

# BRIDGING THE GAP BETWEEN YOU AND YOUR MANAGEMENT COMPANY

Colby McDowell | March 2019

Aircraft management is not a commodity. It should be a customized service aligned with your cultural, financial, and operational objectives. All too often, the relationship between owner and management company sours when these areas become misaligned. As with any relationship, it is important to proactively communicate, manage, and nurture your management company partnership on an on-going basis. A solid plan at the outset of the management relationship can often go a long way toward bridging gaps before they even appear. Recommended strategies include:

- **Begin with a comprehensive selection process** – aircraft management is rarely a one-size-fits-all offering. Understand each candidate company's operating experience with your specific aircraft type. Are they a "charter company" or an "asset management" company? How do you prioritize large company scale vs. potentially boutique service offerings? Which company best understands your strategic goals?
- **Execute customized agreements** – engage an aviation-specific attorney who is familiar with all aspects of aircraft management. Clearly define all vendor and owner obligations for staffing, maintenance execution, payment terms, working capital deposits, etc. Specifically address vendor rebates, credits, and incentives paid back to the management company. Will they be split? Credited to owner? What freedom will the management company have to address day-to-day expenses? Define a financial cap beyond which owner approval is required. Are markups on third-party costs acceptable? If so, define.
- **Closely examine insurance options** – most management companies offer fleet insurance policies. Have you compared the management company's proposed policy with alternatives? Review an apples-to-apples comparison of premiums, coverage values, policy inclusions and benefits, etc. Do the policies correctly identify each party's involvement? Ensure the aircraft owner is listed as loss payee on any fleet policy.
- **Seek solid financial reporting** – require the management company to provide a customized and annual budget for the aircraft. Does the budget detail all fixed and variable expenses? Ensure the budget includes anticipated utilization and charter revenues, based on market seasonality. Have maintenance expenses been detailed? They should include major projects in the month(s) they fall with estimated "out-the-door" costs. Monthly owner reports tracking financial landscape and performance to annual plan should be required. Charter dynamics of volume, wholesale versus retail percentage, and margin contribution should be included in this thorough report.
- **Keep the information coming** – as a function of management oversight, regular market intelligence addressing updated aircraft market value, compensation, charter market pricing, changes in program coverage, etc. should be provided.



With the right team and selection process, clear expectations, a transparent partnership, and solid agreements memorializing all phases of the relationship, a management company can afford great value to some aircraft owners.

**To learn more, contact VanAllen today.**