Surfing the Skies with Surf Air

by Bill Hough & Ben Wang

ALL PHOTOS: BEN WANG

Surf Air is operating on a Part 135 certificate with a commuter authority. Although not required, Surf Air operates its aircraft with a two-pilot crew.

In today's digital age, 'start-up' typically conjures up images of entrepreneurs using venture capital to turn an idea, product, or technology into a company such as eBay, Google, or Apple. Soon, Surf Air may join that list. So how did two brothers with an innovative concept for an air service secure funding typically reserved for high-tech projects?

Surf Air is an 'All-You-Can-Fly' membership-based airline flying Pilatus PC-12 single-engine, pressurized turboprops between Northern and Southern California. After an initiation fee of $500, members pay a monthly fee (currently $1,350) for unlimited flights, booking up to four one-way reservations at any one time online or by smartphone. In addition, founding members have guest passes available for reservations two weeks in advance. As part of its business strategy, Surf Air serves uncongested airports using convenient executive or private terminals.

Wade Eyerly, Surf Air's charismatic CEO, tells *Airways* that "people start businesses in industries where something's broken." He realized that something was wrong with air travel in 2005-06 when he was travelling 27 days per month while working as a vice presidential staff member, and later

as an intelligence analyst in Washington, DC. As a young, single male flying solo on one-way tickets, he fitted the profile for extra security screening even though he worked for the US government. That was frustrating. At the same time his brother David, a former operations manager for Frontier Airlines, was about to complete a scholarship at Embry-Riddle Aeronautical University and wanted to continue to fly. Facing difficult prospects of securing employment as a commercial pilot, David was discouraged and asked his brother for advice. "Why not start our own airline?" they thought.

Would the idea of a short-distance, subscription-based membership operation flying to under-utilized regional airports work? The brothers decided to find out. Paying homage to JetBlue Airways, they initially chose Plane Red Airlines as the name of their enterprise, started a placeholder website, and sent Facebook posts and emails to gauge interest. As it turned out, Plane Red sounded too much like 'plane wreck: not a good connotation. Their ill-conceived name notwithstanding, when 12,000 people signed up within six weeks the Eyerly brothers knew they were on to something. Next, they hosted a working group of professionals and entrepreneurs with business acumen. This generated so much enthusiasm that five people left their jobs to join the venture, and Wade and David had suddenly formed a management team for their airline. In January 2012, they moved to Los Angeles and founded what would become Surf Airlines.

In return for an equity stake, Surf Air joined MuckerLab, an Internet start-up technology incubator based in Southern California. MuckerLab helps entrepreneurs 'crack the black box' in the venture creation process, providing advice and helping raise capital through its network of mentors, advisors, and funding sources. Within four months, Surf Air was able to raise the necessary money from several venture capitalists and private investors in both the Los Angeles and Silicon Valley areas.

The Eyerlys learned three key things. First was to fly to under-utilized airports. Many airports in the USA are not used to their full potential. According to Eyerly, "Ninety percent of airports in the US are at less than 50% capacity while 50% are at less than 10% capacity." The second important requirement was to use a standardized aircraft designed specifically for short distances. Make money where other airlines lose money; fly local origin and destination routes. Finally, they realized that in today's environment, airlines "pull the ticket out of the profit model." Traditionally this has been done through 'unbundling', charging so-called 'ancillary' fees to check a bag or gain a seat upgrade. Instead, Surf Air opted to use a subscription model, like a gym membership. To fly, customers will pay for the privilege, but not necessarily for a ticket.

Even though an airline launch is different from a technology start-up, Eyerly asserts that all new companies have similar goals, which require the same skills. Specifically, capital enabled a quick start. However, rapid growth comes with challenges. For example, how to address cultural change? Eyerly is passionate about the airline into which he has instilled his personal vision and values. Surf Air went from 23 employees in May to 73 in August. "How do you hire 50 people in eight weeks and keep the culture of your company something that you're proud of?" he asks rhetorically. These are the same questions that technology start-ups have dealt with for years; advice from venture capitalists helped Surf Air work through some of these issues. As a whole, technology companies

CEO Wade Eyerly (standing, left) with Jordan Ray, an MBA intern joining Surf Air from Brigham Young University, Provo, Utah. Surf Air's open office design at Santa Monica, decorated with surfboards, creates a relaxing atmosphere and encourages face-to-face collaboration.

Surf Air prefers PC-12s with older avionics because they have a faster boot-up time.

are known for their good corporate cultures, while "airlines aren't known for effectively addressing culture challenges internally very well," according to Surf Air's CEO.

Eyerly wants his airline to build a relationship and provide "a satisfied experience" to its members. From the friendly, courteous concierges in the terminals to pilots who meet and greet each passenger, service is very personalized. This is the closest to executive travel without chartering or owning an executive aircraft. Even Surf Air's PC-12 cabins give the impression of flying in a business airplane rather than in a ten-passenger van, with a face-to-face club layout instead of all forward-facing seats.

Armed with $3.6 million, the airline was off the ground in 18 months. On May 30, 2013, Surf Air received its FAA Part 135 commuter certificate and, less than two weeks later, began service on June 12. Eyerly acknowledges that the swift process was due partly to Surf Air's solid relationship with the FAA.

According to Eyerly, after two months in operation Surf Air has made more progress than anticipated. "The data have come back better than we thought," he reveals, while conceding that the fledgling outfit has "learned a number of lessons already." For example, Surf Air initially operated four daily roundtrips between Burbank, in the Los Angeles area, and San Carlos, in the Silicon Valley, halfway between San Francisco and San Jose. One month later, on July 10, service was expanded to Santa Barbara, with two flights per day each to San Carlos and Burbank. After the initial expansion, members made it clear they wanted more frequency. But because the airline's resources are limited, opening new cities would mean reducing frequencies on the existing network. Accordingly, Surf Air delayed plans to serve Monterey, originally scheduled for August, until the fleet can be expanded.

Eyerly says the company has "a 'fail-fast' environment when it comes to a business." Surf Air is gathering data and learning what's never been done. Comparing the airline to an all-you-can-eat buffet that cannot run out of food, there are concerns with capacity and the numbers of seats available. "What

Surf Air's PC-12/45s (with a maximum gross weight of 4,500kg/9,921lb) are equipped with newer winglets, which are smaller, less upright, and more smoothly faired into the wing than the original style.

happens to your demand for travel when your per-flight costs go to zero?" he muses. So far, demand is much lower than anticipated. Members are so busy with their lives that the call for 'free' flights does not peak, as would be expected, given the typical 'all you can consume' behavior.

Surf Air started with 150 members. Two months later, membership had increased to 325, and reports at the end of August indicated that the waiting list for membership had grown to 6,000.

The $1,350 monthly fee is comparable to flying one roundtrip per week in a month on traditional airlines, given a typical walk-up economy class fare between San Francisco and Los Angeles is around $400. However, Surf Air discovered that as members adapt to its style of travel, their behavior changed. For example, the traditional model suggests travellers fly to work on Monday and return home on Friday for the weekend. But now they also fly in the middle of the week to go home for their children's school events, and then fly back to work the next day. Some fly much more frequently. *Airways* spoke to a customer who took 24 trips in one month.

Typical members earn an annual income of at least $300,000, and 92% of them are CEOs, founders, and entrepreneurs. Surf Air initially thought that members would use the airline for leisure proposes, such as taking a child to a baseball game or a client to a round of golf. In reality, most simply want to get on with their lives, commuting quickly to and from workplaces. As the airline analyzes behavior patterns, it can maximize the number of members. One idea is instead of simply adding the next batch of names from the queue, by performing data optimization the membership pool can be expanded by combining demographics with usage patterns. Simply put, more members can be added from one particular demographic that has a different demand for flights and times from another, thus avoiding usage overlap.

The fleet currently comprises three PC-12s 'legacy' models, preferred over the 'NG' type because of faster avionics boot-up time. But the PC-12 comes with limitations for Surf Air's style of operation. As the aircraft was originally designed for business use, a short turnaround time for commuter operations was not high on the Swiss manufacturer's list of priorities. In addition, Pilatus has a centralized system for parts distribution, which creates difficulties for overnight maintenance necessary for an airline operation. While Eyerly maintains that the PC-12 is a "super capable" airplane, the airline is seeking an aircraft with better parts availability and higher capacity for both passenger and cargo carriage. About a half-dozen types are in the running, including the unpressurized and slower Cessna 208 Caravan, which was the airline's planned launch aircraft, and the proposed single-engine Beech King Air. Until a decision is made in June 2014, Surf Air will continue to acquire PC-12s.

Although it is not mandatory, the airline does operate each flight with two pilots. Surf Air can fly only intrastate for now, although Eyerly hopes the airline will be able to go outside California by year's end. Commuter authority for interstate operations would require passing a Department of Transportation economic fitness test.

Besides Monterey, Surf Air has listed Lake Tahoe, Sacramento, Napa/Sonoma, and Palm Springs as potential future destinations in California. Under consideration are San Diego, Bakersfield, Fresno, Stockton, Orange County, and Carlsbad, plus Las Vegas, Nevada. Potential members from prospective cities can put down a deposit and move to the front of the waiting list for that city. Surf Air is particularly interested in Hawthorne, south of LAX, which would better serve members living on the west side of the Los Angeles area, allowing them to bypass traffic on congested Interstate 405 linking Burbank. Hawthorne is also the airline's maintenance base, and the Los Angeles FSDO office is close by, while there is available office space here for anticipated corporate expansion. Serving Hawthorne is in lieu of Santa Monica, which is high on the wish list but whose residential neighbors have expressed strong opposition to more flights. “It’s a great airport; we would love to service the community,” Eyerly says.

Expounding on how a city is chosen to join Surf Air’s route map, Eyerly explains that the company must carefully evaluate the numbers of potential members in a location. He remarks that, instead of spending money on marketing to generate interest, “we want to grow organically…and serving a community that wants us there.” For example, on the surface, Los Angeles–San Diego may appear to be a better city-pair in market terms than Los Angeles–Fresno. However, because of a lack of flight choices at the Central Valley city, higher membership demand there over San Diego may tell a different story. Essentially, the airline aims to serve two market sets: places affluent people need to go, such as New York to the Hamptons, Boston to Martha’s Vineyard, or San Francisco to Tahoe; and any high-speed rail ‘catchment area’. Between those two market sets, there are 53 routes in the USA where this model could work.

As with all start-ups, there is a great risk of failure. Eyerly thinks the company will know in 12 to 18 months whether this idea works or not, and only time will tell whether Surf Air will become the next Facebook or ends up in the ditch like Webvan. We wish Surf Air the best of luck! ✈

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