Employee meetings
Ryland and Wayne review the state of the company

Article in the July 1982 Frontier News

Frontier's outlook for 1982 dominated the discussions at 40 employee meetings recently conducted in 33 cities by Chairman Glen Ryland and Executive Vice President Bill Wayne.

Highlighting the meetings were question-and-answer periods, which followed a review of the company's performance in 1982 and a presentation of the eight-minute audio visual program prepared for Frontier's annual meeting for shareholders in April.

This issue of Frontier News includes a summary of the information Ryland and Wayne discussed with employees at the meetings.

Frontier's financial condition

Many of the headwinds that started in the fourth quarter of 1981 have continued in 1982, and in some cases are blowing stronger.

Our net income for the first quarter dropped nearly 68 percent to $2.4 million. Even so, Frontier was one of two airlines in the U.S. to report both operating and net profits for the first quarter (along with Southwest). The 24 other airlines reported combined net losses of $632 million.

The economic downturn affecting the nation has finally reached the Rocky Mountain states, which had been somewhat immune to economic weakness. In recent weeks, several major businesses and projects in the area have closed. This affects our passenger traffic and revenues.

Leading economists aren't sure when an economic recovery will occur. They keep pushing the date further into the future. Although we are beginning to see a few encouraging signs, we will continue to manage the company as though the economy is going to be in the doldrums for several months to come.

Furloughs

Since late last year, the work force has been reduced by about 600 positions, including 200 management jobs. We now have approximately 5300 on the payroll.

Many employees have questioned why we had to cut employees so soon after completing the mostprofitable year in our history. The answer is simple: we must manage to today's conditions, not yesterday's. We had to get our resources in line with diminished revenue in order to preserve the company's short- and long-term objectives.

We don't know when the furloughed employees will be called back, and it would be misleading for us to predict. We do intend for the company to grow and prosper. The sooner we experience improvements in the economy and the air traffic control system the sooner we will start back up.

Unlike most other airlines, we have not asked employees to take any wage or benefit cuts. We don't intend to do that. We also try to maintain a favorable work environment for our employees. Most of the June 1 furloughs related to changes in the fleet, primarily the retirement of our Convair 580s.

Unless our situation deteriorates dramatically, we don't expect any more cut-backs, although we can't make a definite promise. If people stop flying our airplanes and the economy sinks into a worse shambles we'll need to maintain our head above water as best as we can. However, we think we have sized the airline down to an efficient level to confront the headwinds. We're pretty lean and mean right now.

Cost control

Our philosophy is to spend what is necessary to maintain the safety and reliability of the operation, and to preserve the standards of passenger service, but to diminish costs that don't directly meet these criteria.

Although many independent surveys of passengers reveal that people now select airlines primarily on price and schedule, with passenger service far down the list, we presently intend to maintain our quality.

Air traffic control constraints

Before the air traffic controllers went on strike last August 3, we operated 133 departures daily from Denver. Now we operate 112. This dramatic reduction has affected our ability to effectively schedule the hub-and-spoke system at Denver (which impacts the rest of the system) and efficiently utilize our fleet.

Denver is one of the nation's 22 controlled airports, so all flight arrivals are assigned. In the hours where we want slots, we can't get them. In the hours where we don't want slots, they are available. We have had to spread our flights to odd hours of the day - the ones we are permitted to fly, that is - and this reduces our ability to feed ourselves at the Denver hub. Passengers are often forced to wait on the ground in Denver for long periods of time between flights, and they look for other ways to travel. We simply can't get the benefit of the hub-and-spoke system when slots do not match up with the banks of flights.

The FAA now estimates the air traffic control system will return to 90 percent of the pre-strike level by Labor Day, but not to 100 percent until the spring of 1983. This doesn't please us. We have added five new jets since last August, and we must utilize these effectively to get a return on the investment. We can't do that now, and we can't do that when the system only returns to the level of last August. It must be significantly greater for us to grow. The FAA isn't rebuilding the system as quickly as we had hoped, and we are unable to do any long-range scheduling with confidence.

We based our June I schedule on information we received from the FAA regarding improvements in the system in the West. This included our inauguration of Fresno with two roundtrips to Denver; a third roundtrip to San Diego; and a third seasonal roundtrip to Oakland. A new problem surfaced - congested "air space" in the enroute traffic control centers in the West - which forced the FAA to turn down our additional flying for June. We had to juggle within our own system to be able to start Fresno service at all.

We got a small break in early June when we swapped some slots we captured in the Braniff slot lottery. We gained temporary FAA clearance to add the third roundtrip flight to Oakland and the second roundtrip to Fresno via Reno, but we still weren't able to add the third trip to San Diego.

We simply can't fly as much as we did a year ago because of the ATC constraints, despite our larger fleet. For this reason we are conducting two major maintenance programs in Denver which will ground two airplanes consistently for the rest of the year. We are doing D checks (major overhauls) on our 737s all year long, head to tail. We are also replacing the belly skins on 16 of our older 737s which may eventually require this repair. This is similar to taking a pit stop during the yellow flag at the Indy 500. Since we can't utilize all our planes, it makes sense to do this work now instead of spreading it out. This will give us additional capacity later, when the economy and the ATC situation permit us to utilize the airplanes profitably.

Holding company

Frontier Airlines is now a wholly owned subsidiary of the new holding company, Frontier Holdings, Inc.

There are three subsidiaries or divisions of the holding company: Frontier Airlines, Frontier Services (headed by M.C. "Hank" Lund) and a third we are currently calling Corporate Development (headed by Webster B. "Danny" Todd). Frontier Services will acquire or create airline-related concerns, including the work Frontier currently does for other airlines. Corporate Development will concentrate on non-airline-related businesses.

The holding company was created to improve our return on investment. Although Frontier looks very good when compared to the other airlines, the airline industry generally is at the bottom of the 50 major industries in return on investment. There are more opportunities for profit in other directions. We aren't going to diminish the importance of the airline, but we are going to look for more profitable investments to supplement the airline.

All possible new companies must be profitable (we won't enter any turnaround situations), they must produce a higher return on investment than the airline, and they should avoid the identical up-and-down business cycle of the airline industry.

We have many capabilities within the airline that we can use for the holding company ventures, including strong financial resources, computer systems, employees trained in our management discipline, a presence in some 79 cities, and even a good transportation system.

It isn't likely that the holding company will consider acquiring or creating a second airline, although it would be legal. It isn't prudent now to put more money into the airline business.

Stock previously held in Frontier Airlines has been automatically changed to the same number of shares in Frontier Holdings, which is how the stock is now listed on the American Stock Exchange.

Productivity

We continue to look for ways to increase productivity in operating procedures and utilization of our employees.

Regarding our employee contracts, the company is willing to pay what it takes to get the job done. But we must get productivity improvements along with those gains. For each employee to be healthy, the company must be healthy.

Fares

The continued proliferation of below-cost deep discounts by many of our competitors, coupled with the down economy, has resulted in diminished passenger revenues this year.

Deep discounts are used by some airlines simply to keep cash flowing. These carriers aren't concerned with profitability in the short term — they are just hanging in. They offer low fares, below cost, to attract travelers to their airlines. As long as they sell the product cheap, someone will buy.

The healthier carriers — like Frontier — frequently match these below-cost discounts to remain competitive in certain markets, making such decisions on a "least-loss" basis.

In the first quarter of 1982, 79 percent of our enplanements were on discount fares, 25 percent more than last year and 50 percent more than in 1979, the first full year of deregulation. Clearly this isn't a healthy situation, so we have made several alterations in our fare structure to increase the yield per passenger mile.

Discount fares will never disappear. We will always use them to stimulate travel and use seats that otherwise would be empty. We aren't trying to start fare wars, or divert higher fare tickets to discounts. We're confident the industry will eventually find a rational balance between discounts and other fares.

Stapleton Airport

Our efforts to help capture the Rocky Mountain Arsenal for the expansion of Stapleton International Airport in Denver have made significant progress.

The U.S. Congress passed legislation in 1981 to remove all the controversial weapons stored at the Arsenal. This was completed last fall. Congress also passed legislation to establish a new arsenal at Pine Bluffs, Ark., should the government again develop chemical weapons. The Department of Defense is expected to declare the Arsenal surplus, now that it's official mission has ended.

Still to be determined are ways to clean up the chemical pollution that is left behind, which is all non-nuclear. This isn't as serious a problem for a future airport as it would be if the land were to be used for another purpose, such as a school or a housing development. An airport has the fewest restrictions for chemical clean-up.

The existing Stapleton Airport - with 4,600 acres - has runways placed too close together for full operation during IFR conditions. The Arsenal - with 17,500 acres - would easily accommodate new runways with adequate separation for operation during IFR conditions. There's no rush to build a new terminal at the Arsenal. We'll be able to use the existing terminal for some time. The earliest we can expect to see a new runway on that land is late 1984.

Studies by several independent engineering consultants indicate the Arsenal is the logical location for a new airport, and much less expensive than building a new airport far away from Denver.

Super 80

Our three Super 80s - which we introduced to passengers May 20 - are enabling us to test a larger plane on high density routes.

When we announced our plans to buy the Super 80s, we said it would be a two year experiment. There are some heavy routes on our system that may be served more effectively by a plane of this size. The Super 80 - with 147 seats - has a lower cost per seat mile than the Boeing 737 - with 106 seats.

Currently, with the slot limitations, the Super 80 enables us to board more passengers per slot in certain high density markets than with the 737. When the Super 80 is full, it’s a clear moneymaker. Our challenge is to place it in the right markets where we can fill the seats. Beyond the high density routes the Super 80 currently serves there are only a few others heavy enough to support the plane.

The Super 80 is a good airplane. It’s quiet. The pilots like the advanced cockpit, airport neighbors appreciate the low noise level, customers seem to like the cabin amenities, and if the economics turn out right, we’ll like it.

Convairs

Although the Convair 580 is a fine airplane, we haven’t made money on them in years. They are expensive for us to operate, including fuel burn, maintenance costs and employee salaries. The Convair phase-out was accelerated due to air traffic control limitations. We can’t justify putting 50-passenger Convairs into slots where 106-passenger 737s could be flying.

The last 14 Convairs are on the ground in Denver, Kansas City, Dallas/Fort Worth and Tucson. One was recently leased to a firm in Alaska with a purchase option. The others are for sale, but few people with available financing have stepped forward. The Convairs will be excellent planes for smaller airlines that can operate at lower costs.

Boeing 737s

We now have 46 Boeing 737s in the fleet, with the 47th on short-term lease to Wien Air Alaska. These include two new Boeings that arrived in May. We have two more scheduled for delivery in December followed by two more in early 1983. The final four have the JT8D-17A engines, which combine the higher thrust of the -17 engine (which 17 of our 737s have) with a five percent improvement In fuel burn. This will give us additional long-range capacity.

We will either return or purchase three 737s we lease from GATX by early 1983. We’ll decide this fall. These are three of the oldest 737s with -9 engines and open overhead bins. If it looks like we’ll have too many airplanes in the fleet because of ATC constraints and the economy, we can return these three. If we come out of the recession and need the capacity, we can purchase these 737s at a reasonable price

Deregulation

We were one of the first airlines to push for the passage of the deregulation act, which became law in October of 1978. It has worked out much as we predicted. Without deregulation, we wouldn't have been able to get out of 36 subsidy-eligible cities that were losers, or enter 29 new cities.

At the onset of deregulation we predicted at least five years of shake-out, with companies failing and new companies starting. This shake-out isn't near completion.

The airline business is immature. In more mature industries, businesses manage prices and costs so they can sell their products at a profit. They may compete with others, but they don't slash their throats in the process.

Deregulation of our industry was a correct step. Managements who handle this type of environment effectively will make it. Those who don't, won't.

Salt Lake City reservations center

We plan to open a new reservations center in Salt Lake City during the first quarter of 1983 to serve the Western portion of the system. This center will be added to existing centers in Denver and Kansas City, and will be located at the Salt Lake City airport in a building formerly used by the FAA. We're opening the center because the telephone line charges from the West to Denver are extremely high. Serving this portion of the system out of Salt Lake City will save us a lot of money.

Additional hubs

We'd like to have another hub, and we've looked at the possibility several times. The most efficient route structure would be a dual hub-and-spoke system, resembling a dumbbell: two hubs joined by a high density route. Even though it's a good idea, we're not pursuing it at this time. It would cost us hundreds of millions to create a second hub - including enough airplanes to create the critical mass of passengers necessary for the self-feed. We'll look at it later when the economic conditions improve.

Western building

Acquisition of Western Airlines' former 10-acre operations base in Denver gives us 35 percent more operating space at the Denver airport. The facility includes two large hangar bays and office space. Western is renting approximately 20 percent of the building from us for a reservations facility.

We took over the building in April and quickly put the belly skin maintenance program into one of the hangar bays. There are several options under study for utilization of the remainder of the building.

Travel agent commissions

In March we tried to reduce our distribution costs by adjusting the commission we pay to travel agents from 10 percent to 9 percent. It didn't work.

We believed the majority of agents would accept the reduction, recognizing that it offered a defense against the pressures airlines face to bypass agents in distributing tickets. This move would have saved Frontier nearly $3 million in the first full year of implementation.

However, we underestimated the overwhelming opposition we received from agents. Some agreed with our reasons, but most opposed us. Many threatened to boycott Frontier. Five airlines that joined us in lowering the commissions quickly went back to 10 percent and we simply couldn't stand there alone. We also went back to 10 percent. After all, 54 percent of our passenger revenue comes from travel agencies.

Jetmates

Our introduction of the Jetmate mobile lounges at Stapleton last summer turned out to be somewhat premature due to the air traffic control situation.

Purchasing the six Jetmates to expand our passenger handling capacity was a fine idea, but with fewer slots at Denver this summer we don't need the mobile lounges, the six jet parking places across the field, or the five Jetmate docking positions at gate D8.

Once this restricted situation is behind us, and we are able to fully utilize our fleet, we will need the Jetmates. We were fortunate to buy the Jetmates when we did, at a cost of $500,000 each. Current market value for mobile lounges is nearly $900,000.

We use two Jetmates occasionally at Denver. Three are leased to American Airlines for use at Dallas/Fort Worth.

Mergers

They don't make sense in this environment. Perhaps in the regulated days they did, but today airlines can fly where they want to (if they can get the slots). We'd rather do it ourselves.

Many carriers have approached us, but we haven't seriously considered the offers. A merger is more of a headwind than a help. You must combine different airplanes, maintenance procedures, management philosophies. You have to integrate seniority lists and deal with the labor protective provisions. None of the carriers that merged in the past several years were in the black in 1981 or the first quarter of 1982.

Routes

We have continued to seize opportunities to add strong routes within the constraints of the air traffic control system and the down economy: Manzanillo and Puerto Vallarta (March 15), San Diego (May 1) and Fresno (June I). As of the first of June, we serve 79 cities in 27 states, Canada and Mexico. No other new cities are currently scheduled to be added. We will stabilize for awhile, until the economy and the traffic constraints improve. We can only stretch so far without additional slots.

1982 outlook

Frontier is not on the brink of disaster, as so many of our industry peers seem to be. While coping with headwinds, we continue to make the investments necessary to stay on course for long-term growth.

We will clearly be profitable in 1982, although it is unlikely we will match last year's record performance. For the longer term, we are confident about the prospects for healthy growth. We have the financial resources necessary to move forward in these difficult times. Most importantly, we have a fine employee and management team that is equal to the task we have before us.

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