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Perspectives on the Pilot Supply Problem

Geoff Murray Ph.D.

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PERSPECTIVES ON THE PILOT SUPPLY PROBLEM

AUGUST 15, 2017

Geoffrey C. Murray, Ph.D.
Aerospace Sector Leader
What’s Oliver Wyman? Why are we here?

- Oliver Wyman is a consulting firm—we help companies anticipate and solve complex challenges
  - Very strong focus on aviation and aerospace
  - Experience working with most major airlines, OEMs, suppliers and sponsors, including many here

- We believe the pilot shortage is real and represents a “perfect storm” in the battle for talent
  - Once aligned objectives and priorities among various aviation entities are now competing
  - Evolving regulatory environment
  - Decreasing emphasis on manned military aviation
  - Decreasing appeal of professional aviation

- We’ve recently completed two projects for major U.S. airlines addressing these challenges, so we represent a qualified opinion
The “pilot pipeline” is dramatically changing, shifting demographic of same quality

10 years ago quality pilot supply was abundant

• Typically an ATP rated pilot with ~15 years experience in his/her late 30s
• Successful in college as a thought leader with a self-developed passion for aviation
• Willing to endure long-road to a major on the heels of economic recessions

Today there is decreasing interest in aviation

• Military now only account for ~30% of major airline new hires
• Young professionals increasingly value work/life balance when considering career opportunities, favoring other industries
• Graduates of professional pilot-degree decreased ~23 percent from 2001 - 2012

Radically new recruitment and training programs are needed

• Increased focus on upstream student recruitment to aviation
• Aligned incentives among industry stakeholders
• Reduced training and professional discontinuities
• More attractive long-term student value proposition and quality of life offering

Source: ALPA, 2014 GAO report, 2016 Deloitte millennial survey
Quick adoption initiatives include focusing recruiting efforts upstream and aligning the incentives of different industry stakeholders

Upstream recruitment

- Future Focus
  - Secondary school
  - High school

- Traditional channels
  - Undergraduate university
  - Flight instruction
  - Regional airline
  - Major airline

Aligned incentives

<table>
<thead>
<tr>
<th>Entities</th>
<th>Traditional Approach</th>
<th>Evolving Approach</th>
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<tbody>
<tr>
<td>Mainline airlines</td>
<td>Passive, maintain adequate pilot supply with minimal recruiting costs</td>
<td>Actively seek out industry partnerships to ensure stream of quality applicants</td>
</tr>
<tr>
<td>Regional airlines</td>
<td>Passive, focus on low overall pilot labor costs</td>
<td>Offer more appealing value proposition to ensure long-term pilot staffing viability</td>
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<tr>
<td>Flight schools</td>
<td>Passive, rely on deep pool of CFIs to facilitate lower-cost training</td>
<td>Protect supply of CFIs, provide vehicles for smaller cash outlay</td>
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<tr>
<td>OEMs</td>
<td>Maintain contracted deliveries and facilitate training</td>
<td>Increased collaboration to develop data driven training mechanisms</td>
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<tr>
<td>Labor unions</td>
<td>Maximize pilot pay and benefits, seniority rules</td>
<td>Offer better quality of life initiatives for junior pilots</td>
</tr>
<tr>
<td>Regulator</td>
<td>Manage risk with increased training requirements and minimums</td>
<td>Refined ratings structure to balance risk and industry demand</td>
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More complex adoption initiatives require industry wide collaboration to improve the career value proposition for aspiring pilots.

**Reduced continuities**

- Student pilot
- CFI
- Regional
- Major

**Value proposition**

Narrow focus on compensation

- Comprehensive offering focused on attributes that appeal to younger generations
  - Fair compensation
  - Leadership opportunities
  - Improved quality of life
  - Career advancement
An immediate opportunity already exists to create a compelling and differentiated value proposition

<table>
<thead>
<tr>
<th>Career advancement</th>
<th>Stable quality of life</th>
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<tbody>
<tr>
<td>• Guarantee flow from regionals to majors</td>
<td>• Incorporate gateway out-basing and/or introduce smaller bases</td>
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<tr>
<td>• Expand flow-through opportunities to begin in flight training</td>
<td>• Augment seniority bidding, complement preferential bidding</td>
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<table>
<thead>
<tr>
<th>Leadership opportunities</th>
<th>Competitive compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Accelerated promotion to Captain</td>
<td>• Complement hourly rate, equipment and seat-based pay structure</td>
</tr>
<tr>
<td>• Create new opportunities to serve the enterprise outside of flying</td>
<td>• Incorporate models that complement flight-based pay</td>
</tr>
</tbody>
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Source: ALPA, National Academic Press, Airline corporate websites and recruiting materials,
Key takeaways

• The pilot shortage is well-documented but remains only reasonably well understood

• Investment in three key initiatives can mitigate risk to mainline carriers and the industry as a whole
  – **Increased focus on upstream student** recruitment to aviation
  – **Reduced discontinuity** between phases of flight training
  – More attractive **long-term value proposition**

• An **industry-wide strategy of collective solutions (many which already exist)** among multiple parties is necessary
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