



# *\$4 Billion and Counting:*

## Restructuring at the World's Biggest Airline

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# Outline

- How Did the Need Arise?
- When Did We Realize It?
- What Solutions Have Been Tried Before?
- What Did American Airlines Do?
- Is It Working?
- What's Next?



# ***How Did The Need Arise?***

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- Regulation
  - Controlled Prices
  - Service Competition
  - Regulation for Parity



# ***How Did The Need Arise?***

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- Regulation
- High Fixed/Low Marginal Costs
  - Food
  - Comfort
  - Convenience



# ***How Did The Need Arise?***

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- Regulation
- High Fixed/Low Marginal Costs
- Highly Trained, Heavily Unionized Employees
  - Pattern Bargaining
  - Difficulty Withstanding (even) a Strike (threat)
  - Seniority-based pay structure “punishes” carriers with more senior workforce



## ***How Did The Need Arise?***

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- Regulation
- High Fixed/Low Marginal Costs
- Highly Trained, Heavily Unionized Employees
- Highly Cyclical Industry
  - Long lead time on aircraft delivery



## ***How Did The Need Arise?***

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- Regulation
- High Fixed/Low Marginal Costs
- Highly Trained, Heavily Unionized Employees
- Highly Cyclical Industry
- Customers Value Network Scope
  - Carriers desire to add capacity is a classic Prisoner's Dilemma



# ***When Did We Realize It?***

- In the 1980s

- Southwest emerges as a force
- Others (PeopleExpress/NY Air) come and go
- Eastern/Pan Am/Western/Air Cal disappear

- In the 1990s

- Transition Plan
- Value Pricing
- Internet

- In the 2000s

- LCCs
- Corporate Travel Management
- 9/11



# *What Solutions Have Been Tried Before?*

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- Simplification
- Downsizing
- Bankruptcy
- Near-Bankruptcy



# ***What Did AA Do/Are We Doing?***

- Simplification
- Downsizing
- Near-Bankruptcy





# *Restructuring at American*





# AA *Restructuring Timeline*

2001	<ul style="list-style-type: none"><li>● Business Travel drops sharply in 2001Q1</li><li>● 9/11 - Company identifies first \$1Bil in savings</li></ul>
2002	<ul style="list-style-type: none"><li>● Don Carty forms Cost Reduction Team</li><li>● Team sets additional \$4 Billion target</li><li>● Unions engaged, as bankruptcy threat looms</li></ul>
2003	<ul style="list-style-type: none"><li>● Deadlines set, as cash dwindles</li><li>● \$1.8 Billion cost reduction deals struck</li><li>● The Perfect Storm subsides, as costs plunge, revenue rebounds (modestly), and financing opportunities return</li></ul>
2004	<ul style="list-style-type: none"><li>● Margins are better, but not good</li></ul>



# ***What Did We Do?***

- Schedule Efficiency
  - Hub Depaking
  - Aircraft Utilization



# ***What Did We Do?***

- Schedule Efficiency
- Simplification
  - Fleet standardization (types and configurations)
  - Food service
  - Onboard products



# ***What Did We Do?***

- Schedule Efficiency
- Simplification
- Automation/Self-Service
  - Kiosks for Self Service at Airports
  - Voice Response Systems in Res
  - Web functionality



# ***What Did We Do?***

- Schedule Efficiency
- Simplification
- Automation/Self-Service
- Distribution Costs
  - EveryFare
  - Web Fare deals with GDS's
  - AA.com functionality/promotion



## ***What Did We Do? - continued***

- And, of course, labor deals
- Unionized employees
  - Salary reductions
  - Work rule changes, resulting in layoffs
  - Benefits changes
- Non-union employees
  - Similar changes
  - Layoffs, resulting in more workload



# *Is It Working?*

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- Our unit cost (excluding fuel) are down 20%
  - Now the lowest among the big, legacy carriers
- Our margins are much improved, although still (slightly) negative
- The capital markets are, once again, open to us



# What's Next?

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- The first \$4 Billion is not yet done
- We are already working on the next tranche of cost savings
  - ORD Restructure
- Probably never done

