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Oil's new hard sell: the lower octanes

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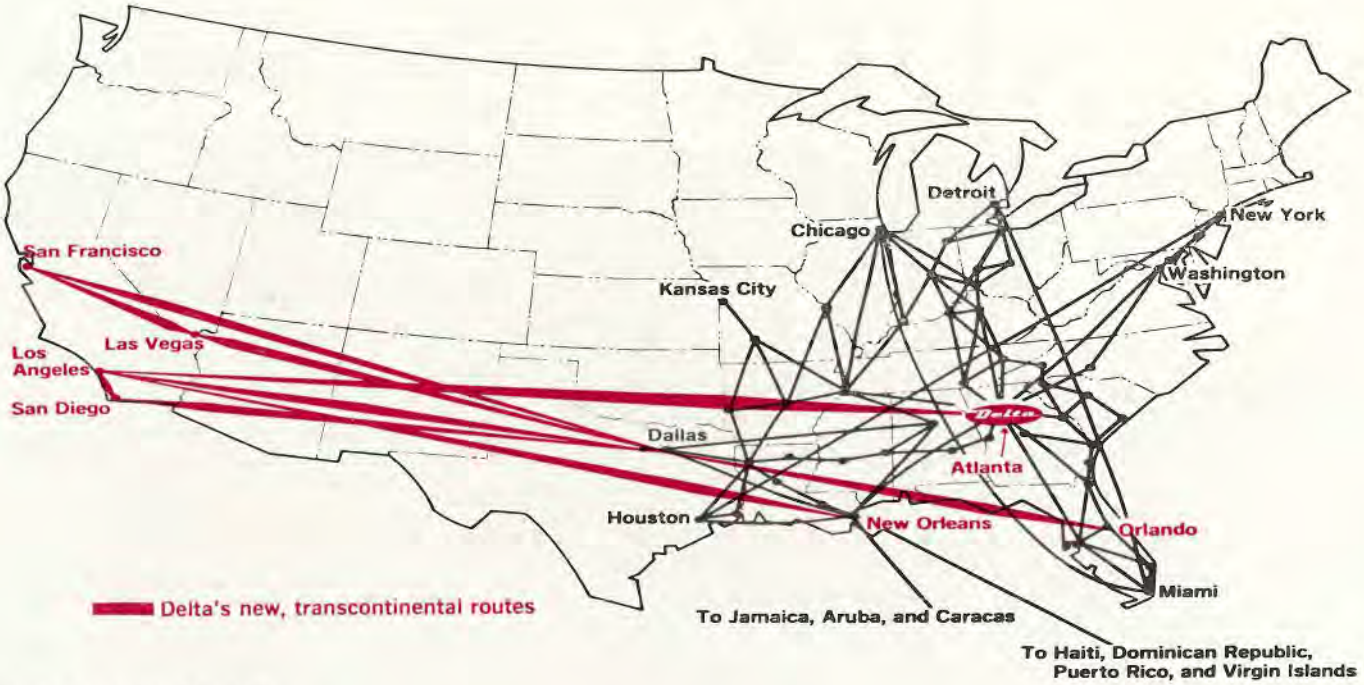
Below: Airline pioneer C. E. Woolman aims to make Delta as successful coast to coast as it has been in the South [Transportation]



TRANSPORTATION

Delta: a big little airline

Or perhaps the smallest of the big lines. Either way, Delta has to grow in order to keep its unusually profitable business. But so far it has looked like a one-man company

In 36 years, C. E. Woolman (cover and right) has almost singlehandedly reshaped Delta Air Lines, Inc., from a rickety crop-dusting company into the nation's fifth-largest domestic trunk airline—and one of its most profitable.

Delta today is the biggest of the small domestic trunks, with a comfortable lead over the next in rank. But it is just as easily described as the smallest of the big lines, well behind the so-called Big Four.

Therein lies Delta's problem. Its in-between position is untenable. Delta has to grow. And no one knows this better than Woolman—its founder, president, general manager, and second-largest individual stockholder.

Realignment. A shakeout is almost certainly coming to the nation's airline industry. There are too many carriers, many with seasonal imbalances and with inefficiently utilized equipment. If airlines don't soon merge of their own accord, the Civil Aeronautics Board is going to press them to merge along CAB-approved lines [BW Nov.18'61,p91].

Delta is a prime candidate for merger. Its heavy Florida tourist traffic in winter would provide a use for another airline's idle equipment, and Delta—unlike many another carrier—is a consistent money maker. Quite a few less fortunate airlines have been eying it lately, hoping to use Delta's profits to offset their losses.

"We are not opposed to mergers," says Woolman, "but we are definitely not of a mind to enter into any merger that will weaken rather than strengthen Delta." He emphasizes Delta because it is clear that Woolman would insist his be the surviving company. Further, he does not want to merge with an ailing airline, taking on unwanted routes and debts, with CAB performing a shotgun wedding.

Into the blue. To avoid being swallowed therefore, Delta must become even stronger than it is—quickly. It must do it on new, relatively thin routes where it does not have many of its old advantages, and it must do it in the face of renewed competition.

Last spring it was awarded a new route across the southern tier of states, making it a transcontinental carrier [BW Mar.25'61,p123]. Up to that time Delta had achieved success largely by being a regional carrier in the truest sense of the word.

It had blanketed the Deep South with its routes and with its reputation for friendly and attentive service. In an area that abounds in local pride, warmth, and loyalty, Atlanta-based Delta was, and is, the South's own. But now, in sallying forth from its stronghold to the Far West it must do without this built-in market loyalty. Meanwhile, it faces new competitive attacks at home.

The competition. As a result of a merger with Capital Airlines early this year, United Air Lines, now the country's biggest, is flying against Delta on the Atlanta-New York and New Orleans-New York runs. Woolman admits United will be a more formidable competitor than Capital was. And Eastern Air Lines, Delta's chief competitor, has changed its ways [BW Nov.4'61, p90], wooing customers with unaccustomed tenderness.

Both United and Eastern are im-

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C. E. Woolman is almost everything to Delta—its founder, president, general manager, and second-largest stockholder

plementing their routes with jets, ending an equipment advantage Delta has had for the past several years.

Yet the company is not alarmed or pessimistic. "We will compete as we've been able to compete for the past 25 years," says Todd G. Cole, executive vice-president (administration). Jets have brought changes, he believes, but the fundamentals of running an airline remain. "Jets are a wonderful competitive tool, but that tool has to be properly used to be effective," he declares.

This is where the approach that Woolman has stamped on Delta can make the difference in a competitive battle. More and more, major competing lines are flying comparable planes on pretty much the same schedules, serving steaks of equal toughness. The intangibles that comprise service and passenger satisfaction are what shift passengers from one line to another.

Friendly approach. Woolman won't talk freely about his views on what makes Delta run. "You just sound maudlin," he says. But one of his executives puts it this way: "Mr. Woolman tells everybody in the company that the fellow on the other side of the counter must be treated the way we would want to be treated."

For example, Woolman wants his clerks to sell Delta, certainly, but where a competitive flight appears to fit requirements, he wants them to tell the caller about it. Once, a Delta stockholder who had been given information about an Eastern flight wrote Woolman a caustic letter. Woolman replied that Delta would not change its policy just to make an immediate sale.

Building loyalty. Over the years, Woolman has extended his ideas and his personality throughout Delta. With a warm, easy-going, plain-spoken manner, he is a master of personnel relations.

In traveling around the system, he constantly wanders off to talk to baggage people, pilots, truck drivers, and maintenance men. Every day he brings an orchid to work to hand out to some surprised secretary or clerk. He personally hands over gold watches or puts pins on 20-year employees.

"I've had to give up pinning the 10-year people," he says, sadly. There are too many of them. And his pride in Delta's growth is tinged with regret when he says, "I used to know everyone at Delta, but with 8,000 employees, I don't any more."

Fiscal result. In a year that has been described as the worst the industry has ever known, Delta is still making money. In its fiscal year ended last June 30, the company netted $4.7-million on revenues of $146-million, both of which were records. And this was accomplished with many of the breaking-in expenses and almost none of the revenue from the new, transcontinental routes.

With these routes adding more than $30-million a year in revenues, Delta is far stronger. As the economics of flying operate, the longer the distance flown, the lower the unit cost of flying. This is especially true of jet airplanes. To justify operating jets—and without them a line like Delta couldn't compete—long hauls between major cities are essential. Delta's flight system, prior to the award of new routes, included many short hauls and a few reasonably long ones. Being able to fly across the country means that, on a system-wide basis, Delta's break-even load factor is lower—that is, it needs to fill fewer of its available seats to make money. Or, it can make more money by filling the same number of seats.

Promoting business. Woolman has his sales people in cities along the new route working hard to see that the seats are filled. Delta spent $500,000 on promotional activities prior to actual start of service. Woolman spends liberally, if not lavishly, on such advertising and promotion. Says Thomas M. Miller, Delta vice-president for traffic and sales: "The boss believes in using both sides of a piece of paper but he doesn't mind spending on promotion advertising and service when he can be convinced the dollars will come back dragging a nickel or so with them."

In addition to regular media advertising, Delta does such things as having its local sales managers take traveling executives' secretaries to lunch, complete with orchid, and having a specialist who works with ladies' groups in, say, sponsoring a what-they-are-wearing-in-Florida fashion show in Chicago.

Coast-to-coast route. During its initial three months of operating over the Los Angeles route, Miller reports, Delta flew with a profitable 60% of its available seats filled.

"The profit potentials of the new routes are enormous," Miller claims, largely because of the tremendous sums of money to be spent on space research. "This money isn't going to be spent in Yankee-Land," he says. "It will pour into Cape Canaveral, Huntsville, New Orleans, Houston, and California. We're the principal carrier linking all this up. We can already see this on our Orlando to California run—the response to this has been nothing short of amazing." (Orlando has the closest major airport to Cape Canaveral.)

More jets. To handle the expected growth of business over its new routes, Delta has seven more jets on order for delivery early next year. These will cost about $36-million—over and above the $60-million that Delta has already borrowed to pay for its present 12 Convair 880s and six DC-8s. Because of the airline's proven earnings record and favorable outlook, however, the second-wave financing has been easier for it than it has been for many carriers. Banks and insurance companies have already agreed to extend additional credit.

Delta was ready last month to go to the public with equity financing —an almost unheard-of feat for an airline these days—when a premature news story upset the deal.

So far, Delta's decisions about new planes have proved smart. The tremendous cost of jets has put an end to any small mistakes—all mistakes now become big ones. But Delta has avoided both pitfalls of overbuying planes and of being caught at a competitive disadvantage with too few. When Eastern gave up its early delivery position on DC-8s to wait for a later model with a bigger engine, Delta sneaked in and took many of the planes originally intended for its competitor. It was first on its routes with both the DC-8 and the 880.

Who's in line? Profitable and smart as Delta has been, there is a major cloud on the horizon. Where one man has shaped a company, the question inevitably arises as to who will guide it when he steps down. At 72, Woolman is one of the last pilot-founders whose hand is still firmly on the control stick of his company.

In talks with Delta executives, the deference in which they hold him is quickly apparent—a deference that stems from his experience and seniority—and the firmness that lies behind his friendly manner.

But now Delta is at a crossroads. It isn't a friendly, middle-sized airline any more. It has become big business, requiring a business management—along with the same warmth and friendliness that has brought it to its present success.

There is no obvious successor in view at Delta. As Woolman puts it, "We haven't appointed any crown princes." But Delta Chmn. Richard W. Freeman claims: "Lots of time and thought has been given to this. We will not have to go outside. There are several candidates all being considered."