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CORPORATE STRATEGIES

Page 90

Phoenix Resources
Standard Brands
MacMillan Bloedel

**Personal
business
supplement:
Cross-country
skiing**

Page 110

**CORPORATE
FLYING**
Changing
the way companies
do business

Page 62



Gary Gladstone

Learjets at Denver's Stapleton Airport: As is their habit, most owners put no names on their planes.

CORPORATE FLYING

Changing the way companies do business

The hangars at Westchester County Airport, one of the New York area's busiest airfields, bear the names not of airlines but of giant industrial corporations: General Electric, IBM, PepsiCo, Xerox, Mobil Oil. However, few of the 89 corporate jets that are based there carry marks of their ownership—in tacit recognition that they are vulnerable symbols of executive “privilege.”

Such planes and thousands of other anonymous business aircraft around the U.S. have grown into a huge “underground” transportation system, which in some ways is starting to rival the commercial airlines. Last year, in fact, the U.S. business fleet flew several times as many hours as all domestic airlines combined. Corporate craft are radically transforming the way many companies do business. And they are helping to change the geographical tilt of the U.S. economy, as more companies build plants and move offices to less readily accessible parts of the country without regard to the rigid corridors of

public transportation. Esmark Inc., for example, recently allowed its International Playtex Div. to move from Manhattan to Stamford, Conn., partly because the company's four jets can use the nearby Westchester airport.

Manufacturers' bonanza

As big as corporate flying has grown in recent years, there are strong signs that its role will continue to expand rapidly in years to come. Of the largest 1,000 U.S. companies, only 502 operate their own airplanes, vs. 416 five years ago. That leaves a sizable virgin market, which salespeople from a dozen U.S. and foreign aircraft builders are tripping over each other to develop. In addition, a gaggle of new, advanced planes that will enter production soon—including jets that in some ways will outperform the airliners—are luring companies to expand their existing fleets (page 64).

More than 50,000 business aircraft now ply U.S. skyways—up from 35,000

in 1972. The vast bulk are modest piston-powered planes. But sophisticated turboprops and pure jets—many outfitted with beds, air-to-ground telephones, and other comforts—form a growing share of the U.S. fleet. Many companies are also moving up to used airliners. Atlantic Richfield Co. recently bought a Boeing 707 from American Airlines Inc. for \$2 million and is installing five state-rooms in it so executives can sleep on intercontinental flights and arrive ready to do business.

Last year business aircraft carried more than 50 million passengers. And the number should double in the next decade, according to some estimates. Such growth will mean a bonanza for the manufacturers, whose sales have been setting records annually for the past six years and should rise this year to triple the dollar volume of seven years ago (chart, page 64). Stiffening competition could shake up the industry, however. At least two manufacturers—Lockheed Corp. (with the JetStar) and Rockwell

International Corp. (with the Sabreliner) have been losing money on their business jets.

The impact of corporate flying, moreover, may grow more than the sheer numbers growth would indicate. Increasingly, U.S. companies are using their airplanes as sophisticated tools that do more than simply haul top brass from point to point in high comfort.

For many, the company plane is an effective marketing device that keeps them in closer touch with customers. Oxford Industries Inc., an Atlanta-based apparel maker, uses its twin-engine Beechcraft to fly department store personnel to its plants where they can oversee orders being produced, a ploy that "improves our relationship with the customer and improves sales," says Oxford Vice-Chairman Carl J. Reith. Giving buyers commercial airline tickets would not work: Oxford's 38 plants are scattered across six Southeastern states, many in towns with grass airstrips that lack commercial service.

Eaton Corp., ARCO, and many other

In addition, the corporate plane is providing the management of many companies with new flexibility and shortened reaction times in special situations. When a railroad car carrying chemicals for Du Pont Co. derailed near Toronto recently, the company flew a safety crew there by corporate plane in a fraction of airline time. And one Friday last October, Eaton used its Learjet to deliver a proposed tender offer for Carborundum Co. to Carborundum directors in six cities within four hours (Eaton lost out to Kennecott Copper Corp., however). Executives also applaud the privacy of corporate planes. "On a commercial plane, you can't have a business conversation with four people or spread out a bunch of drawings," says Paul Huffard, assistant secretary of Union Carbide Corp.

The growing diversity of the corporate plane's role in U.S. industry means that "we've gotten out of the silk scarf and goggles era" in business flying, says Roy H. McGregor, a group vice-president of Beech Aircraft Corp. Indeed, the cor-

porate plane, Meyer believes that more companies will use older models to provide broad business transport for lower-echelon employees. Thus, commercial airliners may draw primarily the less-advantaged members of society, just as mass transit largely does now.

So far, though, most airlines are not worried. A United Airlines Inc. study of business travel shows that corporate planes flying from remote towns often provide valuable "feeder" traffic for the carrier's long routes that it might not otherwise get. Of United's 20 largest corporate customers, 17 also fly their own planes. Xerox, for example, has five corporate planes but also spent \$9.5 million last year on commercial air fares—all tourist class. However, William Nesbit, United's corporate economist, admits that company fleets have been growing more rapidly than he had expected—and he predicts they will continue to grow far faster than airline traffic. Even though a typical trip by corporate jet costs an "outrageous" three times more than first-class commercial fare, "there is a huge time saving," Nesbit admits.

Corporate secrecy

Saving time for high-paid executives as well as for lesser personnel is the main justification for most corporate fleets. Du Pont uses its 13-passenger Gulfstream jet to fly employees from its Wilmington (Del.) headquarters to a plastics plant in Parkersburg, W. Va., enabling them to put in a full day's work there and return home the same day. "There's no way you could do that without the company plane," says Daniel McBride, flight service controller.

Time savings abroad can be especially dramatic. Digital Equipment Corp. can send executives from its Geneva office to a Galway (Ireland) plant by corporate jet, let them work there a full day, and return them to Geneva in 24 hours; commercial flights would expand the trip to three days. Four times a year, Citibank's Gulfstream jets top brass to the Mideast for visits to half a dozen Arab sheikdoms. "I defy you to do that on a scheduled airline," says Carl Desch, a senior vice-president at Citibank.

The growth of corporate flying domestically stems partly from reductions in airline service. The 1973-74 fuel crunch, particularly, prompted many carriers to cut marginal flights to small communities. Of the 14,000 U.S. airports, only 400 now have airline service—down one-third from those served 10 years ago. "If you had to rely on the airlines, business



Working flight: Xerox executives plan strategy aboard the company's Gulfstream I.

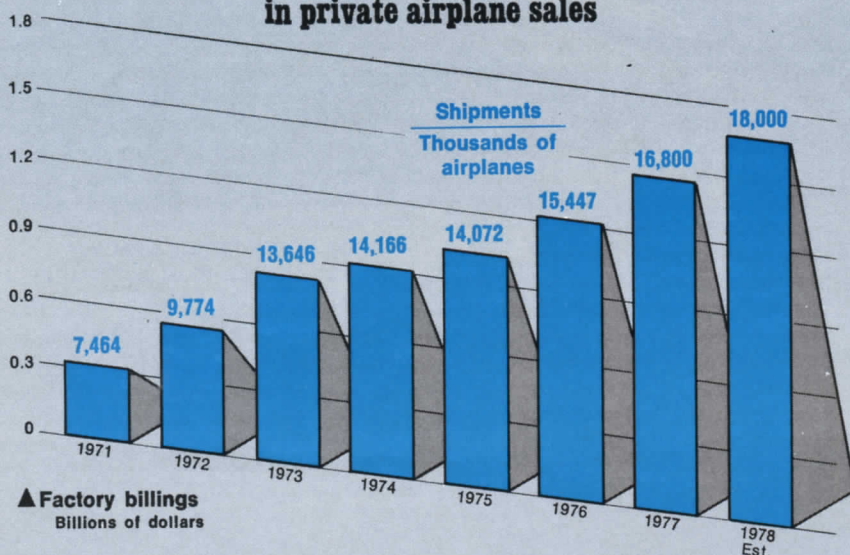
companies use corporate planes as a management tool that permits decentralization while enabling headquarters to keep a close personal watch on far-flung operations. Other companies are investing in airplanes as they would in computers—to cut overhead costs. Thus, Xerox flies 15,000 employees a year on a company-owned shuttle plane between its Stamford headquarters and its Rochester (N. Y.) plant, saving \$410,000 annually over commercial air fares—and cutting travel time as well.

porate plane may become such a common phenomenon in coming years that it could give the commercial airlines serious competition.

One leading transportation economist, Professor John R. Meyer of Harvard Business School, suggests that business planes may eventually become to the airlines what private autos now are to public transit. Cars and corporate planes both offer privacy, convenience, and comfort for those fortunate enough to travel in them. As fancier corporate jets

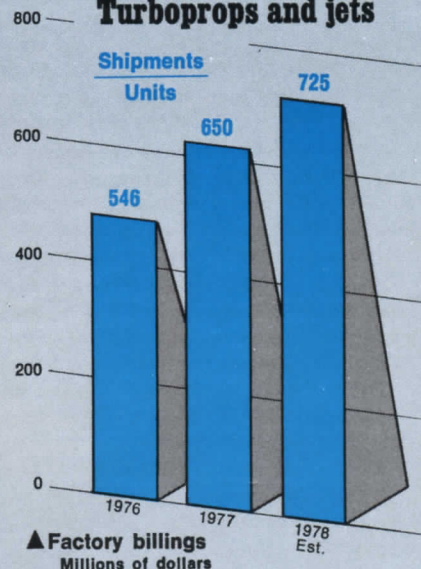
Christopher Little/Camera 5

The upsurge in private airplane sales



Data: General Aviation Manufacturers Assn.

Where the growth is fastest: Turboprops and jets



expansion in this country would cease," claims Charles Vogeley, senior vice-president for marketing at Grumman Corp.'s corporate jet-building unit. Gannett Co., for one, flies a company plane from its Rochester headquarters to Binghamton, N. Y., because commercial service between the two cities has all but been eliminated.

As they become less an executive luxury and more a mundane piece of capital equipment, the nation's great, gray fleet of business planes may come out of the closet of corporate secrecy. But that is far from the case now. Of several dozen plane-owning companies contacted by BUSINESS WEEK, about half refused to discuss their fleets. "I'd

rather that people didn't even know we owned a plane," says Karl Eller, president of Combined Communications Corp. in Phoenix.

Eller's reason is that stockholders often view company planes as an indefensible executive self-indulgence. At first glance, the costs of ownership do appear extravagant. The biggest cor-

The crowded field of new corporate jets

Corporate aviation's growth is touching off a new-model dogfight among plane builders, especially in the fast-growing jet segment of the market. "There's a real explosion of new models right now," says James J. Edwards Jr., president of Rockwell International Corp.'s Sabreliner Div. Rockwell is launching an advanced new jet—the Sabreliner 65—and so are at least four other manufacturers: Cessna, Gates Learjet, France's Dassault, and Canada's Canadair.

In addition, Beech Aircraft Corp. and Japan's Mitsubishi Heavy Industries Ltd. are considering building their first corporate jets. Grumman Corp. is weighing a new version of its Gulfstream II, after dropping a proposed Gulfstream III last fall because of high development costs. Lockheed Corp. may build a new JetStar. And off in the wings, Boeing Co., giant of the airliner business, is sketching what could be its first corporate jet.

Manufacturers are rushing to beat each other with new models, because the market seems set to zoom upward for several reasons. One is the "trade-up" urge, which is catching companies already hooked on flying small planes.

Equally important, noise rules and soaring fuel costs will prompt many current jet owners to step up to the new-generation planes under development.

Escalating price. The corporate jet lineup has been fat with models for years. With the new models, to be delivered starting next year, the competing builders offer a mind-cluttering array. Intense competition among them may well force some companies to abandon the business. "A few years ago I figured there would be only three jet manufacturers left by now," says James B. Taylor, president of Canadair's marketing arm.

Canadair's effort to muscle in may provide the squeezing force. The Canadian government acquired Canadair from General Dynamics Corp. in 1976 and wants to resell it to private investors eventually. The company has never built a business airplane. And its maiden product—the Challenger—uses an Avco Corp. Lycoming engine that has never powered a production aircraft. Yet the plane's attractive specifications plus Canadair's marketing strategy have lured 112 orders even before the first flight, which is scheduled for April. Canadair began writing Challenger

orders in 1976 at a cut-rate \$4.4 million. The current price is \$7.5 million. At the original price, "The plane will be a fantastic bargain if it does all that Canadair claims," says William Bullock, director of Lockheed's JetStar II program.

However, U. S. manufacturers are skeptical that the Challenger can meet promised specifications. Compared to the Gulfstream II—a head-on competitor that is the biggest corporate jet now flying—the Challenger will carry a similar payload but in a wider cabin. It is powered by much weaker engines, yet will theoretically fly faster than the Gulfstream and consume only half the fuel. "The Canadians seem to know something the rest of the industry doesn't," says Ivan E. Speer, group vice-president of aerospace at Garrett Corp., the major builder of corporate jet engines. Holding down the Challenger's weight is the key, says Canadair.

If it succeeds, the Challenger will have the best thrust-to-weight ratio in the industry, says Canadair's Taylor. Xerox Corp., which has ordered two Challengers, has done a computer analysis showing that the plane will burn 60% as much fuel as its aging Gulfstream II, which Xerox plans to sell.

Credit for the Challenger's fat order

porate-type jets now cost upward of \$8 million each—and typically carry only four or five people. Operating costs for a one-hour trip often exceed \$1,000. ARCO spent \$5 million last year to operate its eight corporate jets. (The company is quick to point out that the figure is a drop in the bucket compared to its \$9 billion total operating expenses.)

Stockholder indignation is only one worry. Security is another. ARCO keeps flight schedules secret even within the company. But if security is a key reason for leaving corporate planes unidentifiable, in another sense it is a reason for using them. Protection from hijackers and kidnappers, especially abroad, is a major reason why many companies fly top brass in private planes. That is why

American Telephone & Telegraph Co. insists that its chief executive, John D. deButts, do all his flying in company planes. One big New York-based multinational even has fears about publicly acknowledging that security prompts corporate flights: "Those terrorists and kidnappers will start looking for the plane if we make public that it's a deterrent," says a company official.

Executives also are wary about the media, which often exult in uncovering improper use of corporate craft—to ferry executives to golf tournaments or fishing holes, for example. For several months, CBS-TV news reporters have been trying to turn up such abuses for a *60 Minutes* broadcast; the network has placed help-wanted ads for corporate

pilots in New York, Washington, and Los Angeles and has been probing respondents for dirt on former employers.

Trouble with the IRS

The Internal Revenue Service, too, is diligent about uprooting suspect executive travel that companies charge as a business expense. Although the IRS says that most companies are scrupulous in following the law, Commissioner Jerome Kurtz has a keen interest in ferreting out executive "fringe benefits" and he is expected to intensify the hunt.

One practice that may fall under IRS disfavor is the use of corporate planes to ferry executives who maintain homes far from their company's offices. Such long-distance commutes are spreading in America's mobile society. ARCO Chairman Robert O. Anderson, for instance, lives on a New Mexico ranch and commutes—by corporate plane at company expense—to ARCO's Los Angeles headquarters. The company justifies the practice by pointing out that Anderson also has an office near his ranch. Flights are simply "from one ARCO office to another," says a company spokesman. But the IRS could decide the trips are mainly for Anderson's convenience and, therefore, constitute income.

IRS vigilance is only one possible



Canadaair's Taylor: He has orders for 112 Challengers—even before its first flight.

book rests largely with Taylor, the 55-year-old super-salesman of the corporate plane world who scored earlier successes for Cessna and Dassault. Warm, candid, and low-key, Taylor rises at 3 a.m. and zooms about the U.S. (by commercial jet) to convince potential clients that the Challenger is real. "He's probably the most brilliant marketer I've ever seen in this business," says John Zimmerman, president of Aviation Data Service Inc., a Wichita research firm.

Smoother ride. Other new planes also offer highly attractive features. The new jets, in fact, promise to carry corporate flying to heights of performance and comfort that will surpass commercial flying. Some new models will fly at 51,000 ft., a good 10,000 ft. higher than the commercial jets, where the ride is smoother and engines burn 20% to 30% less fuel. They are powered by new, efficient "high-bypass" fan-jet engines.

The Challenger, Sabreliner 65, and Dassault Falcon 50 will have "supercriti-

cal" wings—an advanced drag-reducing design that commercial airliners will use eventually. The new Learjet Longhorn has wings that bend up at the tips to form bizarre supercritical "winglets" that purportedly cut fuel use 25% compared to previous Learjet wings.

Such new models are costly to develop—\$150 million for the Challenger and the abandoned Gulfstream III. Thus Lockheed may decide to fit its JetStar II with a supercritical wing instead of building an entirely new plane. And some users are sticking new engines on old planes rather than pay the price of the new models, which can run up to \$7 million each.

Turboprop builders believe escalating jet prices give them a chance to crack the top end of the market with more sophisticated propjets. This summer Piper Aircraft Corp. will start delivering its new Cheyenne II, which will carry nine passengers at 325 mph some 1,800 mi., for less than \$1 million. Turboprops

are selling strongly these days because of relatively low price tags and good fuel consumption. They also require only one pilot.

Perfecting the Fox Jet. Far more exotic business planes are under development at several small companies. American Jet Industries Inc., of Van Nuys, Calif., flew its short-takeoff Hustler 400 last month for the first time. To sell for \$565,000, the seven-passenger plane has a turboprop engine plus a small booster jet in the tail. Anthony Fox, a Minneapolis aerospace contractor and snowmobile builder, is perfecting the Fox Jet, powered by tiny jet engines that, Fox claims, will fly at 400 mph for 9¢ a mi. Aeronca Inc. is to build it.

And in Reno, 75-year-old William P. Lear is hard at work on a new seven-passenger turbojet. The "Lear Fan" will be made of composite materials weighing 40% less than aluminum. Lear is aiming at a speed of 425 mph, a range of 2,500 mi., and a passenger-mile operating cost of a flat 1¢.

The proliferation of new corporate planes may add up to a baffling choice for buyers. But technical complexities do not bother everyone. Gates Learjet Corp. recently lost an order because a customer preferred the larger bathroom of a competing model.

hindrance to corporate flying. Senator Edward M. Kennedy (D-Mass.) has tried to win legislation limiting the tax write-off on such flights to the cost of tourist-class air fare. And a pilot shortage could develop in a few years as an aging horde of World War II aviators retires. The General Aviation Manufacturers Assn., a trade group, last year launched a campaign to prod more Americans into learning how to fly—offering airplanes as prizes.

A squeeze on space

But the biggest problem facing business flying is a growing squeeze at airports—because of crowding, noise rules, and the fact that some small, conveniently located airports are in danger of going out of business. Chicago's suburban Palwaukee Airport, widely used by corporate planes, may succumb to the lure of residential developers. And on the West Coast, says Robert L. Lair, senior vice-president of Cessna Aircraft Co., "It's hard to find a place to tie down." Some airports have adopted night curfews and strict noise rules that not all business planes can meet.

In addition, the airlines are angry at corporate planes for tying up runways at such saturated airports as Chicago's O'Hare and New York's La Guardia. "A Learjet carrying four people takes up as much room as a 747," gripes Nesbit of United Airlines. He argues for regional planning efforts to develop satellite airports for business flying.

The corporate plane's impact on the bottom line of U. S. business is hard to assess. Purely statistical studies show that the most profitable companies are also the biggest corporate flyers. However, no one has established whether the planes helped produce those profits, or whether the profits permitted companies to buy planes.

One company that believes strongly in the first scenario is Digital Equipment Corp., the fast-growing minicomputer maker whose sales zoomed to \$1.1 billion in the year ended last June 30 from \$188 million five years earlier. DEC operates a mini-airline that flies 111 scheduled helicopter flights every day and 10 fixed-wing routes on propeller-driven planes, hauling engineers, salespeople, and executives among company plants that are

scattered around New England and Ontario, Canada.

"Aviation has helped us manage our fast growth rate," says George A. Chamberlain, DEC's treasurer. Fast-changing computer technology and a volatile market require all company departments to keep in close touch, he says. With DEC's engineering staff centralized at its Maynard (Mass.) headquarters, company planes enable engineers to fly to a Westfield (Mass.) peripherals plant, work on a manufacturing problem, and return to Maynard within half a day. Although the two facilities are only two hours apart by car, an auto trip would consume a full day—extra time that fast-moving DEC feels it cannot afford. The planes are "a working system that pays its own way," says Chamberlain. DEC, run by straitlaced New Englanders, does not want to have an executive jet, however.

Corporate planes thus allow many companies to have the best of two worlds: decentralized operations run tightly by a centralized management. Corporate fleets also are both a result and a cause of the "middle-age spread" that U. S. industry is currently undergoing: abandonment of cities for the more pleasant environments and lower wage levels of small towns. Corporate planes have been instrumental in the textile

and apparel industries' move into small Southern towns, for example. Blue Bell Inc. in Greensboro, N. C., flies company planes to 121 locations and has tripled flight hours in the past five years. Currently, the company is considering consolidating its inventory in one warehouse to save costs, dispatching items as needed by company plane.

Cleveland's Eaton flies executives in four Learjets to keep close tabs on its 60 domestic factories, located in such remote spots as Kearney, Neb., Cynthia, Ky., and Spencer, Iowa. Gannett tries to give heavy corporate guidance to newspapers it owns in 55 towns, but only five of those towns can be reached by nonstop commercial flights from Gannett's Rochester headquarters. John E. Heselden, senior vice-president, figures that if Gannett did not fly corporate planes, it would have to increase its corporate staff by one-third, to 60 people, to compensate for the time lost in travel. In addition, "we would certainly need more regional executives," he says.

A 10,000-mi.-per-year deal

Executives who command company planes typically spend huge chunks of time on the road; Xerox President David T. Kearns made 15 trips by corporate plane during November. Critics of corporate flying wonder if this is really necessary. When companies have their own planes, management may feel an urge or even obligation to use them. White Consolidated Industries Inc. eschews a corporate plane for that reason. Executives take commercial flights when feasible. If they need to visit remote facilities such as a compressor plant in Cullman, Ala., they charter a plane.

Many companies find chartering a less expensive way to get places quickly. Executive Jet Aviation Inc. in Columbus, Ohio, claims to be the biggest corporate jet charter service in the U. S. Last year its 13 Learjets flew executives of 250 companies, mostly under annual contracts based on minimum mileage increments. Most popular is a 10,000-mi.-per-year deal, which costs about \$2.40 per mi. for a jet hauling five passengers. That is way above the 12¢ per passenger-mi. that airlines typically charge for first-class travel, but it compares favorably with company-owned jets. And, of course, corporate capital is not tied up in an airplane.

But most companies prefer to own planes so as to control maintenance and crews. The capital outlay is often a good investment: The used corporate plane market is so strong that companies frequently sell their planes at a profit.

Resale plus other factors, including

The most expensive corporate fleets

Company	Number of airplanes	Fleet value Millions of dollars
Coca-Cola	5	\$17.2
3M Co.	7	16.2
Rockwell International	21	15.6
Mobil	28	14.4
IBM	9	13.2
Atlantic Richfield	20	13.0
General Motors	14	12.8
United Technologies	14	12.3
Exxon	16	11.3
Tenneco	26	11.1
ITT	13	10.9
Shell	24	9.7
Diamond Shamrock	3	9.0
Gannett	4	8.9
General Dynamics	5	8.8
U.S. Steel	4	8.8
Conoco	19	8.7
Texaco	8	8.3
Time	9	8.2
Johnson & Johnson	7	8.1
Marathon Oil	14	8.0

Data: Aviation Data Service Inc. (as of Dec. 30, 1976)

the 10% investment tax credit, can make corporate flying cheaper than it appears at first. And some companies are taking advantage of a growing cost-cutting idea: Plane management services in several cities fly and maintain a company's planes for a fee, chartering them to outsiders during idle periods to offset costs. One California company uses its Cessna Citation some 45 hours a month and then charters it for 24 hours through San Francisco's Aviation Methods Inc. That is cutting estimated out-of-pocket costs over seven years to \$189,394—from about \$1.5 million without chartering.

Other companies are not interested in renting time on their planes but have an outside firm manage them. "We're in the banking business, not aircraft," says Desch of Citibank, which lets Executive Air Fleet Corp. in Teterboro, N.J., manage its planes.

Computerized reservations

Managing a corporate fleet in-house can indeed be a complex job. By many accounts, Xerox has developed the nation's most sophisticated corporate flight operation. Xerox's Travel Services Dept. "owns" the company's five corporate planes and operates three travel offices at principal company facilities to help employees plan trips. Each office

has a video computer terminal that displays flight schedules of company planes as well as common carriers serving frequently used routes, and it can call up data on space available. Any Xerox employee can fly on a company plane if there is space—but the department that uses the plane is billed to cover costs.

DEC and Hewlett-Packard Co. have also installed computerized reservation systems for their corporate planes, and the idea seems likely to spread as corporate fleets expand.

The growth in business flying—whether by company plane or by commercial airlines—upsets some observers who see it as a waste of energy resources. Technologists at TRW Inc.'s electronics operation have long preached that communicating over electronic circuits is more economically and ecologically sound than transporting individuals over long distances simply to talk with each other. Nonetheless, TRW flies a corporate jet.

Probably more than ever, most businessmen agree with ARCO's vice-chairman, Louis F. Davis, that "there's nothing like face-to-face communications to keep a business running." Adds Davis: "I'm sure there'll come a time when we'll all gather around a screen and talk." But until then, he says, ARCO executives are delighted to have corporate airplanes. ■