



Flexjet Takes On NetJets

By Mark Huber

FLEXJET, THE SECOND-LARGEST fractional jet program, is taking on industry leader NetJets, nearly four times its size. It's doing so by aggressively expanding its fleet with newer aircraft—180 aircraft by year's end, up from 154 in April—and by adding more large-cabin aircraft with swank interiors capable of flying long international hauls. Red Label, a new premium service, guarantees customers aircraft that are five years old or newer, as well as dedicated crews.

Last year, Flexjet placed a \$2.4 billion order for 20 of Aerion's AS2 supersonic business jets, which halve trans-Atlantic crossing times. The first fractional firm to go the supersonic route, it quickly distinguished itself from NetJets. In total, Flexjet has placed orders for 207 new jets and options that could ultimately secure the firm a 445-aircraft fleet for \$8 billion. "We want to make sure we are flying the youngest fleet in the sky," says CEO Michael Silvestro.

Will its luxury strategy work? The problem with fractional-ownership programs: You buy a share in a "new" jet and often get an older model that has been flown triple the average number of annual hours of a typically owned private jet. We boarded a fractional Gulfstream a few years ago, and the ratty interior looked as if it had been besieged by a pack of hunting dogs.

Flexjet's fleet services 2,100 customers; you may own a quarter share, but your airplane is used by 12.8 other customers. Both Flexjet and

NetJets have been countering this problem with huge orders for new aircraft, and by expanding their leasing—rather than buying—offers. But for those still seeking the tax advantages of a fractional share, Silvestro says, Flexjet is trying hard to get the price right at buy-in, while making sure the aircraft have the latest equipment and fresh interiors, and are properly maintained, so resale values hold up. He also claims that his Red Label crews make Flexjet's service more personal and responsive than the competition's.

Which is where the industry's labor problems come in. In fat years, fractional operations make modest returns; in a recession, they hemorrhage cash. So everyone in the fractional business has cut labor costs, and that has occasionally affected customer service.

Flexjet is part of Cleveland-based Directional Aviation Capital, a private holding company with \$1.5 billion in revenues in 2015. It acquired Flexjet from jet manufacturer Bombardier for \$195 million in December 2013, but declined to provide *Penta* with Flexjet's recent financial data. Directional has many other aviation-related businesses, including a lower-end sister fractional company, Flight Options, and aircraft-maintenance firm Constant Aviation.

Directional is trying to bring Flight Options' lower-cost labor structure to Flexjet, and that's not easily done. Early last year, a group of fired Flexjet pilots filed suit against the company,

alleging multiple violations of the Railway Labor Act, which also governs airline labor relations. By December, the pilots at both Flexjet and Flight Options had voted to join the Teamsters. Since then, Flexjet and the union have been engaged in increasingly acrimonious litigation. The company states it was disappointed by the vote, but looks forward to continuing to work with the pilots "who are so vital to our success."

Flexjet's next flight mission is to become the go-to provider for wealthy international travelers. In the next three to four years, Silvestro wants to double Flexjet's fleet of large-cabin Gulfstream aircraft, which existing customers can tap via a new Global Access lease program. Retired Datatel co-founder Tom Davidson leases a share in a Flexjet-run Embraer Phenom 300 light jet, but occasionally uses Global Access when he needs to intercept his catamaran at its various international ports of call. Davidson moved to Flexjet in 2014, partly because he liked the more-personal service that a smaller organization provides. "It's all about execution. The staff is tremendously responsive," he says.

Can Directional really run Flexjet as a luxury brand? So far, so good, with 20% of Flexjet's customers already signed up for the higher-priced Red Label program. That's an impressive result, considering it's not yet a year old. ■

MARK HUBER reviews aircraft for *Business Jet Traveler*.

Flexjet's large-cabin Gulfstream G450.

Flexjet is the first fractional firm to order supersonic jets.