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MEMBERS ONLY

LOUNGE PARTNERS

## Building the FBO Terminal of Tomorrow

BY DOUGLAS WILSON

**R**emember the nuclear arms race of the Cold War from history class? Two nations, competing within the confines of the doctrine of Mutually Assured Destruction (MAD), repeatedly attempted to out-do the other until the right combination of near bankruptcy, perestroika and common-sense finally prevailed. Eventually, vast fleets of bombers were dismantled, warheads

neutered and the nuclear capability of both sides reduced.

Another arms race of sorts has been taking place at airports across the country in recent years. FBOs were once no more than a lean-to structure attached to a hangar, a modest structure akin to a small home, or (one of my personal favorites) a former skeet-shooting clubhouse literally trucked to the airport and repurposed as an FBO terminal. The

latter had a charming front porch, complete with rocking chairs. Today however, FBO terminals are being designed and built, each increasingly larger and more magnificent than the next. This is not meant to disparage the truly gorgeous architecture, the mini-movie theaters in them with leather chairs, or the polished marble floors that now adorn the modern

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FBO—far from it. It's just that like the Arms Race, the FBO industry may eventually conclude these terminal buildings were a waste of money.

One is left to wonder what happened, and why did the industry move towards progressively more lavish FBO terminals. Defining the problem is quite simple—solving it will take a radical approach. There's no one party to assign blame for the growth—both literally and as a function of construction cost—of the modern FBO terminal. The industry collectively shares blame, including FBOs themselves, airports, and yes, even customers.

The now-well known narrative of the FBO industry demonstrates a market consolidation of what-was-once a landscape of independent FBOs. Growing, professionally-run FBO chains paid significant sums of money to acquire a great many independent FBOs, securing long-term entitlement rights to operate an FBO at a given airport. With that leasehold came investment requirements, and a new, "first class" FBO facility was constructed at then-significant cost. Additionally, other airports started requiring showcase FBO facilities at their airports, using Minimum Standards as the means to attain the goal.

To clarify, Minimum Standards are important to creating a level playing-field at airports; more airports should have them as they encourage fair competition, and protect the investment of airport businesses such as FBOs. It's just that some Minimum Standards for FBOs are so exhaustively defined that they actually create

wasted space. For example, one set of Minimum Standards for FBOs defines that an FBO "...shall provide a minimum of 3,200 square feet of heated, lighted, and air conditioned terminal and office space that will include space for crew and passenger lounges, public restrooms, training, and flight planning." Some get more specific. Another older, though still current, set of standards notes an FBO should have "...coin operating vending machines of tobacco, confections and refreshments..." Tobacco sales from coin operated vending machines? Really? But this issue isn't just a function of FBOs lobbying for greater Minimum Standards—airports themselves seek enrichment of their infrastructure.

While basic Minimum Standards do make sense for the industry, the amount of investment required by airports is often disproportionate to those standards. In order to secure a long-term lease, many FBOs are required to spend into the double-digit millions of dollars. Airports could simply set a required amount of investment, or exhaustively define their Minimum Standards, but it seems odd to do both. Requiring a high capital commitment—but then dictating exactly how that capital will be deployed via Minimum Standards—only fuels the FBO terminal arms race.

Finally, customers—both passengers and the pilots alike—historically demanded facilities that matched their traveling experience, under the logical premise the FBO is an extension of that space. Not surprisingly, many FBOs are built

to mimic the comfort of a high-end hotel lobby. That much makes sense from a design inspiration perspective. Yet, while customers desire such facilities, many drive directly to the aircraft, bypassing the FBO altogether. Those who most frequently use the FBO building today are pilots, vendors such as limousine drivers and employees of based tenants, such as that one Director of Maintenance, who more or less lives at the airport. Hence, if there's four people in the lobby, statistically, only one is an actual paying passenger.

As a result of these various forces, the FBO industry is building passenger terminals that are not being used by many customers, cost millions of dollars, and are not in and of themselves, revenue-producing.

Unlike a hangar with office space, both of which provide revenue opportunities in the form of subleasing, FBO terminal buildings are often viewed as a cost of doing business. In a pure commercial real estate environment, it would be ludicrous to deploy millions of dollars into non-revenue producing structures—without at least picking up Common Area Maintenance charges (CAM). But, as the theory goes in the FBO industry, these increasingly large and exceptionally well-appointed terminal buildings are supposed to be paid by fuel sales. That notion is especially disturbing if one considers the ever-declining margins on those fuel sales.

The solution is to monetize the FBO terminal itself—by redesigning them to alter the passenger

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experience altogether—for those that actually use the terminal building.

The opening of a private terminal at LAX, called the Private Suite, for use by airline passengers willing to pay for the experience and privacy is instructive for the FBO industry. The membership fee is \$7,500 per year, and carries a per-use fee on top. Non-members can use the lounge for a mere \$2,000 per day, but that's a shared area as opposed to a private suite. Think that's expensive? Some 1,200 airline travelers have already signed up. Even airlines have various pseudo-elite areas, in which frequent travelers can pay an annual fee, or a per-use fee to use the "lounge."

Within the FBO industry today, certain aircraft operators such as NetJets, FlexJet, and others use dedicated-use facilities at larger airport markets. Not only do these facilities create operational convenience for the operator, they substantially alter the passenger experience by creating a service differentiation. The point being, each of these examples: the *Private Lounge* in LAX, airline clubs, and dedicated-use facilities apply to the passengers currently using FBO terminals across the country.

Here's how to do it at the FBO level. To define such space, as a function of a remodel or through new-build, an FBO terminal must be physically bifurcated to include the lobby the industry knows of today, albeit smaller, and an exclusive area that is members only. Those members do not include limousine drivers or that DOM guarding the coffee machine in the existing lobby. Even pilots would not be provided access

unless they are owner-operators, who again, pay a membership or access fee. Membership is not even a privilege to be given to a based tenant as an incentive, unless they choose to pay to use the lounge; nor is it a gift bestowed on any transient customer, regardless of how many gallons they purchase annually. To do otherwise is to compromise exclusivity and devalue the offering.

While the fee structure and business model are dependent on the FBO, they should minimally include a very high annual fee—something no less than four digits to the left of the decimal place. Combinations of initiation fees, monthly fees, one-time use fees, etc. may also warrant consideration.

To be sure, the members-only FBO has been attempted in the past, but this is not the same concept. This is taking the FBOs of today and tomorrow built during the arms race of FBO terminals, bifurcating and monetizing those structures. Pilots, vendors, and those unwilling to pay for a bespoke experience can continue to use the existing lobby. There is no suggestion of dialing back the current look or feel of the lobby, amenities or common areas of the FBO terminal. Moreover, it is creating exclusive space within those buildings that's anything but common.

Visually, this members-only area is behind closed doors. Those doors likely incorporate frosted glass or another architectural feature that connotes to other passengers that whatever is behind them is very, very special indeed. The features and benefits must be so alluring,

frequent passengers who reside locally—who again, pay for this membership—desire to come out to the members-only FBO lounge even when they are not flying that day. Behind those doors is a destination itself.

So what might a member find there? A full bar with bartender, a wine sommelier, an executive chef, an ultra-high tech conference room, a cigar-room, and more. And all of it, perhaps with the exception of meals prepared by the executive chef, is free to members. The employees who work behind these doors are not cross-utilized at the CSR desk, or anywhere else at the FBO. They're not even FBO employees per se—they are highly-compensated hospitality professionals, and experts in their respective fields. In fact, these are the same experts that will help FBOs create these exclusive spaces, because—difficult though it is to admit—the individual or company that will bring the greatest change to the FBO industry, the one that will alter the current arms race, will not be from the FBO industry. **A**

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