CASE 2: Delta Air Lines, Inc.*

Delta has always understood the value of human resources within the organization. Whereas other airlines were established by war aces or financiers, Delta was founded by C. E. Woolman, an agricultural extension agent.[1] As a result, Delta has not been biased toward a military-command style of leadership common to other airlines. Likewise, because Woolman was not a financier, Delta has not historically relied on financial strategies to create competitive advantage.[2] Delta has always differentiated itself from other airlines by its customer service. This was true when it was a regional airline, and it continued after it became one of the six largest domestic carriers through its 1986 merger with Western Airlines and its 2008 merger with Northwest Airlines.

History[3,4]

Organizational History

Delta achieved customer service through the support of its personnel. As a regional carrier, Delta was noted for its Southern hospitality and charm. It introduced stewardesses to the industry in the 1940s. Delta retained a loyal workforce by paying competitive wages, treating personnel equitably as it grew, and adopting a "no-layoff policy." Unlike most airlines, Delta approached its early mergers with an eye toward accommodating its workers and pilots. This was true when it merged with Chicago Southern Airlines in 1953, when it acquired Northeastern Airlines in 1972, and when it merged with Western Airlines in 1986.[5] Delta faced personnel issues during each of these mergers and worked with the employees to allow the merging entities to retain both position and dignity in the organization. Whereas other merging airlines fell victim to sabotage, vandalism, slowdowns, and poor customer relations, each of Delta's mergers were followed by increased productivity and generally better customer relations.[6]

The key to Delta's success was its focus on human relations. For example, when it merged with Western, Delta promised job security and higher wages for existing Western employees. To generate excitement and support among the new employees, Delta adopted the slogan, "The best get better." Delta promised to honor previously negotiated labor provisions, and rather than ignoring or provoking a conflict with an existing union, Delta recognized the Air Line Pilots Association (ALPA) as the union representing its pilots. Delta's management worked closely with the union to merge pilot seniority lists. Delta convinced nonunion personnel at Western to decertify three existing unions, using its reputation for fair dealing with its employees.

Delta's employees were historically some of the highest paid among the major carriers. In the past, Delta employees have earned approximately 21% more than the industry average,[7] which led to high productivity and good service.[8] The good service rendered by employees resulted in Delta having the fewest number of consumer complaints of any major carrier for over 20 years.[9]

Delta's commitment to its employees is evidenced in how it reacted to the recession of the early 1980s. While other airlines were cutting wages or filing for bankruptcy to restructure their labor contracts, Delta kept its wages high for existing personnel and achieved cost reductions by requiring new hires to accept lower wages. This tactic, although protested by other airline groups, was accepted by Delta employees as the cost of staying competitive. Likewise, Delta had refused to lay off any employees during the oil embargo of 1973. From its inception through the 1980s, Delta was a paradigm of human relations within the airline industry. This was Delta's heritage and hoped-for legacy.

However, in the early 1990s, Delta fell victim to rising fuel prices, greater competition domestically and abroad, and a global recession. The first operating loss for the company in almost 40 years occurred in 1993 and was followed by another loss in 1994. This led its then-CEO, Ronald Allen, to eschew his human resources (HR) philosophy and training (having been promoted from Delta's HR division) and embark on a severe cost-cutting program. Leadership 7.5, as the strategic initiative was called, sought to reduce the airline's average cost per available seat per mile flown (CASM) to 7.5 cents. Delta's costs had reached a high of 9.59 cents per available seat mile (ASM) in March 1994. Leadership 7.5 compelled the reduction of Delta's workforce by 11,000 employees, the change of many employees from full time to part time (associate employees), and the outsourcing of a great deal of work formerly done by Delta employees. The efforts succeeded in reducing costs to 8.5 cents per ASM and returning the airline to profitability in 1995 but at a considerable price. (In fiscal 2007, the operating cost per available seat mile was 11.75 cents.)[10]

As noted, Leadership 7.5 was accepted by the management of Delta as a desperate effort for

*This case was prepared by Mark Dawkins and revised by Patricia Duffy, Daniel Griffin, Kris Inchcombe, and Patty Pinholster. Updates were provided by Michael Sipperley, Chris Graham, Jon Alden, Cynthia Campbell, Eric Hamilton, Ed Nelson, Laura Wilson, Cathie Mathe, and Thomas Ramirez.

survival. Many airlines were failing, and without a dramatic change Delta would likely have joined them. But the covenant that it had previously had with its employees was broken. Delta's pilots and flight crews accepted pay cuts, and Delta's nonunion personnel received layoffs. Leadership 7.5 devastated employee morale at Delta, and this soon resulted in a drop in customer service (evidenced by a meteoric rise in customer complaints), efforts to unionize, and disaffection among personnel. The year 1995 may have shown positive net income, but Delta's human capital was breached and the damage could have been fatal.

By 1996, revenues had increased, and Delta was able to reverse the layoff trends and recall 472 furloughed pilots.[11,12] In January 1996, Delta added 665 customer-service jobs, which were filled largely by employees who had been relegated to part-time status.[13] Pay increases of 5% to nonunionized workers restored pay cuts taken in 1993.[14] Nonunion workers received pay increases of 2% to 5% again in 1997.[15]

Delta reported a $3.8 billion loss in 2005 and a $6.2 billion loss in 2006. They turned profits around in 2007 and actually made $1.6 billion. Delta hopes the merger with Northwest Airlines will help continue to improve profits. Delta announced a 3% pay increase to 38,000 of their front-line employees, effective July 1, 2008.

Delta's vision is to stay focused on the future and be able to deal with the challenges of the rapidly changing airline industry.[16] Delta's strategy is directed toward regaining a strong competitive position, achieving long-term persistent profitability, and being successful for years to come.[17]

Operational History

Delta Air Lines is one of the most successful air carriers in the United States. Delta Air Service began its climb to prominence when it received a U.S. government airmail contract in 1930. The company, then renamed Delta Air Corporation, received three more airmail contracts in 1941. During World War II, Delta devoted itself to the allied war effort by transporting troops and supplies. Delta returned to civilian service in 1945, entering an age of growth and competition never seen before in the airline industry.

Delta prospered as a major regional trunk carrier through the 1950s and 1960s. Delta continued its expansion into international operations by forming alliances with other carriers. It was slower than its competitors to form alliances that would provide hub access in key European and Asian cities.[18] However, at the end of the 1990s, Delta participated in alliances with Austrian Airlines, Sabena, and Swissair (the Atlantic Excellence Alliance). In fiscal year 2000, another alliance was created—SkyTeam—partnering Delta with Aeromexico, Air France, and Korean Air. These alliances include code-sharing, reciprocal frequent flyer programs, and coordinated cargo operations.[19] Further, Delta introduced the concept of code-sharing, and it has formed code-sharing partnerships with several airlines, including Aer Lingus, Aeromexico, Air Jamaica, Finnair, Korean Air, Malev, TAP Air Portugal, and Transbrasil. Finally, Delta has alliance agreements with All Nippon Airways and China Southern Antitrust Immunity partnerships receive permission to jointly set prices and schedules, and code-sharing alliance partners book seats and issue tickets for each other's flights.

Delta's consistent growth is partially attributed to its successful transition of leadership. At Eastern, Pan Am, and TWA, the founding pioneers established almost dictatorial operations. Many were majority stockholders who refused to share their power or prepare a successor to operate the company after they resigned or died. As a result, those airline companies faced a difficult period of adjustment to new management after their chairmen left.

Woolman's departure at Delta was not surrounded by such difficulties. After suffering a heart attack, he had delegated some of his duties to other Delta board members. The board members gradually assumed more duties as Woolman's health deteriorated. When Woolman died at the age of 76, the airline was able to make a smooth transition to a more modern, corporate style of collective management.

Management

Delta Air Lines' board of directors signaled a change in management strategy when Allen announced that his 10-year contract would not be extended beyond July 31, 1997.[20] Allen's forced departure was attributed to an autocratic leadership style that he adopted during Leadership 7.5 and the resulting decline of employee morale and customer service. Allen had completed cost-cutting restructuring that included the elimination of 11,000 employees. Although the restructuring resulted in a healthier balance sheet and a competitive position against domestic low-cost carriers, Allen's heavy-handed approach disenfranchised Delta employees. "By late 1996, 61% of Delta's employees felt they could not trust management and 57% said service had declined."[21]

The selection of Leo F. Mullin as CEO and president on August 15, 1997, indicated the extent of Delta's interest in a new leadership style. Mullin, a Harvard MBA and former banker, had been described as having an open management style and as being particularly adept at handling people. Within 24 hours of being selected CEO and president, the slim and bespectacled 54-year-old was roaming Hartsfield International Airport in Atlanta interviewing baggage handlers, ticket agents, pilots, and flight attendants before catching his flight home to Chicago. Mullin opined, "It's a cliché, but inclusion breeds commitment."[22] During his tenure, Mullin traveled 3 weeks every month for employee and investor meetings. He has also decentralized management by delegating more day-to-day authority to managers. Mullin initiated several significant changes in Delta's organization and corporate culture.

Mullin's selection also represented a departure from several Delta traditions—the promotion of top executives from within the company and the top executive position holding the chairman of the board, CEO, and president positions. Delta had previously selected executive managers from within the company. Not only was Mullin an outsider, he had never been employed in the airline industry. In addition, Gerald Grinstein, credited with orchestrating Allen's departure, assumed the chairman of the board position. This was the first time Delta employed separate individuals for the chairman and CEO positions. Now, however, Mullin is retired and Jack Smith is the chairman of the board.[23] 10yrs

As of September 1, 2007, Richard H. Anderson, 52, became CEO of Delta Air Lines. He joined Delta as a member of the board of directors in April 2007. Anderson has nearly 20 years of aviation experience. He entered the industry in 1987 at Continental Airlines, where he ultimately served as staff vice-president and deputy general counsel. In 1990, Anderson began a 14-year career at Northwest Airlines where he served as vice-president and deputy general counsel; senior vice-president of technical operations and airport affairs; executive vice-president, and chief operating officer; and from 2001 to 2004, as CEO. Anderson joined Delta from his position as executive vice-president of United Health Group, where he worked for the previous 3 years and served as president of United Health's Commercial Markets Group. He also serves as a director of Cargill Inc. and Medtronic Inc.[24]

Edward Bastian is president and CFO for Delta Air Lines at its world headquarters in Atlanta. As president, Bastian and his team oversee and coordinate the company's strategy from network planning and revenue management to sales, marketing, and business development. In his role as CFO, Bastian also serves as the company's chief restructuring officer, leading Delta through one of the largest and most successful Chapter 11 restructuring processes in U.S. history, and doing so in 19 months. The solid business plan that Bastian helped develop included $3 billion in annual financial improvements that garnered strong support from the company's creditors and employees. In addition to achieving an industry-leading financial position, Delta's plan of reorganization included an innovative compensation program for Delta employees, including stock, cash payouts, and pay increases.[25]

Bastian joined Delta in October 1998 as vice-president of Finance and Controller and was promoted to senior vice-president in February 2000. In that role, Bastian guided the company through profit improvement initiatives garnering $5 billion in cost savings and revenue benefits between 2002 and 2004. Bastian left Delta in early 2005 to become senior vice-president and CFO of Acuity Brands. He returned to Delta in July 2005 as CFO and was promoted to president in August 2007. Bastian previously worked for PepsiCo, where he served as vice-president of business processes reengineering for Frito-Lay and vice-president, finance officer, and controller for Frito-Lay International. Prior to PepsiCo, Bastian was a partner in the New York audit practice of Price Waterhouse, specializing in the entertainment, advertising, and manufacturing sectors, and also served as the strategic planning partner for Price Waterhouse's New York region.[26]

A New trend of selecting senior airline executives from outside the industry has been developing over the past decade. As commercial air transport becomes more complex, competitive, and fast-paced, senior executives who understand and react to rapidly changing structural and market forces become essential for the survival of a company. However, the development of internal talent to fill senior executive positions has been inadequate in the majority of airline companies in the past. After deregulation in 1978, airline companies experienced dramatic restructuring, primarily to reduce costs. One of the cost-reduction steps was the elimination of middle- and low-management positions where future talented individuals were previously identified and placed on a senior executive track. The restructuring also reduced the mobility across business units and, therefore, further inhibited the development of general managerial skills. Now Delta has a corporate succession planning system and mentoring process that provides the foundation for developing and retaining a leadership team. Through mentoring and coaching, the knowledge, skills, and experience of current leaders are transferred to emerging ones, allowing Delta to build a diverse pool of potential leaders.[27]

HUMAN RESOURCES

In 1997, Delta felt secure enough in the economy and its own financial recovery to begin efforts at healing the rift that had been created between it and its personnel. This was no small task. Delta employs approximately 49,000 people worldwide, including Atlantic Southeast Airlines (ASA) and Comair, plus the 30,000 employees from Northwest Airlines. About 16%, or 12,830 employees, are represented by unions.[28] In the past, Delta has forced concessions from its pilots; it has been charged with hiring practice discrimination by its flight attendants;[29] and it has laid off almost 15% of its nonunion workforce. As a result, Delta believed that it was necessary to change its management and its relations with its personnel. In July 1997, after 34 years with the company, Allen resigned and was replaced by Mullin. Although an outsider and not a student of human relations, Mullin understood the task ahead and began a series of initiatives to rebuild employee trust, confidence, and loyalty.

* Bring back?

1997 +/- 4 yrs 2001

The first task was to reestablish advantages enjoyed by Delta workers that had inspired their loyalty and dedication in the years before Leadership 7.5. One of Delta's first steps was to give nonunion personnel a pay raise. Another was to offer virtually every employee who had been laid off a position back at Delta. Although this came too late for many who had found work elsewhere and was not an option for those who were unwilling or unable to relocate, it was a significant gesture by the company to the employees (and one taken advantage of by many). In addition to salary increases, Delta initiated a profit-sharing program, under which virtually every employee benefits from the success of the company. Independent of the profit-sharing program, Delta has established the Family Care Savings Plan, a tax-qualified retirement plan in which Delta matches up to 15% of salary contributed to the plan on a 2:1 ratio. All of these measures have been helpful in rebuilding employee relations. However, after 9/11 these programs had to be cut for the company to avoid financial distress.

Delta recognizes and rewards high performance. In fact, it initiated an awards program called Above and Beyond (Appendix A). Every month this program awards employees nominated by their peers for extraordinary work performance. There are quarterly awards of more significant tangible value and an annual ceremony in which the top 100 employees are elected to the "Chairman's Club," where they are honored at a dinner and receive an award and shares of stock in the company. This concerted effort at recognition has served to reinvolve many employees in the goals of the company.

Taking advantage of its improved information technology (IT), Delta disseminates an electronic newsletter. The e-newsletter, "Newsline," is an intranet page that complements Delta's open-door policy to allow employees access to information and a forum for asking questions and voicing grievances or concerns.

Delta has also established continuous improvement teams (CITs) throughout the organization (Appendix B). This effort allows panels of elected representatives to meet with division heads and supervisors to voice concerns and complaints, request changes, and provide feedback on current policies and initiatives. The CITs also have nonvoting representatives on Delta's board council. The council coordinates between divisions, CITs, and the actual board of directors. There are seven representatives on the board council, representing everyone from the flight crews to baggage handlers to senior management.

To find out even more about what its employees think, Delta completed a broad-reaching survey called Delta Survey 2000. It measured employee opinions in areas such as leadership trust, customer service, safety, job satisfaction, and rewards and recognition and was conducted by an independent surveying firm. In addition, Delta executives have held nearly 100 face-to-face meetings with front-line employees across the company. Employee opinions and concerns are a vital part of building a highly motivated team at Delta. As a result of listening to its workforce, new enhancements, such as a 2-year leave of absence program and a part-time employment category with a full benefits package, have been added.[30] Delta also offers paid time-off benefits like vacations and holidays, flextime, and educational and adoption assistance.[31] *

The success of Delta Survey 2000 was very evident, and it inspired many other forms of action to involve employees. Former CEO Gerald Grinstein granted full access to board meetings for one of five employees elected by Delta's non-union workers to represent them.[32] In early 2005, Chris Muise, a safety and compliance manager, began attending these meetings as directors discussed some radical plans. Later, Muise said, "We were almost literally mortgaging the entire company. You couldn't see that effort, that absolute commitment, from outside the boardroom."[33] In another effort to boost employee morale during rough times, Mr. Grinstein initiated a program that paid employees bonuses of up to $100 for months in which Delta ranked among the top three airlines in on-time arrivals, completed flights, and baggage handling. Large digital boards were placed in work areas to track service improvements, and it worked. In 2006, Delta rose to third place among the 10 big carriers from last place just years before. Nearly $50 million in bonuses were paid out over 2005 and 2006.[34] As far as employee relations are concerned, Anderson is stepping into very big shoes, as Grinstein had put in these very successful programs and was known for valuing employee morale by all who knew him. "The plan put in place by Mr. Grinstein is a good one," he said in an interview with *The Wall Street Journal*, "My job will be to make it work. For an airline to be successful, you've got to care about your customers and care about your employees."[35]

Delta is creating a learning environment to drive performance and to develop and retain talented employees. Training is offered worldwide via classroom, computer, and Web-based programs. Further, Delta is establishing alliances with a global network of academic partners to form Delta University, which gives employees access to college credit and degree programs at those institutions. Delta is also partnering with the American Council on Education to approve in-house company training courses for college credit.[36] In addition, Delta offers tuition reimbursement for job-related courses, and it conducts in-house training in leadership and management skills, as well as for flight attendant positions. Delta trains reservation personnel and has created satellite reservation offices at several college campuses. These satellite offices allow college students to learn skills, earn a wage, and become familiar with the Delta culture in a convenient location offering flexible hours. The experience and training are an advantage if they continue with the company after graduation. *** EAP? ✓

Delta has also created a personnel assistance office (see Appendix C). This office administers substance recovery, critical incidents response, and workplace violence programs. Although it originally was formed to comply with the Drug Free Workplace regulation, the personnel assistance office is a HR management function that can produce significant cost benefits to the company.

All of these initiatives have helped Delta improve the morale of its employees. As a result, there has been a dramatic drop in customer complaints, and Delta is continuing to regain the customer satisfaction, loyalty, and image that it lost from Leadership 7.5.

Human resource issues also affect Delta's aircraft and fleet size. For instance, in February 1999, Delta and ALPA began negotiations on pay rates and working conditions for 777 aircraft. In June 1999, the company announced that it would indefinitely defer the delivery of the eleven 777 aircraft on order and, on November 1, 1999, would remove from service the two 777 aircraft it operated because Delta and ALPA still had not reached an agreement.[37] Finally, an agreement was reached in 2000 on industry-leading pilot pay rates and work rules for new Boeing 767 and 777 aircraft. In the comprehensive negotiations now underway, Delta's leadership team has already indicated its willingness to provide top-level compensation. Delta's goal is to reach a timely, mutually rewarding outcome.[38]

* Many of these programs have been put on hold because of the near bankruptcy of Delta in late 2004. * ARE THEY BACK YET? ITS 2018?! *

Recent Disputes

After 9/11, Delta stayed among the leaders in the airline industry because of good profits in the 1990s and conservative management style. Delta's strategy of building up cash and liquidity to survive 9/11 did not prepare them for the long run. Aggressively building cash and liquidity allowed Delta to put off needed cost cuts.

In late 2004, Delta escaped bankruptcy by cutting salaries by 32.5%. Also, Delta had to concede with requests such as giving up a 15% ownership in the airline. Even after the short-term financial relief, the company was still vulnerable to changes in oil prices and fare prices by competitors.

Delta was in a constant struggle to cut costs and stay out of bankruptcy. To keep up with the market, Delta has changed its operations by changing the interiors of planes and not providing as much service as in the past.[39]

OPERATIONS

Delta was the first airline to employ the "hub-and-spoke" system. Under this system, a number of flights are scheduled to land at a hub airport within a 30-minute time span. Passengers can then make connections for final destinations conveniently and quickly, thus avoiding long layovers. Delta has efficient and strategically located hubs in Atlanta, New York (JFK), Salt Lake City, and Cincinnati. Smaller markets have been transferred to Delta Connection carriers, and certain less profitable transatlantic and transpacific flights were discontinued. Recently, Delta has been building on its strong position at the Atlanta Worldport and strengthening its East Coast presence, including plans for a new consolidated airport terminal at Boston-Logan International Airport.[40] Delta has also increased its international position at New York-Kennedy airport. Delta offers nonstop service from the United States to the largest number of European destinations of any U.S. airline. Delta offers the most daily departures and carries the most passengers between the United States and Europe of any U.S. carrier.[41]

In fiscal year 2007, Delta's operating income was nearly $1.09 billion. For the same period, net income was $1.6 billion, excluding nonrecurring items (the third consecutive year Delta has reached or exceeded the billion-dollar threshold). Delta achieved unit costs for fiscal 2007 of 11.75 cents per available seat mile. Delta's low-cost leadership position, combined with strong revenue performance, generated an operating margin for 2007 of 12.07%.[42,43] Delta was proud of its financial performance and for exceeding industry averages.

Delta has shifted lower-yielding point-to-point markets from its hubs to gain higher-yielding business markets. This move attracts business travelers by increasing the frequency of flights to business destinations, adding nonstop service to West Coast destinations, and introducing hourly flights to Chicago and Reagan International Airport from Atlanta.[44] To retain its position against low-cost carriers serving the Southeast between Northeast and Midwest cities, Delta initiated Delta Express. This highly productive low-cost operation preserved Delta's market position in Florida, one of the largest revenue-producing segments of the system. Point-to-point, low-fare flying is one of the fastest growing segments in the airline industry, and the launch of Delta Express on October 1, 1996, established it in a leadership position in this market.[45]

Delta Express was located in a dedicated terminal wing of the Orlando International Airport, enabling Delta Express to manage 168 daily flights. Delta Express provided point-to-point service between 17 Northeast and Midwest cities to five popular Florida cities—Orlando, Tampa, Fort Myers, West Palm Beach, and Fort Lauderdale. Delta Express consisted of 37 Boeing 737-200s with all-economy cabins. (The 12 first-class seats were replaced with 24 economy seats for a total of 119 economy seats.) During fiscal 2000, the company planned to increase the 737-200 to 41 aircraft.[46]

To deter new entrants, Delta Express offered services typically not associated with other low-cost carriers, such as advanced seat selection and mileage credit for each flight. In addition, Delta Express promoted its "safety, reliability, and dependability" in an attempt to obtain market share from the smaller commuter and discount lines.[47] In 2003, the company replaced Delta Express with Song, a new, low-fare brand. However, Song did not last either, and currently, these low-fare brands are no longer operational.

Delta's jetliner fleet is among the most modern fleets in domestic service. As of June 9, 2008, Delta owned 460 aircraft, with an average age of 14.0 years. With the addition of Northwest Airlines, Delta will have over 800 aircraft. To maintain a young and technologically advanced fleet, Delta has entered into long-term aircraft purchase agreements with the Boeing Company for 159 firm aircraft orders, with an additional 135 options and 418 rolling options through calendar year 2017. (Delta employs a 20-year acquisition plan on fleet development.) The majority of the new aircraft are used to replace older existing aircraft, primarily the L-1011 and B-727 models (with an average current age of 21.3 years). Delta's long-term plan is to simplify its fleet by reducing aircraft family types from seven to three, while replacing older aircraft types with newer Boeing 767s and 737s over several years. The increased efficiencies of the more standardized fleet are expected to improve reliability and result in long-term cost savings in maintenance, parts, scheduling, and training.[48]

Other measures have also been taken to improve the travel experience of Delta's customers. Among the implemented and planned improvements for the in-air experience are upgrading BusinessElite and international coach products and, beginning in 2008, true lie-flat seating on the 777 fleet. These improvements go hand in hand with Delta's new focus on its international market. Improvements to the on-ground experience feature speed and self-service enhancements to its Web site, **www.delta.com**, and kiosks, Atlanta lobby redesign allowing greater traffic flow, new uniforms, more Crown Rooms, signature drinks, and the only U.S. two-class transcontinental flying with on-demand entertainment.[49] These improvements seek to give Delta a competitive advantage in customer service and overall flying experience.

Once considered a competitive disadvantage, Delta's IT has been transformed from trailing edge to leading edge. Delta launched a company-wide initiative that centralized information and reengineered technology and decision making around four application areas: customer service, operations, revenue, and business support. Delta's goal is to continue to simplify the technological infrastructure, improve efficiency, and deliver state-of-the-art solutions for business needs. One of its new technology platforms is the Customer Relationship Management (CRM) program, which began development in fiscal 2000. The platform will store information about customer preferences, such as preferred seating, special meals, personal contact information, and special handling requirements, as well as detailed information about travel patterns and experiences. Building on information obtained from the SkyMiles program, the CRM database serves as the centralized information source for all customer interactions. Eventually, all customer areas—from marketing to customer service to operations—will have access to these data, allowing Delta to tailor products, marketing programs, and services to individual needs and preferences. Ultimately, CRM will reduce transaction times and enhance customer service.[50]

Delta owns 40% of a computer reservation system (CRS) partnership called WORLDSPAN. This partnership is with Northwest Airlines and TWA, and offers CRS services to travel agents around the world. Based on the number of travel agents in the United States using CRS, WORLDSPAN ranks third, behind SABRE and Galileo International, Inc., in market share among travel agents in the United States.[51] Further, Delta has consolidated its reservations offices in an effort to improve customer service. The result of the consolidation has been improved telecommunications technology in larger full-service offices while significantly cutting operating costs. In addition, Delta's ongoing initiatives include matching staffing levels to customer volumes. Reportedly, Delta has paid more than $300 million per year in CRS fees. Consequently, it has pioneered self-ticketing, which allows customers to book their own flights through Delta's Web site or at kiosks situated in airports.[52] As an incentive for the customer, the Delta program offers additional frequent flyer miles for self-serve tickets. Self-ticketing reduces the demand for reservation services and, therefore, some of the associated costs.

Industry Consolidation and Expansion

The airline industry has been a significant factor in the recent corporate globalization trend. Nations have historically required local airlines to be majority owned and controlled by citizens of their countries to protect a vital aspect of their transportation infrastructure. Only individual carriers have been able to build worldwide route systems. Within the past several years, however, airline companies have been able to skirt local regulations from preventing international mergers that have benefited other industries through various forms of alliances. Delta was slow to react to the initial agreements arranged in Europe, and alliances with the larger airlines (like British Airways and Lufthansa) had been formed with American Airlines and United Airlines.[53]

A key issue facing the airline industry today is the possibility of consolidation and restructuring. The primary industry concern is that if any two current airlines combine, the resulting "mega" airline would have a significant destabilizing effect on the industry.[54] For example, in the late 1990s, Delta was outbid by Northwest Airlines in an effort by each to merge with Continental Airlines. A combined Delta-Continental Airline would have made Delta the largest carrier in the United States. Then, on May 24, 2000, United Airlines Corp. announced an $11.6 billion deal to buy US Airways Group Inc. Since then, AMR, parent of American Airlines Inc., the nation's second-largest carrier, has approached Northwest and number-three Delta about a marriage. Delta voiced interest in Northwest, and at the time of this writing, was poised to acquire Northwest for $3.1 billion. So, the Big Six in the United States could be on the brink of becoming the Big Three, with 85% of the domestic market. Such moves also fueled mergers in Europe, where on May 5, 2004, Air France merged with KLM.[55]

One of the major concerns for Delta is the implementation by other airlines to greatly cut costs and provide cheap air fares. Delta has dealt with the competition by also cutting costs, in an attempt to compete with lower air fares.[56]

Over the past decade, Delta has experienced constant growth. In fiscal 2007, Delta carried approximately 72.9 million passengers to their destinations, more than any other airline in the world. After the merger with Northwest, Delta is currently the largest airline worldwide. As of June 9, 2008, Delta (including its wholly owned subsidiary Comair, Inc.) served 240 domestic cities in 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, as well as 57 countries. Delta is the only airline to serve over 300 destinations. Its customers have access to a global network of 1632 flights each day to 57 countries on five continents on Delta, Delta Shuttle, the Delta Connection carriers, and Delta's Worldwide Partners.[57] Since the Delta-Northwest acquisition was completed in October 2008, Delta now serves over 368 destinations in 66 countries over six continents. Delta is also the only major U.S. airline that currently flies to Africa.

Delta has been increasingly successful in recent years in infiltrating "new" markets. Delta's preferred method of expansion has been through so-called alliances, partnerships, and code-sharing with other airlines. These arrangements between airlines allow seamless service to customers by synchronizing flight schedules, coordinating pricing, and offering joint marketing. Code-sharing partners buy seats on flights of partner airlines and sell them through their own scheduling system.

Delta has long had a code-sharing agreement with three European airlines: Austrian Airlines, Swissair, and Sabena (the Atlantic Excellence

Alliance). This arrangement has allowed Delta to provide passengers nonstop flights between a large number of European cities. Unfortunately for Delta, other major U.S. carriers have formed alliances with larger European carriers (such as United Airlines with Lufthansa and Northwest Airlines with KLM) that gave them access to larger markets. In addition, Swissair has historically had a poor history of holding its alliances together and is struggling to keep its access to European hubs.[58] Nonetheless, Delta flies nonstop to more European cities than any U.S. airline, and in 2000, it added new or increased service to Dublin, London, Lyon, Venice, and Zurich.[59]

Code-sharing agreements allow passengers on any approved flight to accrue frequent-flyer miles that may be redeemed with any of the participating airlines. Code-sharing has allowed Delta to enter other markets as well. For instance, it has entered the Jamaican market through an agreement with Air Jamaica. In addition, Delta is strengthening its presence in Asia through agreements with China Southern and Korean Air.[60]

Some airline alliances have been challenged in Europe recently. The European Union (EU) is conducting ongoing antitrust investigations of alliances between Lufthansa and UAL, SAS and UAL, Northwest and KLM, and US Airways and British Airways. The EU's antitrust concerns are most pointed over the US Airways alliance involving coveted slots at London's Heathrow airport. The modern paradigm of merger and consolidation has taken a strong hold in industries from banking to waste disposal, however, and the airline industry is not likely to evolve without it.[61]

Delta is implementing one of the world's most extensive global route expansions and will serve more worldwide destinations than any other carrier, with Delta and the Delta Connection carriers providing service to more than 300 airports. In 2006, Delta added nearly 50 new international routes, while at the same time increasing passenger unit revenues—a remarkable feat given the significant capacity they've added to those markets. In 2007, Delta has continued its aggressive international expansion with the addition of dozens more international routes, including a return to the heart of Asia in June with nonstop flights between Atlanta and Seoul-Incheon. Altogether, by year-end 2007, Delta served more than 100 international destinations from the United States.[62]

Delta has continued to diversify its network with new service to underserved regions of the world. Delta is now the only major U.S. carrier to fly nonstop to Africa, serve six continents from the Atlanta and New York (JFK) hubs, and have international network service from all 50 states. Future growth will be enabled by the continued conversion of wide-body aircraft flying in the domestic system to international service and the planned addition of 13 additional Boeing 757 long-range aircraft capable of flying across the Atlantic and to Hawaii.[63]

Marketing

In July 1997, Delta unveiled its slogan "On Top of the World."[64] The slogan reflected the success of the 3 years of cost-cutting measures in Leadership 7.5 and the reemergence of Delta as the largest passenger carrier on the globe. Delta's most recent ad campaign, however, eschews a single slogan or theme in favor of airport vignettes and fill-in-the-blank luggage tags that focus on simple passenger needs. Many spots close with personalized bag tags in which passengers have scribbled in their desires. The accompanying narration or copy conveys Delta's efforts to meet them. "We wanted to highlight the customer and the basic experiences that affect them," said Martin White, vice-president of consumer marketing at Delta, whose ad account is valued at about $100 million annually. He hopes the ads will communicate Delta's eagerness to respond to passengers' basic concerns.[65] Clearly, the new ad campaign illustrates the company's continued emphasis on customer service and complements its recently released 12 customer service commitments (see Appendix D).

Delta uses cooperative marketing programs planned with Swissair, Aeromexico, and Singapore Airlines, which include code-sharing, schedule coordination, possible joint services on certain routes, around-the-world fares, joint advertising and promotional activities, and frequent flyer programs.[66] In 2000, Delta served 27 million frequent flyers.[67]

Advertising and promotional programs support Delta's marketing efforts for business and leisure travel, military and government travel, and package tours. Delta also has a program called the Meeting Network, through which Delta makes the air travel arrangements for attendees of incentive programs, meetings, or conventions.[68] Delta's Fantastic Flyer program for children, a natural tie-in with the company's official airline relationships with Walt Disney World in Florida and Disneyland in California, continues to be successful.[69] Other continuing official airline relationships include the Professional Golf Association of America (PGA) and the PGA Tour.[70] Furthermore, Delta sponsored the 1996 Summer Olympic Games in Atlanta, Georgia, and it sponsored the 2002 Winter Olympic Games in Salt Lake City, Utah.

Delta is proud of its community involvement. Its financial support to the community is provided by The Delta Air Lines Foundation, corporate contributions, and employee-giving through the United Way. During fiscal 2000, Delta contributed over $10 million to charitable organizations. Also, company employees contribute their time, energies, and skills by building homes, leading organizations, and participating in charity walks. In addition, Delta sponsors four organizations, known as "Signature Partners," that focus on Youth Wellness and Youth Leadership Development: American Red Cross, CARE, Children's Miracle Network, and the Juvenile Diabetes Foundation. Delta donated over $1 million, and its employees volunteered more than 5000 hours to these organizations in 2000.[71]

In February 2000, Delta completed the redesign of its Web site to provide users with quicker and easier access to information. To leverage the strength of the Delta brand, Delta has recently changed its Web site URL address from **www.delta-air.com** to **www.delta.com.** The new address made it easier for customers to locate its site. Subsequent enhancements to **www.delta.com** included an award calendar showing destinations available to SkyMiles members using mileage awards and the ability to redeem mileage credits online. On the Delta Web site, customers can check up-to-date information on flight schedules, rates, sky miles, and services offered, and make flight reservations.[72]

Another addition to the **www.delta.com** Web site was the offering of advertising opportunities. Rather than hope that the Internet ads put in place by Delta generate enough traffic to their Web site, Delta started offering commissions to anyone who refers a customer to Delta from their own Web site.[73] It is called affiliate marketing, and it has helped expand many companies' consumer bases, including Delta's. Anyone who manages a Web site can add a Delta banner or text link to their site, and if a patron of their site uses the link and makes a qualified ticketing transaction through Delta, then the site manager who referred the customer is monetarily compensated. It is genius in the sense that Delta does not have to put any time, effort, or money into spreading their advertisements across the Internet.

By 1993, Delta's cargo marketing efforts resulted in its being the second-largest passenger–cargo combination carrier in terms of U.S. domestic mail ton miles (a measure of cargo volume).[74] Its mission is to be "the worldwide air cargo carrier of choice, creating a competitive advantage for Delta and our customers by providing reliable service and time-definite products tailored to customer and market needs through a motivated, professional workforce."[75] In fiscal 2000, Delta changed the name of its cargo operation to Air Logistics to better represent the comprehensive service it provides to its customers. Its services range from sourcing, warehousing, and inventory management to distribution and supply to the end user.[76] Four of the specific services it provides to meet the needs of its customers are Delta DASH, small package service with 30-minute drop-off and recovery times; Delta Priority First Freight, express service for larger shipments that cannot be sent by DASH; Delta Priority Second Day, airport-to-airport service for general cargo; and Delta Priority Third Day, services all markets with deferred air freight. Air Logistics offered over 4000 flights per day for shipment.[77] During fiscal year 2005, cargo revenues were $520 million worldwide.[78] The airline's cargo operating unit contributed one third of Delta's net income during that fiscal year.[79] Delta has led U.S. airlines in market share for both domestic and overseas military traffic.[80]

To continue efforts of improving its financial performance, Delta reallocated aircraft on several domestic flight segments in the past. The aircraft were redeployed to markets that provide greater revenue potential, including the Atlanta, Cincinnati, and New York (JFK) hubs. In addition, Delta added more daily flights and new destinations from Atlanta. Delta continues to realign its routes to maximize assets. It increased the flights to its major hubs in Atlanta, Cincinnati, and Salt Lake City.[81] Delta's Atlanta hub is the largest hub operation in the world. The Cincinnati hub has also expanded to include additional daily departures and new destinations. The Delta Connection partners have continued to expand in short-haul markets. This enables the affected markets to be accommodated more efficiently by smaller aircraft and, consequently, permits Delta to reallocate aircraft to long-haul routes with better revenue potential.

Delta continues to try to increase its international flight traffic and alliances. Delta's international efforts have included strengthening its presence at the New York JFK Airport to build its North Atlantic travel operations.[82] To increase transoceanic service, Delta has even developed a transoceanic business class of travel, which is intended to provide comfort and versatility for the busy traveler. Delta is strongest in the U.S. and Latin American markets but lacks any significant route system in Asia. Thus, it is lobbying for landing rights in Beijing, making it the third U.S. passenger carrier to do so in China.[83] *

* ↑ INCREASE PRESENCE IN ASIA *

FINANCIAL CONDITION

Delta was once known for having the most conservative balance sheet in the airline industry. Financial results for Delta Air Lines are presented in Exhibits C2.1 through C2.3. In the early 1990s the company began to experience hard times. Delta reported its second loss since 1947, with the first occurring in 1983. The company suffered financial losses through 1994. A number of factors such as increased fuel prices because of the Middle East crisis; increased fare competition; massive expenses related to the company's expanded route system through purchase agreements with Pan Am; continued poor economic conditions, both domestic and international; and expansion costs were causes for the half-billion dollar loss.[84]

As a result of these losses, Delta began several cost-cutting steps such as the reduction of planned aircraft, facilities, and ground equipment expenditures through fiscal year 1995. Delta's directors even voluntarily cut their own compensation by 20%.[85] The company also consolidated reservation offices by closing eight of its 19 U.S. reservations facilities. These consolidations were completed between June 1993 and fall 1994.[86]

In summary, in 2007, Delta's operating revenues increased 18% from 2006, while operating expenses decreased by 1.4% in the same period.[87] During 2000, Delta delivered consistent financial and operational results with cost levels that remain below the industry

Exhibit C2.1
Annual Income Statement

PERIOD ENDING	31-Dec-07	31-Dec-06	31-Dec-05
Total Revenue*	**19,154,000**	**17,171,000**	**16,191,000**
Cost of Revenue	15,315,000	14,430,000	13,923,000
Gross Profit	**3,839,000**	**2,741,000**	**2,268,000**
Operating Expenses			
Research and Development	–	–	–
Selling General and Administrative	1,579,000	1,394,000	2,108,000
Non-recurring	–	13,000	888,000
Others	1,164,000	1,276,000	1,273,000
Total Operating Expenses	–	–	–
Operating Income or Loss	**1,096,000**	**58,000**	**(2,001,000)**
Income from Continuing Operations			
Total Other Income/Expenses Net	1,375,000	(6,156,000)	(826,000)
Earnings before Interest and Taxes	2,471,000	(6,098,000)	(2,827,000)
Interest Expense	652,000	870,000	1,032,000
Income before Tax	1,819,000	(6,968,000)	(3,859,000)
Income Tax Expense	207,000	(765,000)	(41,000)
Minority Interest	–	–	–
Net Income from Continuing Ops	1,612,000	(6,203,000)	(3,818,000)
Non-recurring Events			
Discontinued Operations	–	–	–
Extraordinary Items	–	–	–
Effect of Accounting Changes	–	–	–
Other Items	–	–	–
Net Income	**1,612,000**	**(6,203,000)**	**(3,818,000)**
Preferred Stock and Other Adjustments	–	(2,000)	(18,000)
Net Income Applicable to Common Shares	**$1,612,000**	**($6,205,000)**	**($3,836,000)**

*All numbers in thousands of dollars

SOURCE: Available at **http://finance.yahoo.com/q/is?s=DAL&annual.**

Exhibit C2.2
Annual Balance Sheet

PERIOD ENDING	31-Dec-07	31-Dec-06	31-Dec-05
Assets*			
Current Assets			
Cash and Cash Equivalents	3,168,000	2,784,000	2,878,000
Short-Term Investments	138,000	614,000	–
Net Receivables	1,208,000	1,317,000	918,000
Inventory	262,000	181,000	172,000
Other Current Assets	464,000	489,000	512,000
Total Current Assets	**5,240,000**	**5,385,000**	**4,480,000**
Long-Term Investments	–	–	46,000
Property Plant and Equipment	11,701,000	12,973,000	14,280,000
Goodwill	12,104,000	227,000	227,000
Intangible Assets	2,806,000	89,000	74,000
Accumulated Amortization	–	–	–
Other Assets	572,000	948,000	932,000
Deferred Long-Term Asset Charges	–	–	–
Total Assets	**32,423,000**	**19,622,000**	**20,039,000**
Liabilities			
Current Liabilities			
Accounts Payable	4,491,000	3,903,000	2,367,000
Short/Current Long-Term Debt	1,014,000	1,503,000	1,186,000
Other Current Liabilities	1,100,000	363,000	1,712,000
Total Current Liabilities	**6,605,000**	**5,769,000**	**5,265,000**
Long-Term Debt	7,986,000	6,509,000	6,557,000
Other Liabilities	4,332,000	20,185,000	17,679,000
Deferred Long-Term Liability Charges	3,387,000	752,000	186,000
Minority Interest	–	–	–
Negative Goodwill	–	–	–
Total Liabilities	**22,310,000**	**33,215,000**	**29,687,000**
Stockholders' Equity			
Misc Stocks Options Warrants	–	–	–
Redeemable Preferred Stock	–	–	247,000
Preferred Stock	–	–	–
Common Stock	–	2,000	2,000
Retained Earnings	314,000	(14,414,000)	(8,209,000)
Treasury Stock	(148,000)	(224,000)	(601,000)
Capital Surplus	9,512,000	1,561,000	1,635,000
Other Stockholder Equity	435,000	(518,000)	(2,722,000)
Total Stockholder Equity	**10,113,000**	**(13,593,000)**	**(9,895,000)**
Net Tangible Assets	**($4,797,000)**	**($13,909,000)**	**($10,196,000)**

*All numbers in thousands of dollars

SOURCE: Available at **http://finance.yahoo.com/q/is?s=DAL&annual.**

Exhibit C2.3
Annual Statement of Cash Flows

PERIOD ENDING	31-Dec-07	31-Dec-06	31-Dec-05
Net Income*	**1,612,000**	**(6,203,000)**	**(3,818,000)**
Operating Activities, Cash Flows Provided by or Used in			
Depreciation	1,164,000	1,276,000	1,273,000
Adjustments to Net Income	(1,662,000)	5,948,000	1,745,000
Changes in Accounts Receivables	(110,000)	(152,000)	(122,000)
Changes in Liabilities	(181,000)	240,000	812,000
Changes in Inventories	–	–	–
Changes in Other Operating Activities	536,000	(116,000)	285,000
Total Cash Flow From Operating Activities	**1,359,000**	**993,000**	**175,000**
Investing Activities, Cash Flows Provided by or Used in			
Capital Expenditures	(1,036,000)	(413,000)	(814,000)
Investments	117,000	(2000)	82,000
Other Cash Flows from Investing Activities	294,000	54,000	272,000
Total Cash Flows From Investing Activities	**(625,000)**	**(361,000)**	**(460,000)**
Financing Activities, Cash Flows Provided by or Used in			
Dividends Paid	–	–	–
Sale Purchase of Stock	–	–	–
Net Borrowings	(51,000)	(600,000)	880,000
Other Cash Flows from Financing Activities	(69,000)	(6000)	(50,000)
Total Cash Flows from Financing Activities	**(120,000)**	**(606,000)**	**830,000**
Effect of Exchange Rate Changes	–	–	–
Change in Cash and Cash Equivalents	**$614,000**	**$26,000**	**$545,000**

*All numbers in thousands of dollars

SOURCE: Available at **http://finance.yahoo.com/q/is?s=DAL&annual.**

average, according to Leo Mullin.[88] Its financial performance is due to a number of factors, such as low fare competitors, price increases of fuel, and so on.[89]

For fiscal 2007, operating revenues were $19.1 billion, increasing from $17.17 billion in fiscal 2006.[90] Passenger revenues accounted for 88% of Delta's consolidated operating revenues, and cargo revenues and other sources accounted for 12% for that period.[91] The company's North American passenger mile yield rose slightly. On the other hand, Delta's international passenger mile yield declined 4% primarily because of increased pricing pressures resulting from industry-wide capacity growth in the Atlantic market.[92]

Operating expenses totaled $16.8 billion for fiscal 2007, decreasing from $23.68 billion in fiscal 2006. Operating capacity rose 5% to 152 billion available seat miles. Operating cost per available seat mile increased 11.75 cents in 2007. The number of full-time employees decreased 16.5% from February 2004 to February 2008.

Fuel prices are very important factors in total operating costs. Aircraft fuel expense increased 48% in fiscal 2008 compared with fiscal 2006, with the average fuel price per gallon rising from $1.85 to $2.74.

RESTRUCTURING

In a process designed to reduce Delta's interest rate on three term loans, Delta Air Lines has initiated negotiations with lenders to amend its $1.9 billion debtor-in-possession (DIP) credit facility.[93] GE Capital Corporation, the administrative agent for the DIP credit facility, manages the amendment process. Delta also received final court approval in October 2005 for $300 million in secured post-petition financing provided by American Express, as well as closing a letter of credit facility with Merrill Lynch that allows the company to utilize up to $300 million in cash that would normally be held in reserve by Delta's Visa/MasterCard processor.[94] This is part of a business plan that aims to create $3-billion annual cost savings and revenue enhancements, which are much needed as Delta is doing everything it can to overcome rising fuel prices and the decline in business that the entire airline industry has experienced post-9/11.

On September 14, 2005, Delta and its subsidiaries voluntarily filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code.[95] The restructuring went very smoothly, thanks to great organization by management, and was widely supported by Delta's creditors. Restructuring milestones were not only reached on time but some were even reached earlier than expected, such as the delivery of $3 billion in annual financial improvements 1 year ahead of schedule. Finally, on April 30, 2007, Delta and its subsidiaries emerged from a 19-month Chapter 11 restructuring process successfully. At emergence, Delta reported four consecutive quarters of operating profits, with $155 million in operating profit in the first quarter of 2007.[96] Also included in the restructuring process was the implementation of the largest international expansion in company history, with more than 60 new international routes, as well as improving products and customer service.

CONCLUSION

The airline industry is highly competitive and is characterized by substantial price competition. In this environment, Delta must constantly evaluate possibilities of merger, alliance, and expansion. However, Delta's greatest challenge is to find a way to continue to differentiate itself through unparalleled customer service while cutting costs. Although the industry has changed dramatically since 1929, Delta's customer service philosophy has not. Superior customer service continues to be at the heart of the company and defines its focus.

APPENDIX A

Rewards and Recognition

Delta's corporate rewards and recognition program Above & Beyond was launched in October 1997. It is an initiative of the Integrated Customer Service (ICS) team, which selected 125 of Delta's best people to poll front-line co-workers. The selected personnel, called ambassadors, polled 7084 people. The input and comments from these front-line people helped formulate the development of ideas and solutions that would improve Delta's customer service. Their recommendations were to change some of the processes, integrate technology, and create a high-performing work environment that would recognize and reward employees for superior performance. The Above & Beyond program does this. In addition, it supports the company's reward-for-performance strategy. It provides Delta personnel at all levels an opportunity to recognize and be recognized for exceptional job performance and outstanding customer service.

The program objectives are to:

- Instill a sense of ownership in Delta and its customers
- Motivate people to improve customer satisfaction levels
- Build teamwork and camaraderie among Delta people

Functions of the department include:

- Educating Delta people about the corporate goal of a 95% overall customer satisfaction ranking
- Developing and coordinating policies and procedures for the monthly awards drawings
- Soliciting low- and no-cost awards from Delta partners and vendors
- Communicating and promoting the importance and power of recognizing employees
- Researching and implementing guidelines regarding the tax ramifications associated with awards
- Acting as a clearinghouse for departmental rewards and recognition programs
- Establishing and monitoring the business unit committees charged with selecting Delta's "best-of-the-best" as Chairman's Club honorees
- Creating and coordinating the annual Chairman's Club recognition banquet

Critical Issues Facing Rewards and Recognition

- The Above & Beyond program needs to be more meaningful at a business unit and departmental level.
- An acceptable method to include Delta's contractors in the program needs to be determined.
- Objective means must be found to measure the results of the program.
- Continue to address the challenge of communicating to a diverse workforce in order to effectively promote the program and raise visibility.
- The senior coordinator's role regarding monitoring of awards and programs for individual business units and/or departments should be clarified.
- Continue to motivate employees to strive to reach our corporate goal of 95% overall customer satisfaction, when many perceive the goal as too high.
- Streamline the administration of the program via automation or outsourcing.

Major Accomplishments of Rewards & Recognition

- Focused attention on the 95% overall customer satisfaction goal, which significantly increased awareness and educated employees on the Customer Satisfaction Tracking Study.
- Created enthusiasm and interest among employees with various contests and team rally meetings.
- Introduced simple and effective tools that all Delta people can use to immediately recognize superior customer service and outstanding job performance (People-to-People Recognition Cards and Team Recognition Cards).
- Designed, planned, produced, and mailed quarterly Above & Beyond brochures and packets.
- Established the Chairman's Club, an annual tradition at Delta that rewards honorees based on performance rather than tenure.
- Partnered with consumer marketing to provide SkyMiles customers with recognition cards to give on-the-spot recognition to those Delta people who provide distinguished customer service. (Customer response has been very positive.)
- Garnered significant senior management support of the Above & Beyond program.
- Provided role preparation training to supervisors, demonstrating how the reward and recognition program can be used as an effective management tool.
- Raised visibility of the program by setting up booths at the Flight Attendant Forum Meeting, Leadership Conference, ACS Fair, and Volunteer Fair.
- Conducted focus groups with key people to identify strengths and weaknesses of program.
- Initiated a task force to determine award eligibility and taxation for management review and approval.

APPENDIX B

CONTINUOUS IMPROVEMENT TEAMS

Continuous Improvement Team Support Group

The Continuous Improvement Team Support Group is responsible for establishing, training, supporting, and recognizing continuous improvement teams (CITs) at Delta Air Lines. The CIT process is a problem-solving effort that allows employees to work as a team to identify, analyze, and solve problems that affect their work.

To form a CIT, a volunteer manager/supervisor is trained during a 4-day concentrated leadership course in the continuous improvement team process (effective meetings, teamwork, presentation skills, problem solving, and practical application of presentation skills and problem-solving tools). This volunteer "sponsor" is responsible as the team "coach." The sponsor is a resource for the team in working closely with management and provides guidance in team meetings and presentations to management. The sponsor works with the team support group (TSG) and area management to solicit volunteers to participate by becoming CIT members. Management overviews are given by the TSG to enlighten supervisory personnel about the establishment and benefits of an area CIT.

The team members are responsible for attending team meetings; accepting team roles (team leader, scribe, timekeeper, etc.); and identifying, investigating, and solving problems in their work areas. The team makes presentations to applicable management in order to obtain approval for idea implementation.

The team support group is responsible for recognizing teams by developing and administering a corporate CIT recognition program. The TSG also arranges and implements high-visibility events to showcase productive CITs. One example is the annual CIT EXPO.

Critical Issues Facing Continuous Improvement Teams

- Managerial (top-down) involvement, support, and encouragement of employee teamwork. Upper-level managers need to involve themselves by visiting team meetings and CIT-related functions. Management involvement builds trust and motivation within the ranks.
- Management needs to place more emphasis on investing time to allow teams/employees to be involved in identifying improvements, data gathering, problem solving, and implementing ideas. Numerous opportunities are curtailed because of narrow supervisory emphasis on quotas and production designed to achieve high ratings on leadership performance appraisals.
- Employee involvement and CITs need to be driven from the top with accountability for team function and productivity throughout the ranks.

APPENDIX C

Delta's Personnel Assistance Programs Office

Personnel Assistance was created in the fall of 1989 with the primary role of enforcing the Department of Transportation/Federal Aviation Administration–mandated Drug-Free Workplace Act. That role included procedures for drug testing safety-sensitive employees and providing access to benefits for those seeking treatment. In January of 1993, all enforcement responsibilities were referred to other departments, and Personnel Assistance focused strictly on the EAP–related functions. Employees can access individual counseling and treatment programs.

Delta's benefits plan covers counseling for a full range of issues from marital/family problems to DSM IV diagnoses. Personnel Assistance does not function as a gatekeeper for mental health benefits.

Personnel Assistance provides supervisory and management training and consultation on working with employees who have emotional or substance abuse problems that affect job performance. It contracts with a trainer to provide the initial training for members of the critical incident response team but provides the entire recurrent quarterly training itself.

The Personnel Assistance Programs Office provides programs and resources designed to generate solutions to workplace productivity problems and remove barriers to optimal performance, such as the following.

Alcohol Recovery Program

Designed to assist employees with an alcohol or prescription medication addiction, Delta's alcohol recovery program provides quality treatment and support to maintain sobriety. The recovery program includes 2 years of aftercare monitoring. Mandatory training is provided for management and employees volunteering as peer monitors.

Critical Incident Response Program

The CIRP provides trained peer support, as well as professional resources, as needed for personnel who may be at risk for emotional trauma after experiencing a work-related critical incident. (Any sudden event that is outside the range of normal human experience has the potential to overwhelm normal coping mechanisms and trigger traumatic consequences.) CIRP goals are accomplished by providing emotional support and stress management services. The major objective is to assist "normal people having normal responses to abnormal events" and to return them to healthy functioning as quickly as possible.

Management Consultations

Management consultations help supervisors work more effectively with employees who have performance or productivity problems. Address health concerns that require immediate attention and facilitate timely access to assessment and referral services.

Mental Health Benefits

Mental health benefits ensure that employees and eligible family members have access to quality mental health services. Oversee contracts with managed-care vendors (Aetna, MCC) to provide effective service delivery. Provide information on illness prevention, coping skills, stress management, and maintenance of good mental health.

Workplace Violence

Delta's workplace violence program works with the management team to help provide a safe environment for employees to work free of threats, fear, or intimidation.

Lunch and Learn

Seminars are offered on a variety of topics from stress management to sleep problems.

APPENDIX D

Delta Customer Commitment

In response to the tremendous growth of air travel and the demanding need for excellence in customer service, Delta has joined other U.S. airlines and the Air Transport Association (ATA) in an effort to provide passengers with a clear understanding of our industry's commitment to meet essential performance objectives.

We have outlined our responsibilities below in 12 key points. We intend to ensure that your air travel experience will encompass, to the best of our abilities, the most comprehensive customer service possible.

Twelve Customer Service Commitments

Before You Fly:

1. We will offer, through our telephone reservation system, the lowest fare for which the customer is eligible for the date, flight, and class of service requested.
2. We will give you time to compare our fares with those of other airlines.
3. We will issue refunds for eligible tickets within seven business days for domestic credit card purchases and 20 business days for purchases made by cash or check.
4. We will inform you, upon your request by telephone, if the flight on which you are ticketed is overbooked. We also will provide information at airports about our policies and procedures for handling situations when all ticketed customers cannot be accommodated on a flight.
5. We will provide you with timely and complete information about policies and procedures that affect your travel.
6. We will ensure our domestic code-share partners commit to providing comparable consumer plans and policies. Our partners are regional airlines that connect small- and medium-sized markets with Delta's network.

At the Airport:

7. We will provide you with information about our policies and procedures for accommodating disabled and special-needs customers and unaccompanied minors.
8. We will provide full and timely information on the status of delayed and canceled flights.
9. We will provide full and timely information regarding the status of a flight if there is an extreme delay after you have boarded or after the plane has landed, and we will provide for your essential needs while onboard.

After Landing:

10. We will strive to return your misplaced baggage within 24 hours, and we will attempt to contact owners of unclaimed baggage when a name and address or telephone number is available.
11. We support a U.S. Department of Transportation proposal to increase the per passenger domestic baggage liability limitation from $1250 to $2500.
12. We will respond to written customer complaints within 30 days, exceeding the 60-day response standard adopted by ATA member airlines.

Questions

1. Delta has made great strides, but there is room for improvement. How should Delta continue to regain the commitment of its employees in order to attain "#1" status? Discuss your strategic recommendations. How are your suggestions linked to improved customer satisfaction?
2. As Delta continues to expand globally, how should the company face the ongoing challenge of finding the right balance between profits and employees? Discuss how management should be accountable for employees' needs and concerns.

Notes

1. The company was originally founded as a crop-dusting service in 1924. This start resulted from a conversation between Collet Everman Woolman and some Louisiana farmers concerned about the threat to their crops from boll weevils. Woolman, an agricultural scientist and pilot, knew that calcium arsenate would kill boll weevils. Woolman wanted to drop the chemical from an airplane and engineered a "hooper" for the chemical. After perfecting the system, he began selling his services to farmers throughout the region, forming the world's first crop-dusting service. Woolman left the agricultural extension service in 1925 to take charge of the duster's entomological work. The crop-dusting operation was separated from its parent company in 1928 to form a new company named Delta Air Service. Woolman expanded his crop-dusting business into Mexico, South America, and throughout the South. The company also diversified by securing airmail contracts. Passenger service was inaugurated in 1929, with initial service to Jackson, Dallas, Atlanta, and Charleston.
2. Swiercz and Spencer, "HRM and Sustainable Competitive Advantage: Lessons from Delta," *Human Resource Planning* 15, no. 2 (1992).
3. The section's information, prior to the 1990s, is principally adapted from Delta's corporate history as compiled by the *International Directory of Company Histories* 1, 1988, pp. 99–100. Information for the 1990s comes from cited sources.
4. "Delta Air Lines, Inc.," *Hoover's Handbook of American Business* 1, 1996, Companies A–L.
5. Several mergers were consummated during these two decades. On May 1, 1953, Delta merged with Chicago and Southern Airlines. In June 1967, Delta merged with Delaware Airlines and officially adopted the name of Delta Air Lines. Delta acquired Northeast Airlines on August 1, 1972. Delta also purchased Storer Leasing in July 1976. In March 1988, Delta acquired 20% of the voting securities of SkyWest Incorporated. In 1991, Delta acquired Pan Am Corporation.
6. I. Cohen, "Political Climate and Two Airline Strikes: Century Air in 1982 and Continental Airlines in 1985," *Industrial and Labor Relations Review* 42, no. 2 (1990), pp. 308–323.
7. Seth Lubove, "Full Speed Ahead—But Cautiously," *Forbes*, October 29, 1990, pp. 36–38.
8. Ibid.
9. Ibid.
10. Delta Air Lines, Inc., *2000 Annual Report*, p. 27.
11. "Pilots' Union Accepts Pay Cut in Return for Options," *The New York Times*, February 22, 1996, pp. C4 (N), D4(L), col. 1.,
12. "Furloughed Delta Pilots Now All Rehired," *The New York Times*, June 8, 1996, pp. 30(N), 44(L), col. 4.
13. "Delta Air Lines to Add 665 Customer-Service Jobs," *The New York Times*, January 31, 1996, pp. C4(N), D4(L), col. 1.
14. "Delta Restoring Pay Cut to Nonunion Workers," *The New York Times*, January 31, 1996, pp. C4(N), D4(L), col. 1.
15. "Delta to Give Raises to 50,000 Workers," *The New York Times*, April 19, 1997, pp. 20(N), 34(L), col. 1.
16. Delta Air Lines, Inc., *2000 Annual Report*, p. 17.
17. Delta Air Lines, Inc., *2003 Annual Report*, p. 8.
18. Terril Yue Jones, "Musical Chairs," *Forbes*, no. 1, January 12, 1998, p. 60.
19. Delta Air Lines, Inc., *Online Form 10-K 2000*, p. 9.
20. Martha Brannigan, "Delta Chief Is Mum about the Reasons Why He Will Retire," *The Wall Street Journal*, May 14, 1997, p. A4.
21. David Greising, "A Break in the Clouds for Delta," *Business Week*, no. 3558, December 22, 1997, p. 93.
22. Martha Brannigan and JoAnn S. Lublin, "Delta Airlines Changes Style with New Chief," *The Wall Street Journal*, August 18, 1997, p. B1.
23. Delta Air Lines, Inc., *2003 Annual Report*, p. 8.
24. Available at **www.delta.com**.
25. Ibid.
26. Ibid.