Ivey | Publishing

W14722

ALASKA AIRLINES: NAVIGATING CHANGE

In the autumn of 2007, Alaska Airlines executives adjourned at the end of a long and stressful day in the midst of a multi-day strategic planning session. Most headed outside to relax, unwind and enjoy a bonfire on the shore of Semiahmoo Spit, outside the meeting venue in Blaine, a seaport town in northwest Washington state.

Meanwhile, several members of the senior executive committee and a few others met to discuss how to adjust plans for the day ahead. This group included Bill Ayer, president and chief executive officer (CEO); Brad Tilden, executive vice-president (EVP) of finance and chief financial officer; Glenn Johnson, EVP of airport service and maintenance & engineering; the company's chief counsel and executives from Marketing and Planning, Strategic Planning and Employee Services. They were concerned that the airline was steadily draining its reserves of customer loyalty and goodwill, which until recently had seemed abundant — even boundless.

Alaska Airlines had recovered from an all-time operational low, where only 60 per cent of flights were on time and seven bags per 1,000 passengers were reported as having been mishandled (defined by the Department of Transportation as checked baggage that was lost, pilfered, damaged or delayed). The airline was now back to the lower end of its pre-crisis status quo of 70 to 75 per cent on-time flights and four mishandled bags per 1,000 passengers.[1] Both these important metrics continued to vary from one day to the next. Although the situation on the ramp was stable for the time being, it was still fragile, with the ground crew handling baggage and also performing ground service in between flights. After focusing many resources on operations to improve the airline's operational results, the executives wondered what might happen if performance were to slip again. Would the airline slip farther and faster than before? What would it take to again recover to the current status quo? Would customers continue to be forgiving? Would this mediocre level of improvement be sufficient?

Below is the agenda created that night for the next day's discussions, when the full group would again convene:

[1] *Aviation Consumer Protection and Enforcement, U.S. Department of Transportation, Air Travel Consumer Report, 2012, http://airconsumer.ost.dot.gov/reports/, accessed July 7, 2013.*

9:00–11:00 a.m. 2008 Plan Discussion

Setup: No room for failure; tiger by the tail; you have 12 months to fix the operation sustainably and no severance. What would the Carlyle group do if it purchased Alaska Airlines?

- If you were the Carlyle Group, what proposals would you accept and why?
- What else would you do?
- How much benefit do you expect and how soon?

The following morning, the top executive team posed a tough question to the group, about 25 in all. One executive recalled the framing of the activity the next day as follows:

> What would a Carlyle[2] or a Warren Buffet do? Imagine a big conglomerate has just come in and bought the airline. We're a $3 billion[3] company making little money; our reputation with our customers has taken a beating; we've had major problems with Seattle, our main hub; and we've had problems with two large groups of employees. What would Carlyle do because they are emotionally unattached to this?

The assembled executives divided into groups to discuss different elements of the problem. One executive recalled the experience and the outcome of that day as "one of the ugliest sessions I've ever been a part of. Yet, we came out of there joined at the hip saying that the biggest challenge we faced was our operation and it had to be fixed, and it had to be fixed now."

Indeed, a three-pronged recommendation emerged:

1. We need to fix the Seattle hub first before trying to fix the whole system.
2. We need a higher-level person to devote 100 per cent of time to fixing the Seattle hub.
3. This person needs to be able to cross boundaries and break through silos.

A few weeks later, the executive leadership did two things. First, it appointed the staff vice-president (VP) of operations to the new role of VP of Seattle Operations. Previously, the Seattle station had been run by the individual managers of each functional operational unit (e.g., ticket counter, maintenance, inflight, flight operations), each working within his or her silo. As the executive leadership explained to the new VP of Seattle Operations, "Carlyle would come in and assign someone to fix Seattle and they'd say either you fix it or you're gone." That was the message. Second, the executive leadership told everyone at the Seattle-Tacoma International or Sea-Tac Airport that, in addition to reporting to his or her functional manager, each now had a dotted-line reporting relationship to the new VP of Seattle Operations and were expected to fully support him.

The new VP brought all the leaders of Seattle together and instituted a data-driven process, which involved identifying standard processes: a detailed timeline for the time between aircraft arrival and departure, using scorecards to measure how well Alaska was following its intended processes. Over time, standard work processes were defined, and daily scorecards provided visibility about performance for each step in the aircraft turn. Process improvement efforts were applied to remove wasted steps.

---

[2] Carlyle Group was a global asset management firm that began investing in corporate private equity in 1990 through investments in leveraged buyout transactions. These transactions involved finding and investing in underperforming, loss-making businesses that had potential for growth, then selling them after exercising management and financial restructuring to turnaround these "down-and-out" businesses. One of Carlyle's turnaround strategies was to place its own choice of CEO at the helm of a troubled acquisition and to create greater ownership among management.
[3] All currency amounts are shown in U.S. dollars unless otherwise noted.

This rigour led to a dramatic and sustained turnaround in Department of Transportation rankings for on-time departures, J.D. Power's standings,[4] mishandled bag rates (MBR) and operating margins from 2005 to 2010 with 2008 being a pivotal year (see Exhibit 1). Indeed, Alaska Airlines achieved the number-one ranking in J.D. Power for customer satisfaction in year one (2008) following the initiation of the change effort and for the next five years. In year two of the change effort, under a company-wide oversight team led by the new VP of Seattle Operations, the Seattle work processes were standardized throughout the system. Financial and operational performance received an additional boost when the company transitioned its MD-80 aircraft out of the fleet. Modelled after Southwest Airlines' aircraft strategy, an all-Boeing 737 fleet promised greater fuel efficiency and fleet reliability, and required only Boeing parts in inventory and simplified training for maintenance staff and crew.

To understand the dramatic changes and root causes that were addressed between autumn 2007 and mid-year 2010, it is necessary to go back before 2006, when passengers were angered by mishandled bags and wait times at the carousel, sometimes to the extent that airport police had to be called to the baggage claim area to intervene. Indeed, insight into contributing causes could be traced back prior to 2005, when the pilots, demoralized as a result of pay cuts, resisted efforts to improve operational performance, were comparatively slow to taxi and often reported maintenance problems at the last minute, resulting in what some executives saw as an unnecessary work slowdown. Other contributing causes included rocky contract negotiations with other labour groups, which affected the engagement of other employee groups, and ramp management's hands-off approach to ramp operations oversight, which resulted in a lack of operational understanding. One executive noted that root causes stemmed back to 1999, when the airline was "succeeding despite themselves due to fortuitous fuel costs and a good economy." The following is an overview of the history, culture and events leading up to the 2007 decision to create the role of VP of Seattle Operations; also included is a more detailed account of what occurred between 2007 and 2010 to fix the airline's largest hub, including a look at the root causes and subsequent solutions necessary for analyzing the changes and leadership driving this rapid turnaround.

THE HISTORY OF ALASKA AIRLINES: EIGHTY YEARS IN THE AIR

Alaska Air Group traced its roots to McGee Airlines, founded in Alaska in 1932 by bush pilot Mac McGee. The airline merged with Star Air Service in 1934, making it the largest airline in Alaska with 22 planes; however, many of these planes were small bush planes and would eventually be decommissioned as the airline grew. At the 10-year mark in 1942, the company was purchased and the name changed to Alaska Star Airlines, with a final name change in 1944. By 1972, the company was struggling but was salvaged by new leadership, which focused on improving operations and taking advantage of the rich opportunities that came with the construction of the trans-Alaska Pipeline. The following year, 1973, marked the first of 19 consecutive years of profitability, aided in part by industry deregulation in 1979, which enabled the 10-plane airline to expand throughout the West Coast, beyond its previous service to 10 Alaskan cities and to Seattle, its single destination in the "lower 48 states." By the end of the 1980s, Alaska Airlines (Alaska) had tripled in size, in part as a result of having joined forces with Horizon Air and Jet America. Its fleet had increased five-fold and the route map now included flights to Mexico and Russia.

---

[4] J.D. Power is an American-based global market research firm founded in 1968 and purchased in 2005 by McGraw Hill Financial for inclusion in its Information and Media Group. The firm conducts consumer opinion and perception research about customer satisfaction with product and service quality in a variety of industries including travel. J.D.Power produces ratings and awards based on its research that aid consumers in making informed purchase decisions. Awards are sought after by corporations for their endorsement value.

As of mid-2010, the airline employed roughly 8,650 with an additional 3,000 or so employed in Horizon Air. Approximately 160 to 170 of the airline's employees were at the director level and above (including directors, managing directors and VPs). The two airlines, at this point, shared many backroom services such as accounting and planning. Exhibit 2 provides some basic operating data for the period 2002 to 2010.

PERFORMANCE: A CULTURE OF "JUST GOOD ENOUGH"

Throughout the 1990s, Alaska was typically in the middle of the pack in terms of most airline performance indices, such as on-time departures. Falling in the middle range of performance without significant motivation for change appeared to be based on the mentality that, "it's OK to be late, so long as we're nice." This viewpoint could partially be attributed to the leadership of Ray Vecci, the CEO from 1990 to 1995, who openly fought the adoption of mandatory Departure on Time (DOT) reporting requirements, saying that Alaska was different because of its operating environment. Vecci's attitude led to a general tendency to "blame the system" rather than confront the fact that Alaska was rarely on time. Alaska's employees prided themselves on having the best customer service in the industry, which they defined as being nice — not necessarily as being efficient. Indeed, Alaska enjoyed a great deal of customer loyalty and a significant reserve of goodwill from its customers.

LABOUR RELATIONS: A LONG AND HARRIED HISTORY

In 1945, the pilots were the first of Alaska's employee groups to form a union, followed in 1959 and 1961, by the organization of mechanics and flight attendants, respectively. In 1972, customer service, baggage handlers and other operational employees followed suit.

As for many of the major carriers and for smaller, older airlines, such as Alaska, labour negotiations (sometimes marked by strong contentions, slowdowns, strikes and flight cancellations) were a routine and costly aspect of the airline business. Even when settlements were reached through negotiation or binding arbitration, resentments could last for years, affecting both morale and productivity. An airline could be in almost constant negotiations as employment contracts lasted from three to five years (depending on the union), and as many as six collective bargaining agreements could be in play.

For Alaska, despite a strong employee-customer bond, the relationship between labour and management fell short of being ideal for many years. An International Association of Machinists (IAM) strike in 1985 lasted for three months, during which time replacement workers were hired.[5] In 1993, a flight attendants' intermittent strike, the suspension of 17 flight attendants and a subsequent federally ordered reinstatement suggested the tip of a larger iceberg of labour-management problems looming ahead. The flight attendants' strike was a unique form of "intermittent strike" called CHAOS (and still used today by Association of Flight Attendants), which Alaska management viewed as illegal job action. In 1998, contentious contract negotiations between the company and members of the Aircraft Mechanics Fraternal Association began and were not settled until the middle of 1999. As in the case of the pilots' union agreement of the prior year, this new agreement called for third-party binding arbitration in the event that future agreements could not be reached in 120 days. In the fall of 1999, the IAM, representing clerical workers and customer service agents, reached an agreement after more than two years of protracted negotiation.

---

[5] *"Mechanics Pact Ends 3-Month Strike against Alaska Airlines," Los Angeles Times, June 4, 1985, http://articles.latimes.com/1985-06-04/news/mn-6533_1_alaska-airlines, accessed July 7, 2013.*

By the end of 1999, contract settlements had been reached with four out of six unions, leading to a new wave of contract negotiations beginning about 2003. Under normal circumstances, these negotiations could be daunting enough; however, no one could predict what would unfold in the industry or for Alaska over the next 24 months.

ORGANIZATIONAL AND INDUSTRY SHOCKS: NO PAIN, NO GAIN?

At the turn of the new millennium, two successive airline-related tragedies affected Alaska in very different ways. On January 31, 2000, an Alaska Airlines MD-80 jet carrying 88 passengers and crew from Puerto Vallarta, Mexico, to San Francisco crashed into rough seas 64 km (40 miles) northwest of Los Angeles, shortly after reporting mechanical problems. Among the passengers of Flight 261 were 12 working and off-duty employees and 32 family members and friends of Alaska employees. Because half the victims had a connection with the airline, the event would forever and uniquely alter Alaska's collective self-concept. The accident truly shook the morale of everyone working for Alaska.

And then came 9/11. Ensuing changes in security and boarding procedures in the third quarter of 2001, and into 2002, interrupted airline operations industry-wide. Demand for travel plummeted. Exhibit 3 shows the epidemic of airline bankruptcies from 2002 to 2008. Though Alaska was not immune to the nationwide grief and industry turmoil in the wake of 9/11, the impact on Alaska may have been tempered because of the prior tragedy of Flight 261. The following is one executive's reflection on the two events:

> From an employee perspective, no matter where you were in the organization, [the accident was] a failure. The press wasn't awfully kind, so from an employee basis there was probably a little bit of shame associated with it. I think it had a greater impact than 9/11. 9/11 was shocking, but it was that way for everyone. Even if you didn't work for an airline, if you worked in an office building, 9/11 was shocking. [The Flight 261 accident] was more personal.

Perhaps a testament to Alaska's resilience in the face of adversity, when almost all other airlines across the United States began immediate furloughs, Alaska's leaders intentionally chose not to lay off employees. This strategic move by management restored much of the faith employees had in the company, as it appeared that the leadership was betting on its employees to keep the airline aloft. Alaska was able to bank away from the disaster in 2001 because of two actions: the airline's cutting of the flight schedule by 13 per cent as a cost-cutting measure and the injection of $79.9 million in compensation from the federal government as part of an industry-wide program to cover losses related to September 11th. Alaska's annual passenger traffic dropped 5.6 per cent in 2001 compared with the industry-wide decline in domestic passenger travel of 19 per cent. The airline attributed this difference to its dominant market position; strong customer loyalty and less falloff in demand for air travel by people living on the West Coast and in the state of Alaska (see Exhibit 4).

SOARING COSTS — WORRISOME LOSSES

Partly the result of Organization of the Petroleum Exporting Countries (OPEC) supply management policies, oil prices had been on the rise since 1999 (see Exhibit 5). Crude oil prices affected the airline industry directly through higher fuel costs, which could account for 15 to 35 per cent of the cost of operating an airline, and indirectly through the resulting global economic downturn of 2000/01. Alaska Airlines' annual fuel and oil expenditures peaked in 2008, as did its fuel expense as a percentage of operating revenue for the years 2002 to 2010. With the added economic impact of the dot-com debacle and post-9/11 travel slowdown, Alaska lost $118.6 million in 2002.

In 2002, salaries and benefits accounted for 39 per cent of costs, which was the biggest proportion of the typical airline's operating expenses.[6] Several major and competing airlines filed for bankruptcy, which allowed them to renegotiate their labour contracts and thereafter operate with a lower overhead than Alaska. This situation created a potentially significant competitive disadvantage for Alaska.

Meanwhile, some of Alaska's unionized employees — the pilots, flight attendants and ramp workers — were among the highest paid in the industry.[7] Alaska and Horizon Airlines had a combined annual payroll of approximately $1 billion in 2004. Of that, Alaska pilots' pay and benefits (excluding Horizon) totalled roughly $350 million. Management determined that the pilots at Alaska alone earned in the range of $70 million to $90 million over other airlines, when taking into account the industry restructuring in the years since 9/11. Alaska's salaries represented a considerable labour cost disadvantage, relative to the industry average.

Analysts projected that if losses and costs continued unabated into 2003 and 2004, the entire company could go under. Alaska could have taken the route of filing for bankruptcy, as many other airlines had done, and then undergone restructuring. However, Alaska chose not to pursue this option for several reasons. Fundamentally, the Alaska executives, led by Bill Ayer, viewed filing for bankruptcy as being reprehensible. Alaska was committed to its shareholders, and filing for bankruptcy would mean wiping them out. Bankruptcy was tantamount to admitting defeat, an act utterly incongruent with Alaska's courageous spirit. Furthermore, Alaska executives believed, perhaps naïvely, that management could convince employees of the need for reductions, and those employees would voluntarily agree to make personal sacrifices to save the company. Moreover, executives had other ideas for reducing costs that represented a viable alternative. They were willing to trust that, if a collective bargaining agreement could not otherwise be reached between the pilot's union and the company, a contract reached through binding arbitration would be a better alternative than bankruptcy.

LABOUR: THE 2010 PLAN

Forging ahead in difficult times, Alaska's strategic planning efforts in 2003 resulted in leadership creating the 2010 Plan, a long-term restructuring agenda focused on employees, customers and shareholders. As part of this plan, in the fall of 2004, the company took several actions to reduce its biggest expense, labour costs: offering a voluntary severance package to management, the closure of a maintenance base in Oakland, the closure of the Tucson station, consolidation of operations in Spokane,[8] the outsourcing of three small work groups (fleet service, which performed aircraft cleaning; facilities maintenance; and ground service vehicle maintenance) in several cities and closing Alaskan ticket offices in Juneau and Anchorage and Washington state ticket offices in Seattle and Bellevue. Because the company felt that it was crucial to have Alaska employees in customer-facing roles, non-customer-facing work groups were the focus for attaining possible savings. In those cases, a cost-benefit analysis was performed. Combined, these moves cut nearly 900 of the roughly 10,000 employees.

---

[6] *Scott Mayerowitz, "Airline Fuel Costs Force Fares Higher," The Post and Courier, June 5, 2011, www.postandcourier.com/article/20110605/PC05/306059966, accessed July, 7, 2013.*
[7] *Call centre employees, customer service agents, mechanics and dispatchers were also unionized but their wages were not under scrutiny at this time.*
[8] *Idaho Transportation Department, "Alaska to Lay Off 40 in Spokane," Today's News Briefs, September 14, 2004, http://apps.itd.idaho.gov/Apps/MediaManagerMVC/NewsClipping.aspx/Preview/3569, accessed July 7, 2013.*

The challenge with the 2010 Plan was that each action had a different driver:

- The management voluntary severance package, launched in August 2004 and offered through spring 2005, was implemented to reduce the number of managers by about 9 per cent and aimed to improve communication and cut between $5 million and $10 million in overhead expenses.[9]
- At the same time, several management replacements were made in response to an "FAA Action Plan" that flowed from investigations into the tragedy of Flight 261.[10]
- The Oakland maintenance site closure and elimination of 350 jobs in September 2004 was part of a decision to increase efficiency by outsourcing heavy maintenance checks at the Oakland location and consolidating the remaining in-house maintenance in Seattle.[11]
- The outsourcing of fleet service, aircraft cleaning and facilities maintenance was pursued to allow the company to focus on its core competencies with customer service at the forefront.

Just as the drivers of each action differed, the downstream consequences also differed. For instance, the Oakland closure was a difficult and emotional exercise that left the remaining employees feeling bitter and concerned. The voluntary management severance, considered generous by the company, had two unintended downstream consequences:[12] talented people with tribal knowledge left; and many of the vacated management positions were replaced over a short time, rather than cut entirely, so that the overall management labour costs began to rise again after 2007, though still remaining below 2005 numbers.

LABOUR: THE PERFECT STORM

In addition to the previously stated changes, the union contracts for the flight attendants, ramp workers (IAM) and pilots (ALPA) were all open for re-negotiation at the same time, creating a labour relations "perfect storm." Management was working feverishly to reduce wages and gain agreement on other concessions in an effort to enable Alaska to compete with the other airlines that had already reduced their labour costs dramatically under the terms of bankruptcy protection.

The flight attendants' negotiations started in summer 2003, reached a tentative agreement that failed by a huge margin and ended in mediation the following summer. The pilots' union (ALPA) negotiations, which focused on bringing wages down to the new market level, had a deadline of December 15, 2004. Although the pilots were attracted to the promise of growth, they did not agree to reduce their wages. Since the 1990s, Alaska's pay scale for Boeing 737 pilots was one of the highest in the nation. Most pilots had built lifestyles dependent on this compensation level. Alaska remained firm that wage cuts were necessary.

After long negotiations with no agreement in sight, the parties entered into binding arbitration as stipulated by contract. Ultimately, the arbitrator's decision cut pilot wages significantly beyond the

---

9 "Alaska Airlines to Reorganize Management," August 20, 2004, www.airliners.net/aviation-forums/general_aviation/read.main/1707734/, accessed July 7, 2013.
10 Correspondence with General Council for Alaska Air Group, accessed November 14, 2013.
11 David R. Baker, "Alaska Air Shuts Oakland Base/340 Maintenance Workers Laid Off by Troubled Carrier," San Francisco Chronicle, September 10, 2004, www.sfgate.com/bayarea/article/Alaska-Air-shuts-Oakland-base-340-maintenance-2726556.php, accessed July 7, 2013;
"Alaska Airlines Closes Oakland Maintenance Base," San Francisco Business Times, September 9, 2004, www.bizjournals.com/eastbay/stories/2004/09/06/daily26.html, accessed July 7, 2013.
12 Effects have causes; effects can, and usually do, become causes of another effect(s); as a result, a large number of cause-and-effect "chains" can be created from a single casual event. Thus, cause yields effect. Effect becomes cause, which yields downstream effects (second-order effects).

company's last contract proposal, and pilots experienced a decrease of up to 30 per cent in their annual salaries with an average decrease of just over 16 per cent (see Exhibit 6).

In parallel with pilot arbitration, Alaska was working hard to negotiate a deal with the baggage handlers' union (IAM). These "rampers" in Seattle were a powerful, senior group, and management had persistently struggled to set and enforce acceptable performance expectations. As a result, productivity was very low. Alaska initially sought to cut pay by 15 to 20 per cent, which was rejected by the ramp union. Anticipating the possibility of a strike, a third-party ground handler (ramp vendor) was secured to step in to avoid operational interruptions in the event of a strike. Ultimately, Alaska's senior management concluded that the operational problems with the ramp could not be fixed with the current workforce, as old habits and mistrust were too ingrained.

As Alaska's senior managers examined the contingencies in place to manage the risks of a strike, they realized they had also created another option — to be proactive rather than reactive, by permanently outsourcing the ramp operations. A bold decision was made to replace more than 470 Seattle baggage handlers with contractors and to outsource the work to the ramp vendor. Both the decision and the action to implement the decision were accomplished in a 24-hour period with no interruption to operations. As the first shift of ramp employees arrived for work on May 13, they were met by security guards and members of management, and informed of their termination. Meanwhile, other management staff phoned employees scheduled for later shifts to deliver the news and instructions for attending a series of human resources information sessions. The decision to outsource the ramp came one week after the arbitrated decision in the pilots' negotiations.

In addition to lining up the ramp vendor for backup, Alaska had also trained management in ramp operation in anticipation of a work stoppage and strike. After the decision was made to outsource the ramp, these management personnel stepped in and supported the ramp vendor, working side by side with them for about a month on all shifts during the early days of the transition. Over the first year or so, Alaska kept some personnel trained so they could step in and help if needed.

DOWNSTREAM EFFECTS

The compounding effect of the 2004 closure of the heavy maintenance facility in Oakland, followed by the pilot wage arbitration decision and the ramp outsourcing (both within a month or so of each other) was not well anticipated by management. The latter two changes were not planned to happen simultaneously, but as is true of all strategic challenges, some of the timing was beyond the company's control.

In the months following the pilot arbitration decision, the pilots were angry and disengaged. Following the settlement, the company noted an increase in pilots' sick leave and their irregularity reports, both of which created downstream effects for other areas of the operational system. Another metric that changed after the settlement was an increase in pilots' hours spent in flight due to longer than average delays at the gate. These longer delays reduced the pilots' ability to make other flight connections and created further delays downstream.

The first few days after the ramp vendor was brought on to manage the ramp operations, everything went smoothly. However, as demand for Alaska bookings rose with the approaching holiday travel season, the ramp vendor proved to be unprepared to handle the volume associated with the Alaska contract. The ramp vendor's group was understaffed and undertrained. They operated with an autocratic culture, where dissent was not encouraged. Front-line staff with the ramp vendor were poorly paid relative to industry standards, which resulted in very high turnover rates. Their inexperienced employees were trying unsuccessfully to operate a complex and demanding operational system that was fully understood by only the more experienced ramp workers.

Adding to the operational challenges emerging with the ramp vendor, the remaining Alaska employees were reluctant to trust and support the ramp vendor's employees. Outsourcing to the ramp vendor created a ripple effect on the remaining employees who had working, familial or social relationships with the now-terminated Alaska ramp workers; the remaining workers experienced downstream effects on their morale and productivity. Indeed, some Alaska pilots even refused to pull into gates prepped by the ramp vendor or take off if their plane had been loaded by the ramp vendor.

The ramp outsourcing left the so-called "above-wing staff" demoralized. As one employee stated:

> We had to counsel employees who were in tears because their dad or their husband was suddenly out of a job. "How could Alaska do this to us?" they would keep asking. Everyone had survivors' guilt and when multiple call center employees break down in tears throughout the day, you can just watch call volumes escalate within minutes.

Furthermore, management, having only distantly supervised unionized ramp operations for years, were unable to manage the ramp vendor because they simply didn't understand how to work with ramp operations "below the wing." In the past, management had avoided even walking through the ramp; therefore, they had little knowledge of ramp operations or how to avoid the operational failures that were becoming daily events.

The backwash from the labour actions of 2004 and 2005 had a profound negative effect on the company's operational performance. In 2005, on-time departures fell to an all-time low of 49.8 per cent, . The ramp vendor was mishandling up to 20 out of 100 bags, and wait times at the carousel at times reached up to two hours. All of this disruption made passengers livid. Several times, the airport police intervened with irate passengers in the baggage claim area who became hostile toward Alaska employees. Pilots began reporting minor maintenance problems at the last minute and were slower than normal to taxi, causing further departure delays and extended flight times. The result was a devastating work slowdown that demonstrated the pivotal role of pilots and crews in the towering success or failure of an airline.

In the face of these operational challenges, long-time customers were experiencing the brunt of these problems leading one employee to complain that, "We were destroying customers' businesses. Agents were breaking down crying in front of customers because, months into this, we still didn't have answers for them."

With the overall meltdown occurring in operations and the ramp outsourcing imploding in front of everyone's eyes, Alaska staff were overscheduled, running in every direction just to put out fires and keep the airline going on a daily basis. All of these problems resulted in high levels of animosity exhibited by the different employee groups; many simply asked, "Why won't corporate fix this?" However, since management had wholly underestimated the negative impacts of outsourcing the ramp operations, they too were unprepared to handle the increasing problems confronting all aspects of their business. Adding more insult to injury, Alaska employees were now afraid they would be the next group to be outsourced, which led to another unintended consequence, whereby employee turnover, which at Alaska had been typically below airline industry standards, could rise unexpectedly. The existing turnover rates and operational challenges were forcing Alaska to bring new hires up to speed faster, placing added pressure on everyone within Alaska to perform, which was fuelling even higher levels of burnout.

Just one month after the Alaska ramp workers were locked out, the ramp operations had nearly imploded. And these conditions continued from the beginning of the summer of 2005 throughout the end of that year and into the critical holiday travel season. As one employee stated, “Seattle was on fire.” The combination of extremely high labour distrust and burn out, highly siloed work units, pilot slowdowns and the ramp imploding resulted in a perilous spiral downward for the airline.

TRANSITIONAL LEADERSHIP AND THE TROUBLED TASK FORCE

In response to the difficulties at the Seattle hub, a seasoned executive, Glenn Johnson, was placed on special assignment as temporary VP of Customer Service for 90 days, from June through September 2005, to diagnose the situation in Seattle. Following that, he set up a task force to begin trouble-shooting the operational issues. The task force then became a forum for exchanging information among all the various operating groups and taking a higher-level look at the situation in an effort to carve out some small chunks of progress and make some headway. The task force was composed of managing directors and was known as the Mad Dog Group or MD Group — a double entendre, as MD was the abbreviation for managing directors and Mad Dog was a nickname for the MD-80 jet. Kevin Finan, VP of Operations, originally ran the Mad Dog Group, with Glenn Johnson later stepping in to lead.

By 2007, the Mad Dog task force had still not fixed the operational problems to any significant degree. It was making small and big changes, but not obtaining big results. The task force was only able to get Alaska operations back to the low end of normal on such key metrics as on-time departures, baggage delivery and baggage loss. The task force stabilized Alaska and took it out of day-to-day crisis mode; however, operations were still fragile at best, the ramp was still highly volatile and pilots were still resistant to requests to make changes.

The 2007 Planning Session

The last two decades of the 20th century were marked by profitability and growth due to low fuel costs and a strong economy in spite of a culture within Alaska that tolerated mediocre operational performance. Yet, the first seven years of the new millennium had presented new challenges with the fuel costs on the rise since mid-1999, the crash of Flight 261 in January 2000, the dot-com bubble burst in early 2001 and 9/11 later that same year. The internal cost savings and restructuring under the 2010 Plan and the labour cost savings from the new 2005 pilot wage agreement helped steer the airline clear of bankruptcy — a route taken between 2002 and 2006 by US Airways, Aloha Airlines, United Airlines, Northwest Airlines and Delta Airlines. The outsourcing of the ramp and the implosion of Seattle ramp operations, however, contributed to a bumpy ride of losses and profits. Affording some cushioning along this bumpy ride was a strong reserve of cash accrued over the years of profitability. Still, the downstream impacts of these events took an unexpected toll on employee morale, operational efficiency and the customer experience. Thus, gains that were expected from “right sizing” and other measures were not hitting the expected performance mark when executives gathered in autumn 2007 for their multi-day annual planning session.

Since becoming CEO in 2002, Bill Ayer had worked intentionally to build an executive team that would share their honest opinions and have “fierce” conversations, qualities counter to Alaska’s corporate culture, which had been built on being nice to people, and counter to the local Seattle culture known as

"Northwest Nice." Ayer's efforts were paying off during this retreat. The executives felt safe to ask hard, provocative questions.

As mentioned in the introduction, a turning point in the 2007 meeting came when a subset of officers reviewed the group's progress at the end of a long day of discussions and then adjusted plans for the forthcoming day. The following question, posed that night among a few and repeated to the larger group the next day as a springboard for discussion, sparked a critical conversation:

> What would a Carlyle or a Warren Buffet do? Imagine a big conglomerate has just come in and bought the airline. We're a $3 billion company making a little money; our reputation with our customers has taken a beating; we've had major problems with Seattle, our main hub; and we've had problems with two large groups of employees. What would Carlyle do because they are emotionally unattached to this?

To review, the new direction that emerged included three conclusions:

1. We need to fix the Seattle hub first before trying to fix the whole system.
2. We need a higher-level person to devote 100 per cent of time to fixing the Seattle hub.
3. This person needs to be able to cross boundaries and break through silos.

SELECTING A CHANGE LEADER

And who would be this new "VP of Seattle Operations?" A few people had expressed interest and were intrigued at the prospect of this challenge. Among the interested was the current Staff VP of Operations, Ben Minicucci. He had joined Alaska in May 2004, after having worked for six years for Air Canada, running all the heavy maintenance for Canada's largest airline. Prior to that, Minicucci had spent 14 years in maintenance and aerospace engineering at the Royal Military College of Canada (similar to West Point or the US Air Force Academy), and had a bachelor's and master's degree in mechanical engineering, with an emphasis on control systems engineering. This discipline looked closely at inputs in a dynamic system and used measurement, comparison and correction to stabilize a system. Two classic examples of control systems engineering in action are a car's cruise control and a home's thermostat.

Minicucci used the thermostat metaphor on a larger scale to consider how he might tackle the process and people issues within the Seattle hub. He captured his ideas in a proposal, which he submitted to Johnson. His approach involved three guiding principles:

- Leading with passion
- Driving process accountability
- Managing with data

What Minicucci had noticed was that, up to now, brute force (applying a lot of people and a lot of resources) had been used to get the operation working. However, this approach had gained a limited amount of ground and was neither sustainable nor repeatable. He also noticed people working hard, but pulling in different directions. So the message he began to lead with and would continue to repeat — and which indeed became his "passion" — was *cross-divisional collaboration* and *alignment*.

Glenn Johnson, Minicucci's boss and the seasoned executive who had created the original Mad Dog task force, reviewed the proposal, and the executive team conferred.

The failure of the 2005 Mad Dog task force to address the root causes of Alaska's operational tailspin made it clear and obvious that what was needed was large-scale systematic change that covered more than simply fixing a few process problems. The dysfunctional aspects of the culture at Alaska needed to fundamentally change to address the ongoing problems and threats. It was not just about fixing things that were broken; it was about getting people to reset their expectations of what it meant to be a first-class airline.

The ineffectiveness of the Mad Dog task force could be traced to two reasons. First, the task force had been given no real authority. The best the task force could do was to make suggestions, but it lacked the authority to actually implement solutions. Second, the task force had focused only on outputs and outcomes. It had not focused on inputs or upstream metrics on processes that would improve on quality, service and delivery.

It made sense to putting Minicucci at the helm because of his ability to look critically at the inputs of a system and his grasp of the cultural aspects of the needed change. After his appointment to the new role, Minicucci set out to achieve cross-divisional collaboration and alignment, steering his course using the three guiding principles outlined in his proposal. Minicucci needed to act decisively as he set out to change the structure, process and the culture.

PINPOINTING THE PROBLEMS

Contractor Relations

The contract with the ramp vendor allowed Alaska management to get "up close and personal" with feedback and demands for performance improvement. Previously, the union-management protocol for managers being hands-off had gone to such an extreme that managers would not even walk through the ramp area, nor would they have known how to address the ramp's challenges and problems. This new level of managerial involvement and insight into the details of the ramp operation, combined with the ramp vendor's desire for a lasting vendor-airline relationship, were pivotal to achieving success. However, reaching a positive outcome would require a significant change of mindset, both in management and the ramp vendor, whose culture was command and control, not in developing ownership.

To initiate the strategic changes, Minicucci formed a Vendor Oversight Group, which produced a 180-point change plan to be managed with the ramp vendor. In the early days, Alaska was hard on the ramp vendor, implementing a system of penalties and bonuses. As one employee said, "We really took the boots to the ramp vendor. But as we saw it, we were the customer and they had to meet our demands." In the first three months, $150,000 in penalties were levied against the ramp vendor. The idea was that the VP of Seattle Operations would begin to use data to inform the ramp vendor why operational debacles had occurred on the ramp. Using this strategy allowed Alaska to teach the ramp vendor what was causing problems with the ramp operations. However, the ramp vendor would not necessarily agree with the causes, nor would they adopt the necessary changes. Simply using brute force to change was insufficient to develop exemplary service.

Laser Focus on Hub Operations

Early on, Minicucci assembled a matrixed team of directors and managers who each had a personal stake in a different aspect of day-to-day operations (e.g., line maintenance, cargo, airport customer service and pilots). He also enlisted the support of a program manager from the Project Management Office and resources from the Lean Process Improvement and IT departments. This cross-functional team met every day for at least 90 minutes — sometimes for as long as three hours to analyze performance and identify root causes for such failures as delays and mishandled bags. Attendance was mandatory. This level of attention and commitment to results was a game changer.

These long meetings first thing every morning involved the director of Line Maintenance, the manager of Cargo, the base chief pilot, the customer service airports director and the new program manager. Several of these individuals had previously been part of the Mad Dog task force. What was different about these meetings was that they were daily and mandatory; when these staff were unable to attend, they were required to send someone higher up (e.g., their VP) in their place, as the meetings focused on the prior day's operational performance. Minicucci set out to make these meetings a safe and transparent space for people to really dig in and honestly explore and discuss the fiascos that were occurring. Importantly, the meetings were intended to allow people to have difficult, but necessary "fierce conversations" with each other.[13] These conversations became affectionately known as "food fights" because of the heated, accusatory climate that flared up in the early days, as attendees learned to have open and honest debate and to keep their discussions about the issue and not make it personal.

The focus on operational issues from the prior day forced employees to do their "homework" about the reasons behind a delay or other issue. The goal was to identify everyone's accountability in the issue — not to pin it on just the pilots, just the crew, just the cleaning staff, etc. Another key element of the meetings was that anyone could share or suggest anything, but at the end of the day Minicucci had decision rights on everything. Thus, these meetings were characterized by both high participation and strong, authoritative leadership with the high risks associated with each style. The strategy that undergirded these meetings was contrary to Alaska's culture and operating style.

Balancing Priorities

While Alaska was sharpening its focus on operational efficiency at the Seattle hub, it also retained the strategic priorities of safety, customer satisfaction and shareholder value. Ironically, the meltdown and magnitude of annoyed and outright angry customer interactions during the operational efficiency trough of 2005 had forced executive leadership to abandon the tacit assumption that Alaska enjoyed a bottomless reserve of customer loyalty and goodwill.

Alaska executives understood that increasing on-time departures and arrivals, minimizing lost or delayed baggage and resolving other operational issues that affected the customer experience were essential to increasing customer satisfaction value and retaining loyalty. However, these factors were not the only drivers of customer satisfaction and loyalty. In the 2006 planning session, a dozen or so key initiatives were identified, each including many supporting initiatives. For example, the planning session drafted the following key initiative (KI 4) and its supporting initiatives relating specifically to customer service:

KI 4.1: Strengthen our relationship with customers by delivering an easy travel experience across all touch points

---

[13] Susan Scott, the Seattle author of the book Fierce Conversations, gave an inspirational talk to organizational leaders sometime prior to the strategic retreat that spawned the "Fix Seattle" campaign. In interviews conducted in 2011, numerous executive directors and managing directors talked about the role of "fierce" conversations, presumably in reference to this talk.

- SI 4.1.a: Develop and achieve consistent service standards
- SI 4.1.b: Engage employees to simplify processes and to fix most persistent customer complaints
- SI 4.1.c: Build customer information infrastructure to better serve customers
- SI 4.1.d: Provide timely and accurate flight information to customers and operational information to employees

These efforts were undertaken during the time the Mad Dogs were working on operational performance. One of the organization's "aha moments" at the fall 2007 planning session, the following year, suggested the need to focus on one thing (the operation) and to deprioritize all other efforts. Around this time, CEO Bill Ayer was often heard saying, "We need to focus on a few things and do them well." In the fall of 2007, Alaska declared that "fixing Seattle" was the one-and-only key initiative. The other "running-the-business" initiatives were demoted to a much lower priority.

One such running-the-business initiative that began at roughly the same time as the "Fix Seattle" operational initiative was underway was the Voice of the Customer, which put customer emotions into real terms. This effort included bringing in a cross-divisional group of front-line employees as subject-matter experts familiar with customer concerns. This team was helpful in voicing several customer issues that evolved into supported initiatives. However, as long as major operational issues remained, the organization understood that customer service strategies could not be realized.

Report Cards: A Metrics Mindset

Among the root causes of the operational problem were the absence of standard work processes and mechanisms for measuring interim performance goals (i.e., Alaska could measure on-time performance, but did not measure such upstream events as boarding, catering and door closure). To address these omissions, Minicucci implemented report cards, a practice he had used extensively at Air Canada. The report card, which recorded and tracked operations metrics on a daily or even hourly basis, played a critical role in the daily meetings; they were highly quantitative and, to the extent possible, reported the facts associated with operational challenges. As such, if a report card showed that a plane pushed back from the gate three minutes late, then the team could drill down into the events leading up to those important three minutes at the gate, on the ramp, in the cockpit, with food service vendors and so on.

The report cards, implemented first for the ramp vendor and the ramp, where the most critical problems occurred, held these areas accountable. Minicucci commented on the detail included in the report cards: "They have over 70 elements and we take more than 50,000 observation points a month on 156 of the ramp vendor operators, just to give you a sense of how scrutinized our ramp is, even today." The report cards also promoted a system for coordinated metrics and company-wide goals based on those collectively understood metrics. Previously, every department held its own data and metrics, making it difficult to compare data across departments. This sharing of data not only involved an operational or process change but also represented a fundamental change in culture and leadership.

Going Lean

Before Minicucci took charge of the Seattle hub in late 2007, lean methodology had been introduced by Glenn Johnson, then the executive vice-president of Ground Operations over airport services, maintenance and engineering, who had studied the lean methodology with Toyota in Japan and then hired a director of Lean from Boeing. Gate and ramp operations had been improved by using the 5Ss, the workplace organization method that applies five Japanese words: *seiri*, *seiton*, *seiso*, *seiketsu* and *shitsuke*. The English rendering of these words also started with the letter "S": *sorting*, *straightening*, *systematic cleaning*, *standardizing* and *sustaining*. The list describes how to organize a workspace for efficiency and effectiveness by identifying and storing the items used, maintaining the area and items, and sustaining the new order.

Starting in 2005 and continuing for the next five years, an increasing number and range of operational improvement events took place (see Exhibit 7). An additional six Lean projects were implemented in 2010.

Improvements were implemented at a faster pace, when in June 2008, Alaska began applying lean techniques extensively to the ramp and gate operations. Additional lean concepts and processes were introduced, and the outcomes of various operational improvement events were reviewed in the daily operations meetings. The director of the Lean Six Sigma Office used videos and other observational techniques to monitor live processes at the gate and on the ramp, in an effort to identify how to make the activities smoother, faster and more reliable. So, in addition to the cultural change reinforcing direct communication and shared accountability, Alaska invoked a totally new way of thinking about operations.

Additionally, the organization identified the customer experience value chain depicted in Exhibit 8, beginning with the booking and reissue process, through to the baggage claim experience. Workshops, six sigma projects and lean office consults took place up and down the value chain, resulting in numerous process improvements.

Raising the Bar

Tacitly, Alaska's broad and long-standing acceptance of mediocrity from years of being in the middle of the performance pack supported the airline's lack of accountability for monitoring and improving its performance, which had existed before the efforts to "Fix Seattle." Employees had simply passed around blame to each other with little risk of any consequences. For example, if a plane pulled out late, the gate agents might blame the pilots, the pilots might blame the mechanics for not having the plane ready, the mechanics might blame the ramp guys for not moving their equipment out of the way and so on. Just a few years earlier, during an officers' planning session, in 2002, one of the top management team members proposed, and the group agreed, that, "It would cost too much to be number one and wasn't worth it." Of course, this attitude ignored the costs of delays and other operational inefficiencies at the hub and the swelling ripple effects down the line for connecting passengers, crews and planes in other cities. By 2010, this assumption had not only been challenged but had been proven false by Alaska's strong performance in 2008, which led to the airline achieving the number-one spot in the JD Power and Associates' North America Airline Satisfaction Studies. Alaska would go on to rate the highest in "Customer Satisfaction Among Traditional Network Carriers in North America" for six consecutive years, from 2008 to 2013. In 2009, *TravelAge West Magazine* awarded Alaska a Wave Award for Best Domestic Airline. In 2010, *Logistic Management* magazine awarded Alaska its Quest for Quality award. In 2010 and 2011, FlightStats, a flight and airport information services organization, named Alaska the winner of its North American arrival performance award in recognition of sustained operational excellence. In 2011, Alaska Airlines achieved an on-time performance record of 88 per cent, compared with the average on-time performance of 76 per cent among other North American airlines.

In FlightStats's airport categories, Seattle-Tacoma International Airport (SEA), Alaska's hub, also won the number-one spot for departure performance among major international airports for the second year in a row. SEA achieved a 2011 on-time performance record of 86 per cent — due in part to Alaska Airlines' stellar on-time performance. For all other airports in this category, the average on-time performance was 71 per cent.

However, even when things began to improve as a result of the focus on operational efficiency, the culture of mediocrity continued to lurk in the background. As one interviewee said, "It was hard to get people to see it's not just about getting back to where we were, but moving beyond. People were still OK with being number five instead of number one." Minicucci's insistence on a concerted effort to work across groups reset expectations and raised the bar.

Giving credence to this new way of thinking and performing, CEO Bill Ayer and other executives repeatedly reinforced the importance of the "Fix Seattle" initiative at town hall meetings and in numerous internal communications aimed at re-engaging employees. With the addition of new routes to Hawaii in late 2007, taking advantage of the impending gap in the market left by the struggling Aloha Airlines (which had filed for bankruptcy in March 2008 and eventually discontinued passenger transport operations), Alaska was showing further determination to do more than merely maintain the status quo — it was showing that the airline could grow.

Some efforts were successful early on and were critical to keeping the momentum for the change initiative moving forward. As noted by one employee, "We knew we had to get results in the first six months or the entire initiative to fix Seattle would have failed." Stabilizing the ramp quickly was essential to the long-term success of the "Fix Seattle" imperative. Fixing the ramp vendor structure, which some people thought was impossible to improve, demonstrated that the approach Minicucci and his team were implementing would work — i.e., focusing on incremental inputs and daily variances, not just the Department of Transportation tallies of on-time departures and arrivals for a given week or month.

Improving the ramp vendor's performance also improved working conditions for the pilots, who slowly began to stabilize around a new way of operating. Delays were reduced, and planes were spending less time on the ground. Financially, this approach led to significant savings in terms of extra aircraft time. By 2011, Alaska's flights, as measured by DOT (arrivals within 15 minutes), approached 90 per cent on time — up from the pre-meltdown 75 to 80 per cent and well above the June 2005 level of 50 per cent. Losing two out of every 1,000 customers due to service issues would be the new norm in 2011, down from five per 1,000 pre-meltdown and the peak of 20 per 1,000 in 2005.

Alaska showed that much improvement was possible in a fairly short period of time through both the application of lean techniques and the power of accountability and focus. With the hub under control, efforts in the second decade of the new millennium could focus on increasing profitability through improving customer loyalty, increasing market share and maintaining control on efficiency and costs.

By 2010, the Seattle hub had finally stabilized. In many ways, Alaska had changed some significant and core aspects of its culture and climate. Report cards had become a common point of reference. As soon as a plane landed, flight attendants started thinking "tick-tick-tick," indicating their awareness of the time and the coordinated effort needed to turn the plane around. The daily operations meetings no longer represented a burden, and staff actually resisted the suggestion to reduce their frequency to only three days each week. Challenging others in the meeting was seen as a focus on enhancing processes not on exacting blame or being defensive. Bi-weekly supervisor meetings were scheduled because everyone realized the critical importance of communication. "Quality control is in our DNA now," and new hires simply accept this approach as the way things are, not as an intervention of initiative.

EXHIBIT 1: ALASKA AIRLINES' PERFORMANCE STATISTICS, 2005–2010

	2005	2006	2007	2008	2009	2010
On-time Performance [A]	70%	73%	72%	78%	83%	88%
MBR [B]	5.01	5.69	6.35	4.55	3.84	3.13
JD Power [C]	#4	#7	#4	#1	#1	#1
Operating Margin [D]	0.04%	4.3%	8.4%	–1.9%	9.5%	13.5%

Note: MBR = mishandled bag rate
Source:
[A and B] Aviation Consumer Protection and Enforcement, U.S. Department of Transportation, Air Travel Consumer Report, including:
February 2006 Report for "12 Months Ending December 2005," http://airconsumer.ost.dot.gov/reports/2006/feburary/0602atcr.pdf;
February 2007 Report for "12 Months Ending December 2006," http://airconsumer.ost.dot.gov/reports/2007/Feburary/200702atcr.pdf;
February 2008 Report for "12 Months Ending December 2007," http://airconsumer.ost.dot.gov/reports/2008/feburary/200802atcr.pdf;
February 2009 Report for "12 Months Ending December 2008," http://airconsumer.ost.dot.gov/reports/2009/February/200902ATCR.PDF;
February 2010 Report for "12 Months Ending December 2009," http://airconsumer.ost.dot.gov/reports/2009/February/200902ATCR.PDF;
and February 2011 Report for "12 Months Ending December 2010," http://airconsumer.ost.dot.gov/reports/2012/February/2012FebruaryATCR.PDF. All reports accessed and compiled 10 February 2014.
[C] Email correspondence with Office of the Managing Director, Strategy Management, Alaska Air Group on November 15, 2013.
[D] Alaska (AS) 2002–2009 from www.airlinefinancials.com/wp-content/uploads/2015/01/Alaska-Airlines-Financials-2002_2009.pdf, accessed 28 January 2015 and. Alaska (AS) 2005–2013 www.airlinefinancials.com/wp-content/uploads/2014/06/AS_Tables140417.pdf, accessed January 23, 2105.

EXHIBIT 2: ALASKA AIRLINES' BASIC OPERATING STATISTICS, 2002–2010

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
Employees (mainline)	10,142	10,040	8,800	9,269	9,307	9,680	9,628	8,912	8,649
Operating aircraft	102	109	108	110	114	115	110	115	114
Aircraft departures (daily average)	485	495	509	493	497	499	464	414	416
Net profit (loss)	($118.60)	$13.50	($15.30)	($5.90)	($52.60)	$124.30	($135.90)	$121.60	$251.10

Source: Airlinefinancials.com, June 7, 2010 (2002–2009) and April 17, 2014 (2005–2023), Analyses of U.S. Department of Transportation's Bureau of Transportation Statistics and U.S. Security Exchange Commission data for Alaska Airlines.

EXHIBIT 3: AIRLINE BANKRUPTCIES, 2002–2008

2002-2005	• **US Airways** filed for bankruptcy on August 2002; emerged on March 31, 2003. Re-filed September 2004; emerged on September 27, 2005 in conjunction with its acquisition by America West.[1] • **Air Canada** filed for bankruptcy on April 2003; emerged September 30, 2004.[2] • **United** filed for chapter 11 bankruptcy protection in December 2002; emerged on February 1, 2006.[1] • **Northwest** filed for bankruptcy on September 2005[3], citing 20% rise in jet fuel costs in the previous quarter; emerged on May 31, 2007.[1] • **Delta** filed for bankruptcy in September 2005[3], citing 20% rise in jet fuel costs in the previous quarter; making it the fourth of the top 7 US carriers to be placed under bankruptcy protection; emerged on April 30, 2007.[1] • Sabena (Belgium), Swissair, Ansett Australia and Vanguard Airlines (U.S.) also filed for bankruptcy.[3, 4, 5]
2008	• **Maxjet Airways** filed for bankruptcy on December 2007 and discontinued its operations.[6] • **Aloha** Airlines filed for bankruptcy on March 2008 and discontinued its passenger-transporting operations.[3, 7] • **ATA** Airlines filed for bankruptcy on April 2008 and discontinued operations.[8] • **Skybus** Airlines filed for bankruptcy on April 2008 and discontinued operations.[9] • **Frontier** Airlines filed for bankruptcy on April 2008[3]. • **Eos** Airlines filed for bankruptcy on April 2008 and discontinued operations[10] • **Sun Country** Airlines filed for bankruptcy on October 2008[3]. • **Primaris** Airlines filed for bankruptcy on October 2008 and discontinued operations.[11]

Source:
[1] http://money.cnn.com/infographic/news/companies/airline-merger/;
[2] www.ft.com/cms/s/0/7f494142-dc60-11e3-9016-00144feabdc0.html#axzz3QBxK10Bq;
[3] www.boston.com/business/articles/2011/11/29/american_joins_long_list_of_airline_bankruptcies/;
[4] www.independent.co.uk/news/business/news/sabena-files-for-bankruptcy-as-belgian-airlines-staff-walk-out-616171.html;
[5] www.nytimes.com/2002/07/31/business/vanguard-airlines-files-for-bankruptcy-and-suspends-service.html;
[6] www.wsj.com/articles/SB119850024501248579;
[7] www.foxnews.com/story/2008/03/30/bankrupt-aloha-airlines-to-end-all-flights-and-operations/;
[8] http://money.cnn.com/2008/04/03/news/companies/ata_bankruptcy/;
[9] www.cnn.com/2008/TRAVEL/04/04/airlines.bankruptcy/index.html?iref=newssearch;
[10] www.telegraph.co.uk/finance/newsbysector/transport/2789077/Eos-Airlines-files-for-bankruptcy.html;
[11] www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=12298089;
All sources accessed January 29, 2015.

EXHIBIT 4: ALASKA AIRLINES' TRIUMPH AND TURBULENCE

A look back at the first decade of the 21st century
By Don Conrad
Alaska Airlines Corporate Communication

There is no such thing as a dull decade, and the first 10 years of the 21st century are no exception.

On New Year's Day 2001, Alaska Airlines and its employees were still struggling to come to terms with the tragedy of Flight 261. Nine months later, terrorists flew four airliners into the World Trade Center's twin towers, the Pentagon and an open field near Shanksville, PA. The attack turned the airline industry upside down, depressing demand for air travel and forcing once-mighty carriers like United into bankruptcy. Just as airlines were beginning to recover, the housing bubble burst and plunged the U.S. economy into the worst recession since the Great Depression.

EXHIBIT 4 (CONTINUED)

Through it all, Alaska Airlines not only survived, but thrived, by facing brutal facts, making tough decisions and figuring out how to do more with less.

While success did not come without some pain, Alaska ended the decade as one of the strongest, most profitable carriers in the nation. Here are some of the airline's more notable events and accomplishments during one of the most turbulent decades in the history of the industry.

2001

- New airport security measures lead to long lines, higher costs and inconvenience, prompting significant numbers of passengers — especially in short-haul Horizon markets — to drive rather than fly.
- Alaska Airlines cuts flight schedule 13 per cent in wake of sharp drop in demand for air travel.
- Domestic passenger traffic declines 19 per cent during the fourth quarter, while Alaska's drops just 5.6 per cent due to its dominant market position, strong customer loyalty and less falloff in demand for air travel by people living on the West Coast and in the state of Alaska.
- Alaska Airlines receives $79.9 million in compensation from the federal government as part of an industry-wide program to cover Sept. 11-related losses.

2002

- Alaska takes advantage of its healthy cash on hand and higher demand for air travel on the West Coast to return to a full flight schedule in the first quarter. Decision enables Air Group to avoid furloughing any Alaska Airlines employees and minimize Horizon reductions.
- Multipronged strategy developed to further differentiate Alaska Airlines from the competition and emerge from the terrorist attack turmoil stronger than before. Strategy includes matching capacity to demand in core markets, shifting some flying to new transcontinental markets and effective cost management while keeping people in mind. These principles guide Alaska Airlines through the rest of the decade.
- Seattle Reservations Center moves to CenterPoint office complex in Kent, Wash.
- Paperless Employee Travel (PET) debuts on alaskaair.com.
- New Board Room opens at Seattle-Tacoma International Airport. Facility is three times the size of its predecessor.
- National Transportation Safety Board issues its final report on Flight 261, attributing the cause to the inflight failure of nut threads on the horizontal stabilizer trim system assembly due to excessive wear from insufficient lubrication. Before the NTSB holds hearings, Alaska elects its first vice-president of safety and establishes a safety committee on Air Group's board of directors (in 2000). In a renewed focus throughout the decade, Air Group institutes a single safety standard for Alaska and Horizon and comprehensive reporting and auditing programs.

2003

- User-friendly enhancements to alaskaair.com / horizonair.com, combined with aggressive marketing, draw more customers to the Web. In 2003, 27.4 per cent of all sales come via the website, a 6.4 per cent increase from the prior year, saving the airline $28 million in commissions, postage and other costs.
- **Bill Ayer** becomes CEO of Alaska Airlines (in 2002) and chairman of Alaska Air Group (in 2003) following the retirement of **John Kelly**.
- By streamlining the way it boards, fuels, loads and cleans aircraft, Alaska trims several minutes off turn times. The changes generate 25-plus hours of additional flying time per day — the equivalent of adding three aircraft to the fleet at little cost. Extra aircraft time used to launch Seattle-Chicago service (in April 2004).
- Alaska and Horizon expand schedule harmonization program to better match the right aircraft with market demand.
- New marketing and codeshare agreement with American Airlines effectively adds 100 destinations to the Alaska/Horizon route system.
- "Alaska 2010 Plan" introduced as a blueprint for returning Alaska to prosperity. Key elements are a 10 per cent profit margin, reducing unit costs to 7.25 cents and adopting the same incentive compensation plan for all employees.
- Medallion Foundation lauds Alaska for its safety programs.

2004

- Nearly 400 management employees leave the airline under the Voluntary Severance Incentive program.
- Alaska takes a new angle on fuel savings when it decides to install winglets on its 737-700s and -800s.

EXHIBIT 4 (CONTINUED)

- Airport of the Future arrives with the opening of the new Terminal C concourse at Ted Stevens Anchorage International Airport.
- Alaska Airlines places firm order for up to 100 737-800 Next Generation aircraft. Plan includes retiring all MD-80s and moving to an all-737 fleet by the end of 2008. Boeing delivers first 737-800 to Alaska.
- Airline decides to replace its fleet of aging 737-200 Combis with modified 737-400s.

2005
- Alaska makes difficult decision to contact out certain functions performed by the airline's employees, including aircraft heavy maintenance (in 2004), a growing industry trend, and the ramp and fleet service operation at Seattle-Tacoma International Airport (in May 2005). Airline offers transition package that goes beyond union contracts to help about 900 employees find new jobs. Sea-Tac ramp operations disrupted initially, but improve dramatically several years later after concerted efforts by employees at Alaska and partner vendor the ramp vendor Aviation.
- Buy-on-board meals debut with a grilled sausage and egg breakfast sandwich, chipotle turkey wrap and Angus beef cheeseburger on Mexico flights.
- Investor confidence enables Air Group to successfully raise $200 million in new equity through a stock sale.
- Alaska and Horizon simplify fare structure to provide customers with more value and flexibility, in the process throwing out thousands of fares — including the onerous Saturday night stay-over — and leading the industry in offering one-way fares
- Following lengthy negotiations between the Air Line Pilots Association and Alaska Airlines that were ultimately unsuccessful, an arbitrator restructures pilot wages and work rules.
- Air Group moves from an adjusted net loss of $84.4 million in 2001 to an adjusted net profit of $55 million profit in 2005.
- Some Alaska and Horizon functions combined to reduce duplication.
- Required Navigation Performance (RNP) certified for flights to Palm Springs and Washington, D.C. RNP also used at nearly half the airports Alaska Airlines serves in its namesake state.
- First winglet-equipped 737-700 enters revenue service on flight from Seattle to Miami.

2006
- Ticket sales through alaskaair.com surpass $1 billion for the first time.
- Air Group annual revenues top $3 billion for the first time.
- Alaska takes delivery of first modified 737-400 Combi.
- Alaska introduces $10 service fee for tickets purchased through reservations phone lines and ticket counters. Move helps reduce distribution costs by encouraging more customers to use online ticketing options. Fee was later raised to $15 per ticket.
- Airport of the Future unveiled in Seattle, cutting passenger check-in time in half and helping to boost employee productivity.

2007
- Alaska Airlines celebrates its 75th anniversary throughout the year, culminating with a gala party in the Seattle Hangar.
- Service to Hawaii begins with Seattle / Anchorage-Honolulu and Seattle-Kauai flights.
- Jenn, a virtual agent on alaskaair.com, debuts to help answer customer questions. By the end of 2010, Jenn had participated in more than six million conversations with customers.
- Air Transport World magazine names Horizon Regional Airline of the Year.

2008
- Goal of an all-737 fleet achieved when last MD-80 retired.
- Alaska Air Cargo revenues top $100 million for the first time.
- **Brad Tilden** named president of Alaska Airlines.
- Alaska Airlines reduces capacity when economic recession depresses demand for air travel. Some capacity shifted from underperforming markets to routes with greater revenue potential, including Seattle-Minneapolis/St. Paul, Seattle-Maui and Seattle-Kona.
- Alaska's on-time performance jumps six points, helping the airline achieve its customer satisfaction targets for eight consecutive months.
- Maintenance & Engineering introduces "Super A Check" program. Along with other process improvements, Alaska can maintain its jets more efficiently.

EXHIBIT 4 (CONTINUED)

- Alaska Airlines celebrates 20 years of service to Mexico.
- Price of jet fuel skyrockets as oil soars to a historic high of $147.27 per barrel on July 11.

2009
- Air Group marks 25th year on the New York Stock Exchange.
- Mileage Plan wins Freddie Award as “Program of the Year” for the fifth time in seven years.
- Alaska sets goal of generating $12 per passenger from bag fees, selling onboard meals, beverages and digi-players, and other non-ticket revenue.
- “Greener Skies” initiative unveiled to help reduce fuel consumption, noise and emissions through more efficient approaches to Seattle-Tacoma International Airport.
- Alaska Airlines becomes the first U.S. commercial air carrier authorized to conduct its own RNP flight validation.
- Air Group reports sixth consecutive year of profitability.
- Employees pack the equivalent of two 737 Freighters with food (double the goal) to donate to charity. (Employees donate the equivalent of more than four Freighters of food during a drive in 2010.)

2010
- President **Brad Tilden** elected to Alaska Air Group’s board of directors.
- **Glenn Johnson** named president of Horizon Air.
- J.D. Power and Associates ranks Alaska Airlines highest in customer satisfaction among traditional network carriers in North America for the third straight year.
- Aviation Week & Space Technology magazine names Alaska the world’s top-performing airline in recognition of the carrier’s financial results, good management and ability to adapt quickly to change.
- Aircell Gogo Inflight Internet installed on Alaska’s fleet, offering Wi-Fi service in the Lower 48 and between Anchorage and Fairbanks.
- Employees around the system become more active in community involvement. Several hundred participate in Seattle Seafair and Portland Rose Festival parades, among many other events.
- Sports sponsorships become a more important part of Alaska Airlines’ marketing effort when the carrier partners with Olympic speed skater Apolo Ohno, and becomes the official jersey partner of the Portland Timbers and the official airline of the Seattle Mariners.
- Air Group breaks ground on upcoming move to Terminal 6 at Los Angeles International Airport, paving the way for a major renovation project featuring its Airport of the Future and more convenient access to customs and immigration.
- Alaska and the IAM reach tentative agreement on a new contract for clerical, office and passenger service employees. If ratified, all employees at Alaska and Horizon will be covered by the Performance Based Pay (PBP) bonus plan.

Source: Don Conrad, “A Look Back at the First Decade of the 21st Century,” Alaska Airlines corporate communication, received in email communication 1/18/2011. Used with permission.

EXHIBIT 5: ALASKA AIRLINES FUEL COSTS, 2002 TO 2010 (IN MILLIONS OF DOLLARS)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fuel & oil (in millions of dollars)	$ 57.30	306.7	472	626.6	757	737.5	1,162.40	549	791
Fuel expense, as % of operating revenue	13.70	15.10	21.10	25.90	28.30	26.40	39.80	20.20	25.60

Source: Alaska (AS) 2002–2009, www.airlinefinancials.com/wp-content/uploads/2015/01/Alaska-Airlines-Financials-2002_2009.pdf, accessed 28 January 2015; Alaska (AS) 2005–2013, www.airlinefinancials.com/wp-content/uploads/2014/06/AS_Tables140417.pdf, accessed January 23, 2015.

EXHIBIT 6: ALASKA AIRLINES WAGE AND SALARY EXPENSES, 2002 TO 2010 IN MILLIONS OF U.S. DOLLARS (PER CENT OF TOTAL W-2* WAGES AND SALARIES)

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
Wage - W2**	$535.50	$560.50	$593.90	$517.30	$525.80	$549.00	$571.60	$639.70	$619
Management (General)	$28.00 5%	$26.70 5%	$29.70 5%	$34.20 7%	$14.90 3%	$7.90 1%	$10.00 2%	$17.70 3%	$8 1%
Pilot	$201.70 38%	$220.00 39%	$231.80 39%	$194.30 38%	$177.20 34%	$179.90 33%	$180.80 32%	$201.60 32%	$188 30%
Flight Attendant	$58.30 11%	$62.60 11%	$66.30 11%	$66.20 13%	$74.00 14%	$80.10 15%	$81.00 14%	$99.90 16%	$87.70 14%

**W-2 Wages are the total remuneration, paid (including noncash payments of certain taxable fringe benefits worth $600 or more) in the year for services performed by employees from whom income, social security or Medicare tax was withheld by a US employer engaged in a trade or business.*
***This amount does not include labour benefits expenses, which ranged from $167.9 million to $245.2 million over this span.*
Source: Airlinefinancials.com www.airlinefinancials.com/wp-content/uploads/2014/06/AS_Tables140417.pdf has data for 2005 to 2013 data in "AS_Tables140417" accessed January 28, 2015; contact info@AirlineFinancials.com for data for 2002 to 2010, which has been replaced online by the 2005 to 2013 data.

EXHIBIT 7: ALASKA AIRLINES' LEAN IMPROVEMENT EVENTS, 2005 TO 2009

Year	LEAN Improvement Event
2005	Download of Bags
	Boarding Process
2006	Baggage Upload
	Time Flies III
	Ramp Integrity
2007	Seat Swaps
	Hold Boarding Delta / Alaska Bag Claim Merge
	Wheel Chair
2008	5-S of Ramp (16 events)
	Air Conditioning Unit Placement
	Boarding Area
	Interline Bag Transfer
2009	Deplane Process
	Passenger Load Integrity
	Ramp Load Integrity
	Inflight Beverage Service
	Buy Onboard
	1st and MVP Boarding

Source: Email correspondence with Peggy Willingham, managing director, Strategy Management, Alaska Airlines, June 18, 2013. Used with permission.

EXHIBIT 8: ALASKA AIRLINES' VALUE CHAIN

Note: TSA = Transportation Security Administration
Source: Email correspondence with Director, Lean Six Sigma Office, Alaska Airlines, July 11, 2013. Used with permission.