TRANSPORTATION
When an outsider tries to save an airline
Alvin Lindbergh Feldman:
Turning red ink to black at RKO General's Frontier?
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Like many other regional carriers, Denver-based Frontier Airlines has had a long history of bright prospects and poor results on the bottom line. And no period could have been worse for RKO General's subsidiary than the years from 1968 to 1971.

Faced with Frontier's dismal record, the owners decided that the airline needed a dose of non-airline managerial skill. In March, 1971, they reached out and made 46-year-old Alvin Lindbergh Feldman (born shortly after Charles A. Lindbergh's historic Atlantic flight) the president. An executive with an excellent track record as head of a division of Aerojet-General Corp., another RKO subsidiary, he was given the task of turning Frontier's red ink into black.

"We had four problems," says Feldman, "a very visible continued increase in costs with no offsetting revenue in sight, overcapacity in the system, an operating performance that was not good, and a large number of flights that were to small communities for which we were supposed to be paid a subsidy."

What else, investors asked, could go wrong? During the 1960s, Frontier had been expansion-minded. After a 1967 merger with Central Airlines, its routes spread over 12 states. With expansion came new problems in running the business, and the carrier went from net earnings of $2-million on revenues of $46-million in 1966 to a troubleplagued airline that racked up more than $23-million in losses in four years.

Building morale. Employee morale and investor confidence were low when RKO General turned to Feldman. At the same time, Aerojet president, Jack H. Vollbrecht, was named chairman of Frontier's executive committee. Neither appointment inspired the investors or employees. Gordon Linkon, vice-president for marketing, recalls: "We thought, 'Oh my God,' we have to teach them the business before we can do anything." At first, employees chuckled over some of the elementary questions Feldman asked, and rival aviation people tittered over an apocryphal story that Feldman inquired of a subordinate: "What's the CAB?"

They have stopped laughing. The turnaround came in the second quarter this year, and Frontier expects to end 1972 in the black, which will be its first profitable year since 1967. The nine-month report showed Frontier with a solid $6-million net income on operating revenues of $81-million. In the same period last year, there was a $1.4million loss on revenues of $73-million. RKO is so pleased with Frontier's performance that Vollbrecht resigned at last spring's annual meeting to leave Feldman as chief executive officer.

Operating tangle. Employees say that while the 6 ft., 4 in. Feldman asks a lot ,of questions, he listens carefully and acts swiftly. The first problem he tackled was Frontier's abysmal operating performance. Nearly 25% of Frontier's flights in early 1971 were more than 15 minutes late, and 5% were canceled altogether. "If I were a customer buying a seat, I wouldn't have had a lot of confidence that I would get there or get there in time," admits Feldman. To improve performance, Feldman simply asked pilots and maintenance people how much time it took them to do their jobs. Then he changed the schedules to fit their answers. The result was a 50% drop in late flights.

There were two reasons for canceling flights, Feldman concluded. One was an inadequate spares inventory: When a part was needed, it was often not in stock, and this grounded the flight. The other was a charter system, which kept Frontier's back-up jet unavailable for its primary role. Feldman immediately ordered $500,000 worth of spare parts and cut out virtually all charter service. Cancellation dropped from 5%, to 2.5%.

Feldman also attacked the problem of overscheduling. "We called it 'Kill Off the Dogs,'" says Linkon, who was put in charge of identifying winners and losers. Frontier was running many flights with only a handful of passengers, on the theory it was better to keep planes flying and pay for part of their costs than to let them sit on the ground and absorb all of the costs.

Profitable flights were strengthened by making schedules more attractive and adding extras to draw passengers away from competition. Losers were cut where possible. One stop was discontinued, and Frontier has applied to the Civil Aeronautics Board for permission to cut out others. The line also pared back its jet fleet, keeping only its 10 Boeing 737s. Its four 727s were sold to Braniff International. This move was bitterly opposed by Frontier pilots, who saw the 727s as Frontier's entry into big-league competition, but the cutback meant major savings in maintenance, crew training, and spare parts inventory. Nearly 100 employees were laid off initially, along with a halfdozen or so executives, but as business has picked up, many employees have been rehired.

The finances. All this has helped cure Frontier's sickly financial situation which was termed "pretty miserable" by Glen L. Ryland, who made the move with Feldman from Aerojet to Frontier as vice-president for finance. Not only was the airljpe losing money, it was also in arrears on bills and in default on loan covenants, and the question of subsidy had not been settled.

Ryland immediately met with major lenders - Irving Trust Co., Chase Manhattan Bank, and the Mercantile National Bank at Dallas—to explain Frontier's financial situation. Two months later, he gave them a detailed report of what Frontier had done and its prospects. The banks were impressed and agreed to cooperate, and Frontier has since paid off its $27-million in longterm debt, mostly through the proceeds from sale of the 727s.

Ryland revised Frontier's cash management. He arranged with banks to get credit for payroll withholding deposits. which Frontier had not done before, and he freed up $1-million in cash by having managers of Frontier's 94 stations forward money to regional banks daily instead of twice a month. The regional banks selected were those where Frontier needed compensating balances to satisfy loan requirements.

Frontier's subsidy situation is still murky. The CAB did not announce its subsidy rate for fiscal 1972 until last June, 11 months into the government's fiscal year, and though Frontier had asked for $16 million, it received only $13.2-million. The rate for fiscal 1973 has not yet been calculated. Both Feldman and Ryland chafe under the subsidy system. Feldman says: "It should be under the same set of rules for a long enough period so we can plan ahead and get some minimum return."

The commitment. Feldman's management strategy called for decentralizing responsibility. First, he discarded a policy under which top management set goals for the airline and initiated a "commitment" system. This system, which Vollbrecht adapted for Aerojet, is simple though unorthodox in the airline business. Employees down to the lowest supervisory level commit themselves to a certain performance. A station manager's commitment, for instance, is his projection of revenue, costs, and performance for the year. Executives add up these commitments and then set certain management goals, such as planning or administrative changes.

Employees are expected to meet their commitments - those who fall short don't last. This has "spurred" creative thinking. A station manager in Salt Lake City, for example, was told he could not renegotiate his plan when another airline announced it would begin serving dinner on a competitive flight. So he dreamed up a "Happy Hour" - two drinks for the price of one. The flight is now doing "just ducky," says Feldman.

Decentralization under Feldman has led to a combination of "stimulation and freedom," Linkon says. Ryland adds that employees are "trained to make decisions with the knowledge we will back them up, and we do." Last summer, Western Airlines, citing Federal Aviation Authority regulations, refused to fly a dying boy from Denver to Wyoming because he had two bottles of oxygen with him. A Frontier assistant manager read the regulations differently and flew the boy. Though the airline got a slap on the wrist from the FAA (the regulation is now under study), it received hundreds of letters from airline passengers backing it up.

Innovation is the key. The new management 's non-aviation background has been a decided plus in Frontier's turnaround, Feldman thinks. "You don't have the folklore," he says. But the outsider's view is not always a plus. An experiment to switch from a computerized to a manual reservation system was unsuccessful, just as long-time employees had predicted. But the willingness to innovate has allowed Frontier to come up with new solutions to aviation problems and has encouraged employees to look outside the industry for ideas. Nowhere is that more evident than in marketing, which has gotten increased emphasis under Feldman.

More important, though, Frontier planes now leave on schedule, even if that means sometimes missing passengers from late connecting flights. If Frontier's own flight is late, the line tries to get passengers out on a competitor. "It hurts, but in the long run they're going to come back," Linkon says. "When the situation goes wrong, that's the time to make the best of it to win a friend."