LINEAR AIR CASE MEMO

1. IS THERE DEMAND FOR AN AIR TAXI SERVICE? WHAT ARE THE BARRIERS SURROUNDING THE AIR TAXI BUSINESS MODEL?

As the 2005 USA Today poll demonstrates there is interest among people for the air taxi services, 50% indicating an interest in air taxi services.

The founder of the Air Taxi Industry Association estimated that the air taxi market would be between $400M and $1.2Bn by 2009. Linear Air’s Pro Forma Financials forecast a revenue of approximately $40M in 2009, which would be about 10% of the lower end of the market estimate. This is a reasonable figure when taking into account the competition detailed in Exhibit 6.

The potential market for first class, business class and full fare coach tickets in the US has been estimated to approximately $30 billion. If Linear Air was able to capture just 1.3% of that potential they would be able to reach their Pro Forma financial figures of $400M revenue in 2012.

However, many of the barriers in the air taxi business model might hinder their plans:

- Production uncertainty of VLJs
  - Linear Air Pro Forma Financials forecast a use of 237 Eclipse aircrafts by 2012, which is highly dependent on an uncertain manufacturing capability
- Infrastructure of regional airports
  - FAA had been slow in adopting alternative technology as many of the 5,400 community airports lacked navigation aids, control towers and radar systems
  - Lack of services at regional airports
- Regulatory issues
  - Air taxis operated under Part 135 operator’s certificate from the FAA. There was a concern that the requirements for the Part 135 would increase as the air taxi industry expanded.
- High rivalry in the air travel business
  - Linear Air had experienced difficulties in educating corporate travel managers of the benefits of the air taxi service compared to commercial airlines.

2. WHAT ARE THE CORE ELEMENTS IN LINEAR AIR BUSINESS MODEL? AND HOW DOES IT COMPARE TO OTHER ALTERNATIVES? COMPARE DayJet, SATSair AND LINEAR AIR’S BUSINESS MODEL. WHAT ARE THE STRENGTHS AND WEAKNESSES OF EACH?

Customer value proposition (CVP)

**Linear Air** fulfills its customers’ need to get from point A to point B in a linear fashion at a specific time convenient to the customer. The *offering* has the following benefits compared to traditional airlines:

- **Time savings:** Using regional airports customers avoid lengthy lines for parking, check-in and security, and can make use of the proximity of regional airports
- **Flexibility:** Customers are free to travel at a time that is convenient for them instead of airline schedule constraints
- **Comfort:** Private aircrafts have personalized service and have more leg space
- **Productivity:** People can work in privacy while on the flight
Their target customers are mostly people who use business and first class travel services, private jets or other forms of public transport aimed at corporate travelers because of the relatively high cost of travel compared to driving or flying in economy class. Furthermore, target customers can be classified by geographic location as Herp describes it “people who live and work near major metro areas with business interests in secondary and tertiary markets”.

DayJet’s CVP differs from Linear Air in the way that they sell individual seats, which enables them to target a wider audience (a strength): both people travelling individually and in groups. However, the weakness of the model is the risk of flying an aircraft at low capacity and even making a loss with some flights.

SATSair differentiates itself as a low-cost air taxi service. Weaknesses are safety concerns and less comfortable travel.

Profit formula

Linear Air prices its services at $1750 per plane and based on Linear Air’s own calculations (Exhibit 10), they break even annually with 26 Eclipse aircraft at 9.6 flights per week. A large chunk of the costs come from aircraft operating costs.

DayJet sells individual seats at a price of $0.75-3.00/mile, which results to $321-1285/hr if max. cruise speed of 370 NM/hr is used.

SATSair sells $440-595/hr per plane. It has low operating costs thanks for using Cirrus SR22. However, the weakness is in the compromises they had to make to achieve low operating costs: Low cruising speed (186 NM), little cabin space (70 cubic feet), no lavatory and low flying altitude (max. 17.5 th feet).

Key Resources

The key of DayJet’s CVP is ‘per seat pricing’, which they are able manage through a software that does demand forecasting and resource optimisation, which helps DayJet to maximize its use of capacity so that they avoid the common pitfall of excess capacity. However, this shows in their cost structure too, as they used $20M for developing it.

Linear Air’s key resources include its sales people and sales tools, off-the-shelf flight operations IT system, its aircraft fleet and pilots. With a higher investment in operations IT system as DayJet did, Linear Air might be able to better optimize its use of resources.

Key Processes

DayJet took the required measures to scale its services across the country. For instance, DayJet overcame regional airport infrastructure barriers by actively promoting the economic benefits of a DayPort to the local community and provided the local business leaders with tools to take action toward upgrading their local airport to qualify as a DayPort. Linear Air could take example of this.

3. The airline industry is generally considered unattractive, with high variation in performance over time. (See exhibit 9.) Is the air taxi industry headed toward a similar fate? How could Herp design the business model to address these uncertainties?
• Herp has plans to hire pilots at a ratio of three to one aircraft. To improve profitability issues common in the airline industry, Herp should aim for better optimisation and use of capacity. This could be achieved through flight operations IT system development rather than excessive staff hiring.
• To avoid the common high rivalry issues in the airline industry, Linear Air should not go into price war for instance with SATSair, but should rather try to differentiate its services.

4. WHAT GROWTH PLAN SHOULD LINEAR AIR FOLLOW FOR THE NEXT FEW YEARS? AND WHY?

+(Northeast) Based on the Exhibit 13, the largest potential market size is in the Northeast accounting for the top 8 high-yield passenger city pairs, $350M commercial airlines revenue annually and approximately 1M passengers per annum.

+(Northeast) Higher geographical concentration would also enable less costly airplane relocation, making it less expensive for the customer.

+(Northeast) Furthermore, the potential risks of high excess capacity would be reduced through higher geographic concentration in the Northeast.

-(Northeast) Even though rivalry among air travel companies is likely to be high in the Northeast, the above-mentioned factors outweigh it.

• Some other factors that should be taken into consideration in the decision making process include the airport infrastructure in different geographic locations to minimize initial capital costs and feasibility and cost-effectiveness of staffing in remote locations.
• Recommendations for profitable growth: Follow DayJet’s lead on promoting local airports to become flight bases for Linear Air and to establish the required infrastructure in the Northeast airports. Aggressive marketing and selling should be done to solidify customer base and investments should be made on flight operation optimisation to minimize excess capacity.