Skywest case study

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SkyWest, Inc. , and the Regional Airline Industry in 2009 Strategic Profile and Case Analysis Purpose: The US regional airline industry like any industry has experienced some major pitfalls that can be attributed to the current economic global downturn. As a result, major stakeholders in the industry are looking for better strategies to cope.

Among the pressing challenges are; the increasing and fluctuating cost of fueling the jets, the prohibitive costs of acquiring funds to purchase new jets, the intense competition among the major players, the dwindling market of business and leisure travelers, regulations that have increased costs, and the effects of September 11, 2001 terror attacks which has brought enhanced security which for the airline industry means long checks and overall dissatisfaction in customer service.

Although it looks like the sky is falling for the airline industry, the gleam of hope that regionals like SkyWest are bringing to the complex airline business is showing a slow but hopeful recovery for the airline industry. This case analysis will first detail the internal workings of the regional airline industry and will specifically address SkyWest, Inc. , with regards to its strategies including the challenges it faces and the core competencies it has in its operations. This analysis will also focus on the product SkyWest, Inc. ells and the challenges, strengths, weakness, opportunities and threats (including financial) it faces in the regional airline industry and will recommend strategies that will strengthen the brand of the company. Industry analysis: Regional carriers like SkyWest airlines provide transportation to and from small communities through large airports where the major airlines operate, which in the industry lingo is called a regional feed. They also help to increase frequency of service in mainline markets during times of day of the week when demand does not call for use of large aircraft.

The service that regionals provide is as a result of partnerships with the major airlines that are usually contractual. This partnership is a symbiotic relationship that caters to the needs of both segments. Aircraft used by regionals include turboprops and jets that are usually owned by the regionals but carry the major airline’s flag. Regionals also own and operate their own brands that mostly cater to small communities; the term commuter airline is usually used when they perform this role.

In the past decade, US Regional airlines enjoyed robust growth and financial returns over the past several years when major’s or network partners reduced capacity and outsourced flying due to financial trouble. SkyWest, Inc. , is a leader in the regional arena and this case will be based on that premise. SkyWest Strategy: Strategy according to the textbook is “ doing what competitors don’t do or, even better, doing what they can’t do”. (Page 9). SkyWest is focusing on a low-cost provider strategy in the regional airline industry.

By focusing on a narrow market niche, SkyWest is building a competitive edge by doing a better job than its rivals. Another strategy it employs is growth; the company has realized an internal growth through the expansion of its partnerships, geographic growth and the pursuit of new partnerships. But most importantly the reasons why SkyWest is successful is the efficiency it employs by the way: •It manages its fleet, thus less accidents and downtimes. •It empowers its employees better than other regionals; benefits, pay, continuouseducation. •On time performance- by consistently being the best in on time arrivals. Most importantly is how it manages its finances. Cost control is a major company undertaking and the ability to anticipate and cut costs has made the company competitive. The company has fine-tuned its core competencies through partnerships with Delta Connection and United Express which has created growth opportunities through the volume of business these two airlines brought. By having a strong, focused and forward strategy, SkyWest benefited when these two major airlines were in bankruptcy. SWOT ANALYSIS: (Strength). •Safety – exceeds conventional safety standards. •Low-cost provider Cost efficient – the company has ordered jets that will be cost efficient/fuel. •Market reputation – on-time arrivals and cancellations- this attribute makes it attractive for other major airlines who can benefit using SkyWest as their regional servicer. •Financial stability – consistent growth in operating revenues/income. •Implementation of Stetson Quality Suite. Weakness – First, ASA (Atlantic Southeast Airline) – the acquisition of ASA from Delta in 2005 expanded the company business, however the labor unions that represent ASA employees is a weakness that can ground the company in case of a strike.

Secondly, SkyWest was ranked low on customer service; this in the airline industry is a major requirement for competition since the product is universally the same when viewed by the customer. Developing and maintaining a high level of customer service is crucial. Third, the partnerships with Delta and United are also a weakness since the two major have similar business models. The majority of the company business comes from these two and the fact that both companies had undergone bankruptcy signals SkyWest to diversify its operation.

The reliance on only these two is a major weakness that has to be addressed. Delta's decision for not paying the $25 million it owed SkyWest is a . To add on this, issues like lost baggage accounted for a terrible rating of 9. 53 reports per 1000, which was double the industry average. Also a high number of customer complaints Airline quality rating study found SkyWest near the bottom of 16 airlines for customer service. Passengers also see the small planes as less safe than the bigger and more spacious airplanes that the majors operate.

The company is bounded by the " scope clause" after the ASA acquisition. OPPORTUNITIES: •Low cost partnerships – SkyWest currently has no partnerships with this segment of the business. Creating partnerships with low cost providers is a future opportunity that can increase revenue. •Increase in business travelers- in the past the majors had the bulk of these niche, however regionals can get into this market because business travelers are becoming cost conscious and are frequent users thus untapped revenues can be realized. Changing industry - the major airlines are going through tough financial times thus there is more business to be realized from their outsourcing to regionals like SkyWest. •Global market – the company currently has operations in Europe, Latin America and China. Other avenues in the expanding global market can be explored. THREATS: •Labor unions – threat from acquisitions like ASA, which is union oriented. •Cost of fuel – the unpredictability of the energy industry is always causing uncertainty in the airline industry. Any increase in demand (from ASIA-especially China) can cause the cost of fuel to increase. Majors' airlines may start their own low cost providers, competition is getting stiffer. •Government regulations- for instance the current restrictions placed on entrants to some markets and the $262 to $577 cost of regulation to the industry. •The economy – if it follows the current trajectory, competition for scarce revenues will continue. •Shutdown of major airline hubs •Competitors – Republic Airways Holdings acquired Midwest and Frontier •Scope Clause- it would limit the size of aircraft the company operates Financial Analysis:

Looking at the company finances, the outlooks looks gloom. However, the nature of the current economy has contributed largely to SkyWest, Inc. , reduction in revenue. Lost in the numbers are factors that were beyond the company's control including costs like acquiring ASA, and figures like the $5. 2 million lost because of the Denver International Airport closure in December 2006.. Consequently, because SkyWest depends on revenues from its major partners, the cost of fuel that the partners reported in 2009 were reported as revenue, which means the numbers were not accurate.

In addition, even with the growth in revenue in 2008, a decline in reported income of $111. 4 million was reported from the previous year (2007) and a decline of $29. 8 million for the quarter ending in December 31, 2008. Of particular importance is the $18. 3 million decline that was due to " reductions in flight schedules made by the company major partners". (page c-208). ASA (which serves the southeast region) experienced cancellations and delays due to weather and grounding of 60 aircrafts due to safety issues which further reduced revenues by $7. 6 million.

A further $5 was lost due to negotiations with Delta Airlines in regard to expenses. A more revealing picture is when the operating profit margin (left over revenue after paying variable cost) is calculated. SkyWest declined from 12. 5% in 2004 to 7. 30% in 2008. In contrast, the news is not all that bad. SkyWest management predicts a promising future. The combined revenue passenger miles increased by 4. 9% in June 2009 and its overall load factor were up by 2. 3%. Recommendations: SkyWest, Inc. , has all the necessary ingredients to sustain itsleadershipin the regional airline business.

Case and point was when its consolidated revenues were $3, 114 million at the end of the year 2006, up from $1, 964 million the year before. However, the strategy of growth that the company is currently on signals pitfalls that are in its future. For instance, the partnership dependence that it places on the major airlines like Delta and United makes it vulnerable. Both majors underwent bankruptcy and relying on them for revenues is risky for the company. Delta refused to pay the $25 million owed because it knew that SkyWest would not sue them because of their business.

SkyWest should acquire low cost providers or even acquire other regionals to decrease adventures like ASA (unionized, poor performanceculture). In addition, it should look into code sharing ventures that are less risky because the growth pattern it is capable of pursuing will yield more revenues. Of particular importance arethe rivalregionals like Frontier (owned by Republic), Southwest and the Mesa Air Group. In order to be competitive, SkyWest should look for ways that the company can acquire rivals. The move to pre-empt rivals will extend the reach of the company geographically and it would discourage new entrants.

In addition, the company has to improve its customer service (training frontline employees) because the cost of losing customers translates directly into lost revenues. ASA in particular came with a terrible image and the transfer of core competencies/culture from the parent company will improve the overall outlook and brand of the company. Moreover, after the ASA acquisition, the issue of unionized employees who joined the company has to be addressed. If the option of negotiation between the company and the union ever fails, major problems can be experienced.

SkyWest, Inc. should keep ASA separate because in the event of a strike, business will be affected. Finally, the issue of going global in the regional airline industry is important. SkyWest operates in Europe, China and Latin America. The opportunities in China, Mexico and Latin America are possibilities that the company should explore. However, the decision to expand can make SkyWest, Inc. , vulnerable at the home market; thus a careful well researched and strategic plan should be implemented before embarking on a global arena. by capitalizing on external opportunities and fortifying their internal strengths, SkyWest, Inc. , can achieve better shareholder returns and remain the leader in the regional airline industry”. (USATODAY). Works Cited Thompson, A. A. , Strickland. A. J. and Gamble, J. (2005) Crafting and Executing Strategy (18th edition), McGraw-Hill, New York, pages C-206– C-226). USA TODAY (2009). Regional airline thrive while the big boys cut back. Retrieved from http://www. usatoday. com/travel/column/grossman/2013-21-3regional-airlines_N. htm