Dots on a Map Podcast

"JV vs RJ: What Can We Learn?"

Episode 5 Show Notes

Intro

- There are three primary parallels we explore as we compare Delta's JB international/transborder expansion model to the DCI feeder carrier model

1. A Method of Outsourcing

- Joint Ventures and Delta Connection are both methods of outsourcing
- In episode 4, we postulated that the "large RJ" flying, if flown by Delta mainline, would (conservatively) add around 2,300 pilots to our seniority list
- Estimating how many Delta pilot jobs are currently outsourced due to our reliance on JVs for the bulk of our international expansion is a bit more complicated
    - Comparing fleet, we know that the combined number of widebody aircraft at Air France/KLM and Virgin Atlantic (the proposed new JV partnership) is 184 while Delta currently operates 150 widebody aircraft
    - While not all of these aircraft fly transatlantic, most do
    - Using recent history as a comparison, the transatlantic split is about 40/60, with Delta operating only 40% of transatlantic flights

Hub-to-Hub Transatlantic Departures

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Total	% of Total
AF	647	608	560	504	531	486	448	505	571	641	645	692	6,838	17.5%
DL	2,005	1,918	1,937	1,566	1,724	1,628	1,398	1,639	1,760	1,908	1,903	2,004	21,390	54.9%
KL	362	350	362	322	334	324	288	350	402	422	418	424	4,358	11.2%
VS	590	554	557	378	398	377	343	544	652	674	650	674	6,391	16.4%
Total	3,604	3,430	3,416	2,770	2,987	2,815	2,477	3,038	3,385	3,645	3,616	3,794	38,977	

Hub-to-Hub Transatlantic Block Hours

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Total	
AF	5,799	5,454	4,996	4,538	4,772	4,339	4,026	4,540	5,110	5,741	5,797	6,246	61,358	17.8%
DL	17,626	16,965	17,057	13,792	15,267	14,443	12,369	14,550	15,687	16,922	16,884	17,734	189,296	54.8%
KL	3,283	3,173	3,274	2,802	2,897	2,818	2,509	3,071	3,595	3,764	3,724	3,781	38,691	11.2%
VS	5,227	4,905	4,904	3,293	3,499	3,276	3,003	4,722	5,679	5,872	5,658	5,872	55,909	16.2%
Total	31,935	30,496	30,231	24,426	26,435	24,876	21,907	26,883	30,072	32,298	32,063	33,633	345,255	

Sources: OAG (Data load date: 29 Jul 2018), E&FA Analysis

Notes: Hub-to-Hub flights include those between EU hubs of AMS, CDG, and LHR and DL hubs of ATL, CVG, DTW, JFK, LAX, MSP, SEA, and SLC

2. Exposure

- Delta seeks exposure to more markets via both DCI and JVs, gaining access to customers and revenue that these partners serve
- Delta, likewise, risks exposure to the product that our partners offer and its requisite strengths and weaknesses
    - Per Delta corporate rhetoric, our product demands a revenue premium over our primary competition based on:
        - Superior reliability (we don't cancel flights),
        - Performance (on-time percentage), and
        - Service (pilots greet passengers, hand out wings, carry strollers, gate house announcements, etc.)
    - How do our partners compare in these categories? Are we exposing Delta customers to the product they expect?

3. **Labor Relations Between Partner Entities**
    - Labor groups can either choose to work together or be used against one another
    - The “RJ Defense Coalition” sued ALPA while mainline pilots were furloughed
    - Recently, partner corporate leaders have touted cost savings over Delta, because of their cost efficient labor
        - To prevent international/transborder whipsaw, we **must** develop and maintain a good working relationship with our partner airline labor groups
        - This is the primary role of the International Affairs and Alliance Committee (IAAC)

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