Perspectives on the Pilot Supply Problem

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PERSPECTIVES ON THE PILOT SUPPLY PROBLEM

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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

**Medical & Engineering talent sourcing approach**

**Aligned incentives**

<table>
<thead>
<tr>
<th>Entities</th>
<th>Traditional Approach</th>
<th>Evolving Approach</th>
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<tbody>
<tr>
<td><strong>Mainline airlines</strong></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><strong>Regional airlines</strong></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><strong>Flight schools</strong></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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<td><strong>OEMs</strong></td>
<td>Maintain contracted deliveries and facilitate training</td>
<td>Increased collaboration to develop data driven training mechanisms</td>
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<td><strong>Labor unions</strong></td>
<td>Maximize pilot pay and benefits, seniority rules</td>
<td>Offer better quality of life initiatives for junior pilots</td>
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<tr>
<td><strong>Regulator</strong></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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Quick adoption initiatives include focusing recruiting efforts upstream and aligning the incentives of different industry stakeholders.
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

**Pipeline duration to major airline**

[Image of pipeline with discontinuities noted]
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>
</tr>
<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>
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<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>
</table>

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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