



JOINING THE CLUB

MEMBERSHIP: THE NEW ACCESS PARADIGM

by James Wynbrandt

In not even five years since their inception, membership programs have created a new class of business aviation access while changing charter industry practices and perceptions of customer habits (for example, travelers' willingness to share the cabin of a business jet with strangers). These programs often have little in common besides providing access to a closed fleet, and range from relatively low-cost subscription access "private" airlines to traditional operators of ultra-long-range jet fleets. The companies highlighted here are at the forefront of defining and expanding these new access paradigms.

Surf Air

Commencing scheduled service in 2013 with a fleet of PC-12/12NGs, California's Surf Air was the first subscription membership "private airline" and the model for subsequent monthly, fee-based, "all-you-can-fly" providers. In June Surf Air purchased Rise, its Texas-based clone, and concurrently launched service at subsidiary Surf Air Europe, the two moves seen as validating the subscription access concept. With 850 users

from Rise added to its rolls, Surf Air now has 3,850 members.

The Rise acquisition is intended to fuel rapid expansion of Surf Air's dozen legacy routes and a doubling of flights on former Rise routes, a company spokesperson said. Coming soon are Monday-through-Friday flights linking California and Texas. An in-development premium program will add weekend service to Cabo San Lucas, Mexico; Aspen, Colo.; and Sun Valley, Idaho.



More immediately Bentonville, Ark. (home of Walmart); Midland, Texas; and Oklahoma City are joining the Texas route network. Additional membership programs providing various levels of access to the network will be created. Eventually the Rise fleet of King Air 350s will be replaced by a dozen PC-12/12NGs. Surf Air currently has firm orders for three PC-12NGs and options for 50 more.

Basic membership (\$1,950 per month) provides access to the basic route network, two reservations at a time. Preferred (\$2,450 per month) provides access to the preferred network, four reservations at a time. Premium (\$2,950 per month) provides up to six reservations at a time on the premium network, which will include yet-to-be-launched routes.

Planned expansion notwithstanding, flights and flight hours on Surf Air's legacy routes declined almost 25 percent year over year from July last year through this past June, according to Argus International. Surf Air told AIN it reduced flying in October last year "by about 25 percent," and that "like any young company, we had grown

quickly and experimented with a few different strategies to see what profitably builds the membership." The cutback, or "rationalization," was in response to recognition "that our members wanted schedule depth in a few key markets [rather than] schedule breadth across more markets," the company said.

Surf Air has since reallocated seat capacity to focus on the Los Angeles to San Francisco markets during the week, while catering to leisure travelers on weekends with flights to Napa, Monterrey, Truckee and Palm Springs, and adding service to Las Vegas from Hawthorne, San Carlos and Santa Barbara. Since last October the schedule has grown in core markets and restored about 600 monthly hours of flying, according to the company, and in mid-August it introduced San Diego to the Bay service via Montgomery Field.

CEO Jeff Potter, former CEO of Frontier Airlines, left Surf Air at the end of May in what he says was a planned move, after engineering transfer of operational control of Surf Air's fleet to Encompass Aviation. Potter told AIN, "I remain Surf Air's number-one fan." Chairman Sudhin Shahani has



taken on the role of CEO. Rise founder and CEO Nick Kennedy is now Surf Air's president of the Texas and Southeast region.

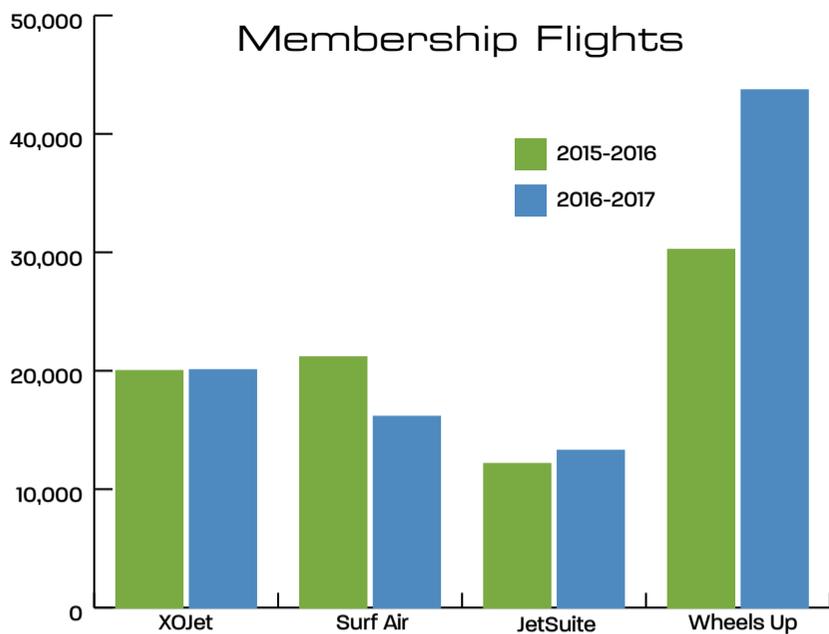
Meanwhile, Surf Air Europe has taken possession of its first Phenom 300 (operated by UK-based FlairJet) and is flying between London Luton Airport and Ibiza, Spain; and Cannes. Plans call for inaugurating service to Zurich, Munich, Geneva and Milan from London, and adding four Phenom 300s to the fleet by year-end. Several membership plans are available, priced relative to the extent of the service network they access, ranging from monthly Select subscriptions at £1,750 (about \$2,285), Prime at £3,150 (about \$4,110), and £3,650 (about \$4,765). In a nod to the shared charter flights appearing to gain traction in the U.S., the European branch offers an Anywhere membership, which allows crowd sourcing of ad hoc charter flights for round trips, starting at £2,600 per person. A potential customer sets the time and deposits the funds, and Surf Air Europe markets the flight. Once six passengers have committed, the flight is scheduled; if fewer sign on, the initiating customer can pay the difference or cancel the flight.

Wheels Up

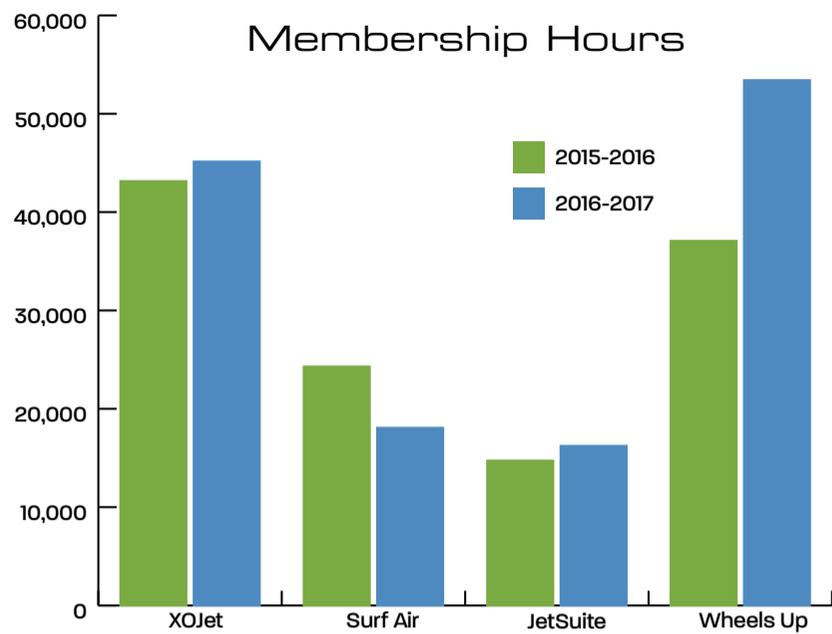
Founded in 2013, Wheels Up has experienced rapid growth, owning 63 King Air 350i twin turboprops and 15 refurbished Citation XLS/XLS-plus light jets (operated by UK-based Gama Aviation), providing access to members who pay a one-time initiation fee and annual dues in following years. Fixed hourly costs for the King Air 350i are \$4,295 and \$7,495 per hour for the Citation XLS.

In this year's first half Wheels Up saw 75-percent year-over-year growth, founder and CEO Kenny Dichter said, and "will exit 2017 with 4,000 active Wheels Up members" and "\$300 million-plus in revenue." The company, founded in 2013, will turn Ebitda positive by year-end, and in June received a \$90 million forward credit facility from private equity firm KKR for purchase of 17 more King Air 350is, Dichter said.

Seeing a powerful, user-friendly digital platform as critical to growth, Dichter aims to keep Wheels Up "at the leading edge of technology" as it "endeavors to be the world's best social and aviation company." Shared shuttle flights are one means of strengthening that social component of membership. Routes include New York-South



Source: Argus



Florida; New York-Nantucket; Boston-Nantucket; and in the winter, San Francisco-Truckee, Calif. During football season, Saturday shuttles to college games are popular, as were shuttles between California and Reno during the Burning Man festival, Dichter said.

Meanwhile, Wheels Down, the on-the-ground events program, is key to driving more socialization and asset utilization. Wheels Down's "tent pole events" are the Super Bowl, Masters Golf Tournament and Art Basel, during which the company hosts parties, meetings with celebrities and other insider opportunities for members, further driving fleet utilization and creating a sense of community. Wheels Up offers free empty legs. One indication of the intent to mainstream its offering: Wheels Up memberships are sold in Costco, and during "key time periods" at other warehouse stores.

Corporate sales are the next growth frontier. Wheels Up has 200 corporate accounts and is "committed to a big push" to "double that over the next 18 to 24 months," Dichter said. Current accounts use Wheels Up primarily to supplement corporate flight departments, secondarily as an alternative to airlines, or lastly among small to medium-sized businesses for all corporate lift.

Expansion into Europe, initially targeted to launch this year, is on hold. The company is "focused on the U.S. and North America" and

"waiting to see how Brexit" affects business aviation on the Continent. Executive v-p and founding partner John Colucci is based in Europe, and with fleet operator Gama Aviation headquartered in Farnborough, UK, whenever conditions warrant "we have a plug and play" offering ready to go, Dichter said.

Individual memberships carry a \$17,500 initiation fee for the first year and \$8,500 per year thereafter. Corporate memberships cost \$29,500 for the first year and \$14,500 per year thereafter. The entry-level "8760" program costs a flat \$6,950 per year.

XOJet

XOJet introduced a new charter model in 2009, offering low (then starting around \$20,000), one-way transcontinental rates aboard its owned and operated fleet of Citation Xs and Challenger 300s. In the years since, XOJet has de-emphasized ad hoc charter in favor of membership programs, and is now going all in on the new paradigm: "We're changing to a subscription model," said XOJet CEO Brad Stewart. "That's worth carefully explaining." To wit: The platform XOJet developed and provides exclusively for program members "costs money, so we say to the client, 'If you're a member, we need you to pay for the platform,'" Stewart said. Most customers have accepted the change without complaint. "People are more and more comfortable with subscription models: Pandora,



NetJets and Flexjet have been subscription models for decades; second homes have HOA dues. They get it,” Stewart said.

The deposit-based membership programs—now Elite, Preferred and Select Access—have been modified and are bundled under an Access Solutions umbrella. The top-tier Elite Access membership, representing a \$200,000 refundable deposit, gets the biggest upgrade: guaranteed hourly rates, previously available only for super-midsize jets (\$8,500 per hour), have been extended to light (\$5,500) and midsize (\$6,750) categories, in place of the demand-based pricing previously applied. Monthly fee is \$1,000, \$1,500 or \$2,000, for access to one, two or three categories of jets at guaranteed pricing. Initiation fee is \$3,000.

For a \$100,000 deposit, Preferred Access, which Stewart described as a “combination of ease of use and loyalty program,” provides a 4-percent

discount for fleet aircraft use. Initiation is \$3,000 and monthly fee is \$500.

Select Access, a new \$50,000 entry-level program for fliers needing 15 to 25 hours per year, provides a 2-percent discount for fleet aircraft use. Monthly fee is \$250.

Overall, Access Solutions saw 30-percent year-over-year growth in program sales in this year’s first half. Most new customers are coming from former fractional owners, other card programs and “regionalized mom-and-pop service platforms,” Stewart said.

While emphasizing memberships, XOJet’s ad hoc charter and charter brokerage businesses are also growing, and the California-based company has a concept for a “fourth component”: a ride-sharing offering that “can extend the addressable market for our products down market a little, in an effort to be more inclusive,” Stewart said. Such an



offering would be developed in conjunction with JetSmarter, XOJet's exclusive digital marketing partner, which has the technology chops to create the app. All online booking of XOJet ad hoc charter is done via the JetSmarter app, while XOJet sells all its empty legs to JetSmarter, which offers them along with other empty legs it purchases to JetSmarter members.

JetSuite

California's JetSuite owns and operates a fleet of Phenom 100s and Citation CJ3s, offering both ad hoc charter and SuiteKey memberships, the latter providing reduced hourly flight rates on deposits of \$50,000; \$100,000; \$200,000; or \$400,000. Serving SuiteKey members "is the single largest part of our business," said Cameron Gowans, v-p of sales and marketing, accounting for "in excess of 80 percent" of flight activity. Growing SuiteKey sales and member demand for lift led JetSuite in May to offer an aircraft management program aimed at adding inventory—specifically Phenom 100s and 300s and Legacy 600s and 650s—to the fleet. "We need to add more supply to meet growing demand," Gowans said. In homage to the bright swaths of paint bisecting the airframes of its fleet, the three-tiered management offerings are named RedStripe, GreyStripe and WhiteStripe.

WhiteStripe is a traditional charter management arrangement, with JetSuite assuming operational

control and using the aircraft for revenue service when the owner makes it available. RedStripe, aimed at owners who want to outsource all fixed operations and management costs, makes the airplane available to them as scheduled for planned trips, while giving JetSuite primary access for revenue service. JetSuite pays crew salaries, training, insurance, maintenance and all other operational costs.

GreyStripe is tailored to owner/operators and small corporate flight departments seeking revenue for aircraft when dormant. JetSuite handles maintenance and compliance with Part 135 requirements and operates the aircraft when available with its own crews, returning it to the owner at the end of the time block, who continues to operate and crew the aircraft. All management clients have access to JetSuite's fleet.

JetSuite signed its first management contract, a RedStripe agreement for a Legacy 600, and was about to add it to the charter certificate as this issue went to press, the first large-cabin jet in the fleet. Meanwhile, the CJ3s are undergoing cabin refreshments, as the Phenom 100s did last year.

JetSuite has a charter shuttle airline, JetSuiteX, connecting California, Montana and Nevada with executive configured ERJ135s, but there is no membership requirement or program for the service; SuiteKey members get a 10-percent discount on JetSuiteX tickets.



JetSmarter

JetSmarter is a charter brokerage/technology company providing discount rates to members who pay an initiation fee and annual dues for access to services, and has gained wide attention with the shared shuttles it also offers on 50 popular routes in the U.S., Europe and the Middle East.

Though per-seat shared flights (distinct from “airline” shuttles à la Surf Air and JetSuiteX) have been marketed (and long derided by industry traditionalists as unwanted by charter customers) for some years, Florida-based JetSmarter has popularized the access option, boosting its profile and membership ranks in the process. All three JetSmarter memberships—Sophisticated (\$50,000 per year), Smart (\$15,000 per year) and Simple (\$5,000 per year)—provide access to shuttle flights as well as ad hoc charter, though the number of shuttle seats members can reserve (six,

two and one respectively) vary accordingly. A limited number of the shuttle flight seats are free to Smart members; if all are spoken for, members can start another shuttle flight on that route and pay a per-seat rate—for example, \$2,900 on a light jet from New York to South Florida—that’s guaranteed to make the trip even if no other passengers sign on.

But shuttles ply only the most popular routes. To expand the shared charter offering, in July JetSmarter introduced SharedCharter, which enables a member to create a charter flight for any route and have JetSmarter market unused seats, earning flight credits for seats sold for up to 100 percent of the charter cost. (Simple members pay a surcharge for using the service.) Members who buy a seat on the flight can save up to 90 percent on charter costs, according to JetSmarter.

As noted, JetSmarter also buys empty-leg inventory from charter operators—from XOJet, for



example—offering them gratis to members. Relatively few take advantage of empty legs, but CEO Sergey Petrossov said members often check on the availability and flights, underscoring the interest members have in the benefit.

JetSmarter has invested heavily in the digital platform that enables its shuttle flight scheduling, CharterSharing and other offerings, and tracks all customer interactions for big data application.

VistaJet

Malta-based VistaJet owns and operates a fleet of Globals and Challengers for both membership and ad hoc charter programs, with sales of the former up 57 percent year over year for this year's first half,

the company reported. VistaJet's flagship offering, Program, a three-year membership, provided a record 63 percent of the company's revenue in the second quarter, up from 55 percent in the previous three months. Aimed at users flying at least 50 hours, Program provides guaranteed availability and hourly rates. The average program member flies 100 hours per year, said Chris Moore, chief commercial officer.

Members make yearly or quarterly deposits. One hundred hours per year on a Challenger 350 costs \$12,000 per hour, or \$1.2 million. Access to the Globals is more customized, driven by factors such as call-out time, the amount of flying per day and the length of typical routes. For those

seeking long legs and providing seven days' notice, prices for Globals typically range from \$18,500 to \$19,000 per hour for a 100-hour membership, or \$1.85 to \$1.9 million per year.

The company sold 6,000 new hours through the first half of this year, compared with 10,000 new hours in all of last year. VistaJet also reported a 91-percent customer retention rate, and renewal hours more than tripled in the first half of the year. The company believes its recent abolition of positioning fees is further fueling demand.

VistaJet is scheduled to take delivery of one more Global 6000 this month, taking the fleet to 73 jets. "Then we're finished with the investment cycle," said Moore. The company has no orders for the forthcoming Global 7000, nor interest at the moment, he added. Meanwhile, a shift in the VistaJet pitch is under way. "Our first ten years were focused on wealthy individuals," said Moore. "In the last two to three years our focus changed on what we can do for corporations." One selling point: "You know exactly what it's going to cost you" to use the jet, unlike fractional or whole ownership. "Unless you absolutely have to [access a jet] with a couple of hours' notice, ownership of an aircraft is getting to the point of being redundant," Moore said. "There wasn't a global offering in the past that gave access to a fleet like this. The

hours we sold demonstrate the trend toward shared ownership."

Moore also noted, "Corporations take longer to sell to but are generally a lot more loyal" than private customers, and their typical use of aircraft is complementary to the schedules of wealthy individual members. □

A MEMBERSHIP PIONEER BIDS AVIATION ADIEU

As Surf Air announced its acquisition of Rise, the conquering company's co-founder, former CEO and inventor of the all-you-can-fly subscription model, Wade Eyerly, quietly exited the aviation industry. After leaving Surf Air in 2014, Eyerly and partners founded Beacon, aiming to replicate the Surf Air model in the New York-Boston corridor, sans Surf Air's ownership and operational responsibilities. The venture failed, Eyerly said, because of poor execution of plans for which he takes full responsibility but declines to identify.

Eyerly was then hired under a one-year contract as managing director of new ventures at Wheels Up, a company he calls "incredibly good." His new endeavor, which he said he's been thinking about for some time, involves providing insurance for college loans, to protect against the financial calamity caused by inability to repay a student loan. Looking ahead at the membership market, Eyerly said, "I think you'll continue to see the model explored and extended," ticking off countries around the world he's had inquiries from about starting a similar service. "You're going to see interest as more and more innovative models come up." ■

PART 380 CHARTER

Part 135 rules preclude on-demand charter operators from offering single seats or scheduled flights. But shuttle flights like those organized by Wheels Up and JetSmarter, and charter airlines like Surf Air and JetSuiteX, operate under Part 380 rules. A Part 380 public charter operator is allowed to sell single seats aboard aircraft with up to 30 passenger seats by DOT approval but cannot schedule flights for more than a one-year period. ■