5 Acquisition Strategies in a Slow Economy

We are faced with a multitude of challenges today: budgets are constrained, pending federal regulations may significantly change flight training, and the cost of education is rising. It is important for us to implement strategies to mitigate risk, decrease costs, and flatline budgets in order to remain competitive. Brown Aviation Lease prepared this white paper to address a few acquisition strategies to help your program plan for the current economy.

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1. **When is the right time to upgrade my fleet?**
   Avionics technology in airlines and training aircraft is always changing. Most educators will argue it is important that students are exposed to the latest technology. Many successful collegiate flight programs are on a schedule to transition part of their fleet every 7 years with new aircraft for the reason of keeping up with technology.

   Clearly, buying new aircraft gives you a tremendous advantage and allows you to take advantage of a manufacturer warranty. However, in today's circumstances, not all flight programs can afford factory-new technically advanced aircraft. In a slow economy, consider acquiring a fleet of slightly used technically advanced aircraft (no more than 5 years old) at a discount from new aircraft.

   This will still allow your program to transition to newer aircraft and teach the most advanced systems and avionics while preserving your operating budget.

2. **What is the right number of aircraft to acquire?**
   There is no "one size fits all" ratio of aircraft to students. However, our data analysis shows that aircraft ratio can range anywhere from:
   - 1 aircraft to 13 students
   - 1 aircraft to 10 students

   Fleet size can also have a direct impact on utilization. The smaller your fleet, the higher utilization per aircraft you can achieve if you can operate efficiently. From our data analysis, most schools strive to reach 600 hours per aircraft annually.

3. **Will your new fleet prepare students for airline or corporate pilot positions?**
   According to Republic Airways, one of the primary reasons their new-hires do not succeed with initial flight training is because they cannot manage the FMS and automation in Republic's jet aircraft.

   Students who have experience with glass cockpits will be highly sought after graduates because of their ability to manage automation and FMS-like avionics technology. They will be the most prepared and have a better knowledge of how to use complex automation on many of today's airliners. Having a fleet that can teach this technology is imperative.

Furthermore, many successful collegiate aviation schools have established bridge programs with regional airlines. These bridge programs are partly based on the fact that students are exposed to glass cockpit technology and automation early on in flight training and are prepared to transfer those skills to the airline cockpit environment.

4. **What factors should I consider when disposing of my current fleet?**
   According to Vref (Aircraft Value Reference), the time it takes to sell a single training aircraft is 6 to 7 months. If you own your fleet, managing the sale of old aircraft and the acquisition of the new fleet is more than a full-time job. In addition, there are many costs such as insurance, tie-down fees, and maintenance expenses that must be planned for even when an airplane is not being flown for training.

5. **How can I show my CFO that I am decreasing and mitigating my program risk?**
   As an aviation program manager there are many risks you need to manage on a daily basis. Take for example the fact that the value index for light piston single engine aircraft has decreased 25% over the past 5 years.

   With this risk in mind, your University CFO is concerned with protecting the use of University capital. One mitigation strategy that seems to emulate in every industry is sharing risk through partnerships.

   The operating lease is an acquisition structure that allows the University to offset almost all of the ownership risk to the leasing company. If your CFO feels the best way to use University capital is ownership, consider a finance lease. The payments are usually lower than an operating lease, but the University will take on more of the ownership risk by owning the asset at the end of the term.

   Next time you plan to acquire a new fleet consider the benefits of leasing. Talk to your partners in the industry and your CFO and weigh the many options that are available to you.