

American? A challenge for them and us

Even before Christmas the rumors were out that American Airlines was going to begin service to the heart of Piedmont's system. At one point, the rumors escalated to the level that the two airlines were going to merge. What was the truth? The truth was that beginning this Spring, American will begin service to several points in North Carolina and South Carolina, albeit at very limited levels, and that no merger talks have ever been initiated by either airline.

American is a big, successful, tough competitor. No question about that. The question industry observers and Piedmont employees are asking is this: How well is Piedmont prepared to compete with American?

It's a fair question.

William R. Howard, Piedmont President and Chief Executive Officer, answered it this way:

"Under any circumstances, we're well-prepared to meet the test American represents. So let's first look at exactly what the circumstances are and see just how well prepared we are to deal with them."

AA service

He pointed out that American will have service to seven cities in the Carolinas. Except for Charlotte, none of these communities will have more than four daily departures. And, including Charlotte, from these two states American will provide just nine daily flights to points outside of the Carolinas. In other words, of a total 28 American daily departures from North Carolina and South Carolina airports, 19 will be between airports in the two states for collating traffic, and nine flights will be more or less directly competitive with Piedmont and other airlines.

American brings with it an outstanding reputation for customer service and, at its hub in Dallas/Fort Worth and Chicago's O'Hare Field, American ranks as the largest, or (at ORD) second largest carrier. It is an extremely profitable airline (its net profit of \$233.9 million in 1984 ranked third in the industry) and it has considerable resources. (American had total revenues of more than \$5 billion in 1984).

American has vastly improved its efficiency during the past several years and now enjoys so-called "B" scale contracts with its major unions.

That's a thumbnail description of the newest entry into the Carolinas air service markets. Now, how will we deal with it?

"We certainly respect American, its abilities and its resources," Howard said, but Piedmont has a great many strengths, and those strengths are centered exactly where American is coming.

He pointed out that although American has an excellent reputation for service, Piedmont has had a better record for fewest passenger complaints year in and year out.

PI competitive

"None of our people need to bow their heads in the presence of American or any other airline. Our service has been demonstrated to rank with the best standards of the industry, be it in-flight, reservations, at our ticket counters and gates — everywhere we meet the passenger," Howard said. "Our service is competitive, and we can be even better if the challenge demands it. I know our people, and they won't be outdone. They just won't."

Piedmont has more than 10 flight departures from this region for each departure American will operate. While American's service will focus on Dallas, Chicago, and points west of these cities, Piedmont will be a full-service airline with strong service patterns to the north, to the south, to the midwest, and if they choose to compete with us to Colorado or California, they'll find our nonstop services far superior to connections at their enormous, congested hub airports.

"We have a good array of resources at our disposal now," Howard said. "Perhaps a few years earlier we would have had difficulty mounting the equipment and dollars necessary to meet a major competitor. But we have a modern jet fleet that will number more than 120 aircraft by the end of this year, and American clearly does not intend to bring a major portion of their resources to bear on us. They have a great many major competitors to deal with in markets which are far more important to them than the Carolinas."

efficiency

As to efficiency, he points out that Piedmont has a far lower break-even load than American: Piedmont earns a higher profit on each sales dollar than does American; Piedmont has two labor agreements in place already that will enable us to compete with their comparable labor groups at competitive costs; Piedmont has a far more efficient and smaller management team; and the Boeing 737-300 aircraft deliveries will bring us equipment

as efficient as American's, and probably even more efficient.

Piedmont has a long, well-established identity in the Carolinas. We have been part of these communities since Piedmont's founding, Howard pointed out, and that record of service will carry with it a degree of loyalty.

good service

"We aren't so naive to think that people will come to us even if we charge more or give less service," he said. "But if our service is as good, or better, and our prices equal, American is going to have a tough

time convincing our customers to leave us.

"In the end, we're being challenged. That's what competition is about. The challenge is probably a lesser challenge in quantity of flights than we already face from some of America's most successful airlines. We neither minimize it, nor need to be awed by it. We simply need to meet it with our best, and that's going to be a lot for them to handle," Howard said.



Controlling our unit cost Makes us profitable — or 'un'

One winter morning recently, an agent at BWI had a decision to make. Another airline had requested that Piedmont de-ice its aircraft, but a memo from the Accounts Receivable Department did not list that airline among those whose credit we accepted.

"It was Saturday morning and that agent called our office to see what steps he should take," Kit Basler, assistant director-general accounting, said.

"He took time to make sure he was following the correct procedure and decided to ask the airline in question for cash upfront."

That agent probably saved Piedmont money.

"All employees have an influence on our revenues," Audree Long, vice president, controller, and assistant secretary, said.

"For some of us it may be minimal, for example, recommending Piedmont to friends and business associates. On the other hand, our marketing personnel have a significant impact on revenues. But no matter how small your contribution, it makes a difference."

unit cost

The best measure of Piedmont's efficiency and productivity is our unit cost, or what it costs us to run the airline on a per available seat mile basis.

In 1980, our unit cost was 8.2 cents. It jumped to 8.9 cents during 1981 and 1982, and in 1983 was 8.3 cents. In 1984, our unit cost rose to 8.5 cents. A minimal increase, you may think, but not so.

"In 1984 our operating expenses were \$1.1 billion and profit before taxes, \$92 million," Long said.

"If our operating expenses per available seat mile had increased just two percent — just 1/6 of a penny for each available seat mile — our unit cost would have been 8.7 cents and our operating profit would have been \$71.5 million, a \$20.5 million reduction."

A decrease of two percent, he explained, in operating expenses per available seat mile would have meant a \$20.6 million increase in profit before taxes. That means if our unit cost had been 8.3 cents in 1984, our profit before taxes for the year would have been \$112.6 million.

"What this means is that just a two percent swing in operating cost per available seat mile creates a 22 percent swing in profit before taxes," Long said.

"An insignificant change in unit cost can create big bucks on the bottom line."

employees can help

What can employees do to help keep the unit cost down?

"Be cost conscious," Long said.

"For example, work to insure that baggage gets on the proper flight and is tagged correctly. That saves us the cost of locating lost baggage. Employees know where they can save the Company money. We simply must instill this cost-conscious attitude into our daily routine for the savings to accrue. It's the little things that make the difference," he added.

"We've grown to become a very large and profitable company — and that alone breeds complacency. Our unit costs have historically been the best in the industry and we must maintain that enviable position. With a low unit cost basis, we can do a lot of experimenting with service and fares — we can do a lot of competing," Long explained.

"In other words, a low unit cost basis gives us a lot of leverage. This will be one of our major challenges in 1985."

Long spoke at the recent management meeting on unit costs. Much of this information is taken from his presentation.



'85
THE YEAR OF
CHALLENGES.