



Airlines in black, but fliers see red Myriad problems plague passengers

BY LAURA STEVENS

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The troubled airline industry has reason to crack a little smile, but travelers aren't happy.

The industry has busied itself in the past couple of years with belt-tightening, packing more passengers into smaller planes and cutting back on staff.

It has raised ticket prices, and its profit margins have grown.

At the same time, flight delays, cancellations and mishandled baggage have sent customer satisfaction nosediving in 2007 to its lowest point in seven years, 63 on the American Customer Satisfaction Index — two points lower than the rating for the Internal Revenue Service.

And ticket prices may increase as rising fuel costs are pressing the airlines' newly recovered profit margins.

There's no mistaking "their product quality has gone down," said Vaughn Cordle, chief executive officer and chief analyst for AirlineForecasts, a consultant for hedge funds, government agencies and corporations.

"Running lean operations increases the likelihood of delays [for example]," Cordle said.

Yet while customers complain about the new business plan, there's not much they can do but look for the lowest fares. "Low fare trumps services," said David Stempler, president of the Air Travelers Association. People aren't going to pay more for extra pillows and a meal, he added.

Consumers pick their flights based on three factors: price, schedule and frequent-flier programs. "What happens is price and then schedule tend to jockey themselves for first position," Stempler said.

Customer service is "so far down on the list — as much as people complain about it — they don't do anything about it," Stempler said. "It just doesn't change purchasing patterns. We're getting the kind of airline service that we pay for."

In August, airlines reported that almost 30 percent — or about 185,000 — of all flights were delayed, according to the U.S. Department of Transportation. About 2 percent, or 12,200, of all flights were canceled, and another 2,000 were diverted. For every 1,000 passengers, there were 7.5 reports of mishandled baggage.

Delays in August 2000 were likewise at 30 percent, while during that month 3.1 percent of 491,366 flights were canceled. For every 1,000 passengers, 5.4 bags were reported mishandled.

Customers at Northwest Arkansas Regional Airport at Highfill need to arrive an hour before their flight leaves — or they might not be able to check in, said Scott Van Laningham, executive director and chief operating officer of the Northwest Arkansas Regional Airport Authority. He said many of the airlines use the same staff to cover the ticket counter and the gate.

“That’s just part of the new arrangement,” he said. “You want your major tenants to be financially healthy, but you would also like for there to be a certain level of customer service, so it’s a delicate balance.”

NOT KNOWING

Any delay or lost bag is a problem, but a lack of information is frustrating, said Philip Launius, spokesman for Little Rock National Airport, Adams Field, which is why the airport has responded by adding a realtime flight tracker to its Web site and more information in the terminal.

“As long as they know, and as long as there’s someone to tell,” Launius said.

And while they have heard some passengers complain about the lack of space on regional jets, Launius said they’re trading space for frequency of flights. If bigger planes were coming through the airport, customers wouldn’t have much choice in when they could fly in and out, he said.

Northwest Arkansas’ airport is offering customer-service training. A consultant comes in and is available for anyone working there, including rentalcar companies, airlines and food service. “Particularly after 9/11 it became a more frustrating time to travel, and we really thought it important to stress to all folks how important a friendly greeting can be on a difficult day,” Van Laningham said.

According to the Transportation Department, airports in Highfill and Little Rock reported nearly identical on-time arrivals of about 67 percent and on-time departures of about 75 percent in August.

Little Rock National Airport had an 81 percent on-time arrival rate in August 2000, and an 87 percent on-time departure rate. The department did not have numbers for Northwest Arkansas Regional from 2000.

Airlines say their current service levels all relate back to something out of their control: the terrorist attacks of 9/11 and subsequent financial crises.

The industry started “enormously disciplined cost-reduction programs,” said David Castelveter, spokesman for the Air Transport Association, which represents most major airlines.

“They’re doing more with less resources available,” he said. “That’s translated to what happens aboard an airline. ... You don’t have that array of amenities.”

‘SHOCK TREATMENT’

Stempler, of the Air Travelers Association, said 2001 was “a shock treatment to the entire industry,” driving airlines to bankruptcy or close to it. In a long view, he said it’s still too early to say things have settled down.

UAL Corp.’s United Airlines filed for bankruptcy in 2002. US Airways Inc. filed for bankruptcy in 2002 and 2004. Delta Air Lines Inc. and Northwest Airlines both filed for bankruptcy in September 2005. None of those airlines is in bankruptcy today. AMR Corp.’s American Airlines reached the brink of bankruptcy.

The airlines can't control security lines, and government fees added to the ticket price, Castelvetter said.

And while shorter staffing may cause some delays, Castelvetter said the main cause is an outdated radar system.

Delays cost U.S. airlines \$6 billion in 2006 because of added fuel burn, staffing the airports with overtime workers, as well as making more flight crews available, he said, adding that the Transportation Department estimates delays cost consumers an additional \$15 billion.

Fifty-year-old analog-radar systems currently monitor all aircraft in the skies. Under a more than \$1.8 billion contract awarded to White Plains, N.Y.-based ITT Corp. in August, the Federal Aviation Administration will begin to build a "next generation" satellite-based system, which should be completed by 2020, spokesman Roland Herwig said. The new system will be 10 times more accurate than current radar technology, according to the FAA.

Herwig said the Transportation Department and the FAA work with airlines and air-traffic controllers to reduce delays.

"Delays are a complex process," he said. Weather, the hub-and-spokes model of doing business and other factors all contribute, he said.

"The skies are just so crowded, and nobody wants to go back to high fares," Stempler said. It's one of the only industries in which the government controls the rate of production, he said. "It's nothing that the airlines can control anyway," he added.

According to the Transportation Department, airlines reported that about 8 percent of delays in August were caused by the radar system. Only 1 percent of delays were caused by weather; 17 percent were due to circumstances within the airlines' control.

FUEL COSTS RISING

Castelvetter said that fuel costs for the airline industry go up an estimated \$465 million a year with every dollar the price of crude oil increases.

Light, sweet crude for delivery in December hit a record high at closing Friday, increasing \$1.40 to settle at \$91.86 a barrel on the New York Mercantile Exchange.

Fuel prices have more than tripled, Cordle said. For 20 years, a gallon of jet fuel was about 60 cents. Now it's between \$2.20 and \$2.35. It has exceeded labor costs, which used to be the biggest expense on the airlines' income statements.

"It's become a huge cost," Castelvetter said. "It's the airlines' No. 1 cost."

Southwest Airlines has a big advantage in the high fuel prices at the moment — it hedges its fuel by purchasing contracts in advance and locking in lower prices. Last quarter, Southwest hedged 70 percent of its fuel, Dave Hinnenkamp, chief executive of KDV Wealth Management in Minneapolis and St. Cloud, Minn., said. But hedging will lose its effectiveness as prices continue to go up, he added.

And airlines also deal with the possibility of being thrown back into turmoil, Castelvetter said. Another terror attack would create higher fuel prices, fear and fewer people flying, he said.

Hinnenkamp cautions that although airlines are starting to recover their profitability, they are notorious for expanding so much that when something happens, such as a downturn in the economy, they're left with a glut of capacity.