Get Ready for a New FBO Business Model

Presented by

Aviation Business Strategies Group

NBAA 2014
• John Enticknap, President, ABSG
• 40 + Years aviation fueling and FBO management; Mercury, DynAir, CSX Becket Aviation
• Served as President of Mercury Air Centers
• Grew company from 4 locations to 21 operations
• Opened largest FBO in Middle East in Kuwait
• Ron Jackson, Co-Founder, ABSG
• President of The Jackson Group
  – Aviation Marketing & Public Relations
  – Certified Journalist
• 30 + Years Aviation Marketing
  – Management positions with Cessna & Fairchild
  – Developed marketing strategies for Mercury Air Centers & manages marketing initiatives FBO clients
  – Co-Author: “Don’t Forget the Cheese!” The Ultimate FBO Customer Service Experience
• Both John and Ron write an industry blog called FBOConnection.com

• Facilitate NATA’s FBO Success Seminar

• Authors of New Book

**FBO Survival:**
10 Tips to Keep Your Operation Lean, Mean & Profitable
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Industry Reality Check

– Aviation Business Strategies Group conducted our Annual FBO Industry Survey
– Wanted to find out what the market did in 2013 compared to 2012
– Find out what FBOs were predicting for 2014
– And find out what the level of confidence is for the current economy
– We polled more than 500 various sized FBOs
– Here are the results:
For this past year, 2013, please indicate how your FBO fuel sales performed compared to 2012.

- **44%** Decrease in fuel sales
- **13%** Remained the same
- **13%** Increase of 1% to 4%
- **9%** Increase of 5% to 8%
- **21%** More than 8%
For this year, 2014, what are your predictions for your FBO fuel sales compared to 2013 results?

- 44% (Decrease in fuel sales)
- 27% (Remain the same)
- 21% (Increase of 1% to 4%)
- 18% (Increase of 5% to 8%)
- 8% (Increase of more than 8%)
- 10% (Increase of 1% to 2%)
- 9% (Increase of 2% to 3%)

(13%)
In your opinion, is the economy headed in the right direction?

- 48% No
- 28% Yes
- 24% Undecided
Survey Findings

– FBO Industry operating in a very static marketplace
– Market is yet to catch traction
– Nearly ½ FBOs did not see increase in 2013
– Outlook for 2014: Status Quo with more than 50% seeing no real sales increase
– However, 40% predicted increase; 20% expecting more than 5% Growth
– Nearly 50% said economy not headed in right direction
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‘The times they are a chang’n’

• Used to be....
  – Fuel prices were fairly stable
  – Flight departments could plan/budget fuel costs
  – Aircraft weren’t as fuel efficient
  – FBOs could depend on at least courtesy loads from transient customers
  – Ramp fees were unheard of
  – FBO insurance rates, pre 9-11, were predictable/reasonable
  – FBO life was good. These were the ‘salad days’
‘The times they are a chang’n’

- And then... oil prices went crazy
‘The times they are a chang’n’

• And then…Insurance rates went crazy
  – Post 9-11 War Risk Insurance for FBOs went ballistic
  – Today, it’s not uncommon to find FBOs paying $1,000 per day for insurance

• And then…
  – Aircraft became more fuel efficient
  – Change in operators fuel buying habits
  – Fuel brokers have become a competitive force in the industry
  – Regulatory costs escalate
  – Employee costs increase
  – Airports want higher flowage fees, shorter term leases
‘The times keep on a chang’n’

• Plus change in flight departments fuel purchasing habits
  – Pre-negotiated fuel purchasing with a Contract Fuel Provider
  – Calling ahead for best discounts available
  – Changing plans to get the best overall fuel purchase cost

• And savvy flight planning
  – Utilizing fuel tankering models
  – Pre-established fueling points
  – Better ATC routing for weather and flight planning to minimize fuel costs
  – The purchase of more fuel efficient aircraft
Not surprisingly, FBO Operators are feeling Squeezed in the middle...
This Begs the Question:

How long can this go on?

• Let’s start by understanding how FBOs make their money
  – Traditionally, it’s the margin added to the cost of a gal
  – Used to be $2 per gal was an accepted margin
  – Now it averages well below $1.60
  – But then there’s the Posted Price Myth
  – Practically no one buys fuel at the posted price
  – Purchasers expect and get discounts off the posted Jet A price
• Now, let’s do the math:

– On a 200 gal sale at $1.50 per gal margin, based on a normal discount off the posted price, the Gross Margin (GM) would normally be $300

– However, a broker has pre-bought the fuel at a discounted $1.25 per gal.

– The FBO obliges, thinking they’ll miss the sale otherwise

– Now the GM is $250 before expenses

– The FBO has to sell 20% more gallons just to stay even
That’s $250 GM Minus Expenses
- Labor
- Insurance
- Fuel truck lease
- Airport flowage fee
- Airport property lease
- Utilities
- Building Maintenance
- Equipment Maintenance
- Facility equipment & fixtures
- Bank loan, capital improvements
- Security

Minus Expected ‘Free’ Stuff
- Coffee
- Ice
- Newspapers
- Cookies, Popcorn
- Crew Cars
- Bottled Water
- Soda
- Weather Service
- Misc.

Estimated Net Margin on a 200 gallon sale = $120
(Expenses= .65 per gallon cost)
• However, many FBOs operate on even smaller margins, as low as $1.00

• How about the reluctant customer; NO fuel purchase; still utilizes the FBOs infrastructure? Is this cost free?

• Costs still go on for this customer...
  – Manpower to meet, greet and marshal
  – Insurance costs for aircraft on the ramp, crew and passengers on property
  – Facility costs including utilities, use of restrooms, public areas, lounges, flight planning areas, coffee, popcorn, cookies, wi fi, crew cars, etc.
Is there another service industry that gives away so much?

Is there another industry segment where customers expect a lot of free stuff?

Have we done this to ourselves?
Is it Time for a Change?

• Change started when FBOs began charging a ramp fee

• Some FBOs have started charging a Facilities Fee

• As the airlines look for other revenue streams, such as bag fees...isle seat fees...fees for more room in coach seats... will the FBO industry follow suit?

• It’s become a serious situation and a lot is at stake

• No FBO wants to be the first, but change is in the wind...
Time to take off the blinders...

...A World Perspective!

- U.S. FBO industry content with a 50 year old business
- However, Europe, Middle East, etc. have a different FBO business model...
- They use an ‘a la carte’ method of charging
- No mark up or added margin to fuel cost
  (FBO is not part of the fuel income stream)
- Sound good so far?
- But wait, there’s more!!!
Time to take off the blinders...

...A World Perspective!

Next they unbundle the various services

You want ice for your galley?  Cha-Ching $$$

• You want hot coffee?  Cha-Ching $$$

• You want Lav Service or APU?  Cha-Ching...Cha-Ching$$$$

• Oh, you want your bags unloaded....

• Perhaps a ride to the terminal....

• Towing and tie down did you say????

    Cha-Ching....Cha-Ching...Cha-Ching $$$$$
Time to take off the blinders... A World Perspective!

And the list goes on...

- Marshalling
- Handling
- Parking
- Ramp
- Ramp transportation
- Over the Road transportation
- Baggage Handling
- GPU

- Lavatory Service
- Customs/Visa
- A handling fee for collecting navigation fees
- A handling fee for collecting landing and over-flight fees
- Lounge Fees
- Catering
- Crew Cars
- Weather Data
- Connect to Wi Fi
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Are we there yet?

• No FBO wants to be the first!
• Likely a phased in approach is coming
• We look for a possible two-prong pricing strategy
• Remember when gas stations had two prices?
  – Self Serve
  – Full Service
• Here’s what this might look like....
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Either FULL SERVICE PRICING
Pay the Full Service Posted Price
Other services included!

Or A LA CARTE PRICING
Basic fuel service; one lower price, whether discount off posted or contract fuel
Need other services, pay individually:
- ice, coffee, papers, lounge, baggage handling,
- ground handling, crew car, etc.
Don’t Give it Away!

As Consultants to the FBO Industry

We advise our clients as follows:

Don’t Give it Away!

Don’t give away all your other services unless the ‘right’ fuel sale to protect margins

More fuel sold, more ‘free’ services

No fuel sale? Sorry, MUST contribute to revenue
Try to image a sign like this when you pull onto the ramp…

No Public Restroom
Paying Customers Only
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Summary

• No one can predict the future of the FBO business accurately
• However, high fuel prices are here to stay which will cause changes to way we do business
• Flight departments will continue to find ways to save fuel costs
• Fuel brokers will continue to aggressively market their fuel pricing
• Online web sites are now broadcasting contract fuel prices
• FBOs are caught between a rock and a hard place
• It’s how we prepare ourselves for this change that’s important
Q & A

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