

ALASKA Industry

FEB. 1982

\$2.50



**BRUCE
KENNEDY:**
Alaska Airlines'
youthful CEO

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THE NORTH**
moves steadily
upward

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WESTERN AIRLINES
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Bergt rescue
this troubled
carrier?

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**PETROLEUM FORECAST
SLIDES DOWNWARD**

ka Airlines



On Dec. 8, 1981, Alaska Airlines inaugurated service to the Deadhorse Airport on the North Slope. With a new \$3.5 million airport facility, the airline now offers three flights daily to Prudhoe Bay. Located on a 3.3 acre site, the 24,000-square-foot complex includes 9,000 square feet for cargo handling, 7,000 square feet for passenger terminal areas, 7,000 square feet for employee housing and dining areas, and approximately 1,000 square feet for leasable office space.

Kumin & Associates of Anchorage coordinated the architectural design of the complex, and major contractors for the project included ATCO Structures Inc. and HAP Enterprises Inc., both of Anchorage.

The new routes will be served with 727 and 737 mixed cargo and passenger aircraft, and through-plane service is provided from Burbank/Ontario, Calif. to Prudhoe Bay.

Alaska Airlines' chairman and chief executive officer, Bruce R. Kennedy, snipped a ceremonial ribbon officially opening the new facility. Kennedy pointed out that this inauguration represented a return to the Slope, noting, "Our DC-3s, DC-4s, and C-46s were a familiar sight on the North Slope in the late 1940s and throughout the 1950s. Our aircraft carried men and materiel to build the Distant Early Warning radar system along the remote Arctic coast...Alaska Airlines pioneered the use of the Hercules airfreighter on the North Slope."

Elected to the board of directors of Alaska Airlines in 1972, Kennedy was elected senior vice president/properties in 1973 and president and chief operating officer in 1978. He assumed the duties of chairman and chief executive officer in 1979. A former member of the board and directors and past chairman of the board of the Washington, D.C.-based Association of Local Transport Airlines, he also serves as director of Pelican Cold Storage.

Kennedy guides Alaska Airlines from 'dire straits' to profits

Alaska Industry: What events led you to want to operate an airline?

Kennedy: I can't say that I ever had the desire to run an airline. I was part of a team that took control of Alaska Airlines at a time when it was in dire straits. After that, I participated in efforts to bring it back to profitability and to rebuild its service image. When I was thrust into the chairman's position, it was an evolution of increasing responsibility and a surprise based on circumstances. It specifically related to the timing of our attempt to spin-out a subsidiary corporation to do battle with Household Finance Corp. when it made a tender offer for the purchase of Wien Airlines. At that time, I had been president of Alaska Airlines and chief operating officer for a year and a half. But there was no immediate indication that I would be taking over the chairman's responsibility. With the decision to spin-out Alaska Northwest Properties Inc. (ANPI), we faced the question of who would head that corporation, which meant battling an attempt to control Wien. Ron Cosgrave (previous chairman of Alaska Airlines) and I had

some lengthy discussions at that time. The outcome was that we both felt he was the one best suited for the position. He made the decision to resign as chairman of Alaska Airlines to operate Alaska Northwest Properties Inc. The board then named me chairman.

"People outside our company recognize our people for their innovativeness and original thinking. Part of that is the feeling through the years that Alaska Airlines is something special. We see it in our flight crews and pilots. That feeling is infectious."

Alaska Industry: How did your prior real estate ventures lead to your involvement with Alaska Airlines?

Kennedy: I first came to Fairbanks in 1959 looking for a summer job. I soon encountered Ron Cosgrave and some other students at the University of Alaska who were starting a mobile home park and sales organization. While I spent

four years at the University of Alaska getting a degree in business, I spent much more time working with Ron and other students in this small-scale real estate activity. Over a period of years, we acquired nearly a thousand acres of land in the immediate vicinity of the campus. We built some apartments, a post office and small commercial buildings. We also diversified to the Eugene-Springfield area of Oregon in the late sixties with some apartment projects and other interests. That is when we got involved with Alaska Airlines.

Alaska Industry: Would you comment on your real estate development of the Alyeska Resort and other Alaska Airline properties?

Kennedy: We had some real estate activities prior to becoming involved with the airline. When we took control of it, we put most of those assets into the airline to bolster its balance sheet and keep it afloat. At the same time, Alaska Airlines already had some fairly significant real estate activities. It had acquired a restaurant and hotel in Sitka, the Alyeska

Continued next page

Ski Resort and hotels in Nome, Anchorage and Fairbanks. So the airline had quite a property operation of its own before we became involved. Actually, my

"Alaska Airlines is too good a company to get into the corporate maw and be digested a la Wien into Household, for example."

first job with the airline was as manager of the properties division. It did have substantial non-airline real estate interests as well.

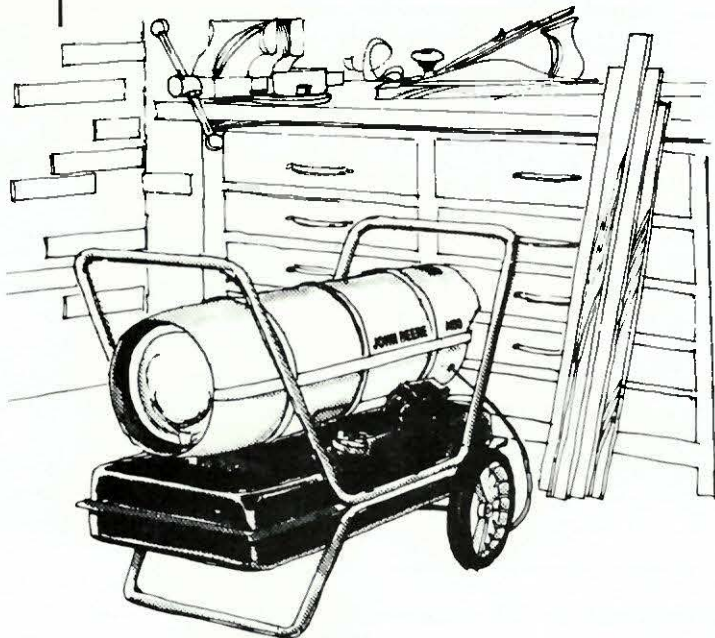
Alaska Industry: Could you tell us about the history of Alaska Airlines and Charlie Willis (former Alaska Airlines' president)?

Kennedy: There are others in the company who are far more qualified than I to talk about Charlie Willis. The standard story was that he didn't care so much what a price was as long as the terms were right. Charlie was a very colorful guy who contributed substantially to what Alaska Airlines is today. It's important that people don't try to take that away from him. He was a man of large concepts. He thought big, and it's just



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too bad he didn't have people with him who would hold on to the financial aspects and pull his ideas into something to produce a strong and profitable airline. I don't know of anyone who knocks Charlie, other than to say that there came a time when the airline had outgrown him and needed a fresh approach to keep it going. That was a tragedy from Charlie's point of view, because to many people Alaska Airlines was Charlie.

Alaska Industry: What were the major obstacles you had to overcome to bring Alaska Airlines to where it is now?

Kennedy: In the first year, as we were involved with Alaska Airlines, we had obstacles of every possible description. The most pressing were financial obstacles. The company had a negative net worth of around \$3 million and a retained

"We've been growing rapidly, with good margins of profit. Everything is working for us now. Our revenue passenger miles will be up about 20 percent or more over what they were last year, which is a good rate of growth for an airline."

earnings deficit of \$19 million. Creditors were giving serious thought to 'blowing the whistle' on it. In fact, Chevron did say that the 'jig was up' as far as carrying Alaska Airlines on its (unpaid) jet fuel bill. With the price of kerosene in those days, that meant a lot of fuel. Chevron finally said that they would shut off our hydrant in 10 days unless we brought our account current. But that wasn't even a

remote possibility. Ron Cosgrave and Charlie Willis tackled that problem to secure the fuel line credit. Cosgrave succeeded in doing it, partially by throwing some of our assets on the line to guarantee the bill. After we took control, there were many similar problems. Creditors had not been paid in a long time. There was a large group of extremely dedicated and loyal employees, but they lacked the tools to work with. They lacked any semblance of modern equipment. So we set to work on all of those fronts. Service standards were lax, and 'on-time performance' was not good. The solution to the financial problem was two-fold. We put in a substantial amount of our own assets so that the creditors would have confi-

"We saw deregulation as an opportunity to finally break free of the CAB (Civil Aeronautics Board) policy of protecting us against our own presumed imprudence of wanting to compete with larger airlines Outside."

dence to be eventually paid. We then altered our priorities of doing business and trimmed expenses back so that the company would show a profit our first full year, in 1973. Thereafter, we concentrated on profitability. As we added new equipment and provided training for our people, we developed our resources as an airline. The oil pipeline construction was very helpful by giving us a spurt of business when we had the airline whipped into shape as far as service standards and equipment. We've continued in that mode up to the present. Recent

changes relate to the spin-out of Alaska Northwest Properties Inc. which required two-thirds of our net worth. So we were down to a pretty small airline again in terms of shareholders' equity by the end of 1979. That equity had shrunk to about \$9 million, which was very small for an airline. We got the airline back on the profitable track again in 1980. Early this year, we went to the public with a stock offering for the first time to rebuild the shareholders' equity lost by the spin-out to ANPI. We secured about \$13 million in February 1980 through the offering of preferred and common stock to the public. In September, we sold 1,210,000

shares of common stock. Between those two stock sales and our profits, which have been very good in the last year, our shareholders' equity is now about \$40

"Our commitment to Prudhoe Bay is unquestioned. We put four million dollars into our new terminal facility, which suggests that we are going to be here for the long pull."

million. That's a very comfortable change for us, from a \$9 million low-point.

Continued next page



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Alaska Industry: How have things shaped up, and how do you feel about the airline now?

"Anchorage has enough going for it with business headquarters, government activities and size, that it has attained a healthy economy, without reference to the 'boom and bust' cycle so familiar in Alaska."

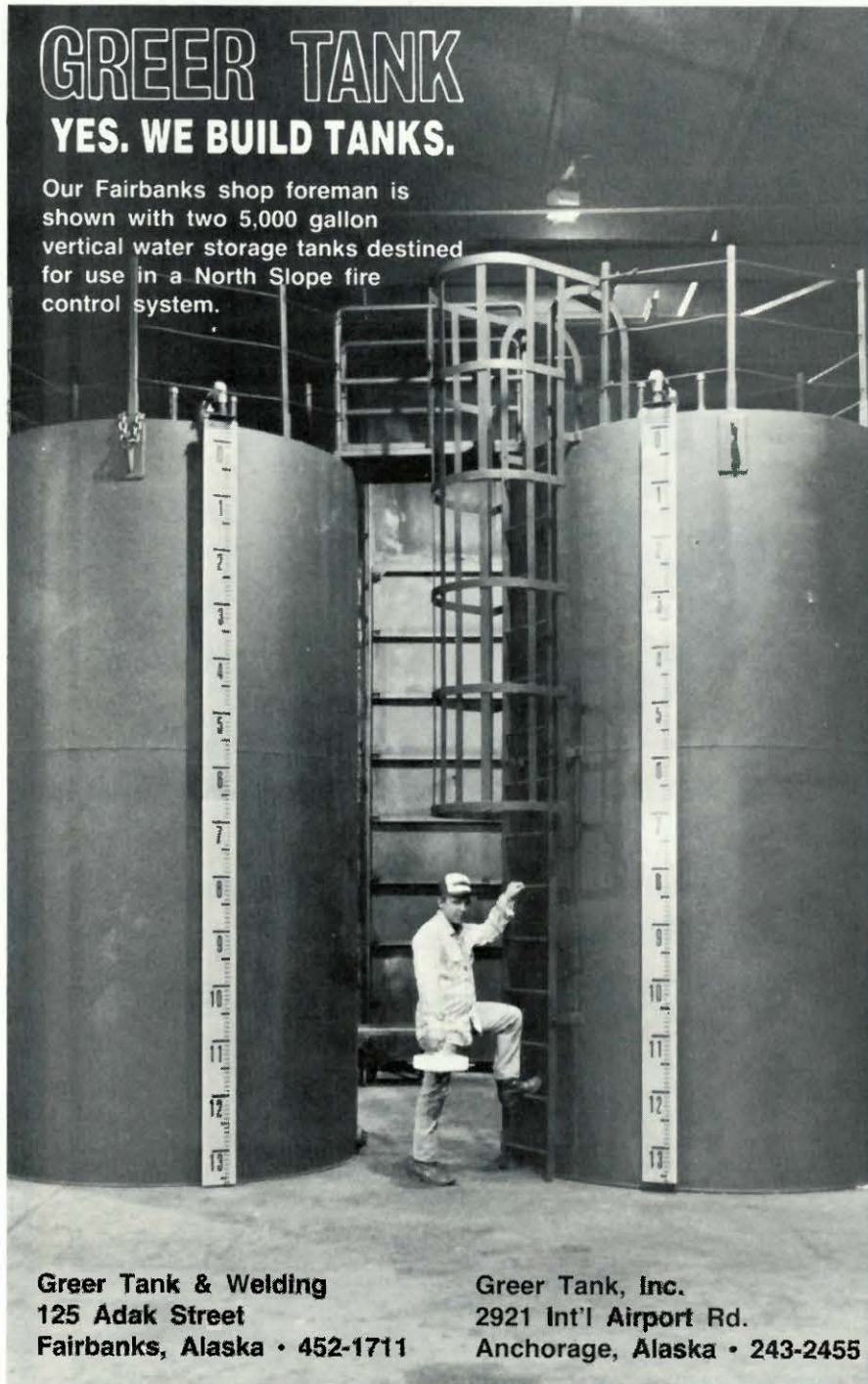
Kennedy: I feel very good. I think our finances are in good order. We have added five airplanes this year which have

given us a new capacity. The new cities we serve have all been profitable. We've been growing rapidly, with good margins of profit. Everything is working for us now. Our revenue passenger miles will be up about 20 percent or more over what they were last year, which is a good rate of rate of growth for an airline. This is a year when major airlines are facing negative growth. The competition is intensifying right now. United Airlines is taking a more aggressive stance in the West Coast markets. It hasn't been United's inclination over the years to be a leader in aggressive low-pricing, but they apparently felt it necessary to

change that with their expertise from the East Coast. New entrants there take some of the established markets at lower costs. So we had to counter that. We presently see additional competition in our markets. I don't believe it will be substantially different from competition we have faced over the years from the big carriers. You have to realize that we have competed for years before deregulation, for example, with Pan Am, nonstop out of Fairbanks. We now compete against one of the best financially-managed carriers in the country in that market — Northwest Orient, with their wide-bodied equipment. We do well in terms of a comparative market share. For years, Western was the carrier to compete with. It is an excellent carrier in terms of passenger service and strength. Before deregulation we had a pretty aggressive bunch of competitors. Since deregulation we have voluntarily gone out and taken on United and Western in the San Francisco market, head-to-head, on their own turf, in an area that they had exclusively to themselves for 30 years.

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"Fairbanks is well-located as a marketing and distribution center and as a potential headquarters site for businesses involved in developing resources from interior and northern Alaska. Energies could be better spent to make Fairbanks an attractive place to live so that negative comparisons with Anchorage could be minimized."

Alaska Industry: What was the result of that?

Kennedy: It's been a consistently profitable undertaking for us in the Portland and San Francisco markets, almost from the outset. It took us a little longer to learn the combination for San Francisco, but it has worked well for us. Now we have a new ingredient with the highly visible California carriers such as Air-Cal, an efficient, low-cost carrier. There seems to be no end to the new competition. On the other hand, in a historical perspective, I see no reason to believe that we should be awed by these new carriers. We plan to emphasize our stronger areas and will try to counter our weaknesses.

Alaska Industry: The addition of one more air carrier to Deadhorse was certainly needed, but how do you feel about the third one (Western Airlines)?



Alaska Industry: As a primary carrier in southeastern Alaska, what do you see in the future for that part of the state?

Kennedy: Southeastern Alaska is dependent on resource development in large measure. Its growth is steady, but somewhat cynical, depending on the fish runs and the market for timber.

Alaska Industry: Will the U.S. Borax molybdenum mine in Ketchikan have an effect on your operation?

Kennedy: It will, definitely. I think it's only the first of a number of hard-rock mineral developments that we will see opening up in southeast Alaska in the next couple of decades. U.S. Borax is

having a hard time getting off the ground because of an environmental hassle. We think it is the largest single bright spot in the immediate future of Ketchikan. I understand that there are some substantial mineral prospects on Admiralty Island. I don't have details as to the timing for their development. The condition of the world will have a lot to do with just how quickly Alaska's non-ferrous mineral deposits become economical for development. In any case, they have to be very large world-scale operations, which would normally take around 10 years to bring from discovery to meaningful operation.

Continued next page

Kennedy: Western's decision to add service with our entry into the market came as an unhappy surprise. Our commitment to Prudhoe Bay is unquestioned. We put \$4 million into our new terminal facility, which suggests that we are going to be here for the long pull. Western's presence means that operating margins for all three of the major carriers here are going to be less than we would like for a while until the market rationalizes.

Alaska Industry: Do you feel that Western's entry supports Alaska Airlines' decision that there is a need for more than one carrier to Prudhoe?

Kennedy: There is no question that there is enough business for more than one carrier. It's important to us to generate a substantial amount of traffic south of Anchorage and Fairbanks. That is a large part of the reason for going into Prudhoe.

"I am less driven at this point by a personal desire of recognition than I am for a vision of Alaska Airlines as an entity. I feel responsible for the fate of an organization where I have a great deal of attachment and respect."

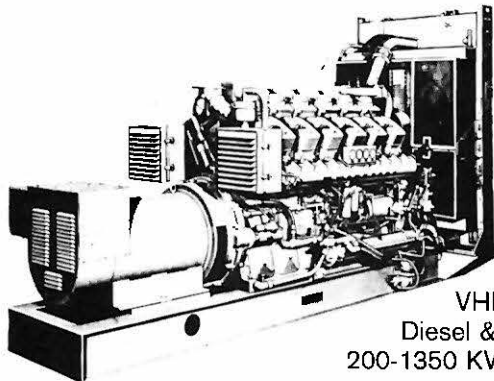
Alaska Industry: Will your flights that originate at Prudhoe be connecting flights to Seattle, San Francisco and Los Angeles?

Kennedy: Our flights will originate as far south as Burbank, go into Deadhorse, and come back out. They also provide direct service to southeast Alaska.

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Alaska Industry: What about the rest of southeastern Alaska?

Kennedy: Southeast Alaska is a good airline market with the exception of

"The thing that I want least to happen is to have Alaska Airlines fall by the wayside or lose its identity while it is in my stewardship. I want it to stay independent and be something that Alaska can be proud of for having its name attached to the airline."

Juneau. It's probably a market which is best served by one jet airline now. That's what we are beginning to see as the mar-

ket shakes down after deregulation.

Alaska Industry: How do you picture the economy of Anchorage and Fairbanks?

Kennedy: Anchorage has achieved something that Fairbanks has yet to achieve. It's has a self-sustaining, self-generating economy. It has enough going for it with business headquarters, government activities and size, that it has attained a healthy economy, without reference to the 'boom and bust' cycle so familiar in Alaska. Fairbanks has been held back by the inability of many key people there to see beyond their own personal interests for a greater civic good. There have been some substantial exceptions to that rule such as the construction

of the new hospital after the flood in 1967 and with other civic endeavors. Leading citizens were never able to get together and advance the city's purposes without making sure that they had a large piece for themselves. I understand that there is a new move afoot there for some of the 'young blood' to get the city going and start doing some things in the downtown area, which has been on the decline for some time. Growth in Fairbanks has been in outlying areas, which is not un-

"The oil pipeline construction was very helpful by giving us a spurt of business when we had the airline whipped into shape as far as service, standards and equipment. We've continued in that mode up to the present."

usual, but it has certainly detracted from any kind of a viable urban core. I hope new moves will bring about some building in downtown Fairbanks. Fairbanks is well-located as a marketing and distribution center and as a potential headquarters site for businesses involved in developing resources from interior and northern Alaska. Energies could be better spent to make Fairbanks an attractive place to live so that negative comparisons with Anchorage could be minimized. I would go back and live in Fairbanks tomorrow if the circumstances called for it. My wife feels the same way. We still have some property there, and I have a real attachment to Fairbanks.

Alaska Industry: What direction are you going to take Alaska Airlines?

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Kennedy: Alaska Airlines supported deregulation. We were one of the few carriers that did. Frontier was also an early advocate of deregulation. We had been denied any opportunity to expand our system beyond Seattle for years, despite many efforts. We saw deregulation as an opportunity to finally break free of the CAB (Civil Aeronautics Board) policy of protecting us against our own presumed imprudence of wanting to compete with larger airlines Outside. The Deregulation Act was signed into law in 1978. We then expanded to Portland in April 1979. The rationale was that Portland was the second largest market from

Alaska, the largest being Seattle, which was already in our system. The next largest market from Alaska was San

“Southeast Alaska is a good airline market, with the exception of Juneau. It’s probably a market which is best served by one jet airline now.”

Francisco, where we started service in June 1979. After that we turned our attention north to expand the system to Nome and Kotzebue in 1980. Later that

Continued next page

Kennedy: The steps we have taken in the last two years would give a good indication of the vision that we have for Alaska Airlines. We intend for it to be a major factor in both passenger and cargo aviation for Alaska. In order to do that, we have to expand services within Alaska and be a larger factor in carrying people from points of origin in the Lower 48. The expansion that we started immediately after deregulation set the tone for what we intend to do in the future.

“There seems to be no end to the new competition. On the other hand, in a historical perspective, I see no reason to believe that we should be awed by these new carriers. We plan to emphasize our stronger areas and will try to counter our weaknesses.”

Alaska Industry: Do you plan to service the East Coast, even beyond your interchange program?

Kennedy: Not in the foreseeable future. In an era of deregulation, almost anything is possible over a span of a considerable number of years. It appears that our strength lies in a north-south oriented route structure, with Alaskan markets at the north terminus and points along the West Coast being the other anchor of the system. There are carriers that are well-entrenched in the east-west markets. We have no unique strength that would enable us to succeed in taking a major position in those markets.

Alaska Industry: How has airline deregulation altered your market strategy?

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year we expanded to Palm Springs to another counter-season destination. In 1981, Burbank and Ontario, Calif. were included from the fourth largest market from Alaska, the greater Los Angeles area. Prudhoe Bay was then added as a feeder system to the north. That's the kind of expansion we generally have in mind, building markets to the north and south, being alert to any other opportunities that come up. The Burbank and Ontario expansions really came from Continental's decision to pull out of those markets after years of serving them, apparently successfully. Due to a change in strengths and strategies, there are markets that would not be a prudent expansion for us right now. But that could suddenly turn around.

Alaska Industry: What activities do you enjoy outside the airline?

Kennedy: For many years, I kept so close to the business that I didn't have a lot of outside diversions. We were working very long hours while we were still in Fairbanks. I went back Outside to get married. I now have two children who were born in Fairbanks. My other interests center around my family. I've been involved with scouting as an assistant scoutmaster, and I like activities out-

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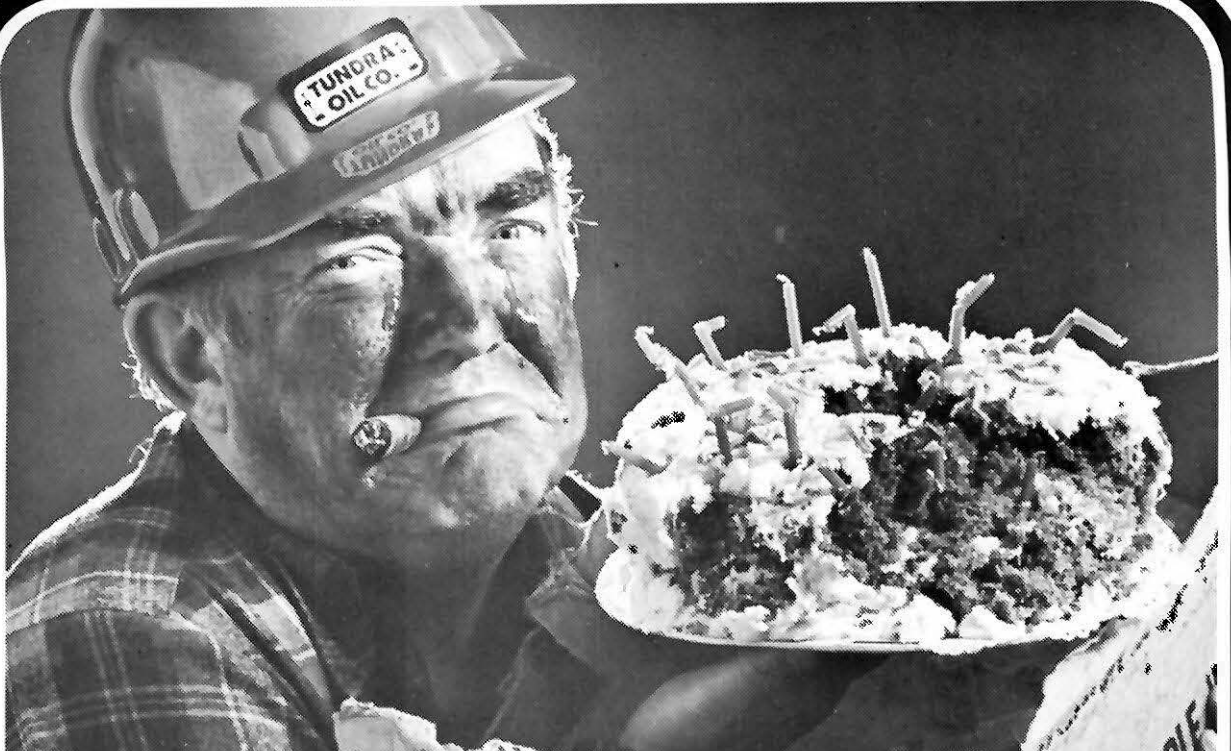
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doors. This past summer I yielded to an impulse and climbed Mt. Rainier. Growing up in Colorado, I climbed 14,000-foot mountains with my dad and older brother. Later on, I lived in California and climbed Mt. Whitney in 1958, not too long before I came to Alaska. That was the end of my mountain climbing until this Rainier climb, 23 years later. I found it a little more challenging than I had remembered.

Alaska Industry: Exactly what is it that drives Bruce Kennedy?

Kennedy: I am less driven at this point by a personal desire of recognition than I am for a vision of Alaska Airlines as an entity. I feel responsible for the fate of an organization where I have a great deal of attachment and respect. We have nearly 50 years of history. We have a substantial number of people who have been with the company for a long time. I think that Alaska Airlines has value to the State of Alaska and to these people. It's something that should survive and continue. The thing that I want least to happen is to have Alaska Airlines fall by the wayside or lose its identity while it is in my stewardship. I want it to stay independent and be something that Alaska can be proud of for having its name at

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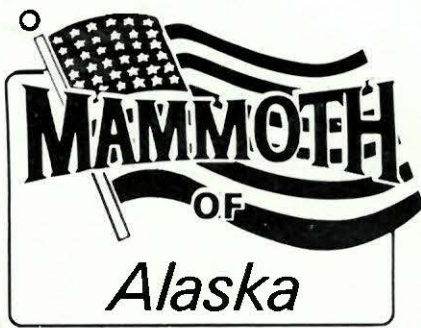
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tached to the airline. I worry about merger-mania, not because of the fear of what would happen to management; it would be a sad day for Alaska if Alaska Airlines was gobbled up and became a part of Western, American or a non-related company. Alaska Airlines is too good a company to get into the corporate maw and be digested a' la Wien into Household, for example. We have many employees who feel stronger about this identity than I do. People outside our company recognize our people for their innovativeness and original thinking. Part of that is the feeling through the years that Alaska Airlines is something special. We see it in our flight crews and pilots. That feeling is infectious. It rubs off onto new people in the company. That is a major motivation for me in terms of growth and in addressing the competitive situation. I want to be sure that Alaska Airlines remains in a position where it can not only make a profit, but be able to keep its independence. ■



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