

SkyWest's Childs executes RAA balancing act

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Not one to shrink from any challenge, SkyWest president and COO Chip Childs accepted the position of RAA chairman in November knowing full well what likely confronted him.

In the subsequent months the NTSB would complete its investigation into the crash of Colgan Air Flight 3407, and few doubted that some sort of fallout would ensue. Family members and politicians made sure the accident would not fade from public consciousness, leaving Childs and the rest of the RAA braintrust in a delicate position. Certainly they couldn't discount the findings regarding the pilots' behavior before the catastrophe, nor could they dismiss the validity of the various safety recommendations that arose from the FAA's Call to Action, for example.

At the same time, the RAA couldn't simply accept the premise posited by some in Congress that regionals fly less safely than their mainline counterparts. The RAA needed to execute a balancing act of sorts, and as its chairman, Childs would play a pivotal role in maintaining the equilibrium.

"A lot of people need to be aware that there are more than 650 airports that receive regularly scheduled service and 75 percent of those airports are served only by regional carriers," said Childs. "We do an unparalleled job of taking care of those local communities and that's really the backbone of what the RAA is and what our members represent."

The RAA would argue that the regional airlines' ability to serve those communities effectively depends on rational levels of regulation. Once excessive regulation results in the need for more administration, cities lose service.

"I think the risk to those communities stems primarily from the cost of managing through the regulatory environment more than anything else," said Childs.

"The last thing we want to do is run down the road of legislation that could have a detrimental impact on some of these communities."

Childs stopped short of criticizing the proposed safety-related legislation passed in separate House and Senate bills over the past six months, however.

"I guess there are a lot of things that could happen in the next year; there continues to be a debate. Our job is to be engaged in the conversation," said Childs. "But from what we're seeing...I think it's something we can certainly work with and continue to move forward and work under those parameters. But there's still a lot of work to be done."

The provision in the Senate bill that would require 800 hours of experience for first officers wouldn't overly burden the likes of SkyWest, said Childs, who noted that his airline's requirements have always exceeded those minimums, as have those of many of his fellow RAA member airlines.

"I would like to say that we stand out, but there are some incredible carriers throughout the RAA," said Childs. "As we share our data, our goal within RAA is to make sure that everyone is flying to a safe standard."

Implied Safety

Of course, regional airlines can't effectively pursue growth opportunities in an environment where their mainline partners and the public at large lack full confidence in the safety of the product. An implicit level of safety must come before all other considerations, said Childs, including efforts to tackle the economic challenges the industry faces.

For SkyWest, a stellar safety record and consistently solid on-time performance and completion rates have lent it the credibility it has needed to build itself into the largest independently owned regional carrier in the U.S. Maintaining that lead will no doubt take continued hard work, however, as a dwindling supply of potential new code-share business places SkyWest and the rest of the industry at a crossroads of sorts.

Since the advent of the regional jet age, regional airlines had come to depend on what became known as a capacity purchase model of revenue sharing. But when economic times were good and opportunities for new code-share business abounded, regional airlines—and particularly those with ready access to regional jets—held significant negotiating leverage. That no longer holds true today. To compensate, Indianapolis-based Republic Airlines, for one, has taken a rather aggressive approach of acquiring national airlines—

namely Frontier and Midwest—as a way to diversify and lessen its dependence on fee-per-departure revenue.

SkyWest's own efforts at diversification took the form of an acquisition five years ago of Atlantic Southeast Airlines and a small stake in Brazil's Trip Airlines in 2008. But SkyWest appears less inclined than Republic to embrace the idea of so-called brand flying. "Our focus is going to stay on the niche of being a regional carrier and trying to find other ways to diversify and continue to build our portfolio with new partners in the future," said Childs.

Still, "growth is certainly the number-one concern on everybody's mind," said Childs, who noted that a relaxation of scope-clause limits should stand at or near the top of the industry's list of priorities. The scope clause at United Airlines now limits SkyWest to flying 70-seat jets under the UA code, while at Delta, the 76-seat limit allows it to fly dual-class CRJ900s. Childs did express a desire to fly 90-seat airplanes, however. "I would say that we're cautiously optimistic about it," he said. "Hopefully sooner rather than later it will happen. The data is way too indicative of the value to the flying public."

Notwithstanding a general industry trend away from 50-seat jets and toward more 70- and 76-seaters, Childs took care to note that the 50-seat CRJ200s at SkyWest continued to serve the airline well. In fact, he said, SkyWest has encountered some difficulty lately finding good used 50-seaters to meet its capacity needs. Now flying five CRJ200s under a pro-rate agreement for AirTran out of Milwaukee, SkyWest moved some 20 CRJ200s out of the Midwest Airlines system and into its United and Delta networks after Republic Airways took control of Midwest last year. As Atlanta-based subsidiary Atlantic Southeast Airlines continues to build its presence in the United system under a new code-share pact, SkyWest could find itself in want of still more 50-seaters.

"Our big concern about 50-seaters is that we don't have manufacturers making [them] right now," said Childs. "And we certainly need to address that."

SkyWest also flies fifty 30-seat Embraer Brasilia turboprops, some 10 of whose leases come due this year. Whether or not SkyWest renews the leases will depend largely on the economic outlook this fall, said Childs, but the SkyWest president expressed perhaps surprisingly positive sentiments about the continued usefulness of his turboprop fleet, which averages some 12 years of age. "We do have some lease returns coming up this year, but I'm incredibly impressed with our folks and how well we maintain those airplanes and how reliable they are," said Childs. "Every time we do an economic analysis of that airplane, the results are positive and the demand continues to be strong."

Meanwhile, Childs said he has looked closely at both the Bombardier Q400 and ATR 72 with SkyWest's major partners, and reached a conclusion that the airline would need at least 30 airplanes to justify the acquisition. "In our operation the CRJ700 is the sweet spot," said Childs. "We can do so many things with that airplane, and by the time you look at the statistics, at least for SkyWest Airlines, we have a strong enough fleet that the 700 stands up and delivers every time." In fact, at least on the markets SkyWest evaluated, the Q400 proved no less expensive to fly than the CRJ700, said Childs.