A CASE STUDY OF DELTA AIRLINES

Creative Media Services

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12/02/03

Mission – to be an air carrier with superior customer service that provides air transportation for passengers and cargo, utilizing low-cost carriers and regional jets throughout the United States and around the world.

SWOT ANALYSIS

Strengths:

1. 3rd largest mega carrier; established name; excellent reputation; worldwide brand recognition. Delta has been among the DOT's top three in on-time, baggage handling, and customer satisfaction for the past three years. Delta's new CEO, Grinstein, has an excellent reputation of resolving labor disputes.

2. Delta has continued to use innovative strategic business moves:

    a. Recently announced a new low-fare subsidiary airline servicing the East coast called Song, which has met its' goal to push unit costs below 8 cents per seat-mile, a standard industry measure.
    b. Joining with other major airlines in the industry to form a global alliance called, SkyTeam. The SkyTeam alliance results in cost savings by sharing cargo and passenger terminal facilities, integrating frequent-flyer programs, consolidating sales, maintenance and administrative operation, combining information technologies, and engaging in joint procurement where feasible (Corridore, 2003, p. 7).
    c. In early 2000, Delta acquired Comair, whose entire fleet consists of regional jets, and Atlantic southeast Airlines (ASA). The additional use of regional jets helps move Delta's average aircraft capacity downward to better match demand.

3. Delta's industry-leading airport model includes a combination of airport lobby re-design, increased self-service technology and new airport customer service roles for employees that will help deliver speedy, convenient, helpful, friendly service to Delta customers. Delta fosters customer loyalty through quality trained employees, short waiting times, quality in-flight food service and good on-time performance.

Weaknesses:

1. Labor is the industry's largest cost item accounting for about 36% to 40% of total operating expense (Corridore, p.21). Delta has been forced to layoff 18% of its' workforce, or 16,000 employees, with more to follow (http://news.bbc.co.uk). Delta's pilots are the highest-paid among the major US carriers but it has been unable to persuade the pilots to agree to concessions that would lower labor expenses. (In addition, an unexpected jump in pilot retirements will cost Delta Air Lines an additional $140 million this quarter, forcing the carrier to widen its anticipated loss for the fourth quarter.)
    a. **Poor Morale:** The company's relationship with employees has been strained because of massive layoffs, bankruptcy-proof pension trusts and executive bonuses which were not tied to performance.

2. From 1993-2003, Delta's market share has gone from 17.4% to 15.1%. Delta's yield has decreased 13% compared to 2000 and 5% compared to 2001. RPM's for the US industry as a whole declined 2.6% in 2002. According to the U.S. Department of

Transportation, Delta ranked 5th out of the 10 major U.S. Airlines in passenger load factor.

3. Recent Trend of Being Unprofitable: Stock price decreased 66 % from $38.80 on September 1st, 2001 to $13.02 on November 1st, 2003 (see appendix A). The company has been unable to make a profit for the last 2 years and is headed for its third straight loss this year

Opportunities:

1. Today's market is in high demand for affordable new regional jets, which offer low costs and high flexibility in route planning. According to CNN, there will be a 50 % growth in air traffic within the next 10 years. In addition, the U.S. GDP recently grew at an 8.2 Percent Pace in the 3rd Quarter of 2003, signaling a strengthening of business and consumer activity. Under its' current pilot labor contract, Delta can operate as many regional jets as it likes, provided none has more than 70 seats. Delta can now compete with companies like Southwest, Jet Blue, and Air Tran in response to changing industry conditions.

2. Delta partially owns two separate online reservation services. Delta owns 40% of WORLDSPAN, L.P., a limited partnership that operates and markets a computer reservation system (CRS) and related systems for the travel industry. CRS services are used primarily by travel agents to book airline, hotel, car rental and other travel reservations and issue airline tickets. Delta also owns approximately 18% of Orbitz, LLC, a limited liability company that operates an online travel agency that offers travel services to consumers and business customers via the Internet.

3. Delta has the opportunity to invest in technology to improve efficiencies by installing self-service kiosk in airports. With fees of approximately $25 for each paper ticket this would reduce costs as well improve the speed of air travel.

Threats:

1. Due to the effects of 9/11, Delta and the industry as a whole face increased costs of aviation security and excessive taxation of air travel. Some of these costs include, but aren't limited to: reinforcement of cockpit doors, various new equipment and training, additional security checks for employees and suppliers, and high premiums for war and terrorism risk insurance.
2. Global airline industry losses totaled $13 billion in 2002 and $18 billion in 2001, according to the International Air Transport Association (IATA). Due to this, two major airlines, United and US Airways, have been forced into bankruptcy over the last two years. Economists are predicting that the industry will not fully recover until the 2005 year from the effects of 09/11, but this is obviously still uncertain.

3. Delta confronts a variety of competitors in an extremely time-sensitive industry and it also has been severely undercut by discount carriers, which have better routes, more modern aircraft and more flight frequencies. Delta also faces competition from other major, national and regional airlines and competes with other transportation modes, such as automobiles, railroads, and buses. Because the economic slowdown that began in 2001 led to significant cuts in corporate travel budgets and the leisure traveler is highly

price sensitive, these other modes of transportation may be more attractive to the consumer.

4. There has been a general service degradation in the entire airline industry and as a result it has been doing an inadequate job of delivering quality customer service.

Long-term Sustainable Competitive Advantage:
According to John Kay, "Competitive advantage is based not on doing what others already do well, but on doing what others cannot do as well." Although its' revenues have recently shrunk with the decline in overall air travel, Delta is creating a sustainable competitive advantage through its' frequency of flights, improved customer loyalty program, and through its vast network reach (www.veracast.com). The following items illustrate what Delta is currently doing to earn and sustain a return that outperforms its' direct competitors.

- Largely non-union workforce that allows unique flexibility (i.e. part-time employees)
- Airline industry-leading airport model
- Transports more passengers worldwide than any other airline, through a vast worldwide route system
- Innovation: Delta has developed the world's most sophisticated single-aisle in-flight entertainment system.

Propitious Niche (PN): Delta does not currently have a PN.

Achilles' Heel (AH): Delta does not currently have an Achilles Heel.

Evaluation of Mission: The current mission is consistent with the company's stated goals and objectives. However, Delta needs to implement new strategies to adapt to the changing industry, thereby achieving its' mission. The current forces Delta is facing are illustrated in Porter's model (see appendix B).

MAIN ISSUES & PROBLEMS

Rising Operational Costs:
Fixed costs throughout the industry have increased in the last 2 years since 09/11. Increased security for both the employees and suppliers as well as inflated terrorist-risk insurance premiums drives this fixed cost increase. Labor expense through salary and wages are the largest operating expenses at approximately 40% of total operating expenses. "Standard & Poor's estimates that labor costs absorbed 43.9% of total industry revenues in 2002, up from 40.6% in 2001 and sharply higher than the 34.9% of 2000." As a result of this increase in labor cost, Delta has been forced to layoff 18% of its' workforce, or 16,000 employees, with more to follow. Unfortunately for Delta though, there is a lag time between employee layoffs and the actual realization of these cost saving maneuvers. Considering other major airlines have been successful at these salary and wage reductions, Delta is failing to match its' competitor's lower labor cost structure and will have to cut costs elsewhere to successfully compete.

Delta also has the highest-paid pilots among the US carriers and has been ineffective at convincing them to take a decrease in salary for the short-term in order to help defend the long-term stability of the company. Adding to this exorbitant overhead cost, twice the usual number of pilots retired this year putting pressure on the pension fund since pilots take a portion of their benefits as a lump sum (Banstetterm, Nov. 13). Delta is not planning any wage cuts for employees of its' new airline, Song, which puts it at a disadvantage to its' competitors, since they will be operating at 10-30% lower cost structures. "Delta's senior 757 pilots earn an estimated

$245 per hour versus $149 at Southwest, $118 at AirTran, and $100 at JetBlue" (Banstetterm, Nov. 21, p.2) (see Appendix C).

Fuel costs remain high due to the continuing problems in the Middle East. By December 2002, fuel expenses were 35% higher than the prior year and predicted to increase. This increases the importance of newer fleets that can fly more efficiently achieving better fuel mileage than the older model aircraft.

Another added expense in wake of September 11th is a government-imposed fee per passenger for security. According to Delta's 2002 annual report, there was also a decline in "traffic due to the real and perceived 'hassle factor' resulting from increased airport security measures". Unfortunately, the new security measures have made flying less convenient for travelers with increased baggage checking and longer wait times at airports.

In addition, tax rates and fees have doubled in the past 10 years and most consumers are unwilling to absorb the increased cost. Delta's cargo business was also negatively affected by the new FAA security measures. In the past, 50% of Delta's mail business involved transporting mail weighing more than 16 ounces. But now, passenger airlines have been prohibited from transporting these heavier mail items. Delta's cargo revenues have declined 7% as a result.

Labor-Management Mistrust

Delta was once known for treating its' leaders and employees the same. Executives have given themselves huge awards while insisting on job and wage cuts from the workers. This compromises their ability to effectively lead, because these bonuses were triggered more by cash flow and less by profits and operational measures. Delta also created individual trusts for 33 executives to isolate their enhanced pension benefits from creditors if Delta filed for bankruptcy, adding to the mistrust.

Declining Profits & Market share:

Airport capacity, route structures, weather, technology, and, most significantly, rising fuel and labor costs have significantly cut into airline profits. The airline industry finds itself on a bumpy course as the entire landscape changed primarily resulting from 9/11, the war in IRAQ and SARS. Most US carriers still anticipate heavy losses for the near future. A major challenge will be to find new ways of attracting more premium passengers since they provide the most profit per ticket. The industry as a whole has seen a 5.2% decrease in ASM's in 2001. Even though the airlines are decreasing their ASM's, decreased passenger demand is leading to low load factors of 70.4% versus 72.4% in 2000. Most airlines have had to resort to discount fares in order to simulate demand due to excess capacity across the industry.

Delta is losing market share to other low-cost carriers that fly a single type of airplane, (which gives the additional savings of only having to maintain one type of parts inventory), offer few frills, and avoid the expensive hub-and-spoke networks of airports that require complex calculations to connect passengers and bags with flights. (A major hub-and-spoke airline such as Delta has costs that can be 150% higher than those of a carrier that only flies from one city to the next.) (www.baselinemag.com)

Because the airline industry is such a network business, each carrier can potentially face a wide range of different competitors, depending on which city market one chooses to analyze.

Poor Customer Service

Too many passengers reach their destination late, too much baggage is lost, recovery from problems is insufficient, and technology is not as customer friendly as it should be. Moreover, the airlines in general present the public with huge opportunities to distrust them. All of this is occurring as the relentless march of ever-higher customer demand continues. Customer service breakdowns resulting from organizational challenges inflict serious reputational damage on the entire industry and send the public the message that airlines simply don't care and that they are "out for themselves".

In an attempt to gain an operational advantage over its competitors, Delta has taken a decidedly different approach and has gone to its employees and demanded a premium service at a discount price. Delta employees have been asked to do more with a higher degree of quality and with fewer employees than any other airline employee group in the industry.

SOLUTIONS

Superior financial performance for Delta will come from choosing and sticking consistently with one of a relatively small range of 'generic' competitive strategies. Sticking consistently with a particular strategy means that every activity in Delta's value chain should be coherently orchestrated around the logic underlying the chosen strategy. Delta's new vision needs to identify a market opportunity and how in general terms it is to be exploited. It also needs to identify the needs and expectations of key stakeholders – employees, customers, and investors. (Holloway 2002). Delta needs a "balanced perspective" that pays attention to both competitors *and* customers. The main goals should be the successful negotiation of a new pilot contract, operational cost-cutting, increasing market share, rebuilding customer service and improving employee morale. Delta should also shift to a more organic organizational structure to achieve this (see appendix D). Its' managers need to try and channel the ambient level of motivation of the entire workforce. Rather than try and raise their overall motivation, management needs to try and corral and re-focus that energy that naturally exists.

Operational Cost Saving Strategies:
To reduce costs, Delta needs to make operational improvements such as more effective flight scheduling, maximizing crew resources, improving maintenance processes, and reducing aircraft turn-around times. It should also further pursue outsourcing as a method of reducing operational cost, but not always taking the lowest bid. Many of the efficiencies of the no frills, low cost carriers come from their ability to outsource contracts and to thereby consistently obtain the best services at the best prices. Delta also needs to focus on opportunities that can be successfully exploited with existing resources, rather than acquiring new ones. Delta must adapt to the rapidly changing airline industry landscape by "Fitting" itself to prevailing contingencies, having taken into account its own strengths and weaknesses.

Although Delta currently ranks third in market share, its cost structure puts it at a disadvantage to competing airlines. Both JetBlue and Southwest are positioned in the low-fare arena with American and United both located in the Power Alley (see Appendix E). One of Delta's most obvious strategic objectives should be to reduce costs while creating new prospects for revenue. Delta should pursue a growth strategy that focuses on growth through intensive market penetration and forward integration.

Delta's current fuel hedging program has been successful and should continue to be fully funded in an effort to continue to cut Delta's fuel expense. Delta has deferred the purchase of 8 Boeing 737's in 2005. This means that Delta will try to maximize the utility of its' current fleet. This is a cost-cutting maneuver in almost every area except in relation to fuel cost. The newer the fleet the better fuel mileage; thus, the older fleet will no doubt increase the fuel cost over levels that would have been reached had these future capital expenditures not been deferred. By December 2002, fuel costs were 35% higher than the prior year and those costs are projected to continue increasing through the 2003 fiscal year. Since the conflicts in the Middle East continue to go unresolved, there is no guarantee of when these rising costs will decline. However, using the new fuel hedging program Delta has managed to reduce fuel cost by 26 million pretax dollars in the September 2003 quarter alone. The average price of jet fuel for Delta for September 2003 was $0.79 per gallon, excluding fuel tax. Since this fuel hedging program is a relatively new initiative by Delta, only 53% of its' fuel requirements were hedged in the 3rd quarter of 2003. Delta is forecasting that approximately 47% of the jet fuel requirements for the 4th quarter of 2003 will be hedged. Instead, Delta should increase jet fuel hedging to 75% of the requirements for the 4th quarter. Every effort should be made by Delta to continue this program, if not increase concentration on such efforts. (www.delta.com)

Forward Integration:
Investing in technology to reduce cost and improve efficiency can be achieved by investing in distribution channels. Delta should seek to reduce ticket prices through installing more self-servicing kiosks in airports and offering more perks to customers for using internet check-in options, such as a 2% discount. Delta is installing over 400 additional self-service kiosks in airports in 2003 and needs to continue installing these kiosks until all major airports are fully equipped. Delta can also reduce costs by encouraging customers to use booking services such as Orbitz. Delta can seek to remove the fees charged by travel agents by offering part or the entire discount to the end user. Delta can in effect forwardly integrate its' business by eliminating, where possible, the middle-man or travel agent. Delta could offer the consumer even more discounted fares (i.e. 3%) if booked by the on-line services in which Delta has a vested interest. Delta should also add a temporary double-miles promotion that will offer flyers double the SkyMiles for choosing to obtain their tickets via Orbitz. This double-miles promotion should not last longer than six months to a year. Not only will this strategy reduce commissions paid to travel agents, but the cost of issuing paper tickets is $25 per ticket and this will be eliminated through the e-ticket purchases. By introducing e-ticketing, promoting online bookings, and improving jointly owned internet travel ports, Delta is moving towards forward integration by acquiring control over its' distribution channels.

Improve Labor-Management Relations
Delta needs to continue efforts focused at lowering capital expenditures and cost-cutting methods while at the same time increasing employee confidence in the long-term health of the company. Delta should implement a 'no furlough policy' similar to Southwest, which has never permanently laid off an employee. The new CEO Grinstein needs to connect and establish good relationships with the people in the organization - that is key. He needs to isolate how the company can improve itself significantly and then communicate that clearly to the entire company. He should also rescind the 33 pension trusts previously established under Mullin's leadership. In addition, the labor force needs to become more educated about the economics of the industry so they more fully understand why certain initiatives are being implemented. Delta needs to send all of its' employees to quality control training seminars per department semi-annually. In addition, 40 hours per year of specific on-the-job training beyond the normal federal mandates needs to be implemented immediately. Also, management should agree to a cap on total executive pay and pension caps for unearned years to makeup for Mullin's blunder last year. Bonuses should be based solely on performance. Values and beliefs in the workplace like pride, loyalty and 'a sense of belonging' also need to be re-emphasized to boost morale.

Labor Concessions
Delta needs to come to an agreement soon with its' 8,500 pilots on a tentative pay cut. Delta's pilots are averaging $245 an hour, which by far leads the industry with the lowest pilot wages being $100 an hour for pilots of JetBlue (see Appendix C). Since economic times are rough and demand seems to be increasing at a slow rate, Delta can not maintain its 'leader status' in the industry without these cuts. Delta should propose a cut of 20% across the board for all pilots effective immediately, rather than the previous 26.5 % (www.airportnet.org). Though the pilots'

union may still be hesitant to accept these reductions, Delta could offset these reductions by offering a 3% annual increase above the industry's standard rate for fiscal years 2008 through 2013. Since many of Delta's pilots choose to take a portion of their retirement benefits as a lump sum, Delta should offer a delayed-retirement bonus of $1,000 for any pilot who chooses to delay these lump sum payments until after 2008. This 2008 end date should provide Delta the flexibility to recover from its' current unprofitable trend, even in the event that the forecasts are wrong and the industry's recovery is not fully realized by 2005. By maintaining positive cash flows, lowering current labor expenses with a new pilot contract, and reducing retirement payouts, Delta can re-establish itself as the industry leader, while at the same time positioning itself for the promised wage and retirement increases in the future.

To help induce the pilots to agree to the new contract, Delta should also offer its' pilots a 3% increase in profit-sharing packages, a signing bonus of 100 shares of additional company stock issued to each pilot and two seats on the board of directors (currently there are 10 seats) in exchange for the 20 % pay cuts. The pay cut provision will include no wage increases for the next 5 years in exchange for an increased proportional allocation of future stock options, which would be separate stock option plans from what the other employees receive.

Market Penetration:

Since airline seats are perishable inventory, it is essential that Delta achieve the highest load factors possible on every flight. Delta had average load factors of 72.4% for 2002. It needs to increase these load factors above the break-even level for every market or abandon that market. Delta should be able to better penetrate markets with the use of its' regional airlines. Comair, Song, and ASA should be used to provide off-peak service when demand is insufficient to warrant a standard 100-plus seat aircraft. Normally the break-even point is approximately a 50% load factor for regional jets, versus about 63% for large jets. Delta should better evaluate regional demand and match service to further penetrate its current market and achieve more profitable load factors. Since proper aircraft selection and **se**lecting the right fleet is a source of competitive advantage for the low cost carriers, Delta should analyze the importance of fleet commonality, high utilization and high reliability.

Improve and Rebuild Customer Service

Delta needs to implement new initiatives focusing on improving customer service by adding extra value because airline allegiance is slowly disappearing as a result of internet sales and since most consumers have become so price sensitive. It can accomplish this through enhanced airport self service automation and an enhanced onboard experience**.** For example, Delta has installed self-service kiosks in many terminals to allow customers to get boarding passes without having to stand in line at a counter. For people who miss a connecting flight or are subject to a cancellation, new devices should be installed in every gate area, allowing customers to get a printout of a new boarding pass on the next available flight, on which the airline automatically rebooks the passenger. Improved electronic gate displays should also be installed at every terminal, and Delta should continue working with the Transportation Security Administration to speed the flow of passengers through the terminal by 15%. It's also very important to have crews that are flexible and friendly and go out of their way to serve the passengers. In addition, the following 3 points are crucial to adding value back to the Delta experience:

- <u>Increased Comfort:</u> Over the course of 3 years, all future planes should have more leg and elbow room for all passengers, not just 1st class. Also, a modification will be made to the existing fleet to accommodate severely overweight people, since 1 out of every 3 people are obese (NPR radio). Special seats will be made available on all future flights for people weighing over 300 pounds to avoid infringing on the 'personal space' of regular passengers. These special seat upgrades will be given out on a first-come-first-serve basis and determined at the time the ticket is purchased.

- More Kid-Friendly: Effective immediately, Delta will provide free headphones, in-flight children's movies, children's music station, playing cards, wings from the pilot, and a coloring game booklet with crayons.
- A la Carte Food: Currently, there is a unique opportunity for Delta to put a new food product in front of business and leisure travelers for its' longer distance domestic flights via collaboration with theme-restaurant giants such as Hard Rock to sell in-flight entrées and offer rotating in-flight menus, rather than offering free meals. It does lower costs, but the switch to food sales is also expected to satisfy customers' demands for better-tasting meals. This unique and innovative initiative could become a significant and distinctive factor when passengers book their next flight. In the near future, all Delta passengers will have the ability to order from a menu when booking flights online. Better quality and variety of food can then be available for those that want it leading to increased revenues.

Increase Customer Loyalty:

Offering slightly roomier seating (using jets without first-class sections but with seats sporting about 5 extra inches of legroom) and free chocolates and 1 free cocktail during evening flights could be the key to boosting Delta's customer loyalty. Delta's goal should be to set itself apart with "small but important" extra amenities. For example, Song's new colorful seats, along with other flourishes like flight attendant uniforms designed by Kate Spade and the martinis sold onboard, are intended to evoke the glamour of commercial aviation's past. In addition, Delta should reduce penalties and fees charged to its' customers for flight changes and heavy bags.

Most new strategies that are implemented break 'new ground', which often require structural adjustments. By slightly changing a structural dimension of the organization such as 'specialization', perhaps Delta can introduce a new type of customer service that will lead to a better overall travel experience as perceived by the customer. For example, by hiring and placing at least 1 attendant at all Delta gates pre and post flight that are incredibly friendly, cheerful, courteous and helpful, it may be able to achieve a slight advantage in the eyes of many disgruntled travelers. Bringing more front line employees out more frequently to mingle with the crowd will allow flyers to get through the lines quicker.

Perhaps Delta should also try to become more organic in the sense of focusing on being more of a 'service provider' rather than a provider of physical seats or tickets (products). It could mix-n-match its' basic mechanistic structure with some organic elements to get the best that both have to offer like Southwest did with their relaxed corporate atmosphere. Since the airline industry is currently operating in such high uncertainty and is unpredictable, it is arguable that Delta should be pursuing more organic concepts that will allow it to adapt quicker to the unstable environment and allow more flexibility for future strategic choices.

Employee Ownership Culture

When Delta starts to perform better, employees should be generously rewarded through a profit sharing program (without asking for wage concessions) and a broad-based stock option plan which will allows employees to participate in the financial benefits of an ownership culture, with all employees receiving an additional 5% stock discount, enabling many employees to realize big gains. This supports the common belief that 'people take better care of things they own', and that this special care is ultimately passed on to the customer. Ownership extends beyond just the financial benefits of profit sharing and stock option plans and is manifested in the priority they place on employee initiative and responsibility." Delta should make its' new profit sharing plan the heart of its' benefits program. All employees will be rewarded in the future with 2% of the company's profits divided up and allocated by relative salary.

Copy Successful Competitor's Strategies:
Communication is vitally important to the future success of the company. According to last week's Orlando Business Journal, "US Airways formed a consumer advisory board committee made up of a broad cross-section of customers to supplement and enhance its' daily, weekly, and monthly reviews. This board meets several times a year and provides senior executives with open and honest criticism, feedback and compliments." Delta should form a similar board to assist in its' efforts to deliver superior customer service. Delta also needs to make its' ticket pricing easy to understand and competitive.

3 Pronged Hybrid Strategy: Consistently Technologically Innovative & Customer-Centric
Delta intends to be the first carrier to use radio-frequency identification (RFID) tags on passenger luggage, which allow for non-contact reading and are effective in environments where bar code labels could not survive. This will let the airline track bags more precisely than it can with existing bar-code systems (www.computerworld.com). By using RFID, Delta can further improve its' baggage handling, provide real-time baggage updates, and provide better, faster and friendlier service. Song is also using computer simulations to devise a "zone" system to speed up the boarding process. Rather than boarding back rows first, passengers sitting in window seats board first, followed by the middle seats, then aisle seats. (www.ajc.com)

Enrich the Travel Experience via multimedia
Offering in-flight entertainment on all of its' fleet should be one of its' central strategies for attracting passengers. This will give all travelers a more satisfying in-flight entertainment experience. Delta should also add increased capabilities from each seat such as email, the ability to watch pay-per-view movies, ability to play interactive video games, ability to create customized MP3 play lists and the ability to read about current connecting gate information. In addition, power outlets should be built in to all future arm rests for MP3 players and laptops. This new type of "in-seat technology" could become a key feature that could make Delta more competitive with its low-cost rivals. "Fliers don't have to miss their favorite shows when they travel now," said Mark Jackson, senior vice president, EchoStar. "Song passengers will now be able to watch the same shows from ESPN, CNN, Discovery or Animal Planet in the air that they watch at home, making their travel more enjoyable." Delta should also add server and satellite technology to all of its' aircraft, by the end of 2004, providing high-speed internet access and wireless access for laptops.

FALLOUT

Hopefully, Delta's new leader/CEO Gerald Grinstein, can challenge the process and publicly model what he expects Delta's workforce to be doing now and in the future. If he doesn't 'encourage the hearts of the workers' by making an emotional connection with them, it will be difficult to motivate them to act accordingly. Delta's new champion needs to effectively inspire a shared vision of "what we're all doing here and clearly define and express what the vision and values of the company are about" or the company will continue on as business as usual. If new rules aren't established and put into place that will guide specific and desired behavior, nothing major will change.

It's possible that the new chairman of the board John "Jack" Smith Jr., and Delta's new CEO Gerald Grinstein, 71, were selected merely as interim leaders while the board seeks other candidates. This would be detrimental if the public perceived them as temporary leaders.

The loss of internet access or the clogging of Delta's own intranet could be a major problem if terrorists were to somehow bring it down. With the increased reliance for on-line reservations as the main form of booking flights, the results of computer problems (i.e. worms and viruses) could be devastating.

If the Delta's rising stars and cash cow fail to remain profitable then its upcoming ventures will not have the financial means to succeed (see appendix F). If nothing improves, Delta might have to file for bankruptcy protection.

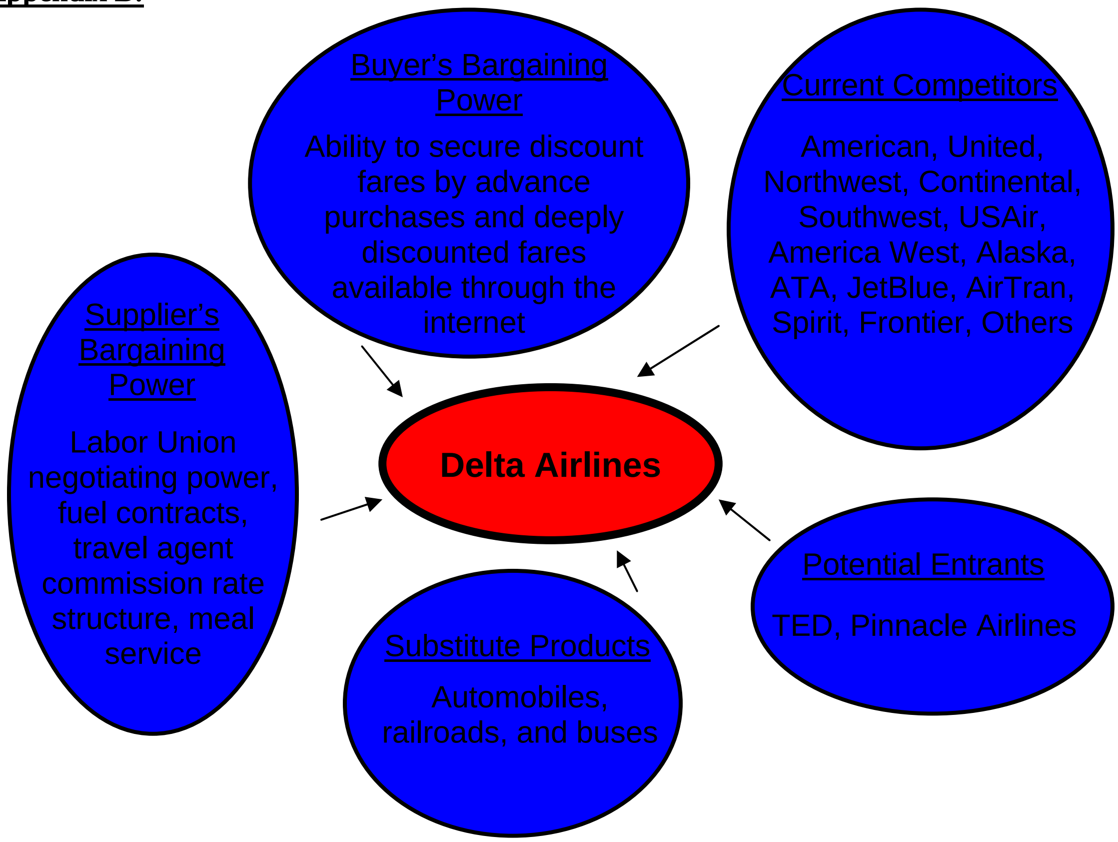
Although many of these proposed strategies may be costly upfront, they will ensure a lower cost structure in the future. In fact, several of the cost-cutting strategies will have an immediate effect. The fuel hedging program has manufactured $26 million in fuel cost savings while only being utilized with approximately half of Delta's fuel requirements. The addition of 400 self-servicing kiosks will be a high upfront expense. However, it should cut into the customer service representatives needed as well as reduce check-in times. Discounts and double SkyMiles offered on flights through Orbitz and Worldspan may lower profits initially. However, if future internet sales can be solicited and e-tickets issued, the cost savings for Delta would be approximately $25 dollars per ticket. Paper tickets are more expensive for Delta to produce. Assisting to fund these high upfront strategies is the labor concessions proposed to the pilots union. The 20% upfront pay cut will assist with these other strategies while the future savings and increased future demand can help to fund the future wage increases and the incentives promised to the pilots. However, pilot negotiations between the two sides could also stalemate.

It's highly probable that Delta will experience increased demand as a result of implementing these new strategies, which could lead to more congestion at airport-security checkpoints, since there are fewer federal screeners to keep things moving. In March of 2003, the Transportation Security Administration had 55,600 airport security screeners. By October, cost cutting had reduced that work force to 48,279 (www.nytimes.com)

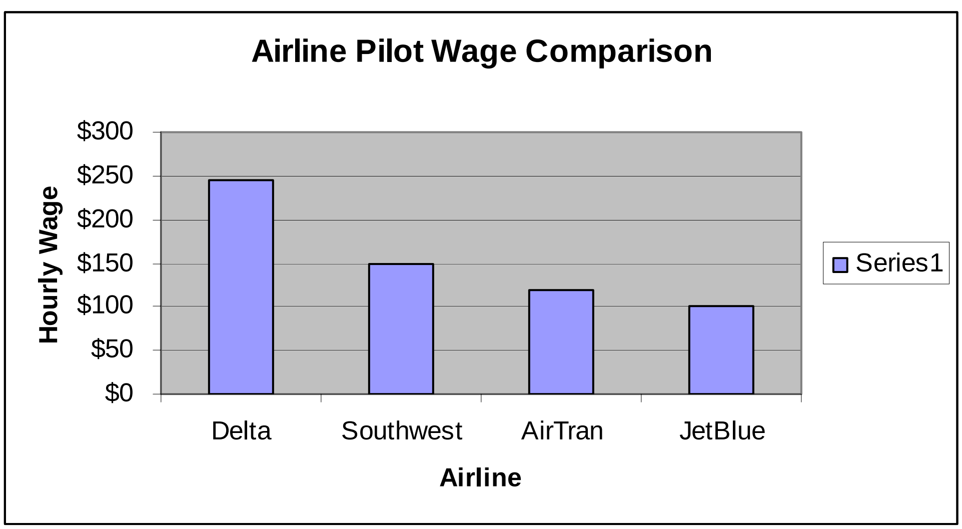
Appendix A: **Delta's Most Recent Market Prices and Dividends (www.delta.com)**

Year 2002	Closing Price		Cash Dividends
Quarter Ending:	High	Low	
March 31	$38.69	$28.52	$0.025
June 30	$32.65	$18.30	$0.025
September 30	$20.12	$8.30	$0.025
December 31	$14.09	$6.10	$0.025
Year 2001	**Closing Price**		**Cash Dividends**
Quarter Ending:	High	Low	
March 31	$52.94	$37.51	$0.025
June 30	$48.05	$37.80	$0.025
September 30	$46.56	$20.00	$0.025
December 31	$31.15	$22.20	$0.025

Appendix B:

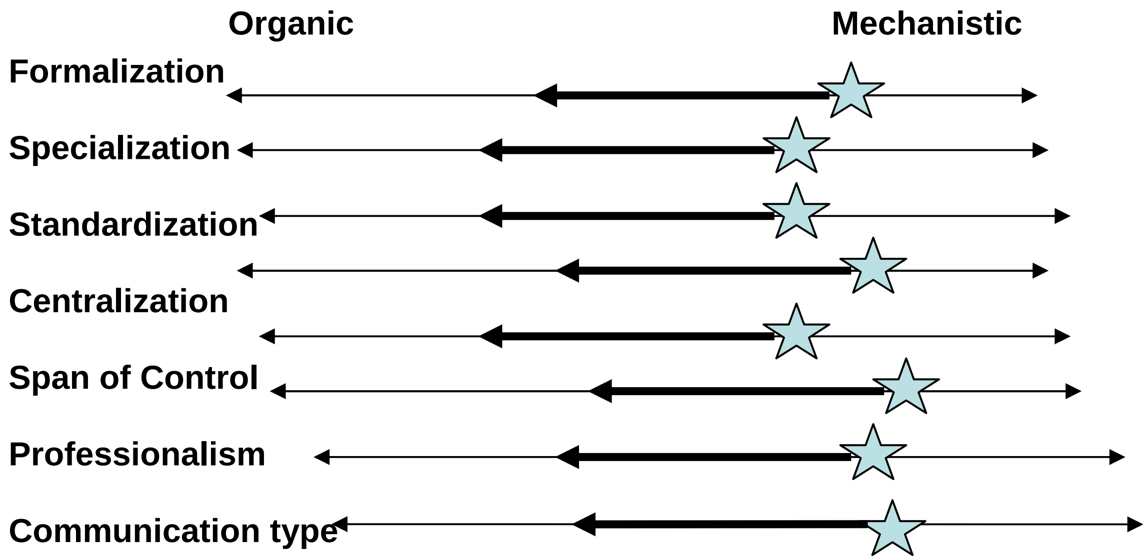


Appendix C:



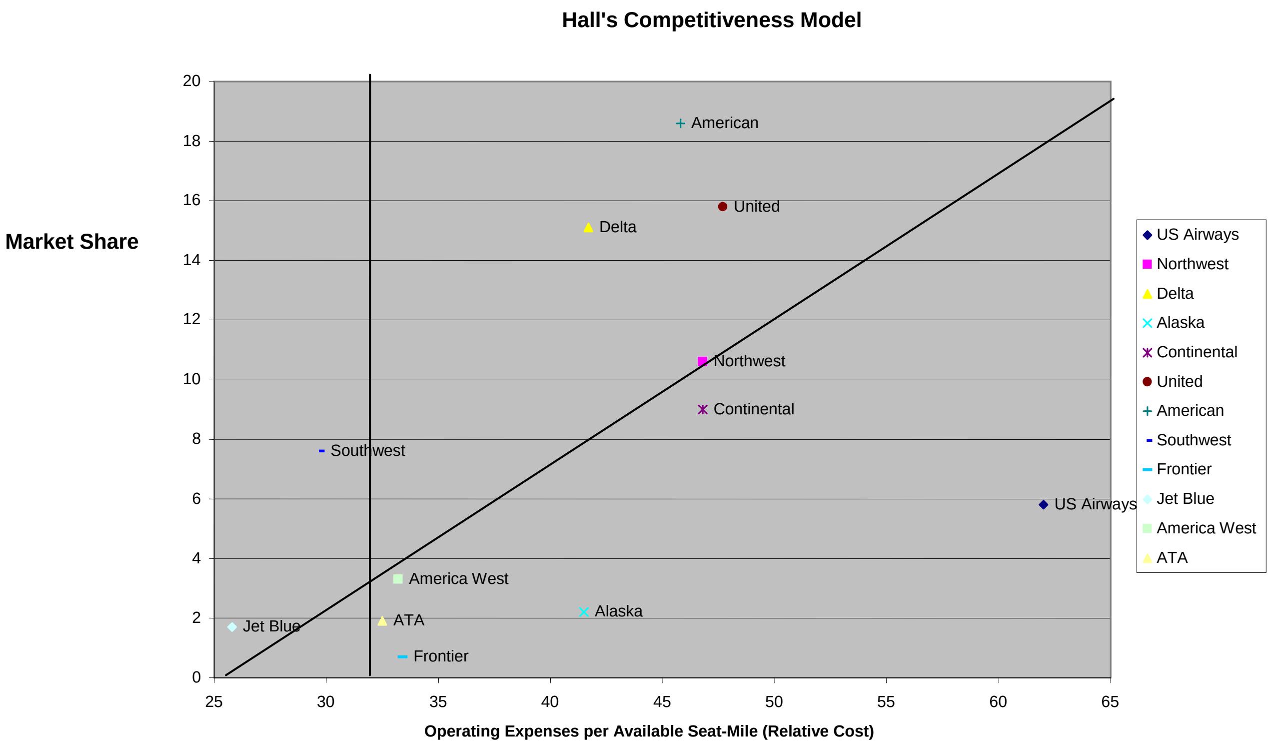
Appendix D:

Gap Analysis



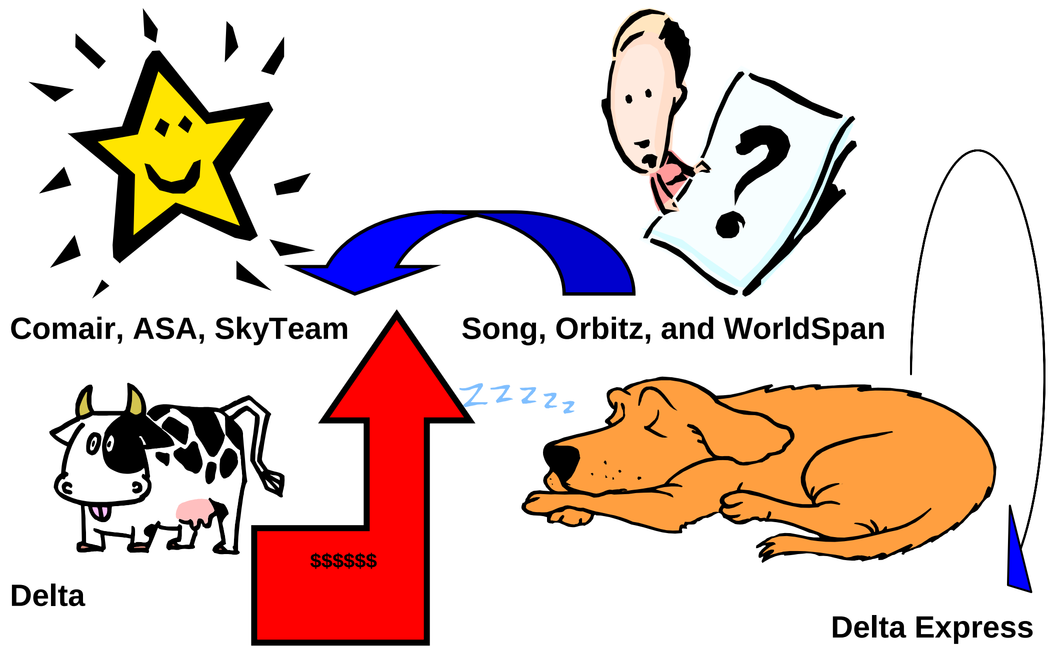
Delta, although large in size, is providing consumers with transportation service in an unpredictable market/environment. New booking and interline services are making airline technology unpredictable in the future. With the changing environment of the airline industry Delta needs a dynamic model to help move from an mechanistic organizational structure to a more organic structure.

Appendix E:


Hall's Competitiveness Model
Market Share
20
18
16
14
12
10
8
6
4
2
0
25
30
35
40
45
50
55
60
65
Operating Expenses per Available Seat-Mile (Relative Cost)
American
United
Delta
Northwest
Continental
Southwest
US Airways
America West
Alaska
ATA
Jet Blue
Frontier
US Airways
Northwest
Delta
Alaska
Continental
United
American
Southwest
Frontier
Jet Blue
America West
ATA

Appendix F:

BCG Matrix



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