
AIR CHARTER—THE BUSINESS AIRLINE OF THE FUTURE ...BUT, DOES THE BUSINESS TRAVELER KNOW?

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ABSTRACT

Historically, FAR Part 121 commercial carriers have provided efficient, economical and safe air transportation for corporate and business users. Recently, however, corporate and business travelers find their travel plans disrupted by delays, bankruptcies, poor service, lost baggage, fare increases, labor strikes and other systemic difficulties that degrade their travel experience to unsatisfactory levels. This article examines these Part 121 service delivery problems and, utilizing a tripartite investigative methodology, examines an alternative air transport mode: FAR Part 135 on-demand charter travel products.

This long extant segment of our national air transportation system is set prime to support increased demand for charter services. Corporate and business travelers are set prime to utilize viable, cost effective alternatives to commercial travel products. Two research questions emerge. First is whether corporate and business travelers are aware of Part 135 travel alternatives. Second is whether Part 135 charter service providers are aware of this latent demand and are effectively targeting this demand segment in their marketing efforts. The three-partsurveys employed to investigate these questions examined demand side

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awareness of how to access charter services and examined supply side marketing efforts targeted at this demand segment.

First, a survey of travel agencies concerning their knowledge of charter products found that 97 percent of those travel agents surveyed were not aware of how to sell or book charter products. Second, a survey of large and medium businesses regarding their interest in using charter products found that 84 percent would be interested. Third, a survey of magazine advertising of charter travel products to determine visibility levels of charter products in print media found less than one page of charter product advertising in 8,684 pages published in 62 magazines over a 2 month period in Fall 2000. The conclusions derived from the research are that business and corporate travelers appear willing to examine charter products as alternatives to commercial products. Travel agencies appear willing to offer and book charter products for their clients. Finally, charter service providers are not effectively marketing to this demand segment in print media. The resultant situation is that none of the parties know how to go about "closing the deal."

INTRODUCTION

Historically, commercial carriers have provided efficient, economical and safe transportation services to corporate and business executives. Recently however, commercial carriers operating under Federal Aviation Regulation (FAR) Part 121 certification are experiencing poor on-time arrivals, increasing boarding denials, passenger complaints, congestion around major hubs and business fare increases (Bowen & Headley, 2000). According to McCoppin (2000) and Boydston (2000) these factors cause many corporate travelers to desire better air transport alternatives.

Organizations and individuals seeking alternatives to commercial service have several options each with different cost structures. The first option is a personal or corporate aircraft. This alternative offers the greatest degree of travel flexibility, but requires substantial capital commitment and is viable only for financially robust organizations. The second is fractional ownership programs, whereby organizations purchase a percentage of an aircraft and receive a guaranteed number of hours of use. This alternative allows many smaller organizations to acquire the benefits of aircraft ownership at affordable levels. Under fractional ownership programs, the cost of owning and maintaining the aircraft are dispersed among the several owners. This alternative has proved exceedingly successful and beneficial to many firms, yet still requires a capital ownership commitment.

The remaining viable alternative to commercial products is the on-demand air charter product. Charter services have traditionally held a small, but stable share of the total U.S. domestic market. In Europe, however, charter services have accounted for a significant share (56 percent in 1996) of intra-European air travel (Button, Haynes & Strough, 1998; Doganis, 1992). One key definitional difference, however, is that associate the term charter services with operations involving 60-seat or greater jet

service to major vacation resorts, and the term air taxi services with what Americans associate with corporate type aircraft. This paper examines only on-demand charter operations utilizing the corporate jet or turboprop definition common in the United States.

According to Wells and Chadbourne (1994, p. 26), the primary advantage of charter operations is flexibility. Wells (p.26) further notes, use of charter service is attractive to firms that do not have consistently high levels of demand for point-to-point services. Total or fractional ownership programs better support consistent high demand for point-to-point requirements. Charter services are also cost effective solutions when supplemental or type specific lift is required to support existing flight operations. Utilization of charter operators providing both aircraft and crew, operating on flexible client-driven schedules and itineraries provide lower aggregate time valued costs for multiple traveler scenarios and represent a viable alternative to the current commercial travel dilemma.

Delivery failure rates by commercial carriers create tension within the carriers' prime revenue client base: the business traveler. This traveler base is increasingly intolerant of commercial service delivery failures. This growing intolerance creates tremendous demand for viable travel alternatives. FAR Part 135 charter products represent a robust and inherently more flexible alternative to commercial product offerings. These two observations drive several investigative questions. One key question is what market channels must charter service providers utilize to effectively reach this traveler base and what should the message be.

PURPOSE OF THE STUDY

This study investigated whether changes are occurring in business travel requirements due to increasing levels of service delivery failures inherent in commercial product offerings. This study investigated the role charter products could play in providing alternate travel services thereby eliminating commercial service delivery problems. Lastly, this study examined how that knowledge could be delivered. This study was limited in scope to business travelers and travel agencies in the Midwestern United States. Specifically the goals were to ascertain whether a market for charter products exist among business enterprises; whether the traditional travel distribution channel, travel agencies, have access to and knowledge of charter product marketing and booking methods; and the extent to which charter operators use print advertising to penetrate the business travel market.

Commercial Carrier Service Delivery Problems

The third quarter of 2000 on-time performance ratings reported in the U.S. Department of Transportation catalogue *Air Travel Consumer Report*, ranked United Airlines tenth with a 51.6 percent on time performance rating; American Airlines sixth at 75.3 percent; TWA fourth at 78.7 percent; and Delta second at 77.2 percent (2000b). Increased rates of overbook boarding denials jumped from .89 per 10,000 passengers in 1999 to 1.22 per 10,000 passengers in 2000. *The Airline Quality Rating 2000* by Bowen and Headley (2000) shows net decline in commercial carrier performance quality in 1999. This occurred in spite of the fact that during 1999 commercial carriers voluntarily created and agreed to an industry wide performance improvement policy statement containing a plan of action to improve service delivery performance (Bowen & Headley, 2000). According to the *Air Travel Consumer Report*, airline consumer complaints declined from 2,726 in 1999 to 1,410 in 2000 (Consumer Complaints Summaries Category, Table 1, p. 37). Bechard (1999) postulates this may be due to high degrees of self scrutiny by the carriers coupled with Congressional oversight hearings regarding the enactment of passenger bill of rights legislation (pp. 27–28).

Commercial carrier customer complaints were exacerbated by increases in both air-side and land-side airport congestion. According to the U.S. Department of Transportation (DOT), highway congestion around large metropolitan areas in FY 1999 caused an average of 9.2 hours of delay per person annually (USDOT, 2000a). DOT projects a decrease in delay time in FY 2001 to only 8.1 hours annually. DOT also predicts that current airport expansion projects will not have significant impact on airport congestion until 2006 or 2007. Still, Bowen and Headley believe the high rates of commercial carrier passenger complaints reflect an overall frustration with the industry.

Commercial carrier claims of rising fuel prices as a prime driver of fare increases runs counter to an Air Transportation Association study by Simat, Helliessen, and Eichner, Inc., 1989 (as cited in Abunassar, Wissam, Koford & Kenneth, 1994). This study indicated lack of competition as the prime driver of fare increases. Abunassar et al (1994) concurred with the ATA report adding both lack of capacity at major hub airports and lack of competition as prime drivers of fare increases.

Irrespective of which price discrimination model is used to justify escalating airfares, business travelers absorb a disproportionately high share of airfare increases. Inability of the business traveler to predict and schedule trips seven, fourteen, twenty-one days in advance and capture advance purchase discounts, coupled with the inelastic nature of business

travel demand allow carriers to price business products at maximum yield. One example of this maximum yield pricing ability is United Airlines. Business travelers make up only 9 percent of United Airlines bookings but generate 45 percent of carrier revenue, according to a United Airlines spokesperson (McCoppin, 2000). Interestingly, the 1989 Air Transport Association study, (cited in Abunassar et al., 1994) found high correlation between the number of business passengers and the size and frequency of fare increases. Increases in business ticket sales volumes led directly to increases in fares.

The *Airline Quality Rating 2000* report indicates most problems consumers face with commercial carriers result directly from lack of competition and airline policy decisions. According to Bowen and Headley:

These problems range from unfair business practices targeting new start-up airlines, temporary route structure changes, gate-lock practices, select incentives to travel agents, ability to tie up landing slots and book them as assets, rapid expansion of code sharing practices which in effect may reduce competition on many routes, and flight scheduling competition. (p. 7)

The Charter Alternative

Frustrated by decreasing performance levels and escalating fare levels, business travelers are seeking alternatives to commercial carrier products (McCoppin, 2000). Bowen and Headley (2000) conclude that flying a group of three to six company executives to three to four destinations in the same day and returning to company headquarters that evening with less than 14 days notice is cost prohibitive, productivity draining and virtually impossible to schedule using commercial carrier products. Conversely, charter products are able to support such multi-destination, multi-traveler itineraries with relative ease. Charter products, once viewed as executive perquisites, could become the sine qua non of medium to large businesses with consistently stable multiple traveler, multiple destination travel demand requirements.

On-demand charter service is defined as the rental of an aircraft and flight crew for a specific trip. Charter aircraft range in size from single engine piston powered aircraft seating two or three passengers up to and including large transport category aircraft seating thirty or more passengers. Wells & Chadbourne (1994) define charter services as:

Chartering an airplane is similar to hailing a taxi for a single trip. The charter operator provides the aircraft, flight crew, fuel, and all other services for each trip. The party chartering the aircraft pays a fee, usually based on hours flown or mileage, plus extras such as aircraft waiting time and crew expenses. Chartering an aircraft is particularly attractive for a firm that does not

frequently require an airplane or does not often need a supplement to its existing aircraft fleet.

Chartering can be cost effective for a group of executives traveling together or for an emergency. When the individual businessperson is traveling alone, the airlines, including regional carriers, would probably be more cost efficient, especially if the trip were between two cities well served by scheduled carrier's (p. 179).

Charter operations are flown on the traveler's time schedule and to the traveler's desired destination. Charter operators are generally located among the 5,400 general aviation airports, compared to the 580 airports served by commercial carriers. These airports are generally less congested than major hub airports, offer easier land side ingress and egress and can be considerably closer to the travelers' ultimate destination. FAR Part 135 governs charter operations and contains functionally equivalent standards of safety as those imposed upon Part 121 commercial carrier operations. The Federal Aviation Administration (FAA) estimates that between 1998–2010 the number of turbine powered business aircraft will increase about 60.0 percent with an 81.6 percent increase in flight hours (NATA, 2000). According to this report, over that same timeframe 806 general aviation airports will require runway expansion, runway and taxiway resurfacing and installation of uprated instrument approach and navigation systems. These improvements, estimated at \$3.3 billion, will be required to cope safely and efficiently with forecasted increases in the number of aircraft and the number of flight operations (NATA, 2000).

A recent survey of corporate travel managers, conducted by the U.S. National Business Aviation Association (NBAA), indicated that 72 percent of respondents said their companies were using corporate jets or charter services for non-executive level employees, up from 56 percent last year (Boydston, 2000). According to Jones (1999), time management, control, privacy and quality of life issues are some of the main reasons cited in driving charter utilization to lower levels of the organization. While making sales calls to corporate executives around the country, a Richmond machinery distributor explained that charter flights allow him to schedule an extra sales call each day, where formerly that time was spent in ground commutes out of and into commercial service airports (Jones 1999). A senior vice president at the National Business Aviation Association stated that in the 1980s, corporate jets were viewed as status symbols. Today charter products are about work productivity, corporate employee time value and quality of life issues (Boydston, 2000).

METHODOLOGY

A tripartite investigative approach was employed to obtain information concerning charter product knowledge levels of (a) end users of charter products, the business traveler, (b) agents of charter product distribution, travel coordinators and travel agencies; and (c) charter service provider marketing efforts in print media directed at these two groups.

First, a literature review was conducted to identify current trends in commercial, charter and travel agency service levels and to identify any gating issues. This was accomplished by reference to commercial carrier quality review information, charter industry publications and governmental industry publications.

Next, two data collection instruments were constructed for use in a telephone survey of select potential distribution channel organizations: travel coordinators and travel agencies and select potential end users, the business traveler. The intent of the first survey was to determine travel agency personnel knowledge of charter products. The second survey sought to determine corporate travel manager and business traveler knowledge of charter products. Once the surveys were developed, travel agencies and businesses were contacted by telephone for survey solicitation. Southern Illinois University at Carbondale (SIUC) graduate students conducted the telephone survey over a three-day period. Student solicitors were instructed to record all information. Copies of the questionnaires are contained in Exhibits 1 and 2.

Due to travel agency managerial requirements imposed by both the International Association of Travel Agencies Network (IATAN) and the Airline Reporting Corporation (ARC) only travel agency managers were asked to respond to survey questions. Travel agency owners were excluded from participation as well. Travel agency owners may or may not be qualified as certified travel managers.

The travel agency survey was designed to elicit specific information concerning knowledge of charter operators, charter operations, product familiarity, booking methodology and charter commission structure. The survey was given to full service travel agencies in three major Midwestern cities: Chicago, St. Louis and Kansas City. Full service travel agencies were selected due to their handling higher volumes of business requests compared to agencies catering to leisure or boutique clientele. Thirty-eight travel agencies of various sizes were selected for interview based on size and segregated by their annual gross revenues. Agencies were divided into four categories: small (annual revenues of less than \$1 million), medium (annual revenues of \$1 to \$5 million), large (\$6 to \$10 million) and very large (\$11 to \$25 million). Travel conglomerates such as Maritz Travel and

Carson/Wagonlit Travel, with revenues in excess of twenty-five million dollars per year were not considered. These conglomerate agencies have preferential volume pricing arrangements with commercial carriers that would artificially skew survey results. The survey included only agencies that commission payments under current commercial carrier commission schedules.

Agencies selected were randomly drawn from listings in *Sorkin's Business Directory*. The number of survey participants in each selected city was determined by metropolitan size. Thus, Chicago's target participation was fifteen agencies of various size; St. Louis, twelve; and Kansas City, eleven. Agency size classification results were three small agencies, twenty-one medium sized agencies, twelve large agencies and two very large agencies.

The second survey was simultaneously delivered to twenty-five medium to large businesses within the same metropolitan market areas. Businesses were again randomly selected from *Sorkin's Business Directory* on the basis of gross revenues. The number selected for each city followed the methodology for travel agency selection. Size determinations were consistent with North American Industry Classification System (NAICS) definitions for small, medium and large enterprises. Thus, seven selected businesses were very large corporations; seventeen mediumsized and one a small firm.

Selection of businesses tracked and coincided with travel agencies selections in each of the surveyed cities: ten in Chicago, eight in St. Louis and seven in Kansas City. Like the first survey, Chicago accounted for 40 percent of business participants, St. Louis 32 percent and Kansas City 28 percent. In the large and medium sized participants, questions were directed to personnel responsible for travel disbursements, generally either the Vice-President or Director of Finance. The remaining surveys were directed to either a partner or owner as named in *Sorkin's Business Directory*.

Lastly, this study examined the extent to which charter service providers were advertising to these target markets in print media focused on upper management decision-makers. Listings of the top one hundred national business and finance magazines targeted at corporate decision makers were obtained from Fortune 500's online ranking of magazine target audiences and gross advertising revenues. Morris Library at Southern Illinois University (Carbondale) and the Aviation Management and Flight Department Library (Howell) had a combined total of sixty-two magazines catalogued. These sixty-two magazines were examined over a two month period in the third quarter of 2000 for charter specific advertising. A partial listing of magazines identified and the range and breadth of business sectors targeted is shown in Table 1.

Table 1. Survey Magazine Range
Example of Magazines Included in Survey

Air Traffic Management	Financial Report Card	Plus:
Aircraft Economics	Forbes	Specific Trade Magazines
Air Finance Journal	Global Investor	e.g.:
Barron's	Global Telecome Business	Batteries International
Black Enterprises	Green Financial	International Glass
Business Traveler	Hispanic Business	International Plastics
International	INC.	Petroleum Economist
Business Week	Institutional Investor	PharmaBusiness
Corporate Finance	Trade Finance	
Entrepreneur	World Law Business	Total 62 Magazines
Euromoney		124 @ 2 months

THE SURVEY

Critical business decisions involving shifts in entrenched purchase habits, purchase psychology and paradigms require considerably more justification and support than purchase decisions executed within existing frameworks. This advanced justification model served as a backdrop for this survey. This survey focused on defining end user and traditional travel distribution channel agent knowledge, and perceptions of charter travel products.

For purposes of consistency all calculated survey percentages have been rounded to the nearest whole number.

Travel Agency Survey

The first question established a baseline scenario for comparing commercial and charter travel products. This baseline scenario consisted of the following hypothetical business trip. Company A needs to send seven executives from St. Louis, Missouri (STL) to Hartford Connecticut (BDL) three days from now. The company desires the group to travel together on a morning departure and, if possible, return to St. Louis the same evening. Each of the surveyed travel agents consented to providing a commercial carrier trip quote generated by their computer reservation systems. A variety of systems were used by travel agencies in developing a quote for this hypothetical trip including Worldspan®, Sabre® and Apollo®.

Virtually all commercial carrier trip quotes presented by the travel agencies agreed and resulted in the following: all passengers confirmed full fare, coach non-restricted space at \$1,900 per passenger. The total cost for seven passengers travelling on a weekday and returning, if possible, the same evening without at least seven days advance booking is \$13,300. The travel agency commission equaled \$350 due to airline commission caps. Each agency surveyed confirmed the same basic itinerary, timing and price.

Whether or not the travelers would be able to return to St. Louis that same evening depended solely on what time they would be able to get to the airport. It is quite possible that the travelers would have to spend the night in Hartford.

According to Donna Kaps, Manager of Holske Travel Consultants, recent airline commission reductions have set the upper limit of commissions payable to travel agencies at 5 percent of net ticket fare (Personal communication, March 21, 2000). Kaps also indicated airlines have taken one additional step to reduce commission expenditures by redefining the upper limit as 5 percent of net ticket fare or a maximum of \$50.00 per ticket. Thus, whether an agency sells a ticket for \$5,000.00 or \$1,000.00, the commission earned is capped at \$50.00. Net ticket fares below \$1,000 are paid at the 5 percent rate. Thus, in the hypothetical trip from St. Louis to Hartford, although 5 percent of \$13,300.00 is \$665.00, the maximum payable commission is \$350.00, or 2.6 percent of net ticket fare.

For comparison, the SIU Carbondale survey team, using the same hypothetical itinerary obtained a charter product quote from an online charter operator, AirCharter.com. The charter quote returned indicated using a Lear 35 with eight usable seats. The quoted price for the trip equaled \$11,437.00. The quote included estimated flight hours required from STL to BDL and same day return and all applicable aircraft and crew wait time charges. Because charter quotes are based on per hour or per mile usage fees, not on a per seat basis as with commercial carriers, Company A in this hypothetical can, if it desires, add an eighth traveler or drop passengers with no impact on the cost of the aircraft. A travel agency booking this hypothetical trip using a charter service provider would earn \$571.85 in commissions representing five percent of the charter quote. This hypothetical trip resulted in the following differences between commercial and charter travel products when booked through travel agencies. The charter travel product saved the client \$1,800.00 in total trip cost, provided almost double the commission earned by the travel agency and the hypothetical itinerary was easily completed in one business day. Table 2 demonstrates the comparison.

The above commission comparison is strictly relative to a five percent commission rate quoted by the airline and charter service provider. Many travel agencies are compensating for lost commercial commission revenue by adding in-house service charges to the price of tickets booked. With reference to the above charter quotation, however, an agency may consider the price quoted to them as net. In such instance the agency may reap not only the 5 percent commission rate but also any add-on they desired to apply. While savings to the traveler will still be present, the agency may

Table 2. Rate Comparison for Booking of Seven Passengers with Itinerary of St. Louis, Missouri, to Hartford, Connecticut, Departing on a Tuesday Morning with Return the Same Evening

	<i>Commercial Carrier</i>	<i>Charter Operation</i>
Booked Through	Trans World Airlines	Air Charter.Com
Type of Aircraft	MD-80	Lear 35
Number of Seats	113	8
Total Cost	\$13,300	\$11,437
Commission to Travel Agency	\$350.00	\$571.85
Capped by Airline @ \$50 per psgr.		
Net Commission Rate	2.63%	5.0%

convert some of the total savings over commercial carriage to their own benefit.

All respondent travel agencies indicated they are occasionally tasked with business client requests to book groups of employees' traveling together. With the above hypothetical itinerary comparison as a basis, 37 percent of surveyed travel agents indicated they positively would and 13 percent might be willing to discuss booking a charter flight for group business trips of the nature indicated, although they admitted not knowing how to go about booking charter products. Thirty-four percent indicated they would require more information before discussing charter products with their clients.

Travel agents were then questioned about charter products as alternate revenue source for the agency. Ninety-two percent stated they would consider selling charter products if the commissions were equal to, or than, capped commercial carrier commission structures. The remaining 8 percent were willing to book charter products only if someone would train agency staff. In essence, 100 percent of the surveyed agencies would sell charter products if they knew how. Conversely, 97 percent indicated they had no knowledge of how to inquire about availability or book a charter product. The remaining 3 percent indicated some level of understanding of how to determine availability and quote and book charter products. When further questioned these two managers indicated what knowledge they had regarding quoting and booking charter products was learned because a client had asked them about charter flights. Both managers indicated looking in the yellow pages to locate and then call a local charter service provider to ask about a charter trip. Practically speaking, no travel agent surveyed had any functional knowledge of how to book charter products.

When travel agency managers were questioned as to the best method of obtaining information about charter flights, the results proved enlightening.

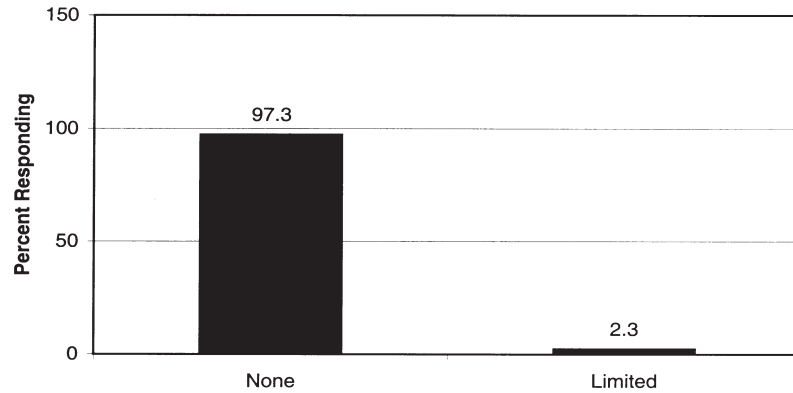


Figure 1. Travel Agent's Self-proclaimed Knowledge of Charter Booking Procedures

Fifty percent indicated they would recommend that their clients contact one of the commercial carriers for information. Thirteen percent would refer their clients to the Yellow Pages. The remaining agencies, 37 percent, indicated they had no idea of where to direct their clients, or how to obtain any pertinent information. One respondent, after long consideration, said she knew of someone who owned an airplane and maybe “he would know how to charter a flight.”

Although these results reinforce the fact that agencies have no methodology in place for querying, quoting or booking charter products, more importantly, they have no knowledge of where to look for answers. Figure 2 graphically highlights this informational dissociation.

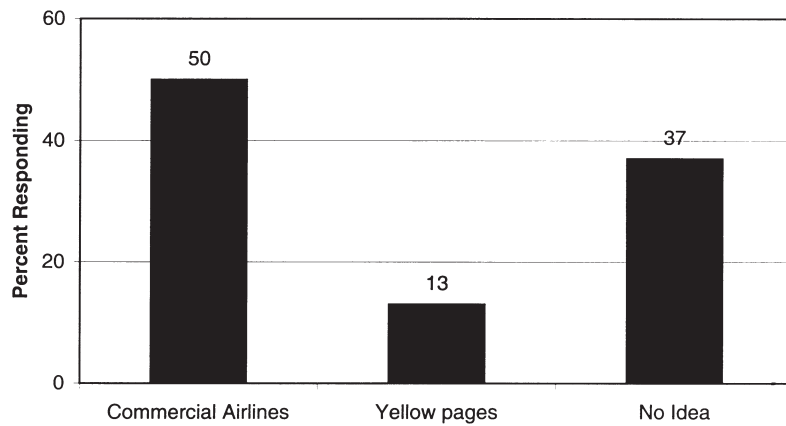


Figure 2. Where Travel Agents Would Seek Advice for Booking a Charter Flight

Travel agents were then asked if a sales consultant representing charter service providers, local or national, had ever called on their agency, made any type of presentation, or provided information or literature concerning charter travel products. Ninety-five percent responded negatively; 5 percent implied they thought so, but were not absolutely positive. After further reflection, one agency manager from the Chicago area said she thought someone might have contacted them, indicating “it was so long ago, I think it was about flying around the city.”

The responses of all travel agencies to survey questions regarding charter travel product knowledge and methodologies demonstrated a consistently significant void of expertise across all locations and agency sizes.

Business Survey

All businesses surveyed indicated frequent use of commercial carrier business products, including five participants who owned business aircraft and managed in-house flight departments. Business participants who did not have in-house flight departments indicated using commercial carrier business products exclusively. Eighty-eight percent of participants indicated a specific individual or department responsible for making all corporate travel arrangements. Eighteen respondents indicated having established policies and procedures for booking corporate business trips. Forty percent acknowledged having groups of four or more staff members regularly traveling together on commercial carriers.

Seventy-two percent of respondents indicated using travel agencies to book corporate travel requirements, while 16 percent indicated travel arrangements managed by an in-house travel manager. Twelve percent of respondents indicated allowing individual travelers to book their own trip arrangements.

Charter product awareness was higher among business participants compared to travel agency participants. Several companies indicated booking charter products for special occurrences. Twenty-eight percent indicated they had considered using charter products. Of these, three were from company’s operating their own business aircraft. In these three cases, two aircraft were chartered for temporary replacement of company aircraft down for maintenance. The other respondent indicated a charter flight had been booked to transport the Board of Directors to a special function. In all three cases, their flight departments established the bookings.

When queried as to how the company would go about booking charter travel products, 68 percent indicated they would direct their travel agency to make any and, all arrangements. Twelve percent indicated they would either use the Yellow Pages or contact a commercial carrier for advice.

Twenty percent indicated they would contact their own Chief Pilot for help with arrangements.

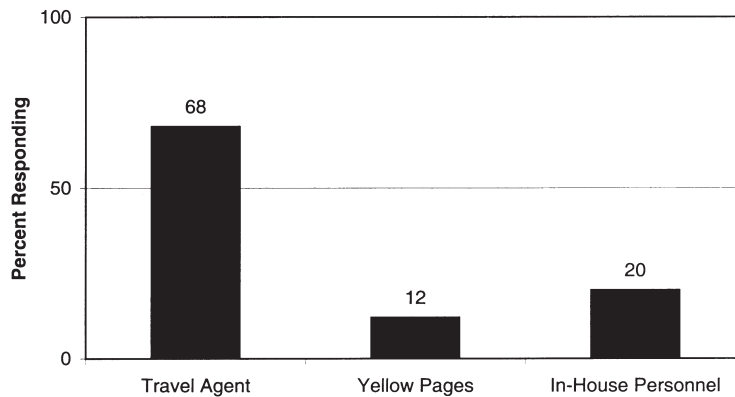


Figure 3. Where Surveyed Business Would Seek Advice on Aircraft Chartering

Despite the higher levels of awareness of charter products, 72 percent of business participants indicated never considering charter products for corporate travel requirements.

Business participants were asked how far in advance travel requirements could be predicted. Seventy-two percent reported usually having less than one week lead-time, while 16 percent reported, usually having two weeks lead-time.

Business participants were asked to identify reasons for not using charter products. Reasons cited in rank order were price, safety, lack of experience, lack of comfort, inconvenient schedules, negative impressions on stockholders and loss of frequent flyer mileage. The survey team then asked if cost/benefit analysis demonstrated that charter products could be competitive with commercial business products would the company re-examine charter products as alternative travel modes? Eighty-four percent replied positively, with 8 percent unsure and 8 percent replied negatively.

Of the seven topics cited as reasons for not considering charter products for corporate travel, one has true validity. The other six, when properly explained and understood are actually reasons supportive of charter product utilization.

The first reason cited, price, has validity. However, the price of a charter product represents only one evaluative factor when properly comparing charter to commercial travel. The other evaluative factor is time. By including the value of total time a traveling executive is away from the company, a very different “true cost” structure emerges. Commercial

carrier flight delays, coupled with route structures serving less than 10 percent of available airports require the business traveler to spend significant amounts of time in ground commutes. Point to point charter products often place the traveler much closer to the ultimate destination, resulting in significant timesaving. Meetings sometimes run late. A missed commercial carrier flight can result in an unnecessary overnight stay. Charter travel generally arrives and leaves when the client is ready. By accurately projecting the value of the traveling executive's time when combined with the "price" of a charter product; true cost savings can be captured through use of charter products for as few as two senior level passengers.

Safety, lack of experience, lack of passenger comfort and inconvenient schedules were the next most frequently cited reasons for not considering charter products by survey respondents. Ironically, the last three of these are in fact prime benefits of using charter products. Charter flights have no schedule. The aircraft departs when the client is ready, not when the aircraft operator is ready as with commercial carriers. On-board passenger amenities and comfort far exceed any commercial travel product. Charter operations safety and experience requirements mandated by the FAA under Part 135 are as stringent as those imposed on commercial carriers operating under FAR Part 121. The fact that these four items are cited as negative aspects of charter products indicates a lack of deep knowledge and information regarding the charter business segment.

The sixth reason cited for not considering charter products, negative impression on stockholders, can again be viewed as a benefit of using charter products. If a business is functioning properly and rational business decisions are being made, it is unlikely that a stockholder revolt will occur because management utilizes charter products in situations that save the firm time and money.

The seventh reason for not considering charter, loss of frequent flyer miles, although a potential valid reason for individual travelers to reject charter products, is incidental to business travel practices. When charter products are more widely accepted and charter service providers are effectively engaged in direct competition with commercial carriers, it is not unreasonable to expect charter frequent flyer programs to emerge.

Magazine Survey

Over a two-month period, in the third quarter of 2000, a total of 8,684 magazine pages contained in sixty-two independent magazines were scrutinized for charter oriented advertisements. Any page containing at least one paid commercial advertisement was counted as a page of text. During this time frame, only one magazine contained an advertisement

related to any aspect of charter activity. Interestingly, this advertisement was found in an aviation industry specific publication. The message was generic in nature, not addressing any advantage or convenience of charter travel products. This advertisement, less than full page in length, appeared only once during the two-month period.

Two other aviation-oriented advertisements were found among the 8,684 pages reviewed. One was placed by a commercial carrier and highlighted the carrier's schedules and destinations. The second aviation oriented advertisement was placed by a fractional ownership organization extolling the virtues and benefits of fractional programs.

Monitoring sixty-two magazines, whose collective readership focus was senior level decision-makers across a broad spectrum of industries, revealed one publication containing one advertisement offering generic charter information. This advertisement was found in a magazine that specifically targeted aviation industry decision-makers.

But for the existence of one advertisement placed by a well known fixed base operator, the market channel investigated was void of charter content.

CONCLUSION AND RECOMMENDATIONS

Commercial carriers seek to maximize yield per seat departure. Business clients are bearing a disproportionately high share of yield maximization efforts. Inability of most business travelers to predict and schedule travel in advance permit commercial carriers to price business products at exceedingly high yield levels, thereby bolstering system and route yield averages. Business traveler dissatisfaction with commercial carrier travel products has lead business clients to begin investigating alternative modes of transport. Charter products can represent fiscally sound time-weighted alternatives to commercial carrier product offerings.

Escalating business yields and fare structures together with poor quality ratings represent fundamental systemic problems inherent in the commercial carrier environment. These systemic problems detrimentally all passengers, but are most heavily felt by business travelers. These inherent systemic problems also provide a market entry point for charter products to compete effectively against commercial carrier products for business travel revenues. The primary concerns of any business traveler are time and productivity. Were it not so, business travelers would have long ago divorced themselves from the predatory pricing practices of commercial carriers. In fact, many large firms have done just that by acquiring and operating their own fleet of aircraft. Business travelers not having access to corporate fleets are beginning to examine charter products as viable options to commercial travel products. Itinerary flexibility

coupled with point to point service to vastly greater numbers of airports frequently closer to the travelers' ultimate destination are powerful marketing tools that can be exploited by charter service providers to capture business travel revenue. Two questions remain. First, are business travelers, business travel coordinators and travel agencies sufficiently informed, educated and knowledgeable of charter products and practices to be able to examine and correctly evaluate charter as an option to commercial travel? Second, are charter service providers offering sufficient educational and informational guidance to the business travel market segment to fill the informational gap and capture market share from commercial carriers? This study would seem to indicate not.

Businesses surveyed indicated they lacked comprehensive understanding of the charter marketplace. Businesses surveyed further indicated that should they desire to examine or purchase charter products as alternatives to commercial products, they would rely on travel coordinators and travel agencies to make the arrangements. Travel agencies surveyed indicated they also lacked comprehensive understanding of the charter marketplace as alternatives to commercial business products. This survey demonstrated a massive informational void among business travelers, travel coordinators and travel agencies regarding viability of and access to charter products.

For the charter business segment to compete effectively against, and capture market share from commercial business product offerings, any charter marketing efforts must be subordinated to charter educational efforts. Current situational analysis revealed by this survey indicates that all parties must first fund and engage in programs of informational and educational exchange before funding and engaging in targeted marketing programs. Failure to first educate and then market will comply with Gresham's law of throwing good money after bad. Business travelers must be given tools to properly evaluate cost/time comparisons of charter and commercial travel products. Travel coordinators and travel agencies must be given tools to access, query, book and track charter products. Charter service providers must be given tools to effectively interface and integrate product offerings with existing travel coordinator and travel agency systems and protocols. Conducting this type of focused mutual educational bootstrapping will also serve to define appropriate charter product distribution channels.

Charter Operators, acting individually or as a consortium, or through several national associations such as NBAA and, NATA can begin the process by working with local travel agencies. They teach the agency what charter products are, how they are priced, booked and conducted. The agency then teaches the charter operator how travel agencies function and

how client trip requests are managed. Once familiar with each other's functional requirements, the agency can then act as field representatives for the charter operators. There exists strong motivation for the travel agency to function in this manner. As one Chicago travel agent stated, "We are getting damn tired of what the commercial carriers are doing to us." His lament concerned the fact that commercial carriers are rapidly abandoning once powerful linkages to travel agencies by cutting commission structures in favor of alternate direct passenger booking systems. According to Wells (1996), travel agencies supplied commercial carriers with eighty percent or more of their bookings. Today direct passenger booking technologies are rapidly eroding the volume of travel agency bookings and commercial carrier commission caps are rapidly eroding travel agency revenue streams. These factors have led to dissolution of the airline-travel agency marriage. These factors also suggest the timing is right for the charter operations business segment to begin courting travel agencies. As was demonstrated by commission relationships on the St. Louis to Hartford itinerary, travel agencies see lucrative revenue gains available by entering the charter market.

The data indicated end users; business travelers are strongly receptive to obtaining deeper understanding of charter products as 84 percent responded they would like more information on cost-benefit comparisons of commercial carrier versus charter products. The data also indicated that distribution agents, travel agencies, are equally strongly receptive of obtaining deeper understanding of the charter alternative as 92 percent responded they would like more information on how to query, offer and book charter products. It is important to note that at this juncture, this apparent strong pent-up demand is not for charter products but for charter product information. Translating this demand for information into demand for the underlying charter product will involve a paradigm shift away from long standing business travel purchase patterns and psychology. The ability of the charter business segment to compete with and glean market share from commercial carriers is directly correlated to providing and disseminating sufficient information to allow end users and distribution agents to justify the paradigm shift.

Dissemination of meaningful and relevant charter product information to business travelers, travel coordinators and travel agencies can be accomplished in a variety of ways. Charter operator associations are one logical starting point. These associations could be called upon to develop informational programs specifically tailored to travel agencies. These programs could be administered as short course seminars conducted at key regional locations and/or presented at travel agency national conventions. These programs could also be delivered to individual travel agencies by

local charter operator sales forces. Web based distance learning technologies could also be employed effectively. A prime benefit of this association approach would be that all charter service providers would be presenting the same information in the same format.

Another informational dissemination channel available are charter marketing portals. Charter portals are organizations that market charter products directly to the end user and feed charter bookings to an inventory of charter operators who have contracted to supply lift to the portal. Portals are a relatively new construct. They function as charter specific travel agencies who coordinate all aspects of the client's trip. Inherent in the charter portal model is the necessity to educate the business traveler to the benefits of charter products versus airline products. It remains to be seen if charter portals are able to effectively compete with and glean market share from commercial carriers, but the educational nature of current portal marketing efforts is clearly a step in the right direction.

Irrespective of whether either or both of the above options are acted upon, each charter operator can, and must, call upon local travel agencies and establish dialogue. Travel agencies can be powerful allies in advancing charter product sales, but only if they are equipped with the tools and knowledge to act. Significant growth opportunities exist for the charter operations business segment. As John Maynard Keynes stated: "All that is required is a small, a very small amount of clear thinking."

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Exhibit 1

**Telephone Survey Questions
Business Survey**

Name of Business: _____

City: (Circle One): Chicago St. Louis Kansas City

1. Does your organization either own or operate aircraft for business reasons?
A. Yes B. No
2. Does your organization have its' own flight department?
A. Yes B. No
3. Is there someone specifically assigned the responsibility of making flight arrangements for personnel travelling for business purposes?
A. Yes B. No
4. Are personnel travelling for business purposes permitted to make their own travel arrangements (specifically airline bookings)?
A. Yes B. No
5. Does your organization have a specific policy or procedure that states how reservations and/or corporate business bookings are to be made?
A. Yes B. No
6. If your personnel are not utilizing a corporate aircraft how are most airline reservations made?
A. In-House Travel Manager B. Travel Agency C. Direct with Airline
D. Individual Traveler's Choice D. No Idea E. (Other): _____
7. With regard to business travel, does your organization ever have groups of 4 or more traveling together on commercial airline flights?
A. Yes B. No C. Don't Know
How Often?
A. Often (more than once/month) B. Occasionally (once a month)
C. Sometimes (once a quarter) D. In-Frequently (rarely)
8. Generally, what is the lead time for booking most of the commercial flights?
A. Less than one week (7 days) B. Two weeks C. More than two weeks

9. Has your organization ever considered using an on-demand charter operator for your corporate (business) needs?
A. Yes B. No
10. If you would consider booking a charter, how would you make the arrangements?
(Record all responses, i.e. Call local FBO, contact airline and etc.)
11. If someone could show you a cost-benefit analysis that indicates chartering an aircraft may actually save your business money over commercial air travel, would you be interested?
A. Yes B. No C. Not Sure D. (Other): _____
12. Based upon your own understanding of the travel market, what in your estimation would be the most compelling reason to not consider using a charter aircraft for business purposes?
(INTERVIEWER: Do not give any alternatives, write down only those reasons given)

Exhibit 2

**Telephone Survey Questions
Travel Agency Survey**

Name of Agency: _____

City: (Circle One): Chicago St. Louis Kansas City

INTERVIEWER: After explaining the reason for the survey, how they were selected and determining their willingness to participate, tell them you would like to give them a hypothetical booking to see how fares and itinerary are developed with the aid of their computer reservations system.

1. "If time is permitting, could you please give me an itinerary and a fare quote for the following: I would like a flight that can accommodate seven people, all travelling together. The origin is St. Louis, Missouri and the destination is Hartford, Connecticut. They would like to travel on Tuesday morning and return that same evening from Hartford to St. Louis."
2. If in the above scenario I would ask you if using an on-demand charter we a viable alternative, what would you respond?
(record individual answers)
3. What would you consider as the best way to obtain information concerning a charter flight?
(record individual answers)
4. To your knowledge has the agency ever been called on or approached by a sales representative or agent representing charter operation/operator?
A. Yes B. No C. Possibly D. (Other): _____
5. To your knowledge has the agency ever had a formal presentation made by a representative or sales representative of a charter operator?
A. Yes B. No C. Possibly D. (Other): _____
6. To your knowledge has the agency ever received any literature, pamphlets or information concerning charter bookings or operations?
A. Yes B. No C. Possibly D. (Other): _____
7. To your knowledge has the agency ever sold a charter flight?
A. Yes B. No C. Possibly D. (Other): _____

8. If the commission provided by on-demand charter operators was equal to, or greater, than that given by the commercial air carriers, would your agency consider selling the charter product?
- A. Yes B. No C. Possibly D. (Other): _____
9. In the operation of your travel agency do you have client companies whose bookings you generate that have groups of employees travelling together for business purposes? In this regard we are talking of four or more people travelling on the same itinerary.
- A. Yes B. No C. Possibly D. (Other): _____
10. From the little we have discussed about the charter business, would you consider talking to your clients about booking a charter flight over a commercial carrier?
- A. Yes B. No C. Possibly D. (Other): _____