LESLIE CLARK

ADV BUSINESS COMM

PROFESSOR REYNOLDS

8 MAY, 2016

AIRLINE INDUSTRY ANALYSIS

AMERICAN, DELTA and UNITED AIRLINES are part of one of the most competitive businesses in the world. Air travel, since its inception has changed life as we know it.

Orville and Wilber Wright requested a patent for a flying machine nine months before the first flight was flown on December 17,1903. Previous to the Wright Brothers, the Chinese and even the Greek engineer Hero of Alexandria experimented with kites and later with air pressure and steam to create power.

The Airline Industry is separated into four categories by the U.S. Department of Transportation.

INTERNATIONAL- Equipment with about 130 seats or more. Companies in this category have annual revenue of $ 1 billion or more.

NATIONAL- Equipment that transports 100-200 passengers which can generate $100 million to $1 billion.

REGIONAL- Companies with revenues less than $100 million , that focus on short haul flights.

CARGO- These airlines generally transport goods

The Airline industry is constantly confronted by challenging fuel prices. Larger Airlines are able to hedge fuel prices. According to the Association of Air Transportation; Fuel is the Airlines second largest expense. Airlines that run long hauls are better able to have better fuel efficiency. Carriers that run short trips expend more fuel on take offs and landings.

The largest expense an airline will have is Labor. Reservationists, Load Planners, Revenue Ticket Managers, Dispatchers, Baggage Handlers, Gate and Ticket Counter Agents all make up the airline companies payroll. The Food Company which is also part of the company; Chefs and their subordinates also . The Front Line employees; Flight Attendants and most importantly the PILOTS. The Airlines factor in these key components when figuring which equipment to use for a particular route.

Available Seat Miles and Revenue per Seat Mile-The amount a passenger will pay for a ticket and the amount of fuel the equipment will use for a particular route. The Load Planners must also figure the Weight and Balance issues and calculate how much fuel in accordance with passenger weight, luggage weight and cargo weight is needed to get the aircraft to its destination.

The Airlines have become even more competitive since Deregulation in 1978. It has been said , Deregulation may be the cause of Mergers. Delta merged with Northwest, American merged with U.S. Air and United merging with Continental.

HOW ARE AIRLINES COMPETING?

Some ways in which airlines compete are by offering Frequent Flyer Miles. The airlines implemented Frequent Flyer Miles to induce customer loyalty. This is generally used by the Business Traveler. They have also used Advanced Purchase tickets to lower the price of tickets; i.e. giving the consumer a discount off of a straight coach ticket if they can travel on off peak days such as Tuesday through Thursday and stay over a Saturday night. These lower cost fares are usually non-refundable.

Southwest maintains a competitive edge by not charging a fee for luggage. However, the largest source of revenue for the airlines has come from Fees. Last year Fees netted the airlines 3 billion dollars. The airlines also began to charge a fee for Snacks; which used to be complementary. However in February United began giving Snacks again. United competes for the Business traveler by offering more leg room for a fee with the Economy Plus. During Holiday, Summer season and Spring Break the Airlines routinely schedule Airfare Wars. Airlines also remain competitive by offering Credit Cards. This is a huge source of revenue for the airlines.

Under Gordon Bethune Continental won more J.D. Power Associates Awards than any other Airline in the world. Continental’s stock rose from $2.00 per share to $50.00 per share. Bethune was responsible for consolidating aircraft types as Continental had previously had several types of equipment. MD-80’s of several types were phased out as the airline began to incorporate 737’s and 757’s; 300’s to 800’s. Streamlining to the 737’s minimized customer delays when there was a mechanical as there would be mechanics who knew the aircraft. Gordon also realigned the route structure of the Hub and Spoke system for Continental.

Bethune was CEO from 1993-2004 when he was succeeded by Larry Kellner. Larry Kellner was CEO from 2004-2009, when he was succeeded by Jeff Smizek. Jeff Smizek orchestrated the merger with United Airlines. Employees were at first optimistic, however optimism soon evaporated.

NAICS classifies United as “Air Transportation Company” with code 481000.

NAICS classifies United as “Air Transportation Company” with code 481000.

**WEAKNESSES**

Some of the weaknesses of United were technological failures, such as the 2012 Combination of the two airlines reservation system. The other major carriers, Southwest, American and Delta have weaknesses as well. We shall now take a look at the other major carriers.

Southwest (WN); No designated seats. No International flights. Very limited space for Cargo and Freight.

American (AA); Financial position is a cause for concern. Losing market share to competitors such as Low Fare service providers.

Delta (DL); Overdependence on North American market. High Debt obligations.

**THREATS**

Future oil prices

The biggest expense of all the airlines is the cost of Jet Fuel. Even though the price of Oil has reduced significantly, the smallest spike in prices can mean huge losses for the airlines. Many companies hedge the fuel prices against the future market prices. However that does not always mean this will be cost effective for the airlines.

Intense competition

The airline industry is an extremely competitive market. Airlines are constantly putting out new Fare Sales. Normally when one airline put out a new fare the other will follow suit. These are called Discount Fares. There has also been competition in Revenue per Seat Mile. This can be accomplished by moving seats back by one half inch, thereby giving the seats by the Exit Row with more room and charging more for the seats near the Exit Row. United’s model in this completion is called “Economy Plus

**EMPLOYEES**

DELTA AIRLINES has 80,000 employees

AMERICAN AIRLINES has 113,300 employees

SOUTHWEST AIRLINES has 49,000 employees

UNITED AIRLINES has 86,362 employees

**FLEET AND AIRCRAFT UPDATES**

DELTA AIRLINES: 809 AIRCRAFT: 5800 flights per day using Boeing 737’s- 777’s, Airbus A319 – A300 and McDonnell Douglas MD88-MD90

AMERICAN AIRLINES: 943 AIRCRAFT: 6700 flights per day using Airbus A300; Boeing 737 to 787; Embraer; McDonnell Douglas MD-80. American has the largest fleet in the world.

SOUTHWEST AIRLINES: 550 AIRCRAFT: 3900 flights per day during peak times. All Southwest aircraft are Boeing 737’s

UNITED AIRLINES: 703 AIRCRAFT: 5100 flights per day using Boeing 737 to 787; Embraer; and Bombardier.

This will be an interesting year for all the airlines as The American/ USAIR merger continues to integrate the two airline cultures. The United/ Continental culture begins to solidify and the Delta/ Northwest will attempt to solidify their domination of the market

.

.

.