THE LOS ANGELES HUB:
Competition by the Threes

Los Angeles is an anomaly in the deregulated world of hub dominance and captive feed. No one dominates, bigger is not necessarily better and too many frequencies make for lower load factors.

By ARNOLD LEWIS and JOHN M. HILLSAMER

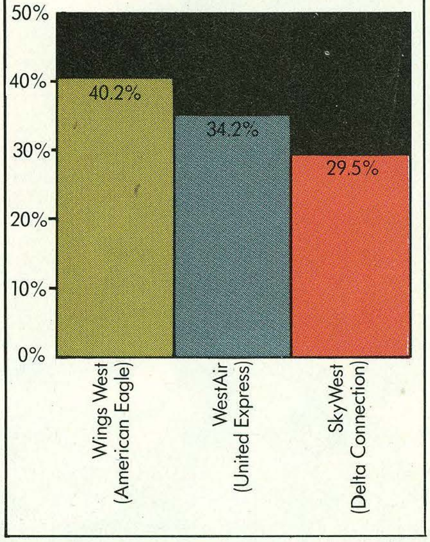
Everyone knows California is different. It thrives on the reputation. Regional aviation in the state is no exception.

In the increasingly noncompetitive environment of deregulation, Los Angeles remains quite competitive indeed. And rather than just one or two code-sharing surrogates of major carriers monopolizing the market, there are three—American Eagle Wings West, Delta Connection SkyWest and United Express WestAir.

Although no carrier dominates, the competition might be described thusly: SkyWest offers 46.5 percent of the available seat miles but logs only 40.2 percent of the revenue passenger miles. It offers 49.9 percent of the scheduled seats with 45.8 percent of the total operations, but carries only 41.2 percent of the revenue passengers with an average load factor of 29.5 percent. Wings West, however, has a marginal 2.5-point edge in RPMs at just under 42.6 percent. Those results are derived from third-quarter 1987 filings with the DOT. In a word, SkyWest carries more passengers than its two competitors—Wings West has 38.8 percent and WestAir nearly 20 percent—but it expends considerably more in terms of frequency and capacity to do it.

Figure 1

SYSTEMWIDE LOAD FACTORS LOS ANGELES HUB OPERATION (Total Origin and Destination Markets)

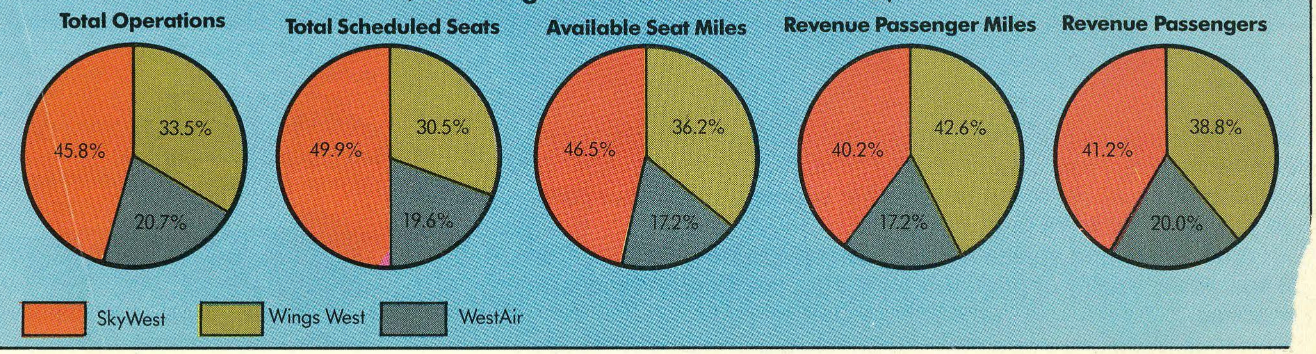


The primary focus of the Los Angeles hub is on seven competitive California markets—Fresno, Orange County, Palm Springs, San Diego, San Luis Obispo, Santa Barbara and Santa Maria—served by all three carriers. Of the seven markets, San Diego dominated with 56,350 passengers in the three months ended September 30, 1987, or 24 percent of the Los Angeles total for the three regionals. By comparison, Santa Barbara was the second largest competitive market with 27,604 passengers.

Also unique about San Diego is the fact that it offers a considerable number of jet flights to Los Angeles, primarily by Pacific Southwest (USAir) and Alaska. Block time over the 109-mile segment, however, is 35 to 40 minutes whether it be a Fairchild Metro, MD-80 or a BAe 146. A Shorts

Figure 2

REGIONAL CARRIER MARKET SHARE LOS ANGELES HUB OPERATION (Total Origin and Destination Markets)



360 takes a slightly longer 50 minutes.

In this market, SkyWest scheduled nearly hourly operations and sometimes more during the business day, inserting its first 30-passenger Brasilia on some runs to complement its 19-passenger Metros. With nearly 37 percent of the operations and 43 percent of the seats, however, SkyWest came out second to Wings West in terms of passengers, with almost as many operations and 30.8 percent of the seats. Significantly, Wings West scored the Los Angeles hub's highest individual load factor on the San Diego run with 62.7 percent and 42.3 percent of the passengers.

WestAir, which is primarily oriented toward the San Francisco hub where senior partner United makes a larger presence, has about a quarter of the Los Angeles-San Diego market in all categories, operating Embraer Bandeirantes in both 15- and 18-passenger configurations.

The San Diego pattern is continued at Santa Barbara, where the three carriers tallied 27,604 passengers during the third quarter. While SkyWest offered better than 50 percent of the seats, RPMs fell 8.5 percentage points short at 43 percent. Both Wings West and WestAir benefited from the disparity with 6.8- and 1.7-percentage-point RPM advantages over ASMs, respectively. SkyWest maintained 43.2 percent of the passenger traffic, however, versus 32.8 percent for Wings West and 24 percent for WestAir.

In Palm Springs, home base for Sun Aire, a SkyWest acquisition, the St. George, Utah-based regional accounted for nearly 60 percent of the revenue passengers, but ASMs exceeded RPMs by 14 percentage points. The other two regionals both posted RPM surpluses, according to the third-quarter DOT filings.

In four of the seven competitive markets, Wings West carried more passengers than either of its two competitors, while SkyWest prevailed in the remaining three. WestAir was a strong third in terms of a very good balance between passengers carried and capacity.

Six monopoly markets—four for SkyWest and three for Wings West—were disappointing performers for the most part. Only Wings West's Lake Tahoe produced better than a 50-per-

Figure 3

SKYWEST (DELTA CONNECTION) LOAD FACTORS LOS ANGELES HUB OPERATION

(Total Origin and Destination Markets)

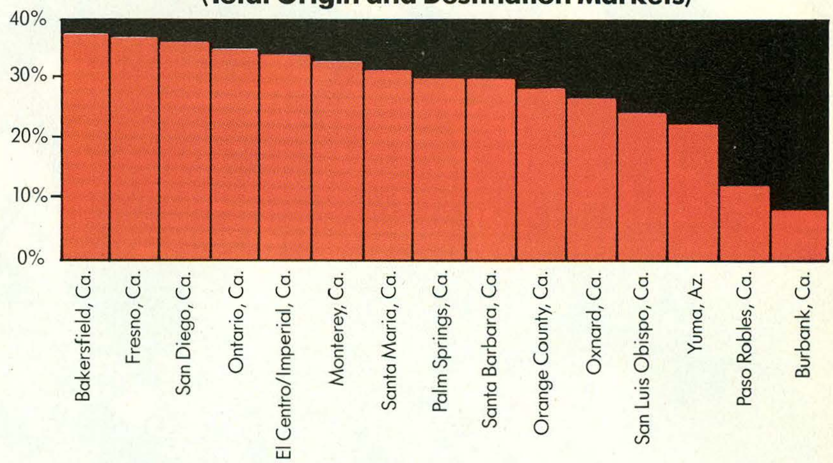


Figure 4

WESTAIR (UNITED EXPRESS) LOAD FACTORS LOS ANGELES HUB OPERATIONS

(Total Origin and Destination Markets)

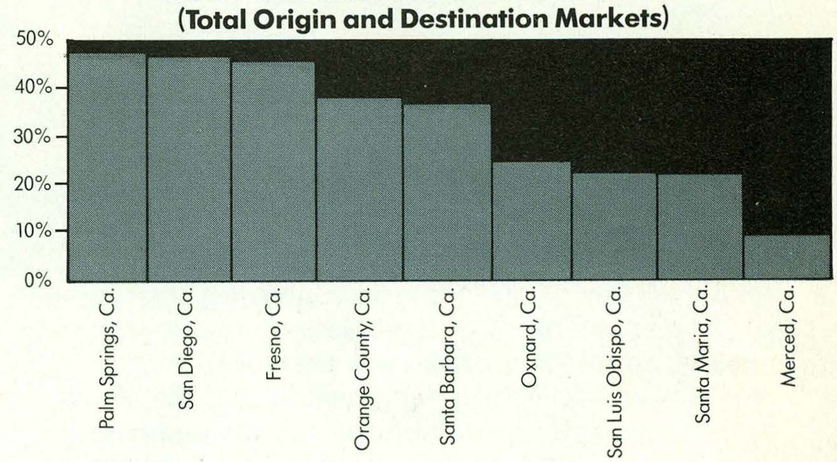


Figure 5

WINGS WEST (AMERICAN EAGLE) LOAD FACTORS LOS ANGELES HUB OPERATION

(Total Origin and Destination Markets)

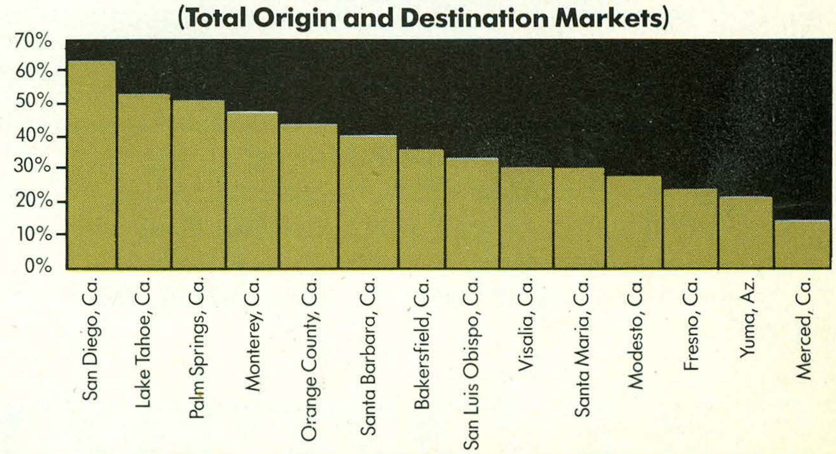
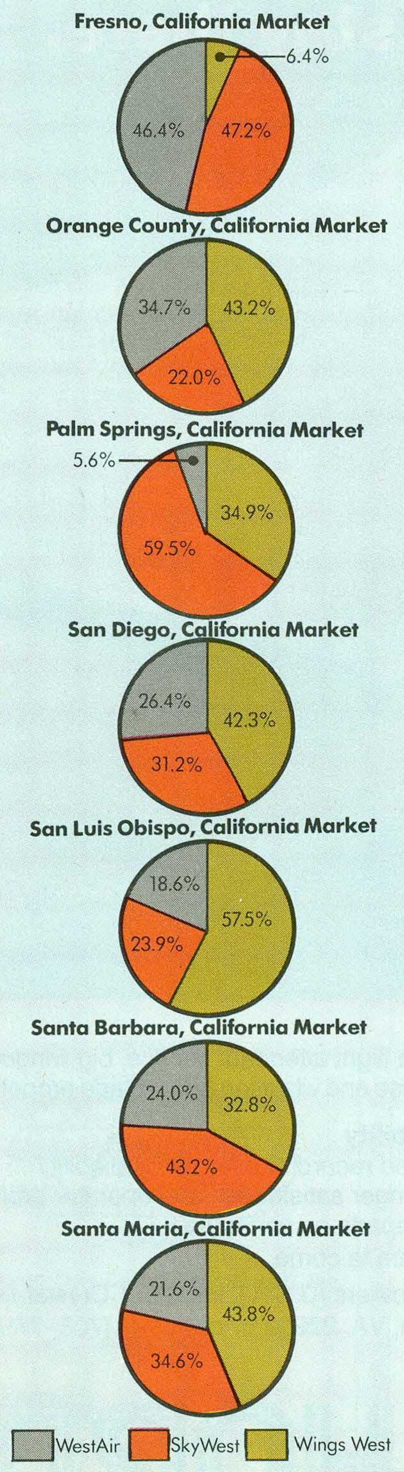


Figure 6

REVENUE PASSENGER MARKET SHARE LOS ANGELES HUB OPERATION

(Total Origin and Destination Markets)



Of the seven markets served by SkyWest, WestAir and Wings West, San Diego dominated with 56,350 passengers in the three months ended September 30, 1987.

cent load factor; and that might be thought to attract competition. Senior partner American put 9,000 seats into the Los Angeles-Lake Tahoe market during the third quarter, however, compared to 4,140 for Wings West, albeit most are one-stops. The market is a 353-mile stage length.

SkyWest has two monopoly points that generate load factors of less than 10 percent—Burbank and Paso Robles. Burbank generated only 464 passengers during the three-month period for a 6.9 percent load factor in what is obviously an equipment-positioning situation. The stage length is 19 miles. Paso Robles, which will be dropped entirely this month, is a crew domicile and small maintenance base for SkyWest.

The other monopoly points would tend to discourage competition, although for the most part they generate tolerable load factors for the incumbents. Wings West generated a 33.4 percent load factor at Visalia, California, on 4,296 passengers in the third quarter. Modesto produced a somewhat less enticing 29.1 percent load factor on 2,581 passengers. For SkyWest, El Centro/Imperial posted 33.6 percent and 5,481 passengers; Ontario provided 4,088 passengers for a load factor of 34.6 percent.

Such is the groundwork for some major changes about to befall the Los Angeles hub in the coming months. With the March 2 schedule change, SkyWest already has shifted about 10 percent of its California capacity out of the state and into its northern hub at Salt Lake City. From there it has launched complementary service into most major Montana points on behalf of senior partner Delta.

SkyWest has had some problems assimilating its new Brasilias. It has five aircraft and will take a sixth in July, although it had originally planned to receive three this calendar year. They primarily have been utilized on the shorter California routes. Although they all rotate systemwide, the March shift essentially meant that about three of the new aircraft will be spending their time operating out of Salt Lake City. "Salt Lake is a good hub for them to feed over," according to SkyWest's Vice President-Treasurer John Bowler. "We think it is going to generate some better numbers and better utilize the airplane over longer stage lengths, where it does best." He said the Brasilia "needs quite a little longer stage length than the Metro to be cost efficient."

WestAir, until recently, operated a fleet of 30 Bandeirantes and had just begun phasing in 10 new 30-passenger Brasilias. In a major equipment decision, however, the carrier has placed into operation the first of six new, leased British Aerospace 146 quadjets. An additional three are on option. The 90-passenger aircraft are replacing senior partner United in a number of San Francisco markets, including Eureka and Redding in Northern California and home-base Fresno in the middle of the state. WestAir President Tim Flynn maintains that transition into the large aircraft will in no way impact the high-frequency nature of his Bandeirante/Brasilia operations.

Wings West, on the other hand, a long-time Beech 99 and Metro operator, will take delivery this spring of the first of 10 leased BAe 64-passenger Advanced Turboprops (ATPs) as well as 15 BAe Jetstream 31 aircraft scheduled for delivery beginning in the spring of 1989. The larger aircraft are to replace north-south Boeing 737 service previously offered by AirCal, which has been absorbed by senior partner American. The carrier finds itself in possession of three aircraft types of under 19 passenger seats, however, and likely will begin replacement of the older two types with the new Jetstreams.

Theoretically, the large-aircraft operations of WestAir and Wings West will eventually slide into direct competition with each other while SkyWest, which has shown no interest in large aircraft, will continue to specialize in frequency. Performance variables, however, may play a major factor. The 146-200 has a clear advantage over the ATP over a 275-sm stage length, with a block speed of 270 knots versus 191 for the twin-engine turboprop. The Brasilia, on the other hand, squeezes into the lower middle ground at 214 knots.

What all this means is pure speculation since two of the three carriers are breaking new ground in terms of equipment. The third is retracting and attempting to redeploy its assets in a more productive fashion. It is clear from the third-quarter origin-and-destination data from the DOT that the vast majority of California's regional markets will not support aircraft much beyond the 19- to 30-passenger level and at the same time attract the kinds of frequencies that have prevailed.

On the other hand, California does support a high percentage of business travel with its regional air transportation system, which generally means higher yields and greater returns. As such, the Los Angeles hub is likely to remain unique among its contemporaries, offering competition by the threes, at least until other issues, such as airport access, come to the fore. **B/CA**

BY ARNOLD LEWIS

▶DOUBLE ENPLANEMENTS

Regional airline enplanements will more than double 1987's level in 1999, and passengers will board larger aircraft operated by fewer carriers.

That is according to the latest 12-year prognostications of the FAA. In its aviation forecasts for 1988 to 1999, the agency said that boardings should reach 57.9 million by the end of the century with a 6.5-percent average annual growth rate within the 48 contiguous United States and a 6.4-percent rate in Alaska, Hawaii and Puerto Rico.

Passenger revenue miles, the agency says, are expected to total 11 billion by 1999, compared to slightly more than four billion in 1987. The agency said that it based its forecast assumptions on "increased demand placed on a stable, mature regional/commuter industry."

Average passenger seats per aircraft would increase from 20.1 in 1987 to 29.1 in 1999 while the average passenger trip length was expected to rise from 1987's 161.3 miles to 200 miles in 1999. Only a slight increase in industry-wide load factor was forecast—from 45.5 percent in 1987 to 46.8 percent in 1999, which, according to the agency "reflects continued emphasis on frequency of service."

The agency predicts a continuing integration of the regionals and commuters with their larger code-sharing partners, making them more susceptible to the competitive trends of the larger carriers. "It can be expected that there will be further acquisitions of regionals/commuters by the majors and the development of increasingly closer ties with code-sharing regionals/commuters that retain their corporate independence. These ties will include increased financial assistance in aircraft acquisition, administrative services and market planning. This will bring the participating carriers increasingly under the dominance of their larger partners," the FAA said.

While the average aircraft capacity will increase to near 30 passengers, the fleet itself is forecast to grow by an annual rate of 2.9 percent, from 1,604 in 1987 to 2,252 in 1999. In 1980, aircraft of fewer than 15 passenger seats accounted for nearly 61 percent of the regional/commuter fleet, the FAA said. Last year the percentage was under 36.2 percent and by 1999 that category of airplane will account for under 7.7 percent of the entire fleet.

Aircraft in the 15- to 19-passenger class constitute the largest chunk of the fleet—40.7 percent in 1987—and will continue to dominate through 1999. The overall percentage of this category will decrease to less than 35 percent, however, the FAA said.

The largest growth in the regional/commuter fleet will be in the 20- to 40-passenger class airplanes, increasing from 13.3 percent of the fleet in 1987 to 32.9 percent in 1999. Those aircraft with more than 40 passenger seats—9.8 percent in 1987—were forecast to increase to 24.4 percent in 1999, giving the over-20-seat class a clear 57.3 percent majority of the regional fleet. By comparison, these two categories accounted for 7.1 and 6.1 percent of the commuter fleet in 1980 respectively.

"During the forecast period," the agency said, "aircraft in the '20 to 40 seats' category are expected to increase from 213 aircraft in 1987 to 714 in 1999, an average annual increase of 10.9 percent. Aircraft in the 'greater than 40 seats' category are expected to increase from 158 aircraft in 1987 to 549 in 1999, an average annual growth of 10.9 percent.

"This trend toward larger aircraft will increase the average seating capacity per aircraft from 20.1 seats in 1987 to 29.1 seats in 1999," according to the FAA.

▶GAMESMANSHIP

Regional aviation management is certainly no sport. But in the emotional ebb and flow of such an historically entrepreneurial-based business, someone periodically comes up with a classic piece of one-ups-manship.

Command Airways' President Kingsley Morse was the right person in the right place to outbid five competitors for 10 arrival and 10 departure slots at Washington National Airport reluctantly being surrendered by Chapter 11 carrier AVAir. Already with 38 slots at New York LaGuardia and 20 at Kennedy, where slot controls are only in effect between 3 p.m. and 9 p.m., Command might now be said to own the chessboard, if not most of the pieces. A number of northeastern regionals own slots at two of the three slot-controlled airports, but not at three airports and in such numbers.

Bids for the slots were sent out by the bankruptcy court in Lynchburg, Virginia, and their acquisition for $40,000 each was approved by a committee of creditors that included senior partner American, which undoubtedly was quite pleased to see the slots fall into the hands of another American Eagle carrier. B/CA's *Commuter* was told the $800,000 total was paid in cash and from working capital. Command in addition picked up the leases of three AVAir Shorts 330s, restoring its own 330 fleet—it was the type's U.S. launch customer—to eight. In addition, the carrier operates three Shorts 360s and recently leased its fifth ATR-42 out to fellow Eagle Executive Air Charter in Puerto Rico until about May 1.

Command's market possibilities at National are wide open. One likelihood is New York Kennedy-National, the nation's fifth largest regional market in terms of passenger boardings. It currently is occupied only by Pan Am Express from the regional ranks and would offer American its own captive feed for international departures from JFK. Another probability is White Plains-National in competition with that segment's only other occupant, Piedmont Regional Henson. White Plains-Boston is Command's most lucrative route with some 13 daily roundtrips. Other potential markets include Albany, currently served by USAir, Providence and Hartford.

Despite its American affiliation, Command remains a primarily origin and destination carrier with business passengers accounting for about two-thirds of its traffic. The remainder is discretionary connecting traffic, although that portion is increasing under the 'AA' code. **B/CA**

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