

Straight & Level

Opinions On Current Issues In Aviation

Airline Competition Beyond The Millennium

Sometimes continuity is bigger news than change. Over the next decade, the industry's overriding dominant feature will not change at all. Today's large hub operations will prosper with the identity of the major operators mainly intact. The powerful economic forces supporting single-carrier hubs are locked in place — high frequencies, frequent flyer loyalty, travel-agent overrides, and corporate discounts.

The dynamics of hub development depended previously on a minimum efficient jet aircraft size of 100 seats. That appletart has been toppled by the regional jet. The battle to max out frequencies and spokes will push each current hub operation to add new spokes served frequently by RJs. Hubs in smaller metro areas will gain relative to large traditional hubs (e.g., Cincinnati vs. O'Hare).

Forecasts of extensive point-to-point service by RJs are pie in the sky, except in the trivial sense that hubs and spokes are "points." A proliferation of new RJ spoke-to-hub routings will predominate over new non-hub point-to-point service.

Small cities will emerge from dominant-carrier captivity with RJ service to many alternative hubs, while nonstop service from small inland cities to major non-hub coastal business centers will be hindered by capacity constraints (New York and Washington) or insufficient range of RJs (Los Angeles and Seattle).

Looming as a further threat to point-to-point RJ service will be Southwest's inexorable expansion. Southwest's unit costs in 137-seat 737-700s will remain a mere fraction of RJ costs, and its growth will be like a bowling ball, knocking down one by one the opportunities for high-cost RJ service. Southwest's growth will not serve every airport, but rather like a stealth operation it will surround those unserved airports like Cincinnati, Boston and New York within driving distance of its own service. Further, at least 10 of Southwest's focus airports have already emerged as low-cost mini-hubs. As the majors dodge the Southwest bullet at their hubs, those like Continental and Delta with freedom to expand RJ use will gain at the ex-

pense of American, United and others with tight scope-clause limits.

The constrained airlines will pressure their pilots for more liberal ceilings, and pilots in response will demand salary concessions and a role in management decisions on the ownership and operation of their commuter affiliates.

Now that Frontier and Vanguard are spinning money in competition with entrenched majors, limited new entry will continue in niche markets where walkup fares remain high. But the biggest threat to tender new baby airlines will not be predatory behavior by the majors but rather the Southwest gorilla.

On the international front, the alliance game of musical chairs will leave TWA and US Airways as forlorn wallflowers. TWA is likely to vanish, with its St. Louis hub taken over by Continental or US Airways, while its perennial New York Kennedy "loser" gateway evaporates altogether. The craziness of Airbus's A3XX proposal will become ever clearer as new point-to-point routes over the Atlantic and Pacific proliferate using 330s, 340s, 757s, 767s, 777s and even long-range 737s. Similarly, little 319/320 and 737-700/800 birds will wing their way over new thin domestic transcontinental routes; once we've seen Hartford-San Francisco and Boston-Seattle, can Baltimore-Seattle be far behind?

Airline health depends on continued economic growth, but the "golden 90s" won't continue forever. Even if a recession is avoided, economic growth must ramp down, simply because we have used up the reserve army of the unemployed. Slower revenue growth and a rebound in labor costs will narrow profit margins but not eliminate them, as the airlines have learned from their early-1990s debacle to control capacity growth by moderating new aircraft orders to a steady gait and flexibly adjusting aircraft retirements.

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