

**America's Best Big Companies**

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# Forbes

COMPANY OF THE YEAR

## Pfizer

The people  
who brought us  
Viagra have  
more blockbusters  
on the way

Chief Executive Officer  
William C. Steere Jr.



# Travel & Transport

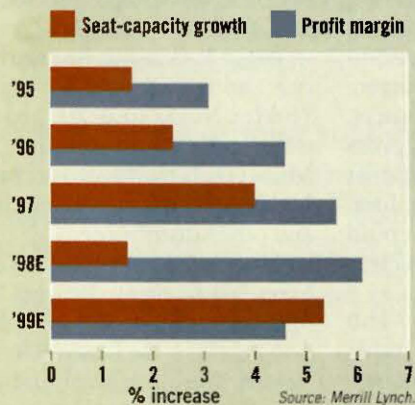
Friendly skies? Thanks to a sharp drop in fuel prices, 1998 is expected to be a record year, with industry earnings of \$5.1 billion, or 12.5% above the year before. But that run could sputter out in 1999 as capacity jumps and fuel costs recover somewhat. Railroads had a tough year—stocks were down 10%—and 1999 isn't shaping up to be any better. The industry continues to be fraught with merger digestion problems and has been steadily losing market share to trucking.

## Industry Buzz

- Airline capacity should rise 5.3% this year, a gain not seen in five years. "That's a real challenge for the industry," says Merrill Lynch's Candace Browning. That expected gain helped keep airline stocks flat for the year, while the S&P jumped 19.9%.
- One potential winner: American Airlines, which has aggressively bought up two smaller carriers (Reno Air and Business Express) and signed a marketing agreement with Alaska Air.
- Trucking fundamentals look much brighter for 1999, particularly for regional carriers. Morgan Stanley Dean Witter analyst James Valentine likes USFreightways, whose earnings he expects to jump from \$2.59 to \$2.90 in 1999.

### Turbulence ahead?

Airlines have more seats to fill.



## Profile

### The budget gourmet

By Scott McCormack

BRAHMS PLAYS SOFTLY in the background as Alaska Air Group Chief Executive John Kelly gazes out the wall of windows in his Seattle office to a sweeping view of a serene lake and towering evergreen trees.

Kelly, 54, claims inspiration for this sedate ambience from a former boss who used to put his feet up on the desk and stare out the window. "He told me he was paid to think, and that's exactly what he was doing," says Kelly, explaining that he focuses on strategy while others handle the details.

For a minute, you almost believe him. But this is one chief executive whose personal imprint pops up in all kinds of details. One day while returning a rental car to Avis, Kelly saw how efficiently the agents processed customers by using handheld computers. So now Alaska Air has extra ticket agents with handheld computers checking in passengers at peak

Alaska Air Chief John Kelly  
Spiffing up in-flight food  
with mom's cookies.



COMPANY	PROFITABILITY		GROWTH				SALES Latest 12 mos \$mil	NET INCOME latest 12 mos \$mil	OPER MARGIN latest 12 mos %	PROFIT MARGIN latest 12 mos %	DEBT/ CAPITAL latest %
	RETURN ON CAPITAL		SALES		NET INCOME						
	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %					
Air Express Intl	18.3	15.9	19.4	1.6	24.0	8.4	1,536	51	6.0	3.3	10.6
Airborne Freight	8.3	14.3	14.0	8.2	51.3	29.8	3,039	130	13.3	4.3	23.5
Alaska Air Group	8.0	12.8	10.0	11.2	53.6†	117.6	1,864	113	16.8	6.0	17.2
AMR	8.9	13.8	4.9	5.3	84.4†	16.5	19,240	1,340	19.0	7.0	33.3
Canadian Pacific	9.1	14.5	3.7	10.1	NM	51.8	6,244	1,062	28.5	17.0	21.2
Carnival	16.3	17.6	11.1	17.0	19.4	23.2	2,805	771	34.1	27.5	24.5
Continental Airlines	14.3*	14.3	4.9	13.1	NM	8.5	7,845	394	14.2	5.0	56.7
Delta Air Lines	14.8	20.6	3.3	4.9	71.2†	23.4	14,388	1,074	18.7	7.5	28.2
Expeditors Intl	21.0	27.2	24.4	13.3	29.4	40.1	1,025	46	8.3	4.5	0.0
FDX	10.4	10.3	13.9	26.7	30.6	5.1	16,089	488	12.7	3.0	23.9
Harrar's Entertain	10.3*	11.0	13.5	17.6	15.9	30.6	1,877	118	25.7	6.3	68.4
Royal Caribbean	11.0	10.1	11.6	49.8	20.8	76.3	2,590	330	27.2	12.7	50.0
Southwest Airlines	10.9	14.2	16.6	11.4	22.7	55.9	4,092	414	21.7	10.1	18.2
UAL	9.4	13.8	5.6	2.3	123.1†	-15.4	17,515	800	12.3	4.6	53.2
US Airways Group	14.9	29.0	5.0	2.0	NM	59.6	8,652	913	14.1	10.6	71.1
USFreightways	11.3	12.9	14.2	21.9	16.5	32.6	1,794	66	11.0	3.7	19.7
Werner Enterprises	10.9	10.8	16.0	14.0	13.3	22.5	837	56	19.3	6.7	13.1

NM: Not meaningful. \*Four-year average. †Three-year average. For further explanation, see page 128.

Sources: Forbes; Value Line and Market Guide via OneSource Information Services.



travel times. When Horizon Air, Alaska's short-haul subsidiary, was looking for a new menu item, Kelly came to the rescue with his mother's molasses cookie recipe.

Instead of peanuts, Alaska serves real meals. Unlike rival Southwest Airlines, Alaska has a first-class cabin and assigned seats in coach. Those features, and maybe the cookies, are why *Travel & Leisure* and other major magazines rank Alaska Air at or near the top of their surveys on customer satisfaction. Only Southwest had a lower percentage of customer complaints in 1997.

No investor complaints, either: This discount carrier manages to turn a healthy profit, expected to be \$127 million on revenue of \$1.9 billion for 1998. Its stock and earnings per share have tripled in the past four years.

If Kelly understands what makes passengers happy, it's because he worked for a year as a ticket agent for Continental before eventually moving into sales and marketing. Later, as a vice president at Alaska with strategic responsibilities, the "hands-off" Kelly insisted on interviewing all flight attendants before they could be hired. He rejected nine out of ten.

Alaska's ride hasn't always been smooth. Beginning in 1993 the airline was forced to undergo wrenching change after Southwest and other

low-cost carriers attacked its markets. Alaska slashed flight attendants, managers, newspapers, free wine in coach.

Alaska's chairman at the time, Raymond Vecci, was a brusque New Yorker who couldn't smile while wielding the ax. That didn't go over well at a company whose logo is a smiling Eskimo. Directors installed the affable Kelly in early 1995.

Kelly refocused the company on its core West Coast markets, mostly north-south flights between California, the Pacific Northwest and Alaska. He abandoned flights to places like Mexico City—a fiercely competitive market for business travelers—and replaced them with more lucrative resort routes. He expanded in southern California and Alaska, where his airline already had a strong presence and brand name. He filled more seats with cheap fares that matched, even beat, those of Southwest—\$210 between Los Angeles and Seattle, compared with \$229 for Reno Air and \$346 for American Airlines.

As Southwest gears up to invade the East Coast, Kelly is not about to be seduced. He plans to keep focused on those north-south routes in the West, on which he has a 70%-or-better market share in many cases. "We know who we are," he says. "We don't want to be the world, just the West Coast." ■

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