FAA Chart Agent Meeting Summary

The FAA held meetings in Las Vegas and Greenbelt in March for current chart agents. There are currently 2000 or so agents nationwide and roughly 50 agents attended each session. Thus, only 5% of existing agents were represented. I attended the Greenbelt meeting, and what follows is my interpretation of what transpired.

The first hour or so was background about why they are trying to save money and how much they think they can save. The federal Office of Management & Budget at some point came out with an initiative to increase the cost efficiency and performance of government agencies to the point that they could meet or exceed that of comparable providers. Organizations that meet these standards earn the designation of "High Performing Organization" from OMB. Receiving such a designation is an alternative to having to conduct an A-76 exercise for competitive sourcing.

The stated goal in this case is to reduce the need for public funding for NACO by between 20 and 28 percent. The downside, of course, is that in order to meet these standards and obtain the HPO designation NACO has to substantially cut costs. Much of that is to come out of staffing and distribution. In order to reduce staffing to their target levels, the FAA believes that it needs to reduce the number of agents to somewhere on the order of 500 from the current 2000 or so.

As part of this process, some major changes are in the works. To begin with, NACO will be replaced by a new entity known as AeroNav Services, abbreviated as AVN. AVN will include not only the existing NACO production and distribution services, but also the FAA divisions responsible for airport mapping (AFD), terminal procedures, and enroute navigation – in essence, everything that goes into the publications, plus the publications themselves.

On the production side, the FAA will continue to print VFR terminal and sectional charts in house in existing facilities in Greenbelt. This is is a specialized function for which they have relatively recent equipment, and there isn't an effective way to outsource them. IFR products (terminal procedures, AFD, etc.) will continue to be put out on bid and printed by commercial contract printers.

WAC charts will be discontinued as the demand for them has dropped way off.

All production functions will go to a digital format, which will produce several advantages. The most important of these is that it will enable them to do away with an existing rule requiring that all printers be located within 100 miles of the current Silver Spring offices. That's a throwback to the days when they had to make metal printing plates and physically deliver them to the printer, which isn't necessary anymore. That change, in turn, will open up the competition for printing of IFR products to a much wider universe of printers – including those in the Midwest, where most commercial printing capacity in the US is located. That would not necessarily help us from a shipping standpoint, but areas on the west coast that now have to wait up to ten days for shipments from this area would find themselves in a much better situation.

On the pricing front, they will charge retail prices to government and military users, where past practice had been to charge either nothing or a very minimal fee.

They will also raise prices on some products that have a large gap between production costs and sale proceeds and that are used primarily by commercial users. One example is the Gulf Coast Helicopter chart; it is felt that in situations like this the price increase will not adversely affect the users.

Subscription prices will be revised to correct disparities so that no retail subscription sells for less than the discounted agent cost of the same items. That change is based on feedback they received from the Las Vegas meeting.

The current requirement that agents sell these products for no more than the published list price will be retained. There was robust discussion this point though, with some in the room seeing additional markups over list as the only way to make things work, and the FAA just as adamant that it wasn't acceptable.

There will be an absolute limit of 20% on returns, calculated on a rolling twelve month basis. Any excess returns will not be credited.

All ordering will take place over the Internet. They will maintain the capability to take orders over the phone, but that will be done only in cases when the web site is down.

As we already know, it is proposed that under the new rules you'll have to maintain a minimum annual sales volume of $5000 in order to retain agent status. This is a substantial change from the current minimum of $500, but FAA representatives have been quick to point out that the $500 figure was set in 1973 and that things have changed since then.

Smaller dealers will still be able to obtain and sell charts, but they will have to do so through one of these agents – those who do not meet the $5000 minimum will not be able to deal with AVN at all. Each agent will be required to advise the FAA of their sub-agents, and all would be listed on the FAA web site as retail chart outlet locations similar to the listings now.

Their intent here is to take advantage of existing distribution infrastructure (that term came up countless times during the day) to make this work. In other words, in addition to existing agents that meet the sales volume requirements, places like Sporty's (and they were at the Greenbelt meeting), Edmo, Aircraft Spruce, and so forth would become agents and smaller dealers would order charts through one of them just as they might order parts and other supplies now.

There was a lot of discussion about the pricing and discounts, and a virtually unanimous opinion from the existing agents in the room that there was no way to make the agent/sub-agent concept work under anything close to the existing discount and return structure. Agents expressed concern about having to take on the additional handling costs, shipping to sub-agents, liability for returns and credit risk while working within the existing margin of 40% and then having to share some of that margin with the sub-agent.

The FAA reps responded that they realized this, and that a lot of options were under study. Discounts of up to 60% were being considered, likely along with changes to the return policy. For example, you might be given the option of a higher discount with a lesser return allowance or an even higher discount with no returns. Returns cost them more in terms of handling than anything else, and they really would like to get away from that process altogether.

Shipping policy might change as well. Currently, the FAA chooses the method and the cost of shipping is included in the cost of the product. Sometimes this works well and sometimes it doesn't; for example, past experiments with a combination of Fedex ground and USPS Parcel Post were an absolute disaster. One option they discussed might be to allow a greater discount but charge actual shipping and allow the agent to select the carrier and means. FAA reps also said that they were open to the idea of doing drop-shipments to sub-agents for subscriptions, fill-in orders, or both for a small additional fee.

Most agents in the room seemed to feel that going to a 60% discount with no returns would work, but there was no commitment to any of this from the FAA reps.

Terms between agents and sub-agents will have to be worked out individually including credit, discounts, returns, and shipping. The FAA proposes to stay completely out of this relationship except that agents will have to require sub-agents to adhere to the requirement to sell products for no more than the published list price.

An agent would then assume all the risks of the relationship with its sub-agents including credit, returns, and so forth. Any returns from the sub-agent (assuming that there is a return policy at that point) would go back to the agent and would become part of, and count against, the returns for the agent's account with the FAA.

The question of exclusivity came up; specifically whether a sub-agent could buy through more than one agent. The answer was that the specific issue had not been addressed, but as far as the FAA was concerned the answer was probably yes. That led to further questions about a sub-agent possibly buying from one agent and sending returns to another. The FAA responded that these were all issues that should be addressed in whatever agreement the agent and sub-agent make.

Virtually all of the smaller agents in attendance (those that don't meet the $5000 minimum) were concerned that they will be left in a position where increased handling costs, shortened shelf life due to third-party handling delays, and decreased profit margins would make it difficult, overly expensive or even impossible for them to continue to carry charts depending on the how the agent/sub-agent relationships work out. Numerous people pointed out that this is not strictly a retail function – there is a safety factor involved, lives depend on the availability of these products, and at first glance the new policies seem destined to greatly reduce that availability.

The FAA representatives responded each time that they understood that concept and wanted to ensure universal availability. On a number of times they alluded to several areas of the country that currently don't have chart availability and even expressed the hope that this change would somehow cure that problem as well. I don't think anyone in the room bought that.

That brought us to the process going forward. In early April, the FAA intends to send a letter to all agents summarizing the two agent meetings. That will be followed in early May by a certified letter to all agents explaining the new process, along with a new agent agreement.

Once the new agent agreements come out, those agents who meet or believe that they will be able to meet the $5000 minimum can solicit sub-agents, work out the details, and presumably get them under contract. Conversely, current agents who will not meet the $5000 minimum but who want to continue to carry charts will need to get set up with one of the remaining agents during the same time.

The new model is set to go into effect on October 1. At that point any remaining agents who have not submitted the new agent agreement will be canceled.

There will be a grace period of sorts, in that all agents will have one year to make the required volume. Those that do not will get a warning letter in October of the following year, and they will then have an additional year to get in compliance or they will be dropped.

Finally, we were told about some other changes coming that are more of an operational nature:

- The "Date of Latest Editions" listing is no longer being printed and mailed. It is posted on the NACO web site, and can be printed from there. Agents are still required to have it available for customers to see.
- Checks sent in payment to the NACO are being EFT'd as of April of this year. What that means is that the data on the check is used to generate an electronic debit to your account, and that may happen as soon as the same day that they receive your payment.

- AVN is going to take a far more active role in promoting their products. They intend to exhibit at more events such as AOPA Expo, Oshkosh, and so forth and also will participate in state aviation conferences, airport conferences and trade shows (AAAE, NBAA, etc.) They plan also to have chart products available for sale at fly-in events.
- AVN will re-brand itself and unveil a redesigned logo. It is supposed to be different enough to let the consumer know that something has changed, but not so different so as to foster confusion.

All the materials that were used at the two agent meetings are available online through the NACO site, although not through the current agent gateway.

- Go to http://www.naco.faa.gov/
- Click on "Chart Retailers" in the menu on the left side of the page.
- Click on "New Agent Model" under "Chart Retailers" in the menu on the left side of the page.

You'll then have the opportunity to select between both meeting presentations. There is also a rather exhaustive white paper available on the site.

I should also note that the meetings also covered DOD and nautical products. I have not included any of that material in my summary, but it is available on the web site for those interested.

For what it's worth, some observations:

- In the first place, I think they are due credit for putting together a pretty thorough presentation. In fact, I found myself wishing that the advance notices had been more descriptive, because they really didn't go into much detail beyond the bare-bones basics. I would not have gone had this not been literally right up the street for me. I suspect that a lot of other people didn't go because they made the same calculation and decided that it really didn't look like it was worth a trip out of town and three or four days out of their lives. I was glad that I went, but it should be noted that the only other people in the room that I knew were Ashish and the AOPA reps.

- There was a lot of concern, anxiety, and some outright hostility in the room. They got some tough questions, some of which were not presented in the most agreeable manner. By and large the FAA people took all of it in stride. Where the answers were known they were provided, and if they didn't know they said so. The session was open and, at least from my perspective, appeared honest. The FAA representatives appeared to be interested in our feedback, and seemed to pay attention to comments.

- That said, I don't think anyone came away with a warm and fuzzy feeling. In the first place, while there was a lot of lip service paid to the concept that providing charts is a safety function first and a retail function much farther down the list, I really did not come away with the impression that they saw it that way. Right now they seem to see their mission as cutting costs. They've done the math on what they think it will take, and they seem intent on reaching those goals. If it can be done while maintaining the current level of accessibility that's fine and dandy, but if not the primary mission is cost cutting and that's the way it's going to go.

- The other problem, and I think virtually everyone came also away with this, is that their time line as they presented it looks incredibly ambitious. There are a lot of unresolved issues, some major, and a very short amount of time in which to resolve them. The big variable is how they are going to deal with the pricing/discount/shipping/returns questions. Only once they get that settled can the agent community start to make decisions about relationships and contracts. Depending on how that goes, it may not leave much time for would-be agents and sub-agents to sort themselves out and get things set up.

- The bottom line is that they want to reduce costs, period. Whether they see things this way or not, what they are doing is moving from a service model to more of a retail model, and as part of that process they want to shift the vast majority of the risk farther down the distribution chain. I don't see any way in the world to make that work without compromising the availability of the product; plain and simple.

****

Obviously, this is a work in progress; as more information becomes available I will pass it along. I'll also try to post all this and direct links to the FAA site shortly.

Stan Fetter

UPDATE:

An email came on the afternoon of 4/17, which is reproduced below:

> Dear Chart Agents,
>
> It has been a few weeks since our last Chart Agent meeting in Greenbelt, Maryland, so I thought I would send you an update of our progress towards implementing the New Chart Agent Model.
>
> • While in Oklahoma City, Oklahoma this past week, Fred Anderson, Pat Banks and I met with the FAA legal counsel to discuss your concerns about indemnification and liability for Chart Agents. Our legal counsel is now fully aware of the issues you raised and promised to research the issues and respond to us as soon as possible.
>
> • We provided our FAA legal counsel with copies of the draft New Chart Agent Agreement for his review and comment.
>
> • We made the decision to offer Chart Agents the option of a 50% Discount with no Obsolete Returns or a 40% Discount with up to a 20% Obsolete Return Rate. Chart Agents must select one option or the other when they sign the agreement and their decision will be locked for one year.
>
> • We will send each Chart Agent a Newsletter that explains the High Performing Organization (HPO), the New Chart Agent Model, FAA's upcoming plans to cancel the distribution of National Geospatial-Intelligence Agency (NGA) aeronautical and nautical products at the end of March 2010, a summary of the Chart Agents meetings in Las Vegas, NV and Greenbelt, MD, and answers to some of the questions you asked us at the meetings. This newsletter should be distributed to all Chart Agents around the first week in May.
>
> • We will send a final draft of the Chart Agent Agreement and Supplemental Instructions to those Chart Agents that attended the Chart Agent meetings in Las Vegas, NV and Greenbelt, MD for your final review and comment.
>
> • The schedule I presented at the Chart Agent's meetings has proved to be overly ambitious and has been revised to allow us time to prepare the newsletter, receive legal opinions from the FAA legal counsel, and allow for a final comment period on the agreement and supplemental instructions. It has been revised as follows:
>
> **May 1, 2009 –** Distribute the Chart Agent Newsletter to all Chart Agents
>
> **May 15, 2009 –** Distribute the revised draft Chart Agent Agreement and Supplemental Instructions to those Chart Agents that attended the Chart Agent meetings for final review and comment.

May 29, 2009 – Chart Agent comments due.

June 15, 2009 – Distribute letters to all Chart Agents informing them of the New Chart Agent Model and requesting a decision from each Chart Agent by no later than September 30, 2009.

October 1, 2009 – Implement the New Chart Agent Model.

Thanks for your patience with this process and for all your comments to date. I will try to keep you as informed of our progress as possible. Thanks again for your participation in this process.

Have a great weekend!

Bill

William M. Maynard
Acting Manager, FAA Distribution Division
AJW-3550
10201 Good Luck Road
Glenn Dale, MD 20769-9700

US Toll Free (800) 638-8972 ext. 6309
Local/International (301) 344-6309
Fax: (301) 552-7404