AVIATION WEEK & SPACE TECHNOLOGY

May 11, 2009

Taxing Times for Taxis; The meter is running on European startups Blink and JetBird

The global economy is in a severe downturn, businesses are slashing premium air travel and corporate flying is being widely sneered at. It is certainly not the environment in which any entrepreneur would wish to launch a high-end aviation product, but it is the reality confronting Blink and JetBird as they try to build air taxi services in Europe.

When the idea for air taxis—essentially short-range charters using very light jets (VLJ)—was born it was feared they could overwhelm air traffic systems, particularly in the already dense European skies. Now the question is whether any company can make the business model succeed.

Executives at both JetBird and Blink are optimistic they can withstand the headwind, but they are also realistic that prudence is of the utmost importance. Blink has been first out the door, operating four Cessna Citation Mustangs. JetBird is gearing up to commence operations in September with its Phenom 100. Following the Embraer VLJ's European Aviation Safety Agency certification on Apr. 24, JetBird formally applied for an air operator certificate in its home country of Ireland.

Blink started flying last June from its Farnborough, England, base and the business is progressing well so far, says Peter Leiman, Blink's managing director. "We have, in 2008, exceeded revenue and utilization targets," he says. The company started with one aircraft, and received three more Mustangs in January. And while January and February business was slow, the air taxi operator says the results delivered were ahead of plan. March and April also were promising, Leiman adds. Lower-than-anticipated fuel prices likely have helped the company beat its cost targets.

While JetBird does not have concrete numbers to rely on, CEO Stefan Vilner says there are signs the market has changed but not disappeared. A year ago, it seemed that business-class passengers would migrate up to use air taxis, he says. But now, interest is driven by companies that are shedding their own fleets, either because of low aircraft utilization or the perception problem of having a corporate jet on the balance sheet.

JetBird also thinks it may benefit from setting up operations at the Cologne/Bonn International Airport, which allows 24-hr. operations and is close to major industrial centers. But particularly important, right now, is that the German business aviation market has been hit less severely than others. London, by contrast, is suffering more, as is the Irish market.

JetBird plans to receive its first two Phenom 100s in June and July. Those will be displayed to customers, to convince companies and individuals making bookings for executives that the product is up to the promised standard, Vilner says. By September, JetBird plans to have four aircraft and by year-end, 10.

But is Europe's market big enough to sustain two air taxi companies?

Leiman thinks so. "Coke is not Coke without Pepsi," he quips, adding that "we are looking forward to having them. It will help us expand brand awareness."

Blink and JetBird are not applying identical models, but their business plans are highly similar-—so much so, in fact, that it seems either both will make it or both will fail, barring any outside market disruptions.

Air taxis hold the low-price-point in the market, Leiman notes, in part by having an identical fleet. Aircraft utilization also is key. Vilner says that in many respects, air taxis simply apply the low-cost-carrier approach to the business aviation segment. Vilner ran Scandinavian low-fare carrier Sterling Airlines before taking over at JetBird.

Blink, for instance, is looking to boost aircraft annual utilization within three years to 800-1,000 hr. from the current rate of 400-600.

But Patrick Margetson-Rushmore, chief executive of London Executive Aviation (LEA), recently told the Royal Aeronautical Society that he is “skeptical that the high aircraft utilization aimed for by air taxis can actually be achieved. I would like to be proved wrong, but our experience to date makes me doubt it.” LEA, which bills itself as Europe’s largest privately owned charter operator, estimated that “a more realistic target is 400-600 hr.”

Margetson-Rushmore speaks from experience, since LEA’s 20-aircraft fleet includes six Mustangs that are averaging 320-350 flight hours annually. He says VLJs, along with large aircraft, are enjoying sustained demand by attracting people who are new to business aviation.

European air traffic predictions have shown big growth rates for VLJ use, but at least one European government official says he is skeptical about the business’s prospects, for reasons that include the demise of Eclipse Aviation and the ongoing global recession.

Pessimism is further spurred by last year’s high-profile failure of U.S. air taxi operator DayJet. Both Blink and JetBird executives point out that there are fundamental differences between what DayJet tried to do and their own ambitions. While DayJet sold “per-seat, on-demand” service, both the European operators are selling time for whole-aircraft use. That brings huge benefits, including streamlined operations.

Whereas DayJet spent a lot of time and effort devising a complex booking system, Blink and JetBird are operating much simpler scheduling and pricing structures. One European industry official quips that “DayJet was building for a 300-aircraft fleet, but forgot to think of what to do when it had only five aircraft.”

Although Blink and JetBird have a similar approach, JetBird has a more ambitious growth strategy, aiming to operate 30 aircraft by the end of 2010. A fleet of that size is big enough to take advantage of efficiencies and be profitable. Vilner concedes the ramp-up is “aggressive.” Blink, by contrast, describes its business plan as “conservative.”

Still, neither Blink nor JetBird are blind to market realities, and their executives signal they are ready to adapt and are also conscious of financing needs.

JetBird had to slow aircraft deliveries once, although that was linked to Embraer production issues rather than market weakness. In the end, that slowdown had an upside, Vilner notes. Rather than launching service in the summer, when business travel is weaker, operations will commence when business activities start picking up after July and August. JetBird has funded its first 25 aircraft and is in discussions with financial institutions for what more is needed.

Leiman says he is “actively managing capacity expansion” that is driven both by changes in Cessna’s production line and the general economic outlook. The air taxi operator is on the hook to take 30 aircraft, making it the largest customer for the aircraft type. But the rate at which those will be delivered is flexible, Leiman says, adding that “we are very focused on cash management.”

One concern is to avoid having to take on aircraft financing commitments at terms that will weigh down the balance sheet. Helping Blink in that respect is $30 million in financing secured in 2007, when terms were favorable. So far, cash on hand exceeds plans.

Both Blink and JetBird appear comfortable with their aircraft choice. Despite some development issues, Vilner says Embraer was always upfront about what was going on. And now, he says, the Phenom 100’s performance seems to be surpassing expectations. Leiman is likewise satisfied with his Mustangs, noting the aircraft is proving very reliable and also has a high residual value profile. Blink expects to keep its Mustangs for around 10 years.

Since most operations are likely to be day-returns, Leiman says there should be little dead-heading—trips in which the aircraft flies empty to be positioned for customers, effectively burning cash. That is one of the advantages of this business model, compared with a typical charter operation, he says.

Another advantage is that investment banks were never the primary target as customers, so the deep crisis that has affected that segment is not a huge concern, according to Leiman. Instead, Blink is targeting small- and medium-size companies, offering shuttle services between locations.

For Blink and JetBird, the big test will likely come next year, when their fleets are starting to grow and they must secure more financing. The upside for both is that some projections show the declines in economic activity will have abated by then and business activity should start picking up.

photograph|image/tiff|BLINK|Blink, with its Cessna Citation Mustang fleet, is carefully managing growth and so far operates a fleet of four air taxis.||photograph|image/tiff|JETBIRD CONCEPT|JetBird hopes to have 10 Phenom 100s in operation before year-end.