Unfriendly skies

No matter how sophisticated logistics becomes, transportation companies must execute it correctly. Businesses in the new economy still need customers. And carriers, no matter how mechanized and automated, still need people to run and manage things — especially in times of crisis.

Over the past four months, United Airlines has offered us an example of mismanagement that shouldn’t be ignored. In July, United’s overall on-time performance was 42% — 27 points below the industry average. One third of all regularly scheduled flights arrived late at least 70% of the time (almost 85% of all such flights nationally). In August, its domestic traffic dropped by 12%. These problems, though extreme, are not unrelated to those sometimes experienced by the transportation industry, which can learn some valuable lessons here.

United’s problems stem from scheduling. Carriers are asset-based, network-operating companies. Their financial success depends on maximizing asset utilization while fulfilling customer demands. But these goals can conflict with one another. Customers often select carriers based on published schedules, so airlines tend to publish schedules that are unrealistic.

During peak hours at major hub airports, more flights are scheduled than can be handled, generating “normal delay”. Most freight terminals have this same challenge. And carriers that rely on constant employee overtime for normal operations can quickly find themselves short of labor.

Customers expect carriers to own up to — and shoulder the responsibility for — their shortcomings. United has sought to blame labor and weather. Yet in July, United was on time for 39% of its arrivals at Chicago O’Hare, while American (which also operates an O’Hare hub) was on time 62% — and flying through the same weather.

Such inconsistencies were in evidence at other hubs, too. Joe Brancatelli, a columnist on business travel, summed it up recently by saying “I’d think twice before doing business with an airline run by executives who lie about the weather.”

When service deteriorates and a company is unable to respond, customer outrage usually follows. Next comes political pressure. Wellington Webb, mayor of Denver, a major United hub, called for Secretary of Transportation Slater to get involved to solve United’s service problems. The heads of the major airlines met with organized labor and airports in what some feel can only be described as a successful photo opportunity.

United has tried to make the case that its recent problems resulted from structural deficiencies. Two significant factors limiting capacity are airports and air traffic control. It may be time to acknowledge the problems presented by attempting to balance the competing needs for increased airport capacity and the longstanding tradition of local control over airport construction.

Almost thirty military fields stand ready for conversion today. This would be an obvious opportunity for government leadership. The federal government, moreover, has shown it is unable to deliver the type of technology necessary to improve the air traffic control system.

United’s loss of customers could mark a watershed in airline customer management. It now appears many business flyers have defected to other airlines, with some competing airlines willing to match Mileage Plus Premier credentials. United is now following the “if you can’t beat them, buy them” strategy. The airline is sending out discount coupons, issuing rebates to corporate customers, and creating a raft of Internet promotions. United even resorted to a general fare sale, which will force other carriers to match rates in order to retain new business.

One of the lasting legacies of the United debacle will be its labor contract with its pilots. No doubt under great pressure to settle, United granted immediate wage hikes of more than 20%, a 6-7% increase in United’s total cost structure. The ripple effects may be even larger. There is a tradition of “pattern” labor bargaining, where a previous settlement becomes the starting point for the next negotiation.

United can now expect similar demands from their mechanics, baggage handlers and ticket agents. American and Delta, who have impending contract negotiations with their pilots, can expect demands for parity.

We can only guess how many transportation companies have analyzed United’s saga and applied its lessons to their own operations. The troubles — or some form of them — have all appeared in rail, truck and ocean transportation. Just change some of the words e.g., airport to port, pilots to truck drivers, ALPA to ILWU, United to CSX, NS or UP — for the similarities. Although the problems in freight and passenger transportation are remarkably similar, it is very rare for either to learn from the other. This makes it all the more compelling when we watch how the next few chapters of this business thriller unfold.

Ted Prince is a principal with Transgistics LLC in Richmond and a former chief operating officer for "K" Line America Inc. He can be reached at ted.prince@transgistics.com.