

Gulfstream Gaps Leave Door Ajar for Cessna & Embraer

Recently, Gulfstream announced production would end for the venerable G450, weeks after the same was announced for the G150. While the incoming G500 is a replacement for the G450, no immediate replacement is planned for the G150, notes James Hagerty...

The recently announced changes reinforce Gulfstream's dedication to serve its core client base with large-cabin, long-range aircraft, but also exposes sizable price and performance gaps that the G450 and G150 once filled.

The G150...

The very capable G150 was Gulfstream's way to introduce mid-cabin buyers to the company's product portfolio. Only 121 G150s are in service since the airplane was introduced in 2006, with the majority being delivered between 2008 and 2009.

Following that peak, Gulfstream struggled to deliver more than six airplanes in any given year, and the G150's lack of success was less about performance or product support, and more about price competition. Competing OEMs often discounted prices, while IAI's inflexible pricing model made it difficult for Gulfstream to make a reasonable profit to sustain production.

The G450...

As the final derivative of the GIV, the G450 type design began production in the mid-1980s as the GIV and later became the GIV-SP, G400 and eventually the G450.



Over 870 aircraft were delivered making it one of the most successful business jets ever. Despite continuous improvements, though, the GIV lineage is now perceived by many as dated and due for retirement.

Gulfstream's newest G500 model is expected to begin delivering ahead of schedule in late 2017. It's an amazing aircraft by all measures with a Clean-Sheet design and cutting-edge technology. The

G500 will fly 600nm farther than the G450, at faster speeds and with more cabin space.

However, with a price tag around \$45m (excluding options and/or escalation), the G500 is in a different price/performance category than the G450 historically was. Ideally, the G500 will compete directly with Bombardier's Global 5000 and Dassault's Falcon 5X which is expected to begin delivering in 2020.



A Door of Opportunity Opens...

When Gulfstream acquired the Galaxy (G200) and Astra (G100) programs in 2001, the justification for the acquisition was to introduce Small- and Mid-Size business jets to current and potential Gulfstream owners early in the product upgrade cycle (i.e., build customer loyalty and grow the relationship up the product line).

Prior to the IAI deal, Gulfstream offered only the GIV-SP for around \$30m and the GV at \$40m. The strategy behind the acquisition proved to be a success as many G200 and G150 owners eventually upgraded to Long Range, Large Cabin legacy Gulfstream aircraft.

Today with the end of the G150, Gulfstream's entry-level aircraft is the

Super Mid-Size G280 with a price tag around \$20m. The G280 has a two-zone cabin with seating for up to 10 passengers and a range of 3,600nm, competing head-to-head with the Challenger 350.

Thus, Gulfstream's lack of product choices below \$20m reduces the likelihood that a first-time buyer will consider a Gulfstream product, leaving Cessna and Embraer with the most to gain within that market segment.

The competition is loaded with new products such as the Cessna Citation Latitude and Longitude that are priced in the mid- to upper-teens. Embraer has already delivered over 50 Legacy 450 and 500 models which sell in that price range, and offer ranges of 3,000nm +/- while featuring a 6-foot-tall cabin. Embraer will likely generate future Legacy sales from the smaller Phenom 100 and 300 series, just as Cessna has been doing for years with its smaller Citation models.

Filling a Void...

The increased rate of growth for Ultra-Long-Range business jets coincided with the expansion of global trade in emerging markets between 2008 and 2012. Gulfstream developed the G500 and G600, based on new demand in the Ultra-Long-Range segment and to meet and exceed design performance from competing OEMs.

With long lead times to design, build and certify a new product, it's no surprise that demand for the Ultra-Long-Range aircraft has shifted along with the global economy.

Gulfstream's Large Cabin segment leader for the past 30 years has been the G450. It achieves a commonly accepted mission: 4,400nm range, seats up to 16 passengers and has a \$30m price tag. As noted, while the G500 offers notable improvements in range and size, it is disproportionally priced compared to the G450. The gap between a \$20m G280 and a \$45m G500 is too large for both Gulfstream and the competition to ignore.

Cessna could fill the void with new, fully capable clean sheet designs such as the Hemisphere. With an anticipated price tag of \$35m, Cessna plans to certify the Hemisphere by 2020. It boasts a cabin six inches wider than the G500/G600 and one inch narrower than the G650. For the first time, Cessna will adopt a three-cabin zone interior that accommodates up to 19 passengers.

With a range of 4,500nm, and a max



speed of Mach 0.90, this airplane achieves Gulfstream's missing G450 mission with a modern and cost-efficient platform. When Hemisphere deliveries start in 2021-2022, we believe G450, Falcon 900LX or even Challenger 650 operators will look to Cessna.

Cessna continues to demonstrate its ability to successfully deliver 'clean sheet' aircraft on-time and within performance parameters. It has a large, loyal customer base and a well-developed support network. Left unchallenged, we expect the Hemisphere and Cessna to gain significant market share in a segment that has been effectively abandoned by the competition.

Clawing Back Market-Share

How can Gulfstream fill the gap between a \$20m aircraft and a \$45m G500? Traditionally the OEMs shorten the

fuselage or reduce fuel capacity (as Bombardier did with the Global 5000). However, the OEMs have learned painful lessons that the cost to build these modified airplanes was essentially the same as the full-size versions, and the profit margins were less.

Rather than investing in the larger and more expensive G600, perhaps Gulfstream should have dedicated research and development capital in the \$30-35m segment. At a time when OEMs have excess capacity and soft demand, we agree that a second clean-sheet R&D investment is difficult to justify. But, in the meantime, Cessna is well under way in bringing the Hemisphere to market first, leaving Gulfstream, Bombardier and Dassault in a defensive position.

MI www.hagertyjetgroup.com

continued on page 28

