



DELTA'S FLIGHT PLAN

CEO RICHARD ANDERSON SAYS A NEW BUSINESS MODEL HAS THE WORLD'S LARGEST AIRLINE CLEARED FOR TAKEOFF.

➔ **DURING HIS FIRST YEAR** at the helm of **DELTA AIR LINES INC.** (DAL), CEO Richard Anderson rebuilt the carrier following bankruptcy reorganization, faced a wild rise in fuel costs and battled a historic disruption in the global economy — all while finalizing the acquisition of Northwest Airlines Corp. So it sounds a little strange when he uses words such as “fortuitous” and “timely” to describe 2008, a year that some industry analysts call one of the most turbulent in the history of commercial aviation.

Anderson, who became CEO in 2007 after serving as a Delta director and executive vice president at **UNITEDHEALTH GROUP INC.** (UNH), argues that recent economic headwinds validated his strategy to break the feast-or-famine model that has defined the airline industry. Pointing to its emergence from bankruptcy pro-

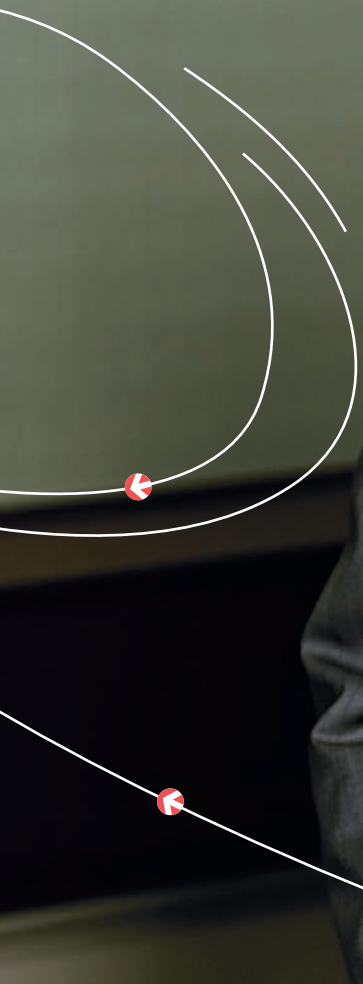
tection in 2007, he says: “Delta went through a very successful reorganization and came out with a sound business plan.” Anderson insists the carrier’s solid balance sheet and strong cash flow will allow Delta to continue its massive restructuring. “We had to reform this business model to be sustainable for shareholders and employees, because both groups suffered a fair amount over the past decade,” he explains.

In fact, Delta has a history of changing with the times. Launched in 1924 as Huff-Daland Dusters to dust cotton fields for boll weevil infestation, the company was renamed for the Mississippi Delta region it served when field manager C. E. Woolman and two partners bought it four years later. Soon afterward, the airline began offering passenger service and secured a government contract to fly mail.

Delta grew by adding routes (including its first transcontinental flight in 1961 and its first international foray in 1972) and by buying other carriers (including Northeast Airlines in 1972, Western Airlines in 1986 and Pan Am’s European routes in 1991).

The company has had its own share of turbulence: Delta recorded its first losses in 1983 and struggled through the early 1990s. In 2005 the airline filed for bankruptcy protection after posting several consecutive years of losses. Gerald Grinstein, who had become CEO in 2004, set out to completely transform the company, including its route network, fleet and cost structure. When it emerged from bankruptcy two years later — a year sooner than expected, notes the company — Delta had regained much of its strength, reporting a \$500 million profit

→ CEO RICHARD ANDERSON
SEES OPPORTUNITY
IN EXPANDING DELTA'S
INTERNATIONAL REACH.



on \$19.2 billion in revenue in 2007 and re-listing on the NYSE in May 2007. Still, there was plenty of work to do to secure Delta's future, the company concedes.

⇒ ANDERSON FILES HIS PLAN

After spending six months on Delta's board of directors, Anderson, 54, had a good idea of what he wanted to accomplish when he succeeded the retiring Grinstein as CEO. By the end of 2007, Anderson laid out his "2008 Flight Plan," which

20 percent in 2005. He reports that Delta aims to make international account for half its capacity by the end of 2010.

"With Delta's existing hubs in both John F. Kennedy International Airport in New York and Atlanta's Hartsfield-Jackson International, the world's busiest airport, the airline is well positioned to move quickly and efficiently into more profitable international markets," explains Ray Neidl*, an airline analyst with Calyon Securities.

before setting off on separate career paths. But they knew both airlines — and each other — well. Gorman was wrapping up a four-year stint as CEO of Greyhound Lines Inc. Before overseeing the bus carrier's \$3.6 billion acquisition by FirstGroup PLC, Gorman had orchestrated a turnaround that reportedly increased Greyhound's revenue per mile by 30 percent.

"We have a commitment to our customers to deliver a safe, clean, on-time experience," says Anderson. "Steve has a strong track record in all these areas."

Such structural changes would hardly do the trick, Anderson says, if the company couldn't stay engaged with its biggest asset — its employees. He points to a workforce that spent the first half of the decade in survival mode while the company cut jobs, hours and benefits. "Employees are on the front line every day," Anderson acknowledges. "They are the ones interacting with customers, so if you take care of your employees, they will take care of your customers."

A stock-ownership program implemented upon Delta's emergence from bankruptcy gave workers a piece of potential profits, but money alone would not keep employees engaged. Anderson made sure that executives were available, casual and candid. In addition to meeting with workers in cities all over the globe, Anderson is known for surprise drop-ins on employees — flight attendants, ramp agents and mechanics — to chat and thank them for their work. "In a service business, turning around the employee piece is vitally important," Bastian says. "Letting employees feel that they are the company's greatest asset is part of the special magic that has made Delta different."

⇒ ECONOMIC HEADWINDS

When Anderson's 2008 Flight Plan was barely off the ground, though, oil prices surged to more than \$140 a barrel, which, the company says, meant fuel costs could consume 40 percent of the carrier's total operating expenses. "Our board directed us to look at every option, because it feared that we might move



DELTA'S INTERNATIONAL CAPACITY DOUBLED FROM 2005 TO 2008, ON TARGET TO MAKE INTERNATIONAL HALF ITS CAPACITY BY 2010.

specified first-year operational targets across every business unit. A poster-size copy of the plan — recently updated to 2009's Flight Plan — now hangs in every work area, including executive offices, airplane hangars and employee lounges, throughout Delta's system.

Anderson says the Flight Plan is so ingrained in every aspect of the company that not even the April 2008 announcement of its acquisition of Northwest Airlines could push it off course. As an all-stock deal, says Anderson, "the \$2.8 billion price tag did not impact our bottom line and created the world's largest airline almost overnight," giving his team ample leverage to implement its long-term plans, he adds.

One priority was to continue reducing domestic capacity while expanding its more profitable international business — a strategy Delta launched during bankruptcy — says Edward Bastian, Delta's president, who served as Delta's chief restructuring officer through Chapter 11. Calling Delta "the fastest-growing international carrier in the country," Bastian reports that its international flight business grew to more than 40 percent of total capacity by the summer of 2008, up from

Delta shifted its business model without acquiring any new assets, Bastian explains, by refurbishing and rerouting its existing fleet. The company already had all the wide-body planes it needed, he says, although many were flying at less than capacity on shorter domestic routes.

Another crucial piece of Anderson's Flight Plan called for a 4 percent to 5 percent efficiency gain every year — forever. "You have to have sustainable gains in any business these days," Anderson says.

To achieve efficiencies, Bastian explains, Delta made smart use of technology that allows customers to book more travel online and use touch-screen kiosks for self-check-in at airports. In 2008 Delta reported that 35 percent of all its ticket purchases came through its own Website and that 80 percent of customers used the Internet or terminal kiosks for check-in.

Anderson's Flight Plan also focused on improving operations and customer service. Shortly after his arrival in 2007, he brought on Stephen Gorman as executive vice president of operations. (Gorman is now COO.) The two had previously worked together at Northwest

into the old airline industry pattern of two years of profitability followed by three years of losses,” Anderson says.

Through the first three quarters of 2008, Delta reports, the company cut capacity by 13 percent year over year and trimmed its workforce by 12 percent, or 4,200 people, through voluntary staff reductions. Today Delta and its wholly owned subsidiary Northwest have more than 70,000 employees combined. Now, with the economy lagging, Delta plans to reduce another 6 percent to 8 percent capacity in 2009 to better meet demand and again offered voluntary packages in an effort to eliminate the need for involuntary furloughs as a result of the global recession.

⇒ GET BIGGER, FASTER

Long-term sustainability would require more than simply tweaking the carrier’s existing infrastructure, the CEO says, and in late 2007 the Delta board of directors created a special committee to consider merger or acquisition opportunities. Eventually, 99 percent of shareholders from both Delta and Northwest voted for the acquisition.

Northwest became the obvious choice early on, Anderson says, ticking off the synergies of the combined operations. First, the two airlines had complementary instead of overlapping route systems, he explains, which allowed Delta to plug significant domestic and international gaps. Second, Anderson notes, Northwest had recently emerged from a 20-month-long reorganization, during which it eliminated \$4.2 billion in debt, trimmed \$2.4 billion in annual costs — mostly labor-related — and raised its cash balance to more than \$3 billion.

Furthermore, says Anderson, the two airlines were already connected through alliance relationships. Earlier last year, Delta had solidified its international push by partnering with Air France, part of **AIR FRANCE-KLM** (Euronext: AF). The two carriers agreed to share revenues and costs on certain transatlantic routes. Meanwhile, Northwest had a partnership with KLM, also owned by Air France-KLM. “Alliance



CEO STEPHEN GORMAN IS WORKING TO “EXTEND THE DELTA CULTURE TO NORTHWEST EMPLOYEES.”

relationships are valuable and very difficult to extract yourself from,” Anderson says, noting that neither Delta nor Northwest needed to pull out of its existing alliance, which would have disrupted revenues and required tearing out significant infrastructure and then rebuilding someplace else.

➔ LESSONS LEARNED

Now Delta is applying some of the hard lessons learned going through its reorganization to create as seamless a merger transition as possible. Lesson No. 1 was to communicate with employees, Bastian says. “During the restructuring and in the dark years prior, a lot of hope was lost, and

morale really suffered,” he notes. “When you lose your employees, you lose your customers. Reversing that paradigm is crucial.”

Lesson No. 2 was to move quickly. “In this global economy, speed wins,” Bastian observes. The primary objective during the bankruptcy period was simply to stay one step ahead of

➔ THE PINK POSSE

Delta flight attendant Alice Ramsey was battling breast cancer when the airline christened its now-famous “Pink Plane” in 2006 to raise awareness and money for the Breast Cancer Research Foundation (BCRF). Following the philosophy that it’s what’s inside that counts, Ramsey wanted to color the whole fleet pink by selling custom-made pink uniforms to Delta’s flight attendants and challenging them to raise \$1,000 each for the foundation.

Ramsey e-mailed Delta’s new CEO and asked for a five-minute meeting to discuss her brainstorm. Richard Anderson gave her more than an hour, and by the end of their discussion he had

approved the pink rollout and written a personal check for the Pink Posse, her private foundation, which helps breast cancer patients pay their bills while they are going through treatment.



Anderson also made Ramsey a fan for life. “He thinks of the employees as his customers,” she says. “What a great leadership philosophy.”

As for the pink dresses, Ramsey’s seamstress found enough material to make 275 matching uniforms. Priced at \$150, they sold out in less than 12 hours, with all proceeds going to the BCRF, says the company. The attendants wore the dresses and sold pink lemonade on all Delta flights last October. In its first six months, Ramsey says, the pink brigade raised more than \$75,000.

➔ ALICE RAMSEY POSES WITH MEMBERS OF THE SHADES OF PINK CHOIR, CANCER SURVIVORS WHO SANG AT THE KICKOFF OF DELTA’S BREAST CANCER AWARENESS MONTH.



creditors and other litigant groups trying to block the reorganization, he says, noting, "It's a constant rush to get to the finish line before someone takes the ball from you. We had the ball, and we weren't letting go."

Just weeks after the April 2008 announcement that Delta would acquire Northwest, 26 teams were formed to focus on specific operations. Each team was headed by co-chairs, one from each company. "That way, the people making the decisions will be the same people managing that department after the merger," Gorman explains.

Four months before Delta received final regulatory approval for the Northwest acquisition, in October 2008, Gorman recalls, it announced all officers of the newly merged company and immediately began naming the next layer of management, including directors and general managers. The goal was for everyone at both airlines to know their roles before the acquisition was completed. "As difficult as it may be to hear that you are not part of the final team, the anxiety of not knowing is much worse," Gorman says.

⇒ THE DELTA CULTURE

The new structure helped create open lines of communication, which improved teamwork among rank-and-file employees from both organizations. "A crucial objective is to extend the Delta culture to Northwest employees," Gorman says, which, he explains, may be the biggest challenge in the near future. Describing Delta's culture as "inclusive," fostering teamwork between employees and management, Gorman says that Northwest has a long history of employee discord.

Most of the 34,000 Northwest employees who made the move to Delta are unionized, whereas only Delta's pilots and dispatchers have union representation, Gorman points out. He says that before the merger closed the two pilot groups reached agreements on a joint contract and a process by which they would integrate their seniority lists. Since the merger's consummation, five other work groups have agreed on integration of seniority poli-

cies, even though all representation issues have yet to be resolved, Gorman explains. Just 90 days into the integration, more than 25 percent of all employee groups had come to an agreement on seniority, Gorman says, calling that among the stickiest of issues.



INITIATIVES MADE IN REACTION TO RISING FUEL COSTS WILL HELP DELTA OPERATE IN A PERIOD OF SLOWER DEMAND, SAYS ANDERSON.

Anticipating that the cultural divide will narrow, however, Delta management remains positive about the merger. "The biggest lesson we learned is that low costs win in the marketplace," Bastian says. "It doesn't matter whether you are an airline or a manufacturer, you need to produce your product for less than your competition."

Of course, for any company to be the most efficient in its marketplace, its executives have to have a clear understanding of who the competition is. As a legacy carrier with a deep tradition in customer service, Delta says it does not want to be a discount airline such as JetBlue Airways Corp. That's why the very first item on Anderson's Flight Plan is to "create an industry-leading customer experience, and a product and loyalty program designed for high-value business travelers."

⇒ THE NEXT STEPS

The challenge now is to achieve that benchmark customer experience while maintaining strict fiscal management. Indeed, the first goal of the 2009 Flight Plan is: "To enhance the high-value customer experience with differentiated products."

Creating the world's largest airline was an important first step, says Neidl of Calyon Securities. "Delta will need to continue to find efficiencies within its operations," he says.

Although the industry's fuel costs dropped to reportedly the lowest levels in more than four years by late 2008, the global economic shakeout has given rise to significant new challenges. The entire airline industry is bracing for a sharp drop in demand, according to

analysts, with carriers throughout the world eliminating passenger seats, cutting the number of flights or flying smaller planes.

The capacity cuts already implemented by both Delta and Northwest have positioned the combined company to better withstand a drop in demand, Anderson says. "A lot of what we had done — and a lot of what we are doing — gives us more opportunities in a very turbulent time," he notes. In fact, the series of initiatives the airline implemented to lessen the impact of rising fuel costs "will now be key to mitigating the impact of slower demand," says the CEO.

For 2008, Delta reported an operating loss of \$8.9 billion, which included special items. Excluding those items, its net loss was \$503 million. Those figures represent a full year for Delta, but only include Northwest on the books from October 30 to December 31, 2008.

Despite the volatile market, Anderson isn't changing his Flight Plan, pointing to Delta's strong revenue growth, best-in-class cost structure and solid liquidity position, including more than \$6 billion in cash reserves. Says Anderson: "We are well set for a very profitable 2009." ■

*Ray Neidl, an analyst with Calyon Securities, is not an officer, director or member of an advisory board at Delta Air Lines Inc. Neither he nor his company owns securities in Delta.

View an online tribute to Delta and its employees at nyse.com/delta.