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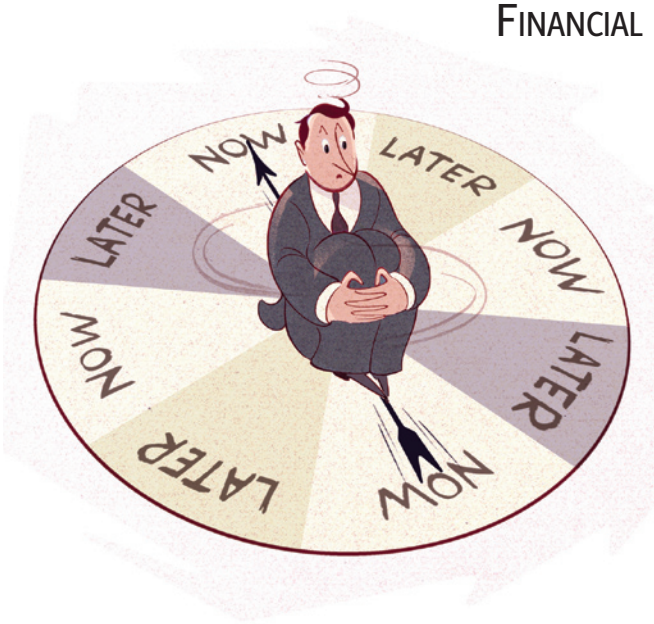

Countdown to Launch

It's a classic dilemma: You spot a market, but the technology or your finances aren't quite ready. Should you launch anyway, or bide time?

The company: Jet Direct Canada is an early-stage operation preparing to launch a short-haul charter passenger airline service. Based in southeastern Ontario, the nascent carrier was founded by a former Bell Canada associate director who traded in cubicle life for the cockpit. It aims to use new, high-tech "Very Light Jets" (VLJs) to offer a fast, convenient alternative to commercial airlines for short-distance business trips.

The situation: The jets described in Jet Direct's business plan will take a year or two to be built and delivered. Founder Sushee Perumal needs to decide whether to launch immediately with traditional aircraft or wait for the new planes, whose low operating costs and impressive speeds are central to his business model. In the process, he also needs to nail down asset-utilization and financing strategies that work with his plan.

SUSHEE PERUMAL'S INSPIRATION nearly ran him over. A pricey German sedan, driven by a young undergraduate student, careened around the corner just as Perumal was starting to cross the street. While the average pedestrian might have shaken their fist, the near miss sent Perumal dashing into his office to jot down new ideas.

Perumal was an MBA student, having returned to school after starting his career with Bell Canada. Since the summer of 2006, in the breaks between classes – and even in the aftermath of a near collision at a crosswalk – Perumal had been working feverishly on a new business plan. It described a flexible regional charter airline, offering air travel without the usual queues, stopovers, delays and lost luggage.

As a commercial-rated pilot who regularly flew aircraft for his own personal and professional travel, Perumal understood the speed and convenience private air travel would offer. At the same time, new aircraft technology with lower operating costs was making private air travel accessible to a wider segment of the population. Students, bankrolled by affluent parents – say, the types that drove high-end luxury vehicles – were just one of many potential new markets.

Queen's SCHOOL OF BUSINESS

This case study was jointly prepared by the Centre for Business Venturing at Queen's School of Business and *Financial Post Business*. Case studies are an important element in the transformational learning method used at Queen's School of Business

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And so, "student market" was jotted onto Perumal's whiteboard – along with "small business owners," "professionals" and "corporate travelers." All these he'd pegged as potential customers poorly served by current modes of transportation, based in part on what he'd learned on scouting visits to small Ontario airports and crowded rail stations. There, he saw just how many managers and staffers fought with delayed trains and lengthy airport layovers just to travel to meetings in their own backyards. Perumal imagined a regional charter service that would entirely eliminate these problems. His service's aircraft, compared to commercial airlines, would also trim noise pollution and scrimp on fuel expenditures.

Perumal used his MBA program to define the business concept, floating drafts of his business plan through competitions and in front of classmates, professors, angel investors and venture capitalists. By the spring of 2007, as he wrapped up his graduate studies, the business plan was almost ripe. Perumal switched into recruiting mode, building a team of partners who joined in exchange for the challenge and profit sharing in the young firm. His team included commercial pilots with airline transport qualifications, veterans with prior start-up experience and marketing experts. The young entrepreneur also leveraged his B-school connections to build an advisory board of charter airline veterans, marketers, strategists and investment gurus with specialization in the transportation sector.

THE INK WASN'T DRY on Perumal's business plan before he found a serious challenge to his original intention of launching within the next year. Perumal had planned to seize on an emerging technology – Very Light Jets (VLJs) – to improve the appeal of Jet Direct's offering. VLJs are a new generation of small aircraft capable of double the range and speed of traditional propeller powered aircraft at a comparable price point. These jets have the potential to extend the appeal and advantage of regional charter plane service by dramatically expanding the range of available destinations. From Jet Direct's home base in Ontario, VLJs could reach New York City in an hour, and could travel as far as Miami without refuelling. These jets would allow for the flexibility of private aircraft service previously available only to executives.

The trouble was, the jets Perumal wanted weren't ready for delivery, and certification by Transport Canada, the authority that regulates standards for aviation in Canada, seemed very far away. In fact, the first VLJs, produced by three U.S. manufacturers, were already spoken for. A lengthy waiting list had queued for future production. Eclipse Aviation, for instance, had over 2,700 jets in its order book. Where Perumal initially anticipated a year's wait, he was now being quoted at least two years before a VLJ would have Jet Direct's logo on its wings.

This development was worrisome. The business plan called for VLJs because they offered performance for a price not available with any other aircraft – advantages that would improve the appeal of Jet Direct's service relative to traditional forms of transportation. If Jet Direct was to start offering flights immediately, it would need to rely on traditional propeller aircraft. "There's no question that if you put a jet beside a propeller powered plane, customers would opt for the jet," Perumal said. Customers tended to view propeller aircraft as slow, noisy and turbulent.

Jet Direct's financing plan – at least on first glance – seemed to require that Perumal quickly build a stable of VLJ aircraft. Based on comparisons with similar companies in the U.S., such a fleet (well-managed, of course) could allow Jet Direct's initial investors a profitable return on their investment – and the potential to realize it via acquisition, public offering or management buyout – within five years. This time frame would make Jet Direct an appealing candidate for investment. But with heavy delays to VLJ shipments, this time frame would be eroded. And angel investors and early-stage investment firms would be unlikely to be excited by any longer a horizon for returns.

Nevertheless, Perumal wasn't in a position to stand still. If the company ordered the VLJ aircraft and waited for delivery and certification, it would burn through its start-up cash. To this point, the Jet Direct team was operating frugally off money it won in two business-plan competitions. It needed revenue soon if it was going to stay afloat. What's more, every month it wasn't flying represented lost opportunities in the marketplace: "VLJs or propeller, it doesn't matter – by getting operational, the organization gets to quickly develop its competitive 'secret sauce' and tweak the system," Perumal said. By operating, Jet Direct could build a client base, invest in marketing and improve its capacities in customer service and logistics.

Given the strength of Jet Direct's seasoned team, the CEO was confident they'd be unstoppable in the long term, and he was convinced they needed to launch without delay. But that still left Perumal and his managers in need of a short-term financing strategy to make it work and survive until the new jets arrived.

MEETING WITH HIS TEAM in the spring of this year, Perumal surveyed the company's menu of financing options for immediate launch. The original business plan called for funding the purchase of planes using money from equity investors. Though that financing option was now limited, Jet Direct still needed immediate cash to get flying with turbo-prop planes. The team reviewed other choices, including its leasing of

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planes. "Straight leasing means inflexible expenses, month after month," Perumal told his advisory board. As such, the slightest hiccup in the company's early cash flow would leave it at risk of defaulting on their lease payments. This made "venture" leasing, a variant of venture capital financing, secured by the assets being leased, more appealing. "But venture leasing's tough to secure," Perumal said. "We'd probably end up deferring our launch plans even further if we had to find venture leasing."

There was another option. Jet Direct could introduce fractional ownership of its first turbo-prop planes. This approach to ownership allows a consortium of small companies or individuals to each own a small portion of a plane and its flying hours. In the late 1990s, the fractional jet-ownership model took hold in the U.S., dramatically transforming the business jet market. Perumal felt the logic of fractional ownership would take hold, but was apprehensive about jumping. "Our target market takes commercial flights, travels by rail or drives," he noted. While fractional ownership would be fiscally logical for most of Perumal's potential clients, the Jet Direct team concluded they'd need to ease customers into the idea of private air travel, by giving them the chance to try the service on a limited basis. "Trial-ability," Perumal's marketing advisor called it.

The Expert View

By Douglas Reid
Assistant Professor, Distinguished Faculty Teaching Fellow in Strategy, Queen's School of Business

JET DIRECT'S DILEMMA IS NOT particularly unusual. Many small firms grapple with the same fundamental question: Do you wait for perfection in a technology or a service and risk being pre-empted or do you jump right into the market and risk going broke?

Another way of asking this question is to think about whether the industry involved gives a first mover any particular advantage. In the case of airline service, it's a slow-growth sector with modest technical advances and no hard-to-imitate models. So I'd advise Perumal to strike early. While the first mover won't necessarily win a huge reward, a deliberate late mover will lose the chance to test their idea and learn what's needed to compete.

On this matter, it's also important to know where you stand. Some firms can afford to wait to perfect a product or service. Apple Inc., for example, has sunk millions into designing its iPhone, but delayed the launch date until six months after product announcement. You can pull that off if you're a billion-dollar giant with a known and valuable brand. But you can't if you're an early-stage start-up. Perumal needs to remember that at this stage, a technological edge – especially one that can be imitated – isn't as important as getting real customer feedback. He can learn a lot about consumers' transportation needs with a single turbo-prop.

From Jet Direct's home base, new light jets could reach New York City in an hour and travel as far as Miami without refuelling. They made possible a type of private air service once available only to executives

The most important lessons will relate to pricing. After all, the essence of strategy is creating a margin between a customer's willingness to pay and the cost of providing a good or service. The trouble is that assessing willingness to pay is a tricky matter. You need to experiment – and have time to make errors and recover. The faster Jet Direct learns, the faster management and investors can decide whether theirs is a model to support going forward.

In contemplating Jet Direct's future, it's important to make a distinction between haste and speed. The company needs to act with haste to get started, attend to feedback from

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customers, begin to capture mindshare and create a referenceable brand. But they must avoid speed – that impulse to grow aggressively has crippled and killed countless players in the aviation industry.

While I'm generally supportive of a plan to move forward with the customer-financing model, it would require them to develop some new skills. Jet Direct, in seeking fractional owners, will be asking customers to make a pretty dramatic change to their mode of travel and quite a substantial investment. Perumal needs someone with sales acumen on his team immediately – and he needs to start thinking about where he'll deploy his sales force. He also has to begin to think carefully about geography. His Ontario home base may be insulated from competition in the short term, but it may not have enough of the early adopters he needs to secure as clients in his first few quarters of operation. Perumal needs to stay alert and aware: If he's not getting traction fast, he needs to adapt further.

Finally, a note about competition. Perumal needs to be extremely vigilant when considering competitive response. And though his natural inclination may be to think about other charter and air-taxi entrants as being the main threat, his attention needs to be squarely fixed on the incumbent scheduled carriers who stand to lose if air taxis gain enough market share. Though Air Canada may not be able to mimic Jet Direct's service exactly, it may be able to offer service innovations that are close enough to serve as viable substitutes.

The way that Jet Direct will win in this market is by learning quickly. That means acting with haste, but not growing with speed. It means experimenting at the edge of pricing. It means discovering and then attending to its customers's true priorities. And perhaps most importantly, it means quickly building the sales capacity that Jet Direct's revised business model will require in sufficient quantity to scare off any ostensible rival.

The Outcome

PERUMAL AND HIS TEAM decided to move ahead right away using traditional turbo-prop aircraft that they would then try to sell to customers on a time-share basis. "We decided to launch immediately, even if it meant starting off smaller than planned," he said. The decision would allow the company to work on building its customer-service infrastructure – a key step, given that flawless customer service was to be a cornerstone of the company's branding strategy. It also allowed Perumal to hire more carefully, incrementally tweak and improve the business model and experiment with marketing with less risk. "Starting with a proven technology like turbo-prop aircraft will allow us the benefit of reduced risk as we get off the ground," Perumal said.

But while the older technology allowed for inexpensive regional flights, and bought Jet Direct some time to prepare for the new generation of aircraft, the company still faced a serious marketing issue. Not only was it going to be trying to sell customers on private air travel, but on a major capital expenditure to become fractional owners.

Jet Direct's proposal went something like this: Clients would benefit from the tax and legal benefits of "owning" the asset, and Jet Direct would trim their ownership costs by selling off unused flying hours to pay-as-you-go customers. "It requires longer sales cycles and lots of time spent in close relationships with a handful of clients," said Perumal, "but it allows us to avoid the heavy capital costs we were originally planning." The company now plans to use customer financing to fuel its early years, then lease its own aircraft after building a healthy portfolio of pay-as-you-go customers.

To learn the art of closing deals, Perumal enlisted the aid of a former sales exec he knew through his MBA program. "She had experience selling six- and seven-figure equipment. We basically sat down and had a one-to-one sales boot camp." With referrals from colleagues and alumni of Perumal's alma mater, the CEO then had a chance to put his newly honed sales skills to the test – initially targeting business travelers in mid-size firms. "We're in discussion with some of our first potential customers right now," he announced in May.

Heading into the summer, the Jet Direct team planned to spend the bulk of its time in meetings with potential clients, hoping to convert their enthusiasm into a willingness to pay for a fraction of the capital costs. "We've spent hours working closely with customers to build out the business case," said Perumal.

But one-to-one sales alone won't fuel Jet Direct's growth. To that end, the company has added a marketing vet – another MBA whose last venture-capital-backed marketing firm was snapped up last year by Google. "As Jet Direct grows, we're going to have to think more carefully about building a brand and establishing this business model as a preferred way to travel. We're building the team now to meet those marketing challenges," Perumal said.

Trimming the early capital costs of buying planes hasn't entirely eliminated the need for equity financing, of course. "We've still got to find some equity partners, but at a much more manageable scale," he added.

And though it was the unavailability of VLJs that originally provoked Jet Direct's revised business model, there is even good news – and a certain irony – on that front, in that those original pressures are starting to ease. "Even Honda is starting to manufacture VLJs," Perumal said with a laugh. "I think the problems with availability are short term ones – but I'm really comfortable with the changes we've made to the business model."

Perumal must stay alert and aware: If Jet Direct is not getting traction fast, he needs to adapt further

Note: The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The views represented here are solely those of the case authors and are based on their own professional judgment. Certain names, scenarios or identifying information may have been disguised to protect confidentiality.

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