

The Value of Safety

Your solid flying skills won't necessarily keep your pilot employees safe and your business aloft.

The longer he spends in the game, the more John Sinclair – the former president of the Aviation Industry Association – realises profitability and safety are “absolutely” linked.

Writing in the August 2016 issue of the Helicopter Association newsletter, John said that while “everyone wants a safe operation, not everybody can afford one”.

“Safety costs real cash,” John said. “And many operators scrimp on it.”

Grant Twaddle, in a life before he became a CAA helicopter operations inspector, managed mortgage investments for a large company.

“An operation *must* be on sound financial ground,” he says. “It’s great to turn a passion into a dream job. But if you’re lying awake at night because your maintenance programme consists of praying the aircraft’s severely balding tyre doesn’t hit a stone on its next landing, your dream job will have become a nightmare.”

“As any operator who’s been in business for a couple of years can tell you, there are myriad unexpected costs – a cylinder failure, prolonged bad weather, or a radio falling over, for instance. There are costs outside your operational control, such as the Global Financial Crisis which reduced tourism. And there are the regular costs, such as maintenance and insurance.

“But if there isn’t enough money to pay for these costs, it’s often safety measures that go first, and that can be, quite literally, deathly to an aviation business.”

Some operators, faced with a shortage of cash, will unwittingly compromise safety by not spending money where they should.

“An operator may have been held up through two weeks of windy conditions to get work done,” says John Sinclair. “A front goes through, things become calm, but now there’s a frost. So in addition to the operator’s backlog of work, they also need to get frost protection work done.”

“But instead of employing a casual pilot to do the frost protection work, the operator makes their pilots work half the

night on that, and then sends many of them off to work on the backlog during the day.

“Or an operator under-records flight time to save on maintenance costs, or they overload their aircraft. Or both.”

Is any of this sounding familiar?

Vector spoke to some specialists for advice on how to keep an operation in the black, and flying safely.

Buying Help

Dedication, passion, and flying skill does not guarantee business success.

Gregg Brimmicombe, an experienced financial officer for a number of aviation companies, says an operator needs to clearly understand the relationship between cash, profits, expenses, and revenues.

“You need to plan, and to create realistic financial forecasts.”

And that takes some financial smarts.

“If your forte is flying, not finances,” says Grant Twaddle, “buy in the skills you need.”

“Hire someone who can produce a simple spreadsheet giving you a breakeven figure. That’s dollars per hour charged to



cover expenses, including those associated with safety measures, over a given period. A good bookkeeper should be able to do it."

Planning and Budgeting

Grant says that while some businesses create a realistic monthly budget, it can be too short term to rely on, solely.

"They don't look at how their month by month financial decisions affect their yearly economic performance. It runs the risk of missing those big annual expenses."

The specialists recommend starting with a realistic, overarching business plan setting out your overall goals. A good plan should create the pathway to an achievable budget, and the ability to predict cash flow well into the future.

"Your planning should comprise a master plan (where are we going?); organisational plan (how do we get organised?); marketing plan (customers, products, and services); and a finance plan," says Gregg Brimmicombe.

"Ideally, budgets should be prepared after consulting all staff as to what they need to function effectively and safely. A budget should not be imposed arbitrarily on staff by top management."

Gregg says cash is king: there are always expenses associated with short term projects, purchases, and wages.

"But if cash is getting short," says Grant Twaddle, "review your monthly budget to see if there's any way you can further increase your revenues or reduce expenses. Identify where the unders and overs are, and then amend the budget to get back on track."

Cash Flow Management

Unfortunately, some struggling operations try to improve their cash flow by quoting cheaply, or 'buying work'.

John Sinclair says sector risk profiles have found low pricing by competing operators is a key pressure on aviation safety.

"For instance, the Part 135 Sector Risk Profile identified that when one operator in an area offers cheap services to try to shore up a failing cash flow, all the operators in that area are affected. It becomes a race to the bottom."

Apart from the damage done to safety across such a group of operators, buying work does not equal financial success for the operator concerned.

"We're very aware of industry focussing on cash flow at the expense of profitability," says Grant Twaddle.

"Let's say a rotary operator has an insurance bill of \$20,000 they need to pay within the month. To get the work to pay for that, they might charge \$500 an hour so it will take 20 hours to pay the bill. But let's say it costs \$1000 an hour to run the machine. That's \$20,000 of bills that will eventually need to be paid. It would have been more profitable to keep the machine on the ground."

If an operation gets into financial strife, it's important for the operator to be constantly reviewing the company's financials.

"When we found ourselves in a tight position," says Gregg Brimmicombe, "we prepared three-monthly cash flow projections that we updated each month. We also prepared weekly profit and loss statements, which, while not always 100 per cent accurate, were still close enough to identify any potential problems."

Yunus Musa, from TFS Chartered Accountants, explains that cash flow management is especially important, ironically, during a period of growth.

"As a business grows, more cash is needed for capital requirements, and perhaps to pay the wages of additional staff. But the gap between such immediate expenses and delayed income from sales can put a severe strain on a business's cash flow."

In the end, says John Sinclair, short term measures such as undercutting the competition, are unsustainable.

"It may pay the most immediate bill, but it will create financial and safety risks further down the track, such as underpaid employees, fatigued pilots, and time-expired components.

"People need to be real about their ability to own and manage an operation. And if, in their honest and brutal assessment, they're starting to put themselves and their pilots at risk, it may be time to get out." ■

