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Fasten Your Seat Belts

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FORUM

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Thinking outside the box is anathema to the 75-year-old U.S. airline business. This seriously palsied industry will need to rethink strategy if it is going to survive unpunished after the dust settles from recent merger talks and customer service calamities.

Essentially all deregulation era airline industry studies indicate that the traditional U.S. air carriers—the American's, Delta's, and United's—cling to life due only to marketing prowess, government protectionism, and airport gate monopolization. Their existence certainly isn't a function of their service product—which grows measurably worse by the day. Indeed, today's airline product borders on garbage, and that reality can cost the carriers terribly. Even a commodity business like air transportation is vulnerable to customer rebellion. The only question is "When?"

During the 20+ years of deregulation the older airlines have succeeded only in building very shaky survival strategies. Unable to function—as other commodity businesses do—by managing unit costs, traditional air carriers compete by developing elaborate pricing mechanisms (highly discriminatory fares), sophisticated kickback schemes (frequent flier programs), and monopolistic infrastructure strangleholds (airport hubs). The old airlines have little choice; their intractable size and inflexible labor agreements doom them to focusing on the revenue side of the house, an exceptionally problematical strategy in a commodity business.

Who would posit a business calamity while U.S. air carriers enjoy near-full planes and very respectable profits? I would. Severe problems commonly occur when an industry ignores public opinion and immerses itself in denial. Big tobacco provides a case in point.

The deplorable state of America's air transportation system is mainly the fault of the carriers, but no one would know it by the sound bites emanating from the airlines' public relations departments. Flights always late? Blame the FAA. Meals inedible? Blame discount fares. Ticket prices too high? Blame OPEC. Customers drunk and unruly? Blame society. Frankly, that kind of hubris puts Microsoft to shame.

Let's face facts, this is 1960s-era GM, Ford, and Chrysler masquerading as today's United, American, and Delta. The problem is, without the airline equivalents of Toyota, Honda, and Mercedes in the U.S. aviation marketplace—it is illegal for foreign air carriers to operate *within* the United States—the big airlines have nary a care in the world. Their only serious irritations come from occasional skirmishes with pint-size upstart carriers and some fancy dancing around low cost colossus Southwest Airlines.

Frankly, this is American business at its worst: closed markets, strong-armed labor unions, and locked-up infrastructure all rolled into one. Someone please wake me up and tell me this isn't 1950!

Proposed couplings such as the United-US Airways deal are so manifestly threatening as to beg for the immediate legalization of cabotage: domestic flying by foreign carriers. Singapore Airlines, for example, can and would bring the big U.S. carriers to their knees in many domestic air markets including New York-Los Angeles and Chicago-San Francisco. At the very least the celebrated Asian carrier would embarrass the U.S. bullies into substantially improving the quality of their domestic service product. Even if cabotage were never to become a *fait accompli*, the controversy emanating from its serious discussion on Capitol Hill would force the airline industry's neck-deep muck to the surface—an absolute necessity given public wrath over the state of air transportation in the United States.

Regrettably, insouciance has been a trademark of U.S. airline firms since at least the 1930s. Deregulation was supposed to transport the traditional air carriers—kicking and screaming—to a new reality, but instead it is the American public begging for mercy. Chalk one up for big business.

Still, industry maverick Southwest Airlines—and its canny record of success—provides evidence that satisfied customers, respectable profits, and happy employees are not mutually exclusive properties in the airline business. Conversely, the persistence of the old economy mega-carriers demonstrates that even highly inefficient companies are a whole lot smarter than government policymakers. And one thing is absolutely certain: Airline deregulation would have been a slam dunk failure long ago were it not for Southwest Airlines' inestimable presence in the domestic marketplace.

Which leads us back to the inseparable issues of merger mania and the future of the U.S. airline industry. Can inefficient firms survive primarily by abusing and overcharging the public? Of course they can, though none of the big airlines would have had that awful capacity were it not for Washington's long-standing record of complicity and incompetence.

Once again the ball is in the government's court. Unethical practices can be exposed, frozen infrastructure can be thawed, and federal protection can be removed once and for all. Many of these remedies—along with others—were outlined in a recent National Research Council Special Report.

In the meantime, passengers—especially business people—can vote with both their hands and their feet. They can contact their elected representatives and tell them that they are fed up with poor airline service and unnecessarily discriminatory fares. And they can throw some business in the direction of small upstart carriers even if that means losing a few frequent flier perks in the process. Some folks might even consider the fractional ownership of corporate aircraft—or even "telecommuting"—whenever those options appear feasible.

The U.S. air carriers' self-serving media blitz isn't fooling anyone. It is already clear to most passengers that the big airlines don't give a hoot about providing a decent product at a fair price; the carriers are interested only in grandiose empire building and, of course, their all-important attachments to Washington's protectionist apron strings. Once carriers fully comprehend the swelling public outrage they will almost certainly recant their merger initiatives—at least for now. A word to Congress: Don't let them off so easily this time.□

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