration had precipitated the need. Based upon these changes, the aircraft no longer served the company's needs. Shifting to a different aircraft type was not a likely solution, considering the realization that costs must be reduced—hence the decision to sell rather than transition.

Tough Decision

It is never easy to release employees and cut staff. These flight department personnel had been loyal and trusted employees, in some cases since day one of the flight department. Of course there was an annual flight department budget that guided the operation, and in this case there was also a budget created to liquidate the department.

The first questions that need to be addressed were, 'do you keep the operation going until you sell the company aircraft, or do you decide to shut down operations prior to a sale?' Different companies handle that issue with different priorities. In this case the decision was made to keep one maintenance flight department person employed while releasing the pilots and the scheduling personnel at once. Of course severances had to be determined and budgeted.

The next budget item to consider was the hangar lease. Also, insurance policies had to be reviewed and costs associated with those early terminations had to be determined and added to the budget. Costs that were not covered by contract were easy to determine. Simply put—no flying, no cost. Supplies and parts on hand had to be valued, and the method of disposal had to be considered.

Next Question

What was the aircraft worth in the prevailing market? Since it was no longer going to be used and the time required to affect a sale was important, what was the right pricing? Finding the best balance between a fast sale and a good price is always problematic, particularly in today's market. The company did not want to send out distress signals, but it did want buyers to know it was a serious seller.

Having a knowledgeable aircraft professional that the seller could trust was critical to the success of this liquidation. Building the marketing materials that spoke to the quality of the asset rather than the particular circumstances of the company, and also pricing the aircraft correctly, was a tricky balance. I was privileged to be chosen to be that professional, and we went to work reviewing the market. We examined the category being sold and looked carefully at other aircraft, some larger and some smaller, so as to speak to value of the entire market space.

In the end of our process, the correct balance for



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this project was established. The department personnel were given good severance packages, and the parts and shop equipment were disposed of at what was considered a fair and reasonable value. A buyer was found for all the physical assets of the department. The total package price may have been for a lesser amount than if items were sold separately, but when one considered the time and cost of selling each item individually, our solution generated cash quickly and provided a good return. The hangar lease was negotiated for a fair price, and all parties came away from that process pleased with the outcome. The aircraft was sold within four months, two less than the time budgeted to liquidate the company's aviation assets.

Though this topic may not be the most favorable of articles I have written, the story it relates is one of the realities of our industry. If your employees are involved in this kind of situation, my advice to them is to be a positive part of the process. We have a very small industry and the way your employees are perceived to participate will result in good references and shorter time without a flight department employer. ■

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