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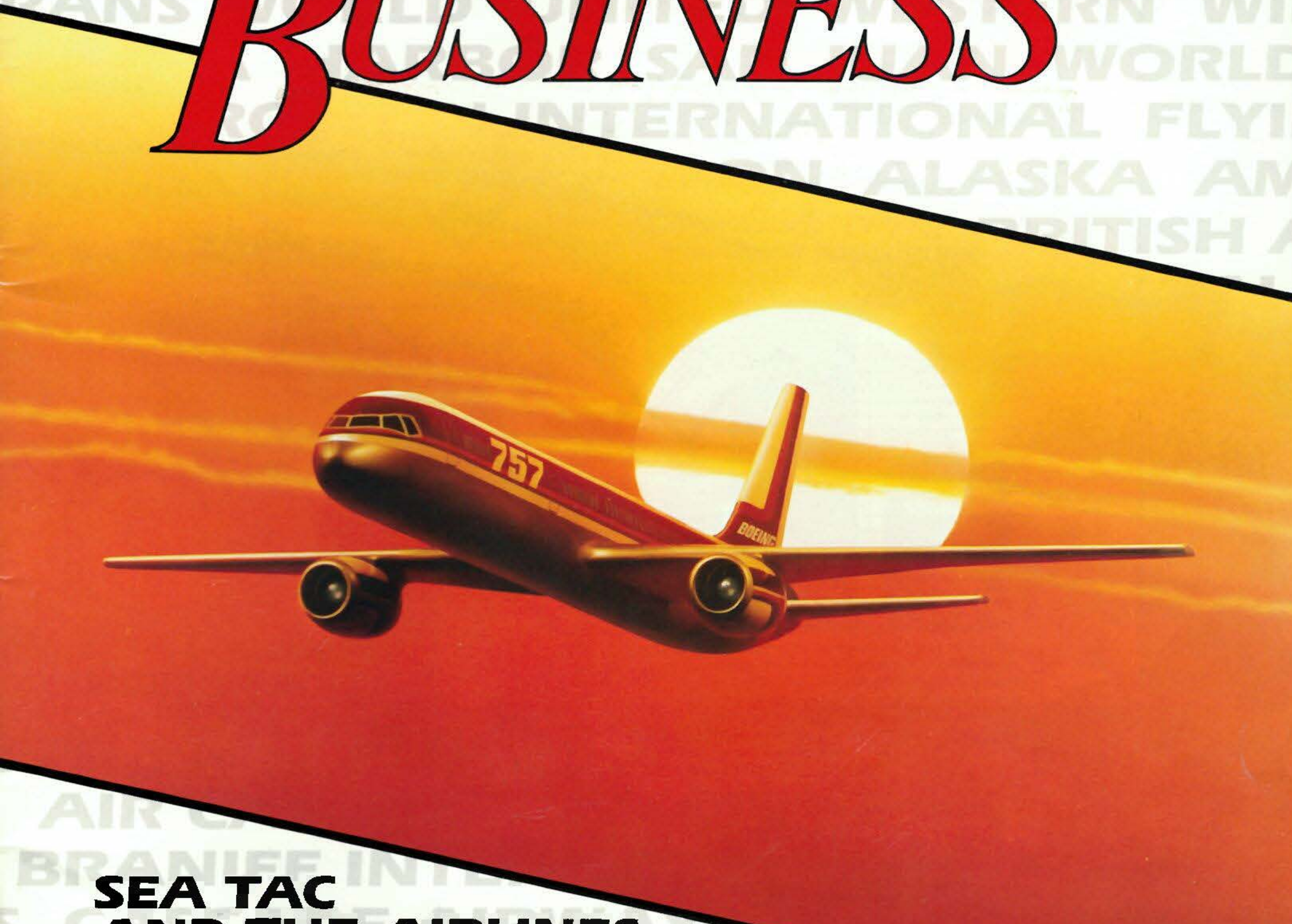

SEA TAC AND THE AIRLINES: WHAT'S THE ATTRACTION?

PSA: A New Maverick Comes to Town

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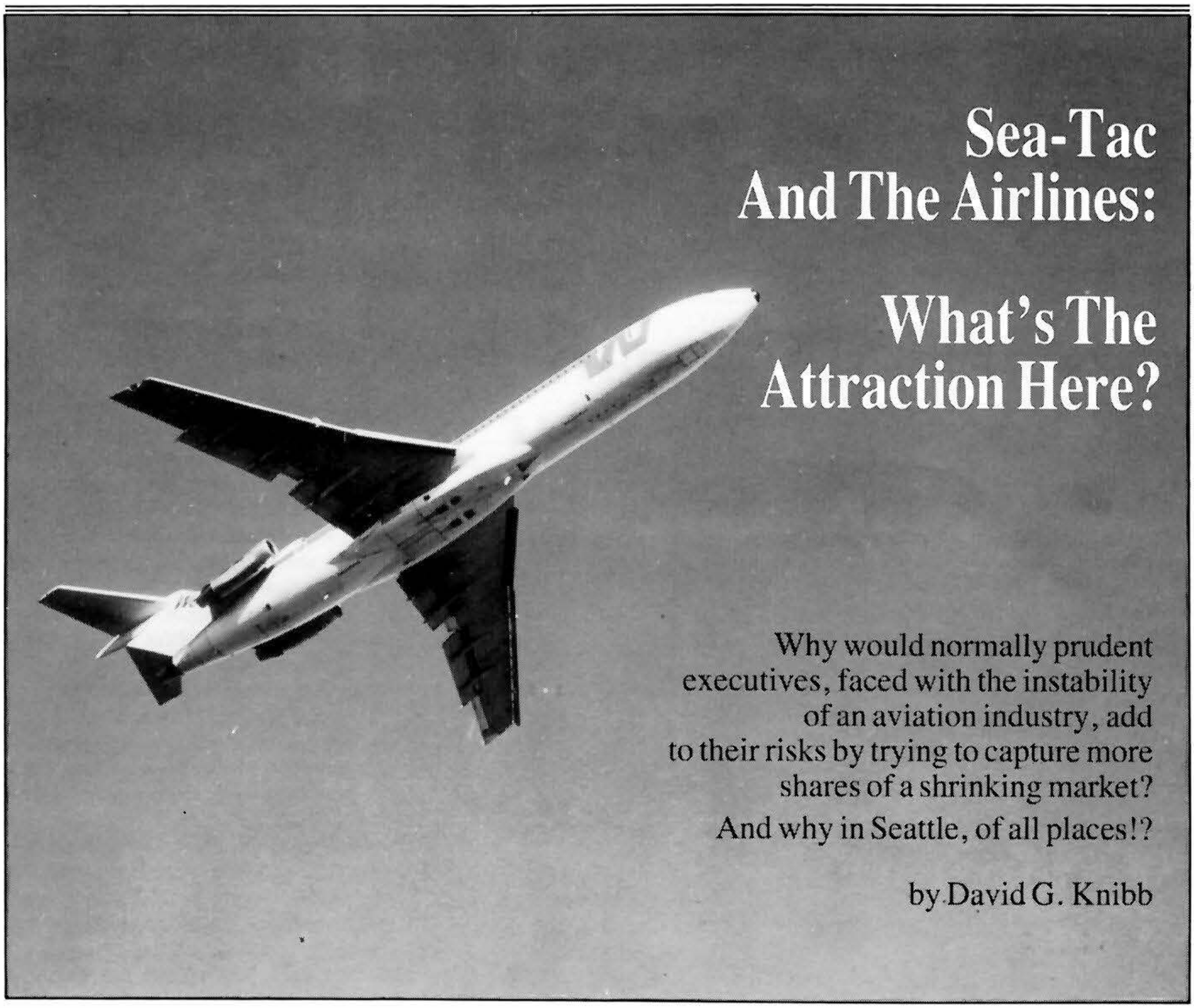


Sea-Tac And The Airlines:

What's The Attraction Here?

Why would normally prudent executives, faced with the instability of an aviation industry, add to their risks by trying to capture more shares of a shrinking market? And why in Seattle, of all places!?

by David G. Knibb

When **Frontier** began service to Seattle from Denver in November, followed by **PSA's** new flights from California in December, they joined a growing number of airlines adding The Emerald City to their routes.

Deregulation is a partial explanation, of course, but deregulation alone can't explain why airlines continue to expand their markets in the face of a sluggish economy, nor does it explain their tremendous interest in Seattle as a destination point.

And the interest continues. Frontier and PSA will hardly be the last of the new carriers serving this region — already three others have their eyes on Seattle.

Cathay Pacific Airlines and **Japan Airlines** both want to join the North Pacific competition with services from Hong Kong and Tokyo. Meanwhile, a new domestic airline called **Pacific Express** — which just obtained Civil Aeronautics Board (CAB) approval to fly a 26-city circuit stretching from Tucson to Seattle — expects to begin flights here later this year. (See box.)

When deregulation began in October 1978, Seattle had 16 certified carriers. (While all airlines must be certified, the term now commonly excludes charters and freight carriers.) Since then, that number has jumped to 30, not counting frequent charters such as **Evergreen International** and **Transamerica.**

The routes of our old standbys have dramatically changed — and are still changing. Nearly every U.S. airline with a national route structure now serves Seattle. Although **Texas International** succeeded in acquiring a majority ownership in **Continental Airlines,** Continental will still operate as a separate carrier for at least the foreseeable future. (And it is too soon to tell what will happen with **Western's** talk of taking over **Wien Air Alaska.**)

National Airlines came and went by virtue of its acquisition by **Pan-Am** but, interestingly, no airline once here has withdrawn from the Seattle market since deregulation days.

Entering new markets in these days is risky business, as **Braniff International** can well attest. Remember those heady days right after deregulation, when Braniff decided to inaugurate Hawaii service from Seattle with a promotional round-trip fare of $99? Perhaps more than any other airline, Braniff was burned by overly rapid expansion. Both it and Continental have since retrenched in the face of some hard economic realties.

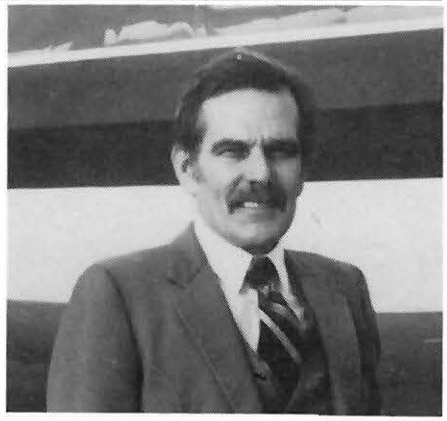
Dynamic and *chaotic* are words used to describe commercial aviation in this post-deregulation era, and for many airlines the adjustment has been difficult.

According to **Oris Dunham,** director of aviation for the **Port of Seattle,** if the oil embargo and resultant fuel costs had not occurred, coupled with last summer's air controllers' strike, some of the airlines which took early advantage of deregulation could now be doing quite well.

Before deregulation, explains Dunham, Seattle was isolated by reason of a CAB ruling requiring *co-terminating* with Portland on virtually every route from the East. That additional 20-minute flight, with fuel costs and landing fees, meant more airline costs and served to dampen their seeking routes to the Northwest. But once the lid of deregulation lifted, Seattle became a rather attractive destination point.

Actually, the sluggish economy prevents any definitive verdict on the overall effects of deregulation on the Seattle market. It appears that Seattle traffic hasn't suffered as much as other markets but, as Dunham observes, adding more domestic carriers simply divides whatever market remains.

And this, he suggests, is the biggest paradox of commercial aviation today: *more* airlines are competing to carry *fewer* passengers — a shrinking pie with smaller pieces. Somebody may end up starving.



Milton Kuolt

All of which raises a series of interesting questions.

Why would normally prudent executives, faced with the instability of an industry in transition, aggravate their risks by trying to capture a share of a new but shrinking market?

Are airlines managed by devil-may-care opportunists?

And equally curious, what do these same executives, whether shrewd or crazy, find so attractive about Seattle as a destination point?

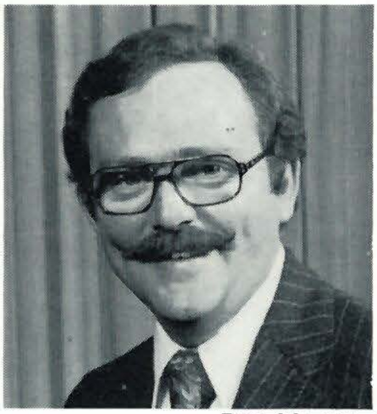
Horizon Air, a new Seattle-based regional carrier, offers some local answers to questions like these. It began operations in September with five weekday flights each to Yakima and the Tri-Cities — routes already being flown by two other airlines.

Horizon was started by **Milton Kuolt II,** well-known as the founder of **Thousand Trails,** who felt that commuter passengers would prefer some alternative to the small aircraft which typically serve such routes, with no inflight services except the opportunity to peer over the pilot's shoulder. With that in mind, Kuolt bought and refurbished three F-27s from **Quebec Air** to operate on his new airline.

As Kuolt explains, before Horizon Air entered the Seattle-Pasco market, passengers had to choose between a small commuter aircraft or a much larger jet which charged higher fares and stopped in Yakima. Now, with the more economical F-27s, Horizon is able to offer the advantages of a larger plane at a lower fare. It has proven to be a wise decision, with Horizon enjoying a 75 percent to 85 percent load factor on the Seattle-Pasco run.

Similar cost considerations affected Kuolt's decision to also serve Yakima, except that there Horizon is trying to offer fares competitive with the cost of driving, accompanied by in-flight amenities comparable to jet service. The latter, according to Kuolt, is easier than the former, but his airline is trying to fine-tune its appeal to potential passengers by offering a fly-drive package to Yakima.

Kuolt is skeptical of formal market studies as a basis for deciding where to fly. Instead,



DAVE MARRIOTT

Horizon Air has relied on first-hand knowledge about the size of potential markets and the competition's prices and service, coupled with a good business sense about how consumers are likely to decide which combination of price and service to accept.

What's to prevent another airline, with the same information, from deciding to jump into the same competition, such as Pacific Express has announced an intention to do?

"That would suit me fine," responds Kuolt. "If we can't provide a quantum improvement in service, we shouldn't be there. The marketplace makes that choice; not the airlines."

Nationally, deregulation helped the commuter carriers, as the bigger airlines withdrew from short-range or low-density markets, leaving a vacuum commuters promptly moved to fill.

This trend has its local examples. **Air Oregon** now flies between Seattle and Portland; **San Juan Airlines** acquired **Pearson Aircraft** in October, expanding its Puget Sound routes to carry over 80,000 passengers annually; and Horizon Air extended its system in December to include Yakima-Portland, Pasco-Portland, and weekend flights from Seattle to both Pullman and Idaho's Sun Valley.

As commuters thus enter more interstate markets, traditional distinctions between them and regional carriers have become so meaningless that the CAB has essentially dropped the term "commuter" from its vocabulary. Now there are simply little and big airlines, and the little airlines face the same market expansion questions as their bigger rivals.

On a regional and national scale, the puzzle simply has more pieces but the issues are still much the same. Before it started Seattle service, **Pacific Southwest Airlines** surveyed local travel agents with such questions as:

- "Are there enough flights from California to Seattle?
- "Which airline has the best schedules? The best service?
- "Do your clients prefer Oakland or San Francisco airport? Los Angeles, Ontario or Burbank?"

Even in the face of an overall decline in traffic, PSA apparently believes that expansion now is a good investment against the time when passengers decide en masse to take to the skies again. For more about PSA, see page 18. The same is obviously true of Horizon Air, Frontier and Pacific Express.

But why all this interest in the Seattle area, which is ranked only 23rd among major U.S. metropolitan areas? Located in the nation's uppermost Northwest corner, why would carriers seem so anxious to include us in their expansion plans?

At least three reasons emerge. First, it's simply a matter of history repeating itself. From its earliest days, Seattle has always been the jumping off point to Alaska. Whether they are Texas oilmen headed for the North Slope, California fishermen bound for Bristol Bay or tourists going to Sitka, first, they come to Seattle. And despite the ups and downs of Alaska's recent economy, the net effect in terms of travel is still up.

Win Perman, a former Alaskan herself, has noticed this trend while owning and operating **Billiken Travel** in Seattle's Smith Tower:

"Our traffic to Alaska hasn't dropped since the pipeline was finished. The scheduled flights have actually increased. **Wien Air Alaska** didn't even start flights from Alaska to Seattle until the pipeline was done.

"More people probably flew to Alaska during the peak of that construction," she admits, "but more people are flying *now* than *before* the pipeline started. Commercial fishing, population increases, more frequent rotation of work crews on the North Slope and the general level of activity in Alaska have all played a part in it."

The statistics are more dramatic than might be expected. In 1974, before the pipeline began, 538,000 passengers flew from the West Coast to Alaska, excluding the southeast arm of that state. During the 1976 peak of pipeline construction, that number had jumped to 907,000. But of greatest interest is the picture four years later. In 1980, *after* the pipeline was finished, the number had continued to climb, reaching 987,000.

In other words, if traffic dropped when the pipeline was finished, that drop was short-lived and more people are flying to Alaska now than during the peak of that project. If this trend continues — and everything suggests it will — a million people a year will soon be travelling between the West Coast and Anchorage, and most of them will fly from or through Seattle.

At least some of this continued growth is the result of shrewd airline promotions. For example, because of the short tourism season up north with its resultant yo-yo effect on airline revenues, **Alaska Airlines** starting promoting *southbound* tourism during the slow winter months with flights last year to Palm Springs (see **Seattle Business:** April/1981).

According to **Dave Marriott,** Alaska Airlines' corporate public relations director, the program was so successful that the city of Palm Springs urged that the program be repeated this season and actually start three months earlier, in mid-September. Alaska Airlines was happy to oblige. (For more about Alaska Airlines, see page 36.)

The second reason for the Seattle-area's growing popularity with the nation's airlines, as most of us already know, is Seattle's increasing importance as a commercial and financial center. Population in itself is an unrealistic guide to a city's relative significance. Seattle, with a population hovering at the 500,000 figure, has become the economic and corporate headquarters of the Pacific Northwest — a fact not lost on market-searching airline executives.

This point was recently emphasized by **Richard Kjeldsen,** senior international economist with **Security Pacific National Bank,** the nation's 10th largest. With headquarters in Los Angeles, Security Pacific opened a Seattle branch in mid-November for international financing.

Kjeldsen predicts that finance will be the Pacific Coast's growth industry in the '80s and Seattle will have a major part to play in it.

Indeed, as the second largest port on the West Coast, Seattle is strategically located as the chief commercial gateway between this nation's entire Northern Tier and the Orient. Coupled with this region's earlier pre-eminence in aerospace and Alaskan commerce, it's easy to see that business travel will become an increasingly larger contributor to this region's air traffic volume.

Lastly — and with the most profound long-range consequences — Seattle has emerged as the West Coast gateway by air to both Europe and the Orient. It's well to remember that deregulation did not affect international routes, so the growth in this area reflects a genuine change in overseas travel patterns.

Four foreign airlines joined our ranks in the past three years, bringing to nine the number of carriers offering nonstop service to Seattle from various foreign ports. If Cathay Pacific begins flights here from Hong Kong, and reciprocal landing rights are granted to JAL for United Airline's U.S.-approved route to Tokyo, the number will grow even more.

Geography and the non-stop range of jet aircraft, together with the travel-oriented markets of such places as California and Texas, have combined to Seattle's ultimate benefit. A San Francisco-to-Tokyo flight takes longer via Honolulu than via Seattle. And we are right on the way from Los Angeles to Scandinavia.

Gail Jenkins, local representative for **Thai Airways,** describes the Seattle-Tokyo route as the "Great Circle Shortcut" because of the distance it lops off the Pacific crossing. A Tokyo-bound passenger from Dallas saves 1,156 miles by routing through Seattle rather than through Los Angeles, not to mention the advantages of a modern, relatively uncrowded airport with less congestion at customs and immigration on the return.

But Jenkins is also quick to point out that Seattle is not merely a conduit. Half of Thai's Seattle-Orient passengers start or end their trip in the Northwest. "Seattle," she says, "is a destination in its own right." Tourist promotion in Japan of Seattle as a destination, and our increased trade with the Orient, as well as excellent access to other places within the U.S. were all reasons for Thai's decision to fly into Seattle, explains Jenkins.

A recent visit with **Art Wells,** chief of the CAB's Route Authority Division in Washington, D.C. confirmed these perceptions about Seattle's growth in airline traffic.

Over the entire U.S., only five airports are now served by more airlines. New York (Kennedy) has 65, Los Angeles and Miami 54 each, Chicago (O'Hare) 41, New York (LaGuardia) 34, and Seattle is next with 30. For a city ranked 23rd in population, that's especially significant.

FACES

Amid The Doom And Gloom, Smiles At Alaska Airlines

by Ginny Turner

You can take **Bruce Kennedy** out of Alaska, but you can't take Alaska out of him — it's made a permanent impression.

Not a man to fritter away time in idle pursuits, the Denver native and six University of Alaska classmates formed a management group which, in 1959, bought raw land near the university in Fairbanks and subdivided it into a mobile home park.

"No one here would start that small," Kennedy points out, "but we thought it had potential." Indeed it had. The **Alaska Continental Development Corporation** eventually amassed a net worth of several million dollars.

The ALCO investors were willing to take a risk in 1972, turning over hard-won assets for 24 percent of the stock in financially feeble **Alaska Airlines.** Kennedy was named to the board of directors, and in 1973 became senior vice president for properties.

"It was a phenomenal job change for me, a quantum leap in scale of responsibilities and decision-making," Kennedy recalls. "But, in retrospect, it was a good time. I think whenever a person is challenged to the limit of his capability, it's a great growth time."

Kennedy and other former ALCO associates streamlined operations and in two years, by might and main, brought the airline around to show a profit, for the first time in many a long year. "We had a strong incentive to produce because everything we had was in the airline. The group was working for something we considered our own, so we had an entrepreneurial interest and weren't acting as hired guns."

Bruce Kennedy: *"The top management of this company should always have a good cadre of people who have lived in and love Alaska."*

Kennedy, who became president in 1978, is understandably pleased that his airline has consistently shown a profit amid general industry doom and gloom. "But the pride is tempered with the ongoing pressures of running a small airline."

The bigger lines have economy of scale — they can buy cheaper and advertise more efficiently. They have more cost-effective long flights, and they pack more wallop convincing the CAB that new routes would be profitable. But the bigger lines also "are losing money by the bushel."

It doesn't make Kennedy nervous, he contends, but it does make him conservative. His airline's success is because "we have avoided overexpansion in new routes and large capital outlays, and because we're well located geographically."

Deregulation offered the Seattle-based company a way out of a static routing situation, and Alaska has been expanding southward on a carefully managed schedule into Portland, San Francisco, and the enormously successful Southern California area, as well as adding more stops in Alaska to bolster its competitive stance against **Wien Air Alaska** and **Northwest Airlines.** Only one additional plane has been added to the fleet, however.

Being situated in the Northwest has been a continuing benefit. "I can't imagine another part of the country I'd rather be in — we've got the combination of the West Coast, Pacific Northwest and Alaska. Even our name has been good for us — it evokes a very strong image for people, especially in Southern California. It has a magnetism hard to duplicate with another name."

Alaska still holds a strong attraction for Kennedy, whose years there have instilled in him a community responsibility he's proud of. The airline has set up advisory boards composed of local citizens in four major population areas. Their function is "to advise us how we can better serve their areas." They determine on a local level how to distribute funds donated to the areas by the airline. "We thought it would be a good idea," says Kennedy, "but we didn't really know how well it would work."

Kennedy feels the continued successful growth of the airline depends on keeping close to its origins. "The top management of this company should always have a good cadre of people who have lived in and love Alaska. If there's anything that makes us different, it's our understanding of Alaska, and we never want to lose that." □

L.A. Fog Can't Mess Up Host's Sea-Tac Kitchen

The story line of a gripping film in the early 1960s had the crew and most of the passengers on a commercial flight fall ill from tainted food. One passenger, a former military pilot, fortunately brought the plane in safely, and for years I wondered if something like that could *really* happen.

The answer is no, according to **Carl Borg**, general manager for food and beverages for **Host International, Inc.**, the firm which prepares inflight meals for eight of the airlines serving **Seattle-Tacoma International Airport.**

The flight crew, says Borg, is served completely different meals than those the passengers receive. What's more, the captain's meal is separate even from the choices available to the rest of the crew. "It doesn't even come out of the same pot," says Borg.

Borg's job is to keep close watch on Host's inflight kitchen at Sea-Tac, a facility large enough to turn out some 2,000 meals a day for passengers bound for Mexico, Asia, Europe and various U.S. destinations. And for every 20 flights, says Borg, perhaps five meals are alike. They vary according to destination and length of flight and meal serving time, but even then preparation plans have to be flexible.