

Building Value In Aviation Services

Managers need to understand how to use basic financial metrics to successfully run a business. This article provides an overview of what they need to know.

NATA provides training in a variety of areas, most notably in business fundamentals and line-service activities. Several years ago, NATA and its Business Management Committee called upon industry veterans to develop a financial seminar directed at those being assigned financial management tasks for the first time. The resulting seminar, "Fundamentals of Financial Management," was first presented in 2001 and now is a regular part of the NATA seminar series. We teach new managers the fundamentals of financial statements, financial analyses, forecasting, and business planning, with the goal of equipping them to better manage their departments and ultimately increase the value of the business.

Aviation Business Journal is running a series of articles covering three major components of the seminar:

- Using financial information proactively,
- Effective business planning, and
- Value of the aviation service enterprise from the buyer's perspective.

Using Information Proactively

For the purpose of this article, we assume you already under-

By Phil Botana, Vice President and General Manager, Tampa International Jet Center

Mark Chambers, Managing Partner, Aviation Resource Group International

stand the interaction between the balance sheet, income statement, and cash flow statements. These financial statements are useful for any business, however, they report activity that has occurred in the past and do little to help you be proactive with new programs or identify trends in real time.

Through our work with various aviation services firms, we have developed several business metrics that can help managers make operations more effective and profitable. These metrics are true operational drivers of financial results, providing a real-time view of what the financials are going to tell you. This article reviews three such metrics that are easy to implement and provide significant insight:

- Fuel markup vs. gallons sold by category,

- Fuel sales market share on a local and regional basis, and
- Charter gross profit vs. percentage yield on actual flight hours.

Fuel Markup Vs. Gallons Sold By Category

Fuel markups vary over time due to numerous variables, such as changing cost of fuel, competitive contracts, changes in traffic mix, seasonality, gains and losses of based aircraft, and airport restrictions on pricing. Knowing how your fuel margins are moving is essential for taking intelligent action. Your analysis should be structured to organize relevant information by the broad categories that exist for your operation. Chart 1 (below) is an example of how one company enters its data into an Excel spreadsheet to track how each

Continued on page 32

CHART 1

ABC AVIATION SERVICES				WEEK OF MARCH 29, 2004			
	Volume (gallons)	Price/Gal	Revenue	Markup(\$/gallon)	Markup (% rev)	Cost/Gal	Gross Profit
Inventoried Fuel*							
Jet A							
Retail	13,034	\$2.36	\$ 30,762	\$1.08	45.8%	\$1.28	\$ 14,078
Contract	7,211	\$2.00	\$ 14,423	\$0.72	36.0%	\$1.28	\$ 5,192
Avgas							
Retail	3,396	\$2.48	\$ 8,423	\$1.08	43.5%	\$1.40	\$ 3,668
Contract							
Other							
Non-inventoried Fuel*							
Jet A							
Retail							
Contract	9,622	\$0.15	\$ 1,443	\$0.15	100.0%	\$0.00	\$ 1,443
Avgas							
Retail							
Contract							
Into plane	75,576	\$0.03	\$ 2,267	\$0.03	100.0%	\$0.00	\$ 2,267
Other Fuels							
Totals	108,841		\$ 57,319				\$ 26,648

*Inventoried Fuel is fuel purchased, inventoried, and resold. Non-inventoried fuel is fuel supplied by the customer and fees are collected for uplift and/or storage.

Financial Management

Continued from page 31

major component of fuel sales is contributing.

The data should be input regularly, perhaps weekly or monthly. The time needed to enter the data should be minimal once your process is in place. Data needed in this example is the price charged for each category (can be a simple average for the time period or a weighted average), and current cost per gallon. Cost per gallon should be burdened with transportation, fuel flowage fees, etc. From this information, revenue dollars, dollar of markup per gallon, percentage markup, and cost of goods sold can be calculated. To help management visualize the data, we recommend a graphic presentation, with a separate graph for each major fuel cate-

gory (Inventoried Jet A, Inventoried Contract, Avgas Retail, etc.).

Chart 2 (below) is an example of a rolling 13 weeks of data on one graph, showing markup vs. gallons sold. This would be a typical first step in the analytical process, showing that for "Inventoried Jet A," volume increased slightly but markup is trending down.

Seeking Explanations

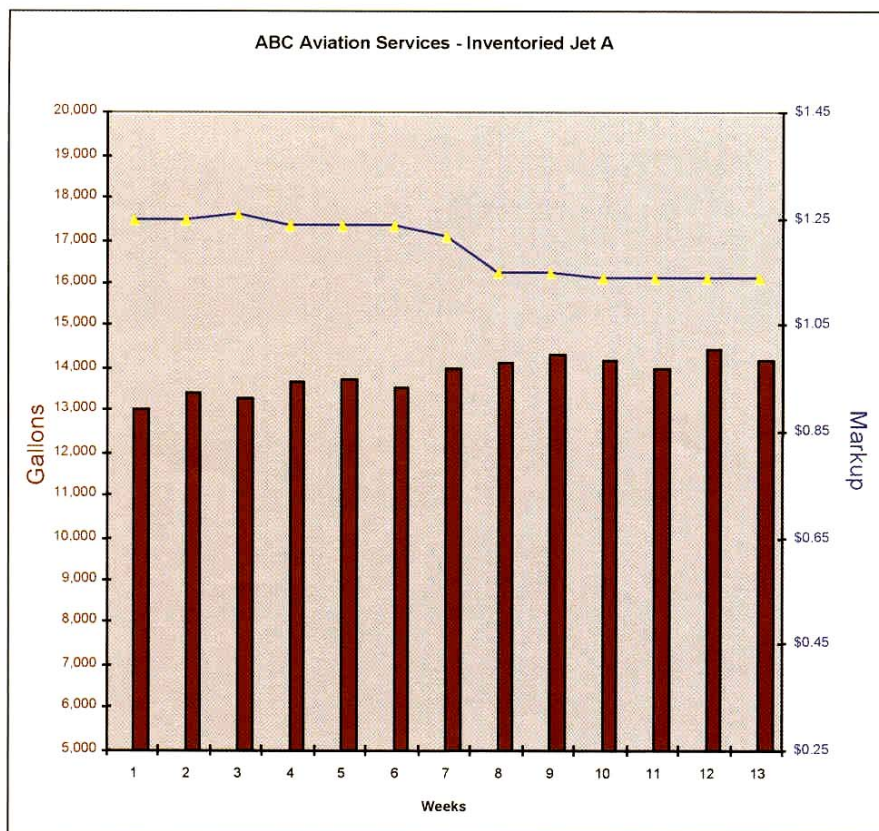
The next question is, of course, "Why?" Was there an increase in fuel prices, a seasonal upturn in volume, or a new customer but at a lower margin? The manager might also work to determine what can be done to mitigate the downturn in markup. For example, a manager viewing this graph on a regular basis may take action in week seven or eight to bring markup back to the targeted range.

A variation of this method

would be to compare volume and margins for the same period for the past three years (January 2003 vs. January 2002 vs. January 2001). One advantage to this approach is consideration of seasonality. An anticipated upturn or downturn due to seasonality would be easily explained, whereas an unexpected change in volume would be an outlying condition that requires further explanation.

Understanding where you stand in terms of volume and margins in each major fuel category is necessary in a highly competitive fuel sales environment. We estimate that only one in ten aviation services firms knows this operational data. Those that do understand this relationship use it to their advantage. Once you understand where you stand, you can develop strategies to improve your financial outcome and then measure the success of each strategy.

CHART 2



Fuel Sales Market Share

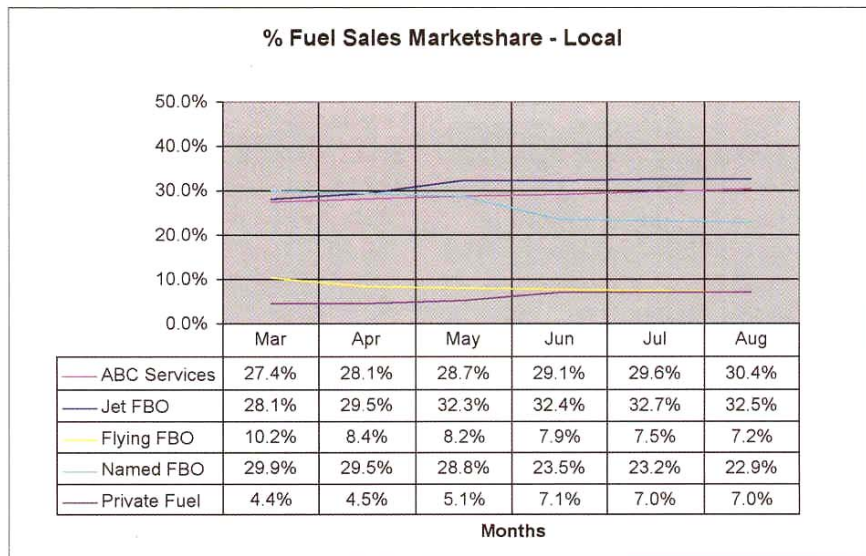
Do you know where you stand among your competitors on the airport? Additionally, do you understand your competition on a regional basis? When polled, surprisingly few general managers can accurately assess their market share, and even fewer are sure of the breakdown of the remaining market share. Most do not maintain reliable information regarding volumes through private fuel farms or what competitors are doing on nearby airports. You want this information so that you can understand the successful (and unsuccessful) business initiatives for you and for your competitors. Market share increases, decreases, or shifts among competitors, and understanding why this movement happens gives you an advantage in formulating your own responses to competitive threats. But you cannot know what you are not measuring.

The source of this data is usually the airport authority or airport management company. They keep it for auditing fuel flowage fees. Every two years, ARGJ does a fuel study of the top 500 airports in North America, and most airport authorities provide data pertaining to gallons dispensed when asked. Not all airport authorities keep the data by product (JetA vs. Avgas) unless the fuel flowage fees are different. The data is usually considered public information, and if ARGJ can get it, there should be no reason for the local FBO to be denied.

In our example, ABC Aviation Services tracks a six-month moving average of market-share data. They use this graph once per month in management meetings and discuss the implications.

At a glance the graph tells management several facts:

CHART 3



- ABC Aviation Services is increasing market share against competitors (up 3 percentage points), but not as quick-

ly as Jet FBO (up 4.4 percentage points).

Continued on page 34

ADVERTISER INDEX

AirBP	Back Cover
Aircraft Technical Publishers	37
AirSure Limited	Inside Front Cover
AirSure Limited	18
AmSafe Aviation	38
Avfuel Corporation	3
Aviation Resource Group International	Inside Back Cover
Bizjet International	6
Christiansen Aviation	21
Corridor	8
ExxonMobil Aviation	4
FAA First Federal Credit Union	23
FBO Manager	29
Hartzell Service Center	27
Horizon Business Concepts	27
Logbook Organizer	9
Multi Service Corporation	17
NATA Compliance Services	9
NationAir Insurance Agencies	12
Prime Turbines	38
R. Dixon Speas	33
Shell Aviation	15
TAG Aviation	24
UVair	30

R Dixon Speas Associates

922 Waltham Street, Suite 101
Lexington, MA 02421-8019

Phone 781.863.1600 Fax 781.863.1605

E-mail info@rdixonspeas.com
www.rdixonspeas.com

**50 Years Consulting to Business Aviation,
Airlines, Airports, FBOs and Manufacturers**

- Comprehensive Safety and Compliance Audits including IS-BAO Certification
 - Pre-FAA/DoD Audits
 - Safety Programs
- Operational Improvement
- Maintenance Management
 - Strategic Planning
- Market Studies/Forecasts
 - Feasibility Studies
- Business/Asset Appraisal
- Aircraft Suitability Analysis
- Management Recruitment

Financial Management

Continued from page 33

- Both Flying FBO and Named FBO seem to have lost market share, and it seems to be going to private fuel farms. (Can this be confirmed?)
- Private fuel farms jumped in June and have remained consistent. (What customer moved to a private fuel farm?)

There can be some very productive discussions around this type of information. In time you'll get a good feel for how the competitive environment is evolving at your airport.

Management can accumulate this data for other airports that are regional competitors. Understanding the regional competition is becoming more important due to technology enhancements that allow operators of turbine aircraft to use an increasing number of smaller airports.

Charter Gross Profit Vs. Percentage Yield On Actual Flight Hours

One indicator of a well-run charter operation is management's understanding of the difference between the gross profit as reported on the P&L versus the true percentage of "yield" per actual flight hour. This is especially relevant when most of your charter fleet consists of managed rather than owned aircraft.

Gross profit is a basic financial measure. It is the money you have leftover after revenue less direct expenses are accounted for. It is the overall picture of how your fleet is doing. Most charter operators will quote a one-way trip by looking at their direct costs and adding a profit dollar amount or percentage. Some use the age-old method of adding a few miles to the route quote while keeping an eye on the competitive cost of the char-

ter. If this is as far as they go to determine profitability, they don't know how well their departments have performed until the financial statements are released.

Yield per actual flight hour looks in detail at the revenue generated by each specific aircraft. By keeping track of yield, the charter manager can recognize a profitable vs. unprofitable aircraft and/or charter rate. Tracking yield by aircraft can tell you the immediate impact of various situations.

Understanding the regional competition is becoming more important due to technology enhancements that allow operators of turbine aircraft to use an increasing number of smaller airports.

- **Favorable example.** While flying a one-way charter using a managed Learjet from Newtown to New York, the charter department books another return flight. They charge the first and second charter customer the full cost of the round-trip.


This is a win-win scenario for the charter company. You pay the owner for one round-trip (actual flight hours), and the charter company receives revenue for two round-trip charters. The yield on this aircraft goes up, and the P&L impact is favorable.

- **Unfavorable example.** Using the same Learjet, you travel from Newtown to New York, but the aircraft expe-

riences some mechanical trouble in Indianapolis. The charter department has to dispatch another aircraft to complete the flight.

The yield on this aircraft is lower due to the in-flight issue (assuming you still have to pay the owner per flight hour). The owner of the second aircraft must be paid, and the gross profit on the P&L is reduced. Unless you understand what a specific aircraft is contributing in terms of yield, you might conclude that you should terminate the Learjet from your fleet.

In summary, yield tells you on an aircraft-by-aircraft basis how each contributes to your gross profit. Many good operators have a target range for percent yield and monitor it on a daily (or per flight) basis so that they can take immediate corrective action whenever yield falls outside the range. It is just as important to understand why yield is above the expected range and when it is below. In addition, this data helps management determine the cause of low yield. Is it the general condition of the aircraft, the rate charged customers, the hourly rate paid to the owner, or pilot costs of operating and training?

Tools such as fuel markup by fuel category, market-share analysis, and tracking yield by aircraft are just a few of the valuable tools managers can use to be proactive as business situations change. If used consistently, the manager can improve operational effectiveness and contribute to the value of the company. 

Phil Botana has more than 30 years in the aviation service industry and is VP and GM of Tampa International Jet Center. Mark Chambers has more than 30 years in the aviation service industry and is managing partner of Aviation Resource Group International.