

# What's the problem in the airline industry?

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## WHAT'S THE REAL PROBLEM IN THE AIRLINE INDUSTRY

### AND CAN IT BE FIXED?

Anyone flying in today's environment does not need the media or statistics to know the industry has terrible customer service, packed and dirty aircraft highlighted by the worst on-time performance since data has been recorded.

There is nothing simple about putting hundreds of lives into an aluminum tube using jet engines to propel it 35,000 feet above the ground traveling close to the speed of sound to eventually land safely on a stretch of concrete most anywhere in the World. US airline employees assume responsibility for the safe operation of over 20,000 flights each and every day which routinely deal with any type of weather and mechanical failure imaginable.

Make no mistake about it, flying is dangerous. It is made less dangerous by the dedicated men and women who always put the safety of their passengers as their number one priority. When an unexpected in-flight emergency occurs, there is no shoulder on the road to pull over and call 911 and wait for help. It won't make the media headlines today but like every day, some pilot will use his/her training and experience to deal with an in-flight emergency that will save hundreds of lives. Every day licensed mechanics use their experience to repair some part of an aircraft to prevent a future tragedy. Like every day, flight attendants will use their training, experience and on board medical safety equipment to keep passengers alive after a heart attack and deal with a multitude of other in-flight emergencies.

I'm not here to defend major airline's employees but I can tell you in addition to compensation and benefits, nearly all labor contracts have rules and limitations that often exceed FAA minimums which, is in large part, the reason we have the safest airline system in the World. Over the past 7 years, in order to *make up* for the tremendous increase in fuel expense and financial losses from 911, employee labor contracts have been under brutal and incessant attack.

Never before in the history of the airline industry have airline employees been under more pressure to have zero tolerance for issues from "in flight security" to "safety of flight". Yet, these same dedicated airline employees have seen their wages and work rules conceded to what many had back in the early 90's or eliminated entirely due to labor reductions.

It's common to hear about the success of the Southwest business model as compared to the rest of the airline industry. There should be no argument Southwest is a well organized airline with great customer service. It's also true without fuel hedging Southwest would be losing money no less than many other airlines. Importantly, if all airlines copied the Southwest model, there would be no way to fly a US airline across

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any mainland border. Southwest operates primarily from lower cost outlying airports, often with no same airport connections for International travel. A considerable portion of the more productive Southwest business model, comes from flying one type of aircraft in one class (coach) service providing minimal in-flight and connecting amenities all while avoiding the high cost of International operations.

The US airline industry has seemingly become a mass transit system frequently offering airfares less than it costs to drive your car between the same two airports. If airline customers want a return to the times when aircraft were new and operated with more empty seats, well rested and happy friendly employees and great customer service, it can only come at some financial cost. Most airlines now compete simply to -stay alive- as they are forced to provide competing and unprofitable air fares offered by a continuous rotation of new entry low cost airlines that show a constant history of failure. Unfortunately, in order to survive, capturing low fare market share has become a higher priority for airlines than customer service and new modern aircraft.

Below are some startling statistics comparing year 2007 to year 2000 for the 7 largest US Major Airlines. [*American, United, Delta, Continental, Northwest, US Airways and Southwest control 71% of the US market share.*]

- Total Operating Revenue was nearly the same at around \$95 billion.
- Capacity measured by Available Seat Miles [ASM's] decreased by 7% (Southwest capacity increased by 66%).
- In the past 7 years, the average one-way passenger fare has only increased by \$18 (+11%) going from \$153 to \$171. (Note: This is the passenger revenue kept by the airlines and does not include large increases in taxes, fees security charges etc. that airlines are required to charge but do not keep.)
- Fuel Expense increased by \$15.5 billion (+128%) going from \$12.1 billion to \$27.6 billion.
- Employee wage/salary expense decreased by \$7.6 billion (-30%).
- Employee wage/benefit percentage of operating revenue decreased by 22% going from 35% to 27%.
- The labor cost of the average one-way passenger fare decreased by \$25 (-41%) going from \$60 to \$35.
- The fuel cost of the average one-way passenger fare increased by \$34 (+154%) going from \$22 to \$56.
- In the last 7 years over 162,000 jobs (-38%) have been eliminated from the largest 6 major airlines as they went from 430,000 to 268,000 employees. (Southwest had an increase of 5,000 employees ending 2007 with 34,378 employees).
- While fuel costs rapidly increased and labor costs and total employment rapidly decreased, the average passenger ratio to airline employee increased by 430 (+36%) going from 1,198 to 1,628.

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In other words, that reservation or ticket agent or flight attendant must now, on average, resolve issues and provide customer service to 36% more passengers than they did seven years ago.

- During this same time period the average revenue productivity per employee increased by an astounding \$107,442 (+52%) going from \$206,370 to \$313,812.

*Data is for mainline operations and does not include contracted affiliates. Source is SEC and BTS reports. (Some data may be estimated for 2007.)*

When discussions address the question, what is the problem with the Airline Industry? It seems like a rather easy question to answer after you understand what has actually occurred.

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