

AI Ditter reports on how SkyWest Airlines continues to be profitable even in a difficult financial climate.

People, partnerships and profits

“SkyWest, Inc has been around for a long time,” says SkyWest Airlines president and COO Russell ‘Chip’ Childs. “Before we bought Atlantic Southeast Airlines (ASA), SkyWest Airlines was the only legal entity that was in SkyWest, Inc, so all of our annual reports and legal structures and so on have always been there.”

That hasn’t changed with the acquisition of ASA, in which Childs played a major role while with the holding company. “[SkyWest, Inc has] one more certificate than it did before buying ASA, and it provides some finance and IT administrative services for both airlines. But they are two separate entities, each with its own operating certificate and its own management group. We and ASA have autonomous human

resource departments, market development departments, flight ops departments, maintenance departments and all of that. We have very similar fleets, and that creates some synergies and efficiencies.”

SkyWest Airlines operates 140 Bombardier CRJ200s (although nine of these are unassigned to a partner carrier), 65 CRJ700s, 21 CRJ900s and 54 Embraer EMB 120 Brasilias for United, Delta and Midwest Airlines from hubs at Chicago O’Hare; Denver; Los Angeles (LAX); Milwaukee; Portland, OR; Salt Lake City; and San Francisco. The diversity of its fleet is compounded by differing configurations within aeroplane types. The CRJ700, for example, is configured with both a single-class and a three-class cabin, while the two-class CRJ900 has both nine- and 12-seat first-class cabins, depending on the mainline partner.

What makes the diversity even more notable is the large number of 30-seat turboprops and the even larger number of 50-seat regional jets in the face of conventional wisdom, which has long denigrated both types.

“At SkyWest, we still have a significant turboprop fleet,” Childs acknowledges, explaining that the performance characteristics of the Brasilia are ideal for some of the carrier’s destinations. “The aircraft will be retained for at least the next four years because we have lease obligations until then, but a lot of the decision as to what happens after that is going to be

dictated by what the market is going to allow, demand and want. There are still markets for which the solution is still a 30-seat turboprop. We’re just going to monitor those markets to see if that’s still sustainable, and if there’s a different fleet that could work there, we’ll consider them at the time.”

Unlike some of his contemporaries, Childs says the larger turboprops have no attraction for SkyWest. “There are some markets they would work in, but for a lot of our markets, the trip costs of the 30-seater are really beneficial.”

■ RIGHT FOR THE JOB

Similarly, the CRJ200 works well in the SkyWest environment. “A lot of which aircraft is assigned to which route for which airline is decided in discussions with our major partners. As with the reasons why the 30-seat turboprop works, the same thing applies to the 50-seat regional jet.” He acknowledges the knocks the aeroplane has taken for its fuel burn but says, “Even when the price of oil was high, we still saw that there were some markets where the 50-seat aircraft was still the best application. And now that oil is down, that has created even more value.”

Fuel prices are only one factor in fleet allocation, however. “There are a couple of things that dictate which aircraft we’re flying in our portfolio, and the number-one factor is scope at the major partner. We would love to fly more 70- and 90-seat aircraft, but there are

scope restrictions with the contracts that each major partner has with its labour force, and those prohibit us from doing that. In the decision tree as to where and how we operate which fleet, I would layer them with what scope dictates being first and foremost, followed by what the economics of the market dictate, and finally the operating performance of the aircraft.”

SkyWest does business as United Express (43 Brasilias, 67 CRJ200s, 52 CRJ700s), Delta Connection (11 Brasilias, 52 CRJ200s, 13 CRJ700s, 21 CRJ900s) and Midwest Connect (12 CRJ200s). The Midwest contract arose in 2007 when the Milwaukee carrier dropped its own feeder operation, but the other two have been in effect for much longer.

In all cases, says Childs, the major partner is considered the customer. “They are who we work for in maintaining a seamless quality of their brand and producing a strong product for them. Everything we do from an operational perspective is to make sure that we are doing things the way they’d like them to be done.”

The regional-major relationship with the older partners has evolved over time, notes Childs. “We got into the contract flying with these partners back in the late 1990s. What helps us to manage [each] relationship is to make sure that we do two or three things very well. What seems to be timeless is to produce a quality product and to do it in a way such that our services please their customers. Of course, we

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RUSSELL ‘CHIP’ CHILDS

also have to do it in a very economical way. And we want to make sure that it is a strong relationship in which we collaborate and work on issues together. This industry is constantly changing, and we want to make sure that the relationship is strong so that we can continue to develop the partnership.”

■ EVOLVING CONTRACTS

The specific nature of the contracts has evolved, Childs observes. The once-firm definitions – cost-plus, capacity purchase, revenue-sharing – are now fluid, and today’s arrangements are “all of those”, he explains. “At a very high level, it’s cost-plus and capacity purchase, but the way the models work today is that I have gone to them with an agreed-upon rate to fly a market of point A to point B with a margin added onto that, they reimburse me as I perform that function, and they provide me with incentives to do it very well. And thanks to how well our people perform on a daily basis, it’s worked out very well for us.”

Working for three partners, each of which has different demands and different fleets, is something of a strain, he admits. “It isn’t easy, because all three partners want different things, and they have different philosophies as to how they treat the customer. Our aircraft are configured and liveried for the individual partner carriers, so we can’t swap them in and out between them. We don’t have any leeway to take a market that has been assigned to, say, Delta and put a United aeroplane in its place. We have very strict parameters on being able to do any of that stuff. But I have a few neutral-paint-scheme aircraft, which gives me some flexibility.

“Our fleets are completely autonomous from each other, and that’s how we schedule them, but our maintenance department does a fantastic job with all of the different aircraft configurations. And our flight operations and crews do a great job in acknowledging and differentiating whichever brand they’re flying. Most importantly, our flight attendants do an →



SkyWest does all of its own maintenance, except CRJ heavy checks and CF34 engine overhauls.



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exceptional job in dealing with that strain because there are different requirements, depending on which partner they're flying with. It's not something we complain about, because that's the world we've signed up to, and our people make the difference."

SkyWest does all of its own maintenance, including heavy checks on the Brasilia, contracting out only CRJ airframe heavy checks to Bombardier's Tucson, AZ, facility, and sending CF34 engine overhauls to GE and StandardAero. The company has maintenance facilities in Chicago; Colorado Springs; Denver; Fresno, CA; Los Angeles; Palm Springs, CA; Portland; Salt Lake City; and Atlanta. Some of these are shared with ASA, and the training of maintainers and ramp agents is spread among the company's bases.

The training of pilots and flight attendants is primarily done at SkyWest's training centre in Salt Lake City. For pilots, the courses are similar, irrespective of the major partner for which they're flying, based on the commonality between the various Bombardier cockpits. "When it comes to their job, they understand what it is, irrespective of which airline's cockpit they're in," Childs says. "But for flight attendants, the training is very specific, so we devote a fair amount to differences between the partners. Ninety-five percent of core training is on safety and taking care of the customers. The other 5% is associated with how Delta and United want it done."

■ IN-HOUSE TRAINING

The airline does all of its own training, eschewing the growing popularity of contract training, using FlightSafety International simulators and SkyWest instructors. "The class load in the SLC centre at any given time varies. We always have recurrent training with pilots and flight attendants, and we run a captains' class there, but the number of those is variable. On the CSR side, there is some recurrent training. But we don't outsource any of our training to a partner," Childs confirms.

Nor does SkyWest partner for its hiring requirements; its reputation alone is sufficient to bring recruits – especially pilots – to the



Cabin crew must deal with the requirements of three different airline partners.

company, he avers. "Eighteen months ago, before passage of the Age 65 Rule and before oil prices went crazy, that was probably one of our biggest concerns. But we have always had a much easier time of finding people because we have a reputation for taking care of our employees. If I needed to hire pilots – which I won't be doing for a while, because we have plenty of them – I wouldn't have any problem. We focus on maintaining our reputation so that people are attracted to the company, and we've never needed a big, strong outsourcing conduit to grab people."

Even during the pilot shortage of a few years ago, the airline was able to maintain its strength, without having to dilute its standards. "We didn't have to reduce our minimums [of flying hours] to attract pilots. We were able to be selective about who we hired and still fill our training classes. We send recruiters to aviation schools, but that's as far as it goes. We have no contracts or agreements with any of the training schools, and we have never done some of the things other carriers have had to do to attract the talent that we need."

At a time when most of the aviation industry was reeling from the triple whammy of high fuel prices, the credit crunch and declining travel, SkyWest has not only survived, but continues to be profitable. "We've been positioning ourselves for an economic time like now for a long time," Childs admits. "It isn't easy to have the financial structure, the capital liquidity, that we have today without some very strong discipline over several years of operation. More importantly, I think one of our biggest assets today is our workforce: intact, engaged and willing to do whatever we need to do to make it through this economic storm."

He attributes the company's resilience to three things: "First, taking care of the workforce by

making sure they have the tools they need. Second, make sure we continue to deliver the product our major partners want. And finally, make sure to preserve our capital structure on liquidity. In tough economic times, the battle becomes more [one of] economics, and we need to be extremely prudent to preserve our cash, ensure that we invest our reserves in the right things the right way, and most importantly, stay focussed and patient for any opportunities that may come out of this economic situation. Our balance sheet has always been among the top in our industry, and in days like today, that is a tremendous advantage and asset.

■ A SOLID FUTURE

"We spend a significant amount of time looking at various scenarios long-term because it's our responsibility to have a very solid plan for our employees, investors and partners," Childs continues. "But because we live in such a speculative, volatile world today, most of that is focussed on giving credibility to the people in the airline, making sure we have them in a position to continue providing the product to our customers. We think that our reputation for operational excellence is essential as a baseline from which to capitalise on opportunities over the next five years. I'd love to speculate on what those might be, but I can't, so I think as long as we take really good care of our people, give them direction, have an economic model in place and keep our powder dry from a capital perspective, we are very well positioned in the industry.

"With regard to something like fleet alternatives, if I knew where scope was going in the next five years, that would probably be one of the bigger drivers of a long-term plan. A lot of major carriers – not just our current partners, but those we don't fly for now – don't have any relief over a 50-seat RJ, so in our five-year plan we're also embracing more of those."

For the next five years, then, the SkyWest plan "is to make sure that we are ready for some opportunities that are going to come out of this economic situation, to maintain our position compared to our peers in order to capitalise on opportunities better than anybody else". ■