

The True Cost of Commercial Air Travel

Overview

Whitepaper Series

- *A Primer on the Business Aviation Industry*
- *Understanding Business Aviation's Costs*
- ▶ ***The True Cost of Commercial Air Travel***
- *Analyzing Your Air Travel Budget For Savings*

World-class businesses are constantly evaluating new equipment, software, and processes to improve their efficiency and profitability. Millions of dollars are spent on new machines capable of doing the same work in less time or on software that can eliminate manual steps required to perform critical business functions. Factories, warehouses, data centers, and offices routinely justify millions of dollars in capital expenditures to improve labor efficiencies by 10%, 5%, even by just 2% in some cases. A majority of these efforts are directed at improving the line worker, data entry person, warehouse associate, telephone support specialist, retail salesperson, or other hourly employee's efficiencies. It's no wonder since a significant amount of labor costs are directed to these key front-line employees.

However, is your company pursuing similar productivity investment opportunities for its senior executives, directors, and managers? Is the same effort being taken to find equipment, software, or processes to help these most critical employees be more effective in their workplace? After all, they are vital to the success of your business and are often quite difficult to replace. These are the people who make the crucial decisions affecting the future of the business, close the seven-figure sales, keep your most important customers happy, manage large numbers of employees, and are most responsible for your business' effectiveness. Not to mention that they are compensated well for their efforts indicating their critical time-value to the company.

Perhaps your company has invested in mobile technology, new enterprise software, or additional staff to help these critical employees be more effective with their limited amount of time. In most cases, these same employees are also required to travel extensively to meet with customers, employees, prospects and suppliers. A significant amount of time can be lost in non-productive travel, particularly during commercial air trips, yet so few

companies evaluate business aviation as a potential investment that will improve effectiveness. Travel managers can demonstrate significant impact on company effectiveness by evaluating business aviation alternatives that help valued employees be more productive.

This whitepaper covers an approach for determining the true cost of commercial air travel when factoring in productive time savings available with business aviation alternatives. Many businesses and CFO's use similar time savings justifications for business aviation investments; in other words, they justify the use of business aviation based on the productive time savings it affords critical employees. This whitepaper builds on the previous whitepaper, "Understanding Business Aviation Costs", to help the travel manager understand the true cost of commercial air travel and thereby potentially build a case for business aviation.

breaking air travel down

When evaluating the cost of air travel, the price or fare paid for your flight is just one part of the cost equation. Relative time savings should be accounted for as well since non-productive time spent in route

decreases employee productive time, therefore, increasing the trip's true cost to the company. In order to analyze relative time savings, we break down an air travel trip to 5 basic time components:

- ▶ **Drive to Airport & Park** – time spent driving from the workplace to the airport of origin. If a taxi, shuttle, or hired car is used there's no need to account for the time spent parking.
- ▶ **Security Check & Boarding** – time before the scheduled departure time that travelers attempt to arrive at the airport. This time is needed to check-in, go through security, walk to the gate, and board the aircraft.
- ▶ **Flight: Gate to Gate** – time from aircraft door closing to destination airport gate arrival, a time reported by all airlines and tracked by the Bureau of Transportation Statistics (BTS). It includes taxi time to the runway, flight time, and taxi time to the gate, inclusive of any tarmac wait delays.
- ▶ **De-plane, Walk to Ground Transportation** – time from aircraft door opening to traveling by ground transportation. It includes time spent disembarking the aircraft, walking through the terminal, and locating your ground transportation.
- ▶ **Drive from Airport** – time spent driving or being transported to your end destination.

The illustration below compares these travel components on a 400 mile flight taken by commercial airliner versus a business jet. It is assumed that the airport used for a business jet flight will generally be closer to the starting and ending destination and

comparable ground transportation types are used in both cases. Of course, there are many factors that can affect time spent in transit, but this provides a relative measure assuming no extraneous delays.

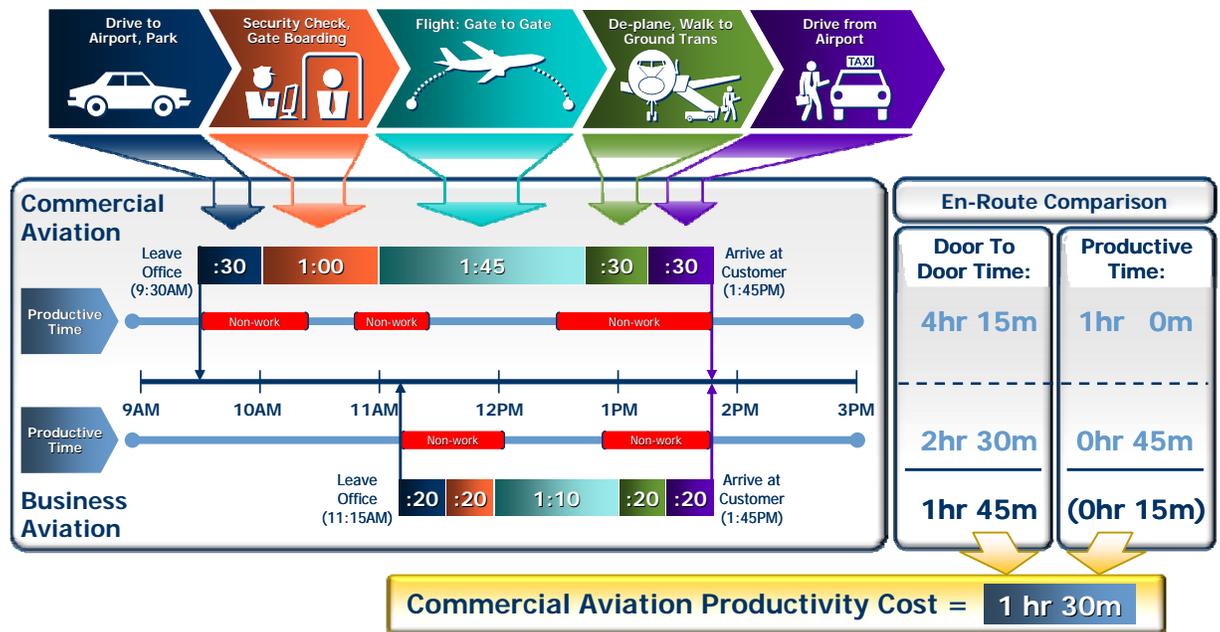


Figure 1 – Comparing travel times for a 400 mile direct air travel trip

employee travel time value

The net employee time value gain is determined by calculating the time that could have been spent being productive during travel. In this case, how much productive time was lost by choosing commercial aviation over business aviation?

On this sample 400 mile trip, we can see that the overall (door-to-door) travel time on a business jet is 2 hours and 30 minutes vs. 4 hours and 15 minutes by commercial airline, accounting for a 1 hour and 45 minute gain. However, we also account for productive time en-route (illustrated by blue timeline

bands) since we are determining the net productive time of the employee and assume that work can be done en route. In this case, productive time on the commercial trip was 1 hour versus productive time of 45 minutes on the business jet.

From this example, we can conclude that the employee gained total productive time of 1 hour and 30 minutes by choosing business aviation for this trip. The next question is: how much is an employee's gained productive time worth?

Businesses spend a lot of time evaluating employee performance, determining compensation levels, structuring bonus incentive plans, and establishing benefit levels. Therefore, a fair measure of an employee's productive time is the total compensation provided to the employee. Based on total compensation, we can then

determine an hourly value of the employee's productive time. For example, let's take an employee whose salary is \$500,000 and add 30% for bonus incentives and benefits which equals total compensation of \$650,000/yr. Her productive time value is \$325/hour as follows:

<u>Total Compensation</u>	<u>Productive Days Per Year</u>	<u>Productive Hours Per Day</u>	<u>Productive Time Value/Hour</u>
\$650,000/yr	÷ 250 days/yr	÷ 8 hrs/day	= \$325/hr

This is a relatively conservative calculation since we're talking about **productive** days worked per year and **productive** hours worked per day. We're assuming that travel time gains are increasing productive time and not unproductive time, i.e. that employees will make productive use of travel

time gains available to them.

Therefore, an employee who lost 1 hour and 30 minutes of productive time by flying commercial and who has a productive time value of \$325/hour cost her company an additional \$487.50 for this segment.

determining true Cost Per Mile

The final step is to determine the true passenger Cost Per occupied seat Mile (CPM) for commercial aviation for a valid, apples-to-apples comparison with business aviation. Since there is a productive time loss when traveling via commercial air, this should be factored into the overall commercial air CPM.

for this segment). Then, the overall commercial CPM for this trip is \$1.72 (\$0.50 + \$1.22) and the total trip cost is \$687.50.

This calculation is simple. In the above example, the loss due to commercial air travel is \$487.50 and if we divide that by 400 miles, we arrive at a CPM component for lost productive time of \$1.22/mile. We can then add this to the fare amount for this segment to determine an overall CPM. Let's assume a fare cost of \$0.50/mile (or \$200

The below chart takes this example further and compares CPM at various salary levels. We illustrate a CPM of \$3/mile for business aviation (see whitepaper, "Comparing & Understanding Business Aviation Costs", for an explanation of how to calculate business aviation CPM) for comparative purposes. One can see that business aviation becomes increasingly cost justifiable as salary, or an employee's value to the company, increases.

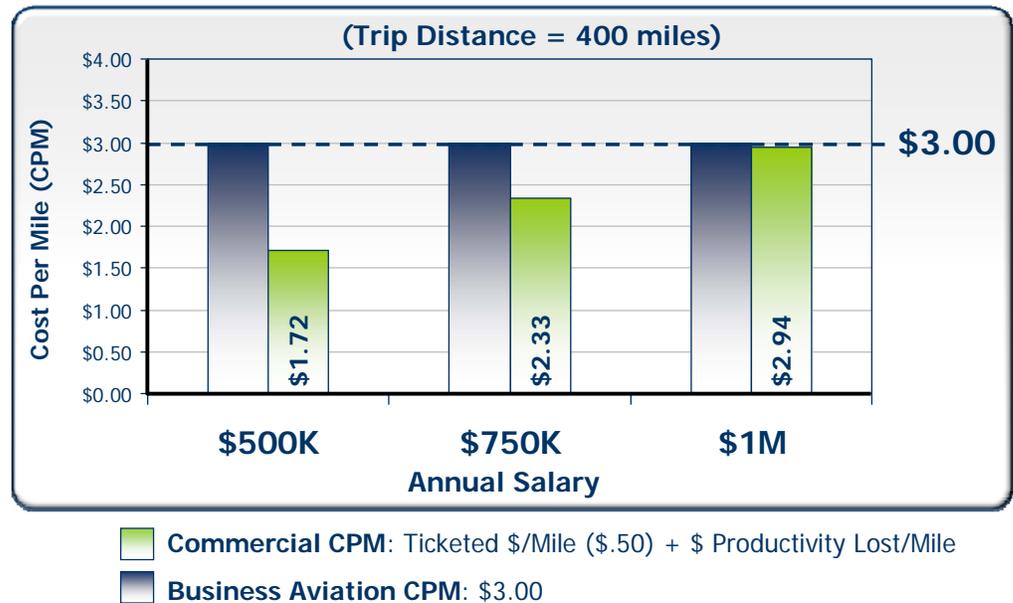


Figure 2 – Cost Per occupied seat Mile (CPM) Comparison

conclusion

If travel managers evaluate air travel the same way their companies evaluate productivity enhancing investments, a commercial air CPM accounting for relative business aviation enabled time gains should be used. As business aviation alternatives evolve to be more readily accessible, companies and travel managers may be surprised to learn that business aviation may actually be more cost effective for certain trip profiles.

The example used above assumed a directly served city pair commercial flight, but there are many cases where service is indirect or does not exist at all or where other travel components (e.g. drive to airport) cause high commercial air travel inefficiencies. (both

business aviation and commercial air travel factors that drive up CPM are covered in the next whitepaper titled, “Analyzing Your Air Travel Budget for Savings - Finding the \$3 CPM Trip”). In these cases, we recommend that companies take a closer look at the time savings available with business aviation.

Travel managers will be able to demonstrate increased senior executives’ productivity and company effectiveness by taking such an approach. Choosing a business aviation alternative might also improve overall quality of life and help retain key employees – two goals all businesses seek to achieve.



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