

# The ideal fractional program

*If he were granted three wishes, our columnist would make some big changes.*

Considering that the fractional-aircraft field was borne of a new business model and has been around for more than 20 years, it is perhaps surprising that the basic structure remains fundamentally unchanged: you purchase a share of an aircraft from the provider at a premium; you pay management fees, hourly rates and fuel surcharges; and at the end of your contract, you sell your share back to the provider at a discount.

To be sure, the fractional companies have tweaked their programs over the years. Many of these changes have shifted costs from the providers to their customers. Others have improved customer service.

Yet, now that the industry has more than a decade of mature experience under its belt, it's worth pondering how one might design a better fractional model. Given three proverbial wishes, here is what I'd want.

**Wish No. 1: Transparency.** In a traditional owner/manager arrangement, the manager works for you, the owner. Yet, in the fractional context, you're really an owner in name only. You don't know how much the provider paid for your aircraft; you aren't shown the actual costs incurred for such items as fuel and maintenance; and most often, you don't know what your aircraft is worth when you sell your share back to the provider. In truth, you're kept almost completely in the dark.

In my ideal program, owners would be treated as just that—owners—and a fundamental tenet of the manager/owner relationship would be transparency. The purchase price for shares would reflect the actual price paid for the aircraft, including all discounts, with a reasonable and fully disclosed brokerage fee paid to the provider. Indeed, owners would have a say in which aircraft models are brought into the program, dispelling the suspicion among some in the industry that providers who also manufacture

aircraft tend to put into their fractional programs the models that most benefit their manufacturing operations.

Fuel surcharges also would be transparent. Base rates of \$1.60 or \$1.30 per gallon would be a thing of the past. Fuel would be a pass-through expense (as would be all operational expenses), not a profit center. Fuel costs would be based upon the actual burn rates of the aircraft and would not include add-ons to cover the fuel cost of positioning flights. That said, owners would have to face the fact that positioning aircraft for owner flights is a legitimate cost of operation. That cost, however, would no longer be hidden.

Providers no longer would enjoy a blank check to use owners' aircraft to fly jet-card customers. Either remuneration from jet-card programs would be shared with you, or the provider would be required to buy shares on the same terms that you do if it wants to fly jet-card customers on program aircraft. Either way, the veil of secrecy overhanging the interplay of fractional and jet-card programs would be lifted.

When you sell your share back to the provider, an independent third party, not the provider, would determine its value. No longer would the remarketing fee, a thinly disguised moneymaker, be charged when the underlying aircraft is not sold.

Not all changes that create transparency would financially benefit the owners. The providers are entitled to reasonable operating budgets, autonomy and compensation based on performance. These amounts, though, should be disclosed to, and audited by, the owners rather than hidden in profit centers masquerading as cost reimbursements.

**Wish No. 2: Flexibility.** Today, some owners buy more hours than they wind up needing, some too few. An ideal program would provide flexibility for owners to swap hours (subject to FAA requirements). Owners also would enjoy greater flexibility in rolling hours over



to future years and subsequently purchased shares.

You'd be able to sell your share to a creditworthy and otherwise qualified buyer. The trend toward restricting these sales to preserve the market for the providers would be reversed.

You'd be able to purchase concessions, like guaranteed upgrades and downgrades, enhanced peak-travel-day guarantees, short-leg waivers and simultaneous flying at reasonable prices. The program's goal would be to permit you to take as full advantage of your investment as possible, while allocating costs to those who incur them. Barriers to achieving this goal would be reduced to a minimum.

**Wish No. 3: Cooperation.** It's probably no accident that owners are isolated from one another, while providers essentially dictate program terms. This relationship would fundamentally change to one where you and the provider are partners in a joint venture—with the provider serving as the general partner with substantial management authority, but with you and your fellow owners serving as limited partners with important rights, including rights to audit the program's operations and finances and to participate in major decisions. Such responsibility would require that owners get more involved with their programs, but this needn't be overly burdensome. Owners could form advisory boards and delegate their authority to elected representatives. However this involvement

would be structured, the goal would be nothing less than a fundamental change in the relationship between you and your provider.

These wishes for transparency, flexibility and cooperation are not intended merely to transfer power, authority and, most importantly, money to the owners at the expense of the providers. It should not go unnoticed that part of this prescription entails ensuring fair compensation for the providers. The ultimate goal of all these wishes is to fundamentally improve the relationship between you and your provider, and thereby better the industry as a whole. Without these changes, fractional programs may find it difficult to survive the onslaught of jet-card and other nonownership programs that many are turning to, in large part because they don't believe they're getting a fair shake from the fractionals.

Lest you think these wishes are just pie in the sky, rest assured they are not. In one form or another, almost every one of these suggestions has been embraced by at least one of the major fractional programs. Unfortunately, though, you can't currently find all of these features in any one program. □

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