

FLYING THE COMPETITIVE SKIES: U.S. AIRLINE INDUSTRY

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According to a *Fortune* Magazine article entitled "Airlines, Why the Big Boys Won't Come Back," the traditional airline industry (the majors) has been facing major competitive changes that were brought about as a result of the business practices of the discount airlines. For the six major airlines that were established prior to de-regulation of the industry—American, United, Delta, Continental, Northwest and U.S. Airways—the competition has been so intense (with soft economic conditions) that they have been unable to raise prices sufficiently to cover higher fuel costs, labor costs, and security costs.

As a result, the majors have lost market share and the trend apparently has continued as the discounters, principally Jet Blue, America West, and Southwest, have continued to increase their market share. The discounters now control 25% of the market. The question is whether the majors can adapt to the external environmental threats and the competitive industry environment, or will they continue to lose market share and eventually go out of business. With the different business models in the airline industry, the questions become: What is the forecast and what are the possible scenarios in the airline industry?

Despite the airline industry's lack of profitability, an editorial in the *Washington Post* entitled "Airline Mogul Remains Upbeat," writer George Will states that Doug Parker, president of America West Airlines, has remained optimistic. He has attributed this optimism to America West's hubs. America West's hubs in Phoenix and Las Vegas enjoyed tremendous economic expansion in the last 10 years.

Parker, however, indicated that there are far too many airlines in an industry that has overcapacity. He suggested that casualties are inevitable, and with the industry competition, each airline has to put together various strategies to increase market share, maintain market share, or downsize the airline in an attempt to differentiate its service, while at the same time avoiding bankruptcies or entering bankruptcies to reorganize.

THE STRUCTURE OF THE AIRLINE INDUSTRY: MAJOR AND DISCOUNTER

There are two basic types of operational models used by the airline industry—the hub-and-spoke and the point-to-point. United, American, Northwest, Continental, Delta, Air Tran, U.S. Airways, Midwest Airlines, Frontier, and America West operate a hub-and-spoke system. In the hub-and-spoke system, flights from all over the United States fly into major hubs where passengers disembark ending their flight, or they take a connecting flight to the city of their choice. This model allows each airline to fly passengers from smaller cities into the hub and then funnel these passengers to destinations on its own airline or on a regional carrier airline. The hub-and-spoke model permits airlines, with the help of the regional carrier (with its smaller aircraft), to serve small cities, which have insufficient traffic flow to support a major airline. For example, America West, now U.S. Airways, has operated two hubs, Phoenix and Las Vegas, and with the help of its regional carrier, Mesa Airlines, it serves many other smaller sized cities in the Western United States. Delta has hubs in Atlanta, Georgia; Cincinnati, Ohio; South Carolina; and Utah; Northwest has hubs in Minneapolis, Minnesota; and Detroit, Michigan; United's hubs are in Chicago, Illinois; and Denver, Colorado; American's hubs reside in Chicago, Illinois; and Dallas, Texas; and Continental's hubs are located in Newark, New Jersey; and Cleveland, Ohio. The airlines that use the hub-and-spoke model usually have a variety of different types of planes; therefore, to service these different types of planes, maintenance, training, and inventory costs (plane parts) are more costly because of variety of aircraft. However, these airlines are able to maintain and increase load factors from smaller hubs to larger hubs to maximize revenue.

In contrast to the hub-and-spoke model, the point-to-point model is based on a transportation system similar to one used by bus companies. Southwest and Jet Blue are the principal airlines that use this model. Flights start in one city and then proceed to other cities where some passengers deplane and other passengers remain on the plane to proceed to the next city. For example, someone might start in Houston, Texas, with the final destination being Chicago, but rather than a direct flight to Chicago, the passenger may have stops in Oklahoma City and Kansas City before arriving in Chicago. The benefit of the point-to-point model is the efficiency

Table I Comparison between Southwest and America West

America West Airlines	Southwest Airlines
Hub-and-spoke	Point-to-point
Three types of aircraft-143	One type of aircraft-388
First class and coach seating	Coach seating
Assigned seats	No assigned seats
Boarding rear first	Boarding first come
Use many on-line reservations systems	Use own on-line system
Code-share agreement with other airlines	No code sharing
Paid meal service on some flights	No meal service
In-flight movies on some flights	No in-flight movies
Baggage transfer between airlines	No baggage transfer
Overbooked flights receive discount on other airlines	No discount for other airline passengers

generated by having aircraft in flight for longer periods of time and leasing gates at older less costly airports, both of which lower operating costs. Southwest, for example, flies from Houston, Texas, to Dallas to Oklahoma City, to Kansas City, Missouri, ending the flight in Chicago.

Point-to-point airlines usually operate only one type of aircraft. Southwest uses only Boeing 737s, which reduces training costs, maintenance costs, and inventory costs because only one type and size of craft needs to be serviced. However, the point-to-point carriers do not fly into smaller cities where there are a limited number of potential passengers; whereas, the hub-and-spoke airlines service the smaller cities with smaller aircraft or rely on smaller regional carriers to service their hub-and-spoke model. Both the hub-and-spoke and point-to-point have different approaches to generating revenue, but each model has different training and maintenance costs because of the different aircraft used (See Table I).

To compete with the low-cost airlines and their point-to-point systems, the majors, and some of the discounters including America West, implemented a code-share system by which passengers could purchase tickets on two different airlines. This was convenient for the passenger and reduced transaction costs for the code-share partners. These airlines maintained their own reservation systems with the code-share capability and also sold blocks of airline seats to Internet companies, wholesalers, and channel distributors, such as Orbitz and Travelocity.

Not all airlines perceive this model as beneficial. For example, Southwest does not code-share with any other airline and maintains its own reservation system. Southwest has refused to allow Internet companies to sell Southwest seats. This has enabled Southwest to control costs and more adequately project revenues when compared to other airlines.

In contrast to the discounters, the major airlines were often saddled with debt obligations, union contracts that guaranteed high salaries and wages to their employees, and under-funded pension plans. Pricing pressure made it impossible for the majors to increase the cost of tickets to cover their own costs let alone meet the reduced prices of the on-line discounters. Instead, the majors have had to compete by differentiating their service, such as providing first-class seating and seating choices in coach.

GOVERNMENT REGULATIONS THAT AFFECT AIRLINES

Historically, the airline industry had been highly regulated and subject to a high degree of political involvement. The industry was subject to regulations promulgated by the Department of Labor, Occupational Safety and Health Administration, the Environmental Protection Agency, the Department of Defense, the Federal Aviation Administration (FAA), and The Department of Transportation (DOT). The FAA, for example, could issue regulations affecting flight safety, such as the requirement that airlines had to install a system to reduce the chance of fuel-tank explosions in Boeing and Airbus aircraft. The airlines were given a deadline to meet these requirements, generally with a phase-in-period. The Aviation Transportation Security Act required the airlines to screen every piece of luggage for explosive devices by 2003. These unfunded mandates

cost the airlines millions of dollars. Failure to comply with the regulations meant that DOT could revoke an airline's certificate of public convenience, resulting in a revocation of its permission to fly. Although the possibility of a government revocation exists, it remains more of a negotiation factor for the government in regulating the airlines.

Traditionally, the majors had controlled most of the landing slots at a half-dozen international airports by entering into long-term leases with the airports. This greatly reduced competition from the discount airlines at major hubs, but the discounters leased less expensive gates at older national airports, such as Houston's Hobby and Chicago's Midway.

After the terrorist attacks of 9/11, national and international transportation interruptions seemed imminent due to possible terrorism and other global instability variables. To help the airlines, the federal government passed the Emergency Wartime Supplemental Appropriations insurance programs under the Air Transportation Safety and System Stabilization Act. This act provided the airlines with cash payments for 9-11 interruption in airline travel, and with the opportunity to secure a government-guaranteed loan to offset the increased costs for security. These federal government injections of liquidity helped airlines survive in the short run. The supplemental appropriations extended only until March 2008, at which time the airline industry had to self-insure. The additional cost to the airlines of terrorism insurance could not be passed on to passengers due to the extreme price competition in the industry. Private insurers did not want to assume liability for unforeseeable catastrophic events. As a result, the airlines' choice of insurers was limited, which resulted in higher premiums for coverage.

Some airlines, such as America West, were able to secure a government-guaranteed loan, but the loan agreement contained strict limitations on management prerogatives. America West borrowed \$429 million plus a term loan for \$73.2 million, but in return it was required to maintain \$100 million in cash reserves and to prepay the government loan with the net proceeds of all issuances of debt or equity by its holding company. Any money derived from asset sales in excess of \$20 million in any fiscal year and insurance proceeds in excess of \$2 million (to the extent such proceeds were not used to restore or replace the assets from which such proceeds were derived) had to be paid to the government. A further restriction on airlines that received the government loan was the requirement that the airline had to control labor costs.

In addition to the legislation intended to preserve the airlines, there were unfunded governmental mandates levied on the airlines. Airlines were subjected to the Aviation and Transportation Security Act (ATSA). This established a new Transportation Security Administration within the Department of Homeland Security. ATSA mandated that by December 2003, all checked baggage at U.S. airports had to be screened using explosive detection systems. There were also new requirements for strengthening cockpit doors, deploying federal air marshals on board certain flights, improving airline crew security training and expanding the use of criminal background checks of employees. Implementation of these directives resulted in delays and disruptions to air travel. Funding was provided by a \$2.50 per ticket tax, not to exceed \$5.00 per one-way trip.

There were additional direct fees on carriers. For example, America West's compliance costs under the requirements of ATSA amounted to \$13.2 million. Additionally, the Environmental Protection Agency had reached an agreement with 11 airlines, which meant the airlines had to periodically check water quality on flights. Because of these government regulations, airlines were not able to recover the additional security costs through increased fares, nor was it possible to predict what security requirements would be imposed in the future by federal or state regulations. The slow economic growth limited the airlines' ability to pass on increased operating costs. These government rules and regulations helped restrict the airlines from expanding operations and revenues and forced most airlines to downsize.

THE TRAVEL INDUSTRY AND ECONOMIC CYCLES

Historically, business in the travel industry, which includes airlines, hotels, motels, car rentals, etc., has fluctuated on a seasonal basis with the summer months being the high traffic periods. Therefore, revenues have been greater in the second and third quarters because the demand for leisure travel increased as families and individuals planned vacations. However, travel industry revenues are adversely affected by specific events, such as airport congestion, weather conditions (hurricanes etc.), mechanical problems, and security concerns that result in cancelled flights and delays. Also, the industry is affected by the U.S. economic cycle in terms of recession and growth.

For example, as the U.S. Gross Domestic Product (GDP) increases, so does the travel industry sales and revenues, and when the U.S. economy falters, travel industry revenues decline.

From 1991 to 2000, the airlines along with the travel and tourism industries experienced growth. Historically, the travel and tourism industry grows faster than GDP. However, during periods of economic expansion, travel and tourism have been extremely price sensitive. As incomes increased so did the demand for travel.

During recessions, the travel and tourism industry sales fall, but the economic evidence indicated that the decrease in output and revenue did not fall any more than the percentage decrease in GDP. Most estimates indicated that the travel and tourism industry's share of total output for the total economy had varied between 4% and 6%. For various sections of the country that rely on the travel industry, such as Phoenix and Las Vegas, the total output exceeded 6%.

The travel and tourism industry accounted for 3.6% of total U.S. employment and for 27.7% of the employment in Las Vegas, which had a population of 1,375,765 as of 2000. The percent of travel-related employment in Phoenix was not far behind Las Vegas. For example, Phoenix had experienced a population growth of 31.7% since the 1960s from 663,510 to 3,072,149 in the year 2000. Because of population growth and tourist attractions in Phoenix, and Las Vegas, the importance of the travel and tourism industry for these regions was significant. As a result, other cities and states have recognized the economic development potential of the travel industry and have allocated funds for promoting travel and tourism. However, beginning in 2000, as the GDP faltered, the travel and tourism industry growth wavered.

For the next five years, economic growth in the United States, although positive, was not sufficient to eliminate the overcapacity of the industry, and with fuel costs escalating the airline industry could not pass on the increased operating costs. The immediate result was significant losses for almost all airlines except for some of the discounters such as Jet Blue and Southwest, which either had sufficient cash reserves to hedge on fuel costs or labor costs lower than the major airlines. By 2006, most airlines had reduced labor costs and downsized sufficiently, except for Northwest and Delta which were still in bankruptcy. In 2007, the financial projections for most airlines indicated a return to profitability assuming stable fuel costs, no recession, and other external impacts.

AIRLINE INDUSTRY AFTER 9/11

With the onset of the U.S. recession in 2001, the airlines' losses mounted. The terrorist attack on 9/11 plunged the airlines into more red ink. The fourth quarter of 2001 saw substantial airline losses. These losses continued into 2002, 2003, 2004, and for some airlines into 2005. Over these years, the airlines' cash balances declined significantly. For example, United Airlines, which was in bankruptcy, reported a \$1.4 billion loss in the second quarter of 2005. In 2004, the current ratio and the quick ratio for the airline industry were .8 and .7, respectively, which compares unfavorably with the S&P 500 standard of 1.5 and 1.2.

On July 17, 2005, aviation experts reported that airlines were in desperate shape. The airlines had been short of cash and had carried a heavy debt load. For example, the big five Delta, United, Northwest, American, and Continental incurred billions in debt and with soaring fuel costs the question arose whether the airlines could stay the course. Even though the industry reduced costs, borrowed more funds, or sold assets, many other external risk factors impacted the airline industry (See Table II).

These risks, particularly the social factors, could immediately and adversely affect the airlines. SARS and the bird flu could shut down airports and quarantine passengers at airports. Scenarios for this type of possibility already existed.

The soft economic conditions starting in 2000 and 9/11 prohibited the airlines from showing any substantial improvement in revenues. This revenue problem continued until the summer of 2003 because of continued terrorist threats, adverse weather conditions, and the acts of foreign governments. The supply and demand conditions in the oil industry added to airline costs. From 2001 to 2006, oil prices fluctuated, and in 2006, they increased to all time highs. Those airlines that had the cash to hedge a large percentage of their fuel costs were able to decrease the red ink. Southwest Airlines avoided a loss by hedging 100% of its fuel costs in 2002. Other airlines, particularly the big five with less cash, had to totally or partially absorb the jet fuel price increases.

The major airlines were projected to lose \$5 billion each in 2005, based solely on the rise in fuel costs. This projection was based on the assumption that oil prices would return to \$40

Table II External Airline Risk Factors

Global instability	Military presence in Iraq and Afghanistan
Potential or actual terrorist attacks	Social risks—SARS and avian flu (bird flu)
Government regulations	Insurance costs because of global instability
Interest rate fluctuations	Soft economic conditions (GDP)
Fuel price increases	Financing availability to fund future business
Industry competition	Cyclical affects of the travel-airline industry
Union relations with the industry	Competitive practices in the airline industry
Unfunded pension obligations	Changes in federal and state laws

Table III Labor Costs

	Labor Expenses as a Percent of Total Expenses (%)	Labor Cost per Available Seat Mile	Change from 2003 Seat Mile in Dollars
ATA	26	1.93	.08
Air Tran	27.2	2.24	-.21
Continental	29.3	2.78	-.12
America West	29.8	2.26	-.21
Jet Blue	30.3	1.84	.05
United	31.7	3.20	-.41
U.S. Airways	34.8	4.06	4.17 (as reported)
American	36.7	3.48	-.70
Alaska	37.18	3.86	.02
Southwest	41.0	3.20	.13
Delta	43.7	4.54	-.016

Source: Reed, Dan. (2004, July 14). Low fare airlines may be losing their edge, *USA Today*, pp. B1-B2.

a barrel. Fuel prices did not return to \$40 a barrel; and therefore, losses were greater than projected. With labor and other costs higher than the discounters, the majors lost money as they continued to match the lower prices offered by the discounters. The July 14, 2004, issue of *USA Today* provided a chart (see Table III) that listed what individual airlines paid for labor expenses as a percentage of total expenses and what the labor cost per available seat mile was per airline. Although the labor costs may appear similar, union contracts varied based on hours worked. For example, some of the discount airlines had reached agreements with their pilots which required the pilots to fly 80 hours per month; whereas, the majors worked their pilots 50 hours per month per contract. Despite these disparities, the airlines benchmarked their expenses on a cost per seat mile.

Because of fuel and labor costs, the majors had been saddled with billions in debt and a negative \$3.2 billion or more in equity. For the airlines, there had been only two methods for reducing labor costs: negotiate reductions in pay and retirement benefits with the unions and downsize. The other option was to increase revenues, but revenue growth had been difficult to achieve in an industry saddled with overcapacity, consumer price sensitivity, and intense rivalry.

In the past to reduce or eliminate competition, the majors controlled most of the landing slots at the newer international airports through leases. Therefore, the discounters increased service to the smaller national airports such as Chicago's Midway and Houston's Hobby. To equalize the competition in the last 10 years, the government encouraged airports to lease more gates to the discounters in the industry at the newer airports. As more gates became available, competition at major airports increased, which placed greater pressure on the majors to reduce costs.

At the same time, the labor unions rejected reductions in labor costs and, in some instances, asked for greater increases in pay. Southwest Airlines workers, for example, moved into the upper tier in pay and the flight attendants asked for a 40% increase in pay. America West settled with their pilots for an 11% increase in pay.

Because of the many governmental restrictions and the airlines' limited ability to respond to competitive developments, adverse economic conditions and/or global instability resulted. This has caused most majors to file for bankruptcy protection: United, U.S. Airways, Delta, Northwest, ATA, and Air Tran. Bankruptcy enabled these airlines to reorganize, renegotiate more favorable union contracts and more favorable airplane leases, while attempting to eliminate unfunded pension plans and overall debt obligations. In fact, to help the airlines return to profitability, some experts have suggested the Federal Government eliminate the \$15 billion in transportation taxes and costs for the airline industry.

TRAVEL INDUSTRY TRENDS

Despite billions in airline losses due to industry overcapacity and soft demand in the travel industry, the economic projection for the U.S. economy and overall travel industry continued to be favorable. The Federal Reserve had a low interest rate policy from 2001 until 2004 with some projected increases for 2005 and 2006. In 2000, the fiscal stimulus from the federal government helped restore economic growth, and the low rate of inflation promised a healthy economic outlook for the future. As a result, the U.S. Travel Revenue is projected to grow between 3% and 7% from \$193.1 billion (as related in Table IV) in total U.S. travel revenue for years 2002 through 2006. These figures included air, car, and hotel, tour, and cruise accommodations, but they did not include travel-related expenses such as meals and entertainment. The 2002 revenue figures and the total revenue projections for 2003 through 2006 are illustrated in Table IV at the end of the case. Table IV also indicates the size of the total U.S. travel market.

Despite the projected growth in the travel industry, overcapacity in the airline industry prevented the industry from raising fares except for a small increase of \$2 to \$5 in one-way fares to cover the higher fuel costs. Since deregulation, the industry had been highly competitive and, ironically, instead of immediately increasing prices of tickets to cover fixed costs, the airline companies sold blocks of airlines tickets at a low cost to on-line Internet companies, such as Orbitz, Travelocity, Expedia, Hotels.com, Priceline, and Hotwire. These Internet companies and the airlines developed their own web-based reservation systems and the Internet provided a marketing outlet. Besides the airlines, the on-line travel companies also included rental car companies and hotel chains. In fact, most airlines leased blocks of hotel space to accommodate passengers when flights were over-booked and provided one-stop shopping, which means the customer can book the airline flight, the car rental, and the hotel space at the same time. This one-stop shopping trend is projected to continue.

Projections indicated that the use of the Internet to book airline travel was expected to grow by 25% per year. In 2002, 15% of all travel was booked on-line, and by the end of 2005, it was expected to grow to 30%. If the travel sector had a slow but steady recovery in the future, it was projected, that within in a few years, 50% of all bookings would be done on-line with airline websites and on-line travel companies equally sharing these bookings' pricing pressures. The competitive pressure from the on-line discount travel companies required airlines to develop strategies for providing greater customer service to attract customers.

Airlines continued to attempt to attract frequent fliers. For example, to compete more effectively and provide customer service, airlines accessed databases of frequent flyers to promote

Table IV U.S. Travel Revenue

Total U.S. Travel Revenue (U.S. \$ and Percent Change)

Year	Total Revenue (\$)	vs. Year Ago (%)
2002	193.1	
2003	199.2	3.2
2004	210.2	5.5
2005	225.2	7.1
2006	234.2	4.0

Source: Online Corporate Travel 2001–2003: Market Share, Strategy, Forecasts and Commentary. (2002 January). PhoCusWright, Inc.

not only the sale of airline tickets, but also hotel accommodations, car rentals, cruises, and vacation packages, thereby reducing transaction costs. Other cost reductions were obtained by using technology, such as the use of scanners for boarding passes and kiosks for e-ticket check-in. Consumers, as buyers, often chose to fly or drive based on the price of the airline ticket.

Even with the favorable forecast for the travel industry, the airlines had not indicated whether they could make the necessary structural changes to avoid future bankruptcy or liquidation. The various opinions circulated in the media add to the confusion in the industry. Glenn Titlon, president of United Airlines, predicted that United would emerge from bankruptcy. This occurred in the second quarter of 2006. However, because United racked up a \$1.4 billion second quarter loss for 2005, and substantial previous losses, the creditors were expected to receive only 7% of the \$30 billion the airline owed. Instead, United Airlines and others, including some airlines that have consolidated, proposed that creditors receive stock in place of the debt owed.

Bruce Wakefield, president of U.S. Airways, stated, "The merger or buyout by America West Airlines of U.S. Airways has allowed the merged airlines to become a stronger airline with U.S. Airways strong on the east coast and America West on the west coast." In 2005, Delta needed more than \$5 billion in cuts to avoid bankruptcy, and it planned layoffs and service cuts despite the \$425 million cash infusion from the sale of South East Air. Despite these announcements, Clayton Securities analyst Ray Neidi said he expected the airline to file bankruptcy "some time after Labor Day in 2005," and that prediction came true. Delta and Northwest Airlines filed and entered bankruptcy in 2005. With Northwest machinists on strike and not agreeing to the proposed cuts, the question continued to surface about whether Northwest Airlines and Delta can restructure and survive. Delta started with merging the discount airline Song into the main airline structure. For Northwest, outsourcing the machinists' jobs and flight attendants jobs helped the bottom line, assuming the flight attendants do not strike.

The demand for airline travel slowly increased from 2002 to 2006, which enabled the airlines to increase prices by 10.3% in first quarter of 2006, compared to first quarter of 2005, to cover fuel costs and other escalating costs, such as security. However, when considering Michael Porter's Five Forces Model, these price increases and time delays because of security screening encouraged customers to find substitute methods of travel. Traveling by car between cities regionally became more economical. However, if the price increases do not decrease airline demand, then suppliers and buyers in the airline industry benefit.

AIRLINE SUPPLIERS AND BUYERS

Until 2006, the unprofitable airline companies adversely affected the supplier power, buyer power, and barriers to entry within the industry. Creditors (buyers of aircraft) and the manufacturers (suppliers) have a vested interest in the success of airline companies. To insure potential buyers for aircraft and insure creditors have received payment for the leased aircraft, the creditors (lessors) and manufacturers continued to supply funds for airlines to stay in business.

For example, it was reported that General Electric and Airbus provided funds for U.S. Airways and America West to consolidate. By keeping the major airlines flying, these creditors (lessors), such as General Electric and Morgan Stanley, have avoided substantial losses and avoided being stuck with many unused aircraft as each airline reorganizes. At the same time, these agreements have helped an industry remain in competitive turmoil.

The two principal manufacturers and suppliers of aircraft, Airbus and Boeing, lost business since 9/11 and the travel industry only recently returned to the same level of business prior to 9/11. Boeing, for example, lost sales because of 9/11, and in addition, it has trailed Airbus the last four years in the sale of new aircraft. All the while, Boeing's bread and butter airplane, the 737, accounted for less than 50% of its revenue. In competition with Boeing, the larger Airbus was built to carry more passengers and was claimed to be more fuel-efficient because of the increased size of the aircraft and additional load availability.

However, Boeing entered into a game-saving strategy by developing the Dreamliner. This 787 aircraft sold for \$120 million. The advantage of this aircraft was that it was built mostly of plastic composites. The plastics have been proven to be lighter and stronger than aluminum, making the aircraft more fuel-efficient, with fewer parts. The production function became simpler and more efficient than the production of the older aluminum aircraft.

Because of the economic uncertainty in the airline industry, the market for newer aircraft continued to remain uncertain. For example, Airbus has not sold many jumbo jets that

carry 500 to 600 passengers, despite the fact that Airbus is subsidized by some of the European governments. This subsidization has made Airbus more price competitive than Boeing. As a result of government subsidies for Airbus, the United States filed an unfair competitive complaint with the World Trade Organization.

The competitive rivalry in the airline industry left the industry with sizable losses, cash shortages, and forced Northwest, Delta, U.S. Airways, and United into bankruptcy. When one airline eliminated a route or downsized, another airline jumped into the void, which raised the question per Porter's model as to whether the major airlines can restructure and return to profitability. In the airline industry, barriers to entry are weak to moderate with the intense competitive rivalry, with uncontrollable threats from external risk factors, and with any number of possible scenarios among the different business models, all of which makes forecasting difficult for each airline within an industry where it is difficult to analyze and to predict the future. Can the majors survive, maintain their position, downsize, consolidate, and recover?

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