



The Business: White Is The New Black

The first VLJ to hit the market has already found an unsexy new niche

By Nick Kolakowski

In the world of transportation, it sometimes seems, the more fantastic the idea, the worse the production problems. Eleven years ago, Eclipse 500 manufacturer Vern Raburn envisioned a future in which thousands of owner-operators would be snapping up his ultra-affordable Very Light Jet and flitting around like George Jetson.

Today, after snafus involving everything from the engine to the cockpit windows, the Albuquerque-based company ekes out less than a plane a day for a market that seems to have decided the \$1.6 million six-seater is neither affordable nor quite light and zippy enough for most twenty-first-century Georges to pilot themselves. But even if Raburn's dream never comes to pass, the Eclipse 500 may have nonetheless found its sweet spot: as the black car of the skies.

Like the Lincoln Town Car, another snakebitten, somewhat unwieldy high-end vehicle that eventually found its niche in the livery trade, the Eclipse 500 has been seized by a new crop of VLJ charter outfits as the solution for tiny groups of commercial-air passengers looking for a quick hop between, say, Chicago and St. Louis or New York and Washington. Such air-limo services are expected to pick off roughly two-thirds of the 5,000 or so VLJs expected to come online from Eclipse, Embraer, Cessna and other manufacturers within the next decade.



It's an altogether different picture from eight years ago, when 150 people lined up outside the Hilton Phoenix Airport to drop a \$150,000 deposit on the soon-to-be-unveiled Eclipse 500. By the end of 2002, manufacturing woes had slowed the timetable even as better-financed rivals such as Piper, Cirrus and Diamond had developed their own prototypes that in many cases were

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\$200,000 to \$300,000 cheaper than Raburn's 425-mph trailblazer. In the interim, though, a few air-taxi entrepreneurs had noted the Eclipse's 1,300-nautical-mile range and surprising amount of legroom in its slightly bulbous cabin, and saw an opportunity.

One such entrepreneur was William Herp, CEO of Concord, Massachusetts-based Linear Air, a charter service increasingly centered on Eclipses. "Our goal is to have a dozen by the end of 2008," he says, settling into a tan passenger seat of his first one. "By the end of 2012, we'll have around 300, and by then we're going to be in 15 markets."

For a fractional company such as OurPLANE, meanwhile, the Eclipse presents a chance to pry open an entirely new — and potentially sizable — market by lowering the entrance costs for a new aircraft by more than half. "An airplane, as an asset, is capital-intensive; the entrance fee could be \$5 million," says Graham Casson, OurPLANE's CEO. "But with a VLJ, you're not only down to just under \$2 million as an initial cost, but you then have fractional membership on top of that. We bring the cost down to \$300,000 per share, just about any viable business can afford that investment."

OurPLANE's plan for a 22-Eclipse fleet may take some time to become reality — Eclipse is roughly nine to 10 months behind in its production schedule and anticipates delivering just four 500s to the Virginia-based service by the end of 2008. Linear Air and other VLJ-centric companies are facing the same challenge, keeping things small as they wait for Eclipse to ramp up production to what Raburn hopes will be four planes a day.

Of course, all that depends on Raburn continuing his balancing act. After flirting with implosion when a \$200 million deal fell through last summer, the company recently secured \$100 million in long-term financing from European Technology and Investment Research Center Aviation, which will sell the Eclipse 500 in Eastern Europe, Russia and Turkey. With that money in place and the 10 percent down payment that comes in with each order, Raburn says he should — should — be able to add enough capacity to meet production demands. "Is it a slam dunk? No. There are always challenges," he says. "Still, I see nothing short of a total disaster keeping us from getting to profitability. Financially, we're in better shape than we've ever been."



Disruptive

Both Herp and Casson describe VLJs as a "disruptive technology" — that is, a product, innovation or service that shakes up the status quo. (The term was coined by Harvard professor Clayton

Christensen in his 1997 book *The Innovator's Dilemma*.) Attached to each VLJ are small twin lightweight engines (or even a single engine, as in the case of the Diamond D-Jet) capable, thanks to advances in materials science and manufacturing technology, of achieving enough power to get the planes aloft despite their size. The engines are cost-effective to run and fuel and the planes relatively easy to churn out, theoretically leading to major efficiencies all around.

Take the \$1.6 million Eclipse 500. While the price may still be a bit steep for many owner-operators, it's cheap for a charter or fractional service, enabling Linear to charge its customers just \$1,840 per hour. Given that just about any trip in the Northeast can be managed in under an hour that takes the typical round-trip cost per passenger on a fully occupied flight down to about \$600 per head — comparable to a walk-up commercial ticket. For fractional owners, management fees are shaping up to be nearly a third less than those for a jet such as the Citation CJ3, in what was once considered the entry-level category. Add VLJs' ability to land at local airports with short runways, and general aviation suddenly opens up to a far broader demographic.

Location, Location, Location

As much as it makes sense economically, though, even the Eclipse-as-limo formula isn't, as Raburn might say, a slam dunk. Last April, air-taxi operator Point2Point Airways closed shop after spending a year trying to attract people to fly a couple of prop-plane/early VLJ stand-ins across a handful of sparsely traveled routes in North Dakota and the upper Midwest. Bursts of winter weather and a lack of interest in flying from Bismarck to Fargo appear to have doomed that effort. So while underserved minor markets originally looked to be a growth area for the VLJ charter companies, Linear will focus its initial rollout on the heavily trafficked Boston-D.C. corridor. Another new Eclipse air-taxi service called DayJet has similarly limited its efforts to Florida, with a second phase planned for Southeast business centers such as Atlanta, Raleigh-Durham and Charlotte. Pogo Air, a well-financed entry run by the former CEO of 1980s budget commercial carrier People Express, has announced its intention to take delivery of its first Eclipse 500s by early 2009 and go head-to-head with Linear in the Northeast.

Any future expansion of the customer base, of course, will depend on how fast the planes roll out. The Linears and OurPLANEs seem to have resigned themselves to that fact. "I think it's going to be gradual," Herp says. Still, you can almost hear the companies putting their own stamp on George Jetson's famous phrase: "Jane! Start this crazy thing!"

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