

## SkyWest lets its performance speak for itself

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SkyWest Airlines hasn't found some magic elixir to help it escape the ravages of the global recession, but as long as it continues to perform to its partners' contractual standards, the country's largest regional carrier and the host for this year's RAA convention can count on a steady revenue stream and a strong enough capital position to weather the economic storm. Speaking with AIN during the run-up to this year's RAA convention, president and COO Chip Childs stressed that point as if to send a message that SkyWest won't give its partners any reason to come looking for contract concessions in an environment where the major airlines seem all too willing to penalize the slightest misstep.

"That performance gives us credibility with our partners to make sure that we are in a good position when this economic situation turns back the other way," said Childs. "There have been some regional carriers that have come under scrutiny...The primary driver with those quite simply was operating performance. So that's a huge focus in our environment and I think it's the reason we haven't had any carriers come to us and say 'Hey, you still have 10 years on this agreement; we want to shorten that to five.'"

From January 2008 through January 2009, SkyWest's controllable completion rate did not drop below 99 percent in any month, while its on-time rates dropped below 75 percent only during the particularly demanding months of January and February 2008.

Unfortunately for SkyWest, that impressive operating performance couldn't save it from the capacity cuts instituted by ailing code-share partner Midwest Airlines, which stripped nine of the 21 CRJ200s the St. George, Utah-based regional flew from Milwaukee as Midwest Connect. Meanwhile, said Childs, United Express capacity has remained "pretty strong," while capacity in Salt Lake City for Delta "is off a bit."

All told, SkyWest Inc., which includes Atlanta-based Atlantic Southeast Airlines, saw its block hours decline 12 percent during last year's fourth quarter. By the time Childs spoke with AIN on the last day of March, the company had reported a 9.2-percent drop in RPMs for February, along with a 9-percent decline in ASMs—all figures fairly consistent with its mainline partners' plans to slash capacity systemwide.

With an apparent lack of so-called traditional growth opportunities, SkyWest could opt to do nothing but wait for the recession to end. That seems unlikely, however, given its willingness to pursue unconventional avenues for growth, as it did when it took an ownership stake in Brazilian regional airline Trip Airlines last year. "In the current environment it's our responsibility to look at any and all possibilities," said Childs.

The largest regional airline in the U.S., SkyWest flew 280 airplanes as of March, including 140 fifty-seat CRJ200s (52 for Delta, 67 for United, 12 for Midwest and nine unassigned), 65 seventy-seat CRJ700s (13 for Delta and 52 for United) and 21 dual-class, 76-seat CRJ900s, all for Delta. It also flies 54 thirty-seat Embraer Brasilia turboprops (11 for Delta and 43 for United).

Under the terms of a deal signed in 2007 with Bombardier, SkyWest still plans to take 12 more CRJ700s this year, the first of which it expects to arrive this month, while more Brasilias either come off lease, find new homes with potential buyers or assume duty as spares.

Meanwhile, said Childs, notwithstanding last year's spike in fuel prices, SkyWest continues to see strong demand for 50-seat jets. "There are markets where bigger aircraft or smaller aircraft just don't balance out and work well," he said. "I think scope at the major carriers overcooked the number of 50-seat jets in the country a year ago; since then there's been a fair amount of reduction in those aircraft, but overall I don't think we can discount the value of the 50-seat jets still."

In fact, SkyWest planned to place the nine 50-seaters it had to pull from the Midwest agreement into the United system this spring, said Childs, adding to the proportion of flights flown under its capacity purchase agreements with UAL and Delta. SkyWest flies its regional jets under that kind of so-called "fee-per-departure" arrangement, while between 5 and 7 percent of its capacity—

essentially the flying it performs with its Brasilias in Salt Lake City and some two-thirds of the turboprops it flies on the West Coast—falls under the pro-rate category, where SkyWest assumes virtually all the risk.

“In all honesty, we are pretty darn effective in the local communities in marketing specifically to them,” said Childs. “We’ve found a bit of a niche and it may go way back to the early and mid ’90s, when this was [more common] in the industry as a whole...That operation, when the oil prices were extremely high, no question it was relatively difficult. Today, we’re anxious about yields like everybody is, but we’re pretty optimistic about that side of our business.”

Although the Brasilia fleet averages 11.7 years of age, most of the leases don’t expire for another four years, and Childs said that the short stage lengths and frequencies his Brasilias fly, particularly on the West Coast, require a small turboprop.

The SkyWest president has looked closely at the more modern, 70- to 78-seat Bombardier Q400 as a possible replacement for some of the aging airplanes, but “in many of the markets that we’re flying it really doesn’t work that well,” he said, adding that the engines on the Q400 cost more to operate than the CF34 turbofans on the airline’s 70-seat CRJ700s. Childs also mentioned that the economies of scale relative to the Q400 require at least 20 airplanes, and that the airline simply won’t dive into that level of commitment.

“We’d love a 40-seat turboprop in all honesty,” said Childs. “But that’s just us. There probably isn’t enough demand for a 40-seat turboprop around the world but there is in California.”

For now, rather than focusing on what he wishes he had, Childs expresses a refreshingly optimistic outlook in general and particularly about the airline’s capital position, which he called the strongest in the industry. With 9,000 employees, none of whom belongs to a union (sister carrier Atlantic Southeast Airlines operates as a distinct entity), SkyWest maintains an enviably close and collaborative relationship with its workforce, which “in times like this makes a huge difference in some of the things we can accomplish,” said Childs.

“Our partners are trying to match supply and demand more and more, and they’re getting more and more sophisticated systems to match supply and demand,” added Childs. The resulting seasonal and even weekly ups and downs in demand forced the airline’s in-house pilot representatives to agree to some voluntary leave programs and more flexible hours, for example. “We are kind of heavy on the pilot side,” Childs conceded.

About a year ago the airline had to lay off some 300 customer service and ramp personnel in the Chicago area when SkyWest turned over its outstation ground handling to contractors. More recently, Delta decided to assume more of the ground handling in Salt Lake City, requiring a second furlough of 300 employees starting on May 15.

The ground handling change at Salt Lake City follows a wider restructuring effort at Delta since its merger with Northwest Airlines, the effect of which some regional affiliates will feel more than others. “It’s a little bit too early to tell” how SkyWest will fare, said Childs. “Right now they’re just trying to consolidate operations as much as possible. We think there might be some outstations they may want to consolidate where we’re doing some handling, but from the overall flying side, we don’t believe we’re going to be any more impacted from where we are today.”