

Georgia's Business #407

Guest: Ed Bastian President and Chief Financial Officer, Delta Air Lines

Richard Warner

I'm Richard Warner welcome. This week on Georgia's business the president and CFO of Delta airlines Ed Bastian successfully navigated Delta through chapter 11 and is now involved in the process of merging Delta with Minneapolis based Northwest Airlines which when it is completed will create the largest airline in the world . Thanks for having time for us.

Ed Bastian

Richard, thanks for having me.

Richard Warner

How's business?

Ed Bastian

Business is challenging. With oil prices getting closes to 150 dollars barrel its certainly a difficult time for not just the airlines industry, I think cooperate America at the present time. That said Delta has done remarkably well. We just posted our second quarter results a couple of weeks ago we actually posted a profit in the second quarter despite the fact that we faced unprecedented oil levels. So I am very comfortable the work that the Delta people are doing there doing a fabulous job serving our customers and managing the latest volatility to hit the industry.

Richard Warner

You know in any other business I can think of when costs take a huge increase its very simply passed along to the person who buys the product. What prevents you from doing that?

Ed Bastian

What prevents you is the amount of capacity in the industry. It's very easy with respect to travel to just shift your travel ligancy to a different carrier. So until the overall capacity of the industry is size to the cost structure you know carriers will price their product differently in the market place. And so what we at Delta are doing is what many of the competitors are doing or needing to pull excess capacity out on profitable capacity. So we have the ability the right size supple to the demand. Right now it's a little bit out of skew.

Richard Warner

And yet every flight that I've been on since maybe two years ago has been virtually full, well it seems that way. Where is the excess capacity?

Ed Bastian

Well the great myth to the industry is because the planes are full, that means it's realizing a profit and that isn't always the case. In fact because our product is a perishable product the moment it takes off it's gone. You are forced to price your product down to make certain that you're always filling the plane up. So if there's too much capacity in the market place it forces prices down and you will take that cash because you would rather take some cash for the seat than no cash at all. So you can't look at it only on both factors you have to look at the price people are paying for those tickets.

Richard Warner

So when I am crammed into that flight you might be losing money on that flight?

Ed Bastian

Often times we are yes.

Richard Warner

Interesting this means that for the traveling public if you're sinking cost and demand together you are going to reduce the number of flights which we've heard. What does that mean for me when I go to book a flight?

Ed Bastian

Well what we are trying to do is we're trying to get the demand level to match or the capacity to match the demand level. So the reason we're pulling capacity is not to shrink to squeeze more people in the plane there are less people flying at this higher price points because we're going to need to raise prices to cover the cost of fuel. So my expectation is those factors are not going to increase at all if anything while the reduced capacity may lead to some fewer choices in terms of frequency. It will also ease some of the congestion in the air space and in the airports and hopefully it will improve the liability of the overall airlines performance.

Richard Warner

You don't find a president and a CFO in the same suit. Does the CFO first of all do those two positions ever conflict each other

Ed Bastian

Sure, sure, sure...

Richard Warner

Who wins?

Ed Bastian

I win. Delta wins. There's a lot of value when we set the structure up to have in the CFO position and the president position in one position because this industry has such a strong core of finance analytics. At its base and everyone is always concerned about the liquidity of the industry the pricing mechanisms and the network and the sales organizations which would report to me...

Richard Warner

Fiendishly competitive, fiendishly complex

Ed Bastian

Very, very complex and it needs to be balanced against the cost side of the equation which again which largely reports up to the finance side of the house. So it gives you the ability to see both sides of the network and the pricing decisions matched to the costs to make certain you have the right quote at the end of the day.

Richard Warner

And asking you what you are up to today the appointment prior to this was with an investor and I would think that having that CFO title would first of all give you some degree of credibility. You might not have if you were just the president but also give you a point of view where you are able to relate to that potentially.

Ed Bastian

Right, I spend a lot of time with investors, a lot of time with our current investors who want to be certain that Delta's position for growth for the future and their stock price should grow accordingly as well as attracting new investors. We just came out of bankruptcy a year ago so we are still in the midst of building a more stable investor base. We've done I think a very nice job of you know eliminating the creditors from the base and some of the head's funds and having longer term holders of the stock. So I spent a lot of time on the road marketing the company, marketing its future. It's been a bit of a challenge with oil prices you know getting to the \$150 level and people stepping on the side not wanting to invest in the airlines but I think oil has now settled down. We are currently at about \$120 a barrel that's given people the confidence to put their toe back in the water and look at the airlines again.

Richard Warner

You probably have the pitch down but when they start quizzing you and they start getting granule about what makes this a good investment they are gonna wanna know how is that merger coming along? What cost savings gonna be and what's the answer?

Ed Bastian

The big concern they have one other liquidity you know is this going to be a solvent carrier. We ended the June quarter with over 4 billion dollars in cash so yes its quite solvent. And we expect when we close the deal with Northwest combine the deal with Northwest we'll have over 6 billion dollars of liquidity so that's their principle concern; make certain the carrier is gonna be around. Second concern is how is the merger going to proceed? What are some of the concerns that we have as the leaders of the company in terms of the integration? And I think the third thing they are concerned about is the future of the industry, is there seeing capacity change is the seeing oil prices rise are we keeping our capacity constrained such that the demand picture is balanced to the supple equation. Those are generally the 3 questions that I get.

Richard Warner

Tremendous issues related to the mergers of 2 companies. You're talking about not just finances and equipment and routes, the routes seem to fit well but any time you do this you get into merging cultures. How do you as the architect and the captain make the possibility of this being a successful merger to nest? How do you figure this out?

Ed Bastian

Well I agree Richard the cultural aspect of integrating these 2 companies that both have very long and proud heritages. It's going to be our biggest challenge and particularly true when we've already announced that the Delta brand will survive. So the Northwest brand will go away in the market place the red tail as is affectionately referred to up north is gonna disappear from the landscape. It's very tough in fact. I've got a lot of empathy for the Northwest folks given that we went through our challenge with the hostile take over with US Airways a couple of years ago and looked at the possibility of loosing Delta. So I understand.

Richard Warner

Loosing Atlanta as base...

Ed Bastian

Loosing Atlanta as a base...so I understand and appreciate what they are going through. Several things that we are going about are first we've already got our pilots on board. It was very important to us to negotiate with our pilots up front. What the terms of the new deal was to go under their support. We've done that. We've done that not just with the Delta pilots, we've done that with the Northwest pilots. So a very key and important labor group has already signed up in support of the deal. And so were moving forward in that aspect. Secondly is that we are going to personally be up in Minneapolis most of my time going forth once the deal closes. I'll be the CEO so I'll be adding another title to my profile of Northwest airlines. And as a consequence the reason I am doing that is because I am the Delta person that can kind of take Delta forward to them and can be there to live amongst them to understand what Delta brings to the table, what we ought to focus in respect of the merger, what we should not merge and live alone, what locations and what job functions to stay in Minneapolis because we're going to have a very large base of operations, 25000 employees within northwest, half of those that are housed out of the Minneapolis location.

Richard Warner

But in fact there is agreements in place with the city that will maintain you know the headquarters had to be maintained there I believe is what it said?

Ed Bastian

That is what the covenant said and as a result the fact that the headquarters is gonna be here in Atlanta technically they can call it that which would mean we'd have to pay the debt back for about \$200 million at the end of the day. I don't think its gonna come to that. We are in negotiations with the state of Minnesota to that effect but there are going

to be key locations and key job functions that we are going to need to retain in Minneapolis.

Richard Warner

How do you sleep at night?

Ed Bastian

I actually sleep pretty well. I actually sleep well. You know when you work in a crazy business such as the airlines with a lot of volatility you focus on what you can control and you realize there's a part of it that's out of your control and you stop trying to control it. And fuel for example fuel will be what it is and it is something that across the landscape we are going to react to. We are going to respond to but you can't worry about the best way. I make sure I have a great team of people around me. And we've got a great team. We've got some great people on the front line serving customers. We've got some great people behind the scenes taking care of business and they keep us propped up. And I am blessed to have a great team around me and that allows me to do my job.

Richard Warner

You left Delta. You've been with Delta twice now and at the end of the 1st tenure you went to work for a much smaller company. In the lighting you went to Acuity. Was that a sign of relief to get away from what airlines require of their C-level executives?

Ed Bastian

It was a little bit. It was a different time in Deltas history. I think there was a lot frustration and concern about whether Delta was going to be around and some of the decisions taken.

Richard Warner

Did you leave out of frustration?

Ed Bastian

I left for various reasons one of which was some frustration with the then path the company was on. And as part of that when I left I missed it. I missed it a lot. It's a great industry. It's got a great people and besides my wife was tired of seeing me home by 5 o'clock. She didn't know what to do with me.

Richard Warner

But you got great deals on lighting?

Ed Bastian

We got great deals on lighting but Jerry called me and asked me to come back and offered me a great opportunity...

Richard Warner

When he called you, what did he say?

Ed Bastian

He admitted he shouldn't have let me go in the first place. So it was humbling to hear. It was humbling to hear Jerry makes generally makes all the right decisions and now when he admitted he let me leave and shouldn't have which I felt like I was called to duty.

Richard Warner

You came back in and when you got here and you got your wish you missed it, you got it back...what did you find?

Ed Bastian

I found a company that needed to file for bankruptcy real quick. It was running out of cash. It was running out of steam in the market place it didn't have a business plan to support its strategy. It was trying to turn itself into a low cost carrier. It was Song and a number, that's not who Delta is. Delta is a global carrier. Delta plays at a different level. Delta should be playing at a premium cloud and provide a premium service to customers. I found a company that was diluting it's product in terms of pulling away from customers and as a result of that the employees were taking it on the chin. And we needed to completely change our focus and strategy going forth. We needed to become a global carrier. So we've more than doubled our international foot print. We've needed to make our employees part of the solution rather than feel as if they did at the time, as if they were nothing but a problem, nothing but a cost. And we needed to get our balance even more. And the only way to do that in the airline industry was to go through the restructuring that we did and I think we've done a great job in all three.

Richard Warner

A style has to come into play. An executive comes in a lot of times you know it the rank and file and the unions who are looking for leadership. If you had to sum it up in a word or a sentence what kind of style did you intentionally come in as you entered this new role?

Ed Bastian

I think there's probably two things. One I came in with a very open mind about what needed to get done. I wasn't here to protect past decisions. I was just here to focus on what needed to get done and acknowledge that mistakes have been made. As I told people and we've brought all our employees for many times over you don't go into bankruptcy by making a lot of smart decisions. There were some important decisions that were taken and we needed to let the past go and focus on what needed to change for the future. So I say that was one of a reach out back out to the employees and pull them back in back into the tube. And I think the second thing that I came back with was really a kind of need to be very hands on. We needed, I mean this is a business with truly the devils in the details high analytics and my style generally is to be very deep into the detail hands on with the people. I get very passionate about the success of Delta airlines. And I think you need to be that way to be to make your mark in this industry.

Richard Warner

You go into the executive building not far from here and there's a big LCD monitor in the lobby. And it's like a gigantic live power point presentation that's all analytics. It gets down to having to measure and track as the only way to make this work.

Ed Bastian

It is we wanna make certain our employees know every single day how we are doing. How they are doing at the end of the day, service our customers so the matrix that your referring to generally relates to the reliability figures the on time arrivals you know, how we are doing with baggage in terms of making certain that you know bags are getting with our customers, level of customer satisfaction. And we want to make certain that all the executives know on real time basis how the employees are doing. So it's the same monitors you'll see in the corporate offices. You'll see it in the crew rooms at the airports. You'll see it on the buses as they carry our employees from the parking lots to the airports. As well it's a business around the analytics and keeping everybody's head in the game.

Richard Warner

And how do you tell and convince an individual that they have an impact on those analytics?

Ed Bastian

Well the neat thing about the airline industry is that it relies on everybody pulling together. It's the individual that's out pushing that aircraft. That's just as important as the mechanic that's making certain that it's ready to go, as the flight attendant whose serving our customers, as the pilots that's shepherding it, as the sales agent who sold the ticket. It requires every single individual doing their job and coming together as a team to deliver the product. So if anyone piece, anyone link of that chain starts to slip the entire experience starts to fall. So it truly is a team business and we spend a lot of time with our employees talking about teamwork and how to work together across various divisional lines because at the end day it's all about the customer. And if the customer is going to be there your going to be satisfied. Everyone's got to pitch in.

Richard Warner

You said the key word there that I want to launch off on which was experience; you travel a lot, what's a customer experience?

Ed Bastian

In the airline industry...

Richard Warner

Forget Delta for a moment, what's it like to fly a lot in your view?

Ed Bastian

Well I probably have a little bit of a different view of travel because when I travel I', largely on Delta and obviously everybody knows who I am. So I am not sure I get the

candid view of what the experience is at all times. And believe or not I travel more back in the bus than I do up front so I...

Richard Warner

You travel in the back of the bus or plane?

Ed Bastian

I travel in the back of the plane more often than not because I want to experience what our customers are experiencing. And I want to see how our people are doing. And want to make certain our premium customers are sitting up front not in the executive airline.

Richard Warner

I'll go with that your sitting in the back of the plane I shouldn't have to ask this because I know what's it like? Is this something where you are looking at what the environment is and saying this is gotta get fixed and we gotta do this differently and...

Ed Bastian

Yea, absolutely...Where can we improve our service or you know how's the food for sale program being received? And you know I buy it just like everyone else buys it. I'll spend my ten bucks and taste the product. And I will be there to make certain that I understand from a customer experience. I will tell you it can be a challenging experience at times. I think the congestion in the airspace you know the fact that the FAA hasn't invested in infrastructure in this industry for many years. It needs to make a major investment to clear the airwaves going forth so that our aircraft can fly unimpeded and reduce some of the congestion in the sky is a critical factor for us to try and improve the future. But yea at the end of the day, it is about the product we offer to our customers. We have made investments particularly in first class part of the product particularly in international which is part of our growth strategy going forward.

Richard Warner

Is that change in capacity gonna help free up the skies?

Ed Bastian

I think it should. I mean logically it will, logically it will. I think the other thing that should help is that the principal source of the aircrafts that are being reduced from the system and not just Delta across the industry are the smaller jets, the regional jets who tend to take up just as much room in the sky as large wide body, so the amount of seat that are exiting the market and the number planes that are exiting the market hopefully should alleviate a little bit of the congestion issues. Probably for the wrong reason, respect the hike of oil prices but at the end of the day it's going to be a huge impact.

Richard Warner

Ben DeCosta, Hartsfield Airport General Manager at least some months ago was on the record saying Atlanta needs a second airport as a way to help relieve the congestion at Hartsfield Jackson. You're probably not an enthusiastic supporter of that I would imagine...

Ed Bastian

I am not an enthusiastic supporter of that, no. We don't think it does. We realize the city has to do its advance planning 25, 50 years out into the future. An airport requires a tremendous amount of infrastructure around it. And you know the great beauty of Hartsfield in Atlanta and a great service it provides to the community is the non stop connections across the world and the ability to connect with the being into Marta, well the infrastructure that's built around it for the rental cars and the hotels. And you know an airport is only one piece of the experience. And if you start to pull pieces away from Hartsfield I think the cost in the long run will start to over weight the benefits you'd receive from reducing little bit of congestion in the airways.

Richard Warner

2025, though if airline capacity continues to grow Hartsfield reaches it's capacity, what happens? Does that build the charlottes of the world give up?

Ed Bastian

Clearly the city will need to evaluate whether it should be another runway whether it should add to the capacity of the existing facility. I think the city is going to need to evaluate where they think the airline space, the airspace is going. We are talking about a shrinking industry at the moment, not a growing industry. So when you think about the future you're going to have to think about where the price of oil is gonna be. If oil in the future is going to be \$200, I think there's gonna be less air travel than if oil is at \$50 a barrel. So I think there's a number of variables that need to come into play and its not as easy as just taking today's growth patterns and extrapolating into the future.

Richard Warner

Makes the lights bulb go off with the capacity and the internet improving and bandwidth and through putting video, does that have to be your biggest competitor for the biggest travel?

Ed Bastian

I don't think so. I think business gets done on a personal basis, on a relationship basis. I don't think you ever replace that. I think technology can facilitate and provide for more productive business environments and drive some efficiency but at the end of the day we transact as human beings. We don't transact with computers.

Richard Warner

You are about to transact in Detroit. You're going from here. It's interesting to get a granular. What does the president of a major airline do in a day you get done with this half hour interview, then what?

Ed Bastian

I am going to be on a plane to Detroit, a Northwest plane actually. So I'll be experiencing sitting on the back of the plane on Northwest as well and getting some of the Northwest experience. And I'll be spending tomorrow with a host of Detroit based customers. Northwest has a large hub in Detroit. It's the hometown airline for Detroit. And I'll be

meeting with a number of the Northwest customers who have a lot of questions about the transactions this is going to be Delta essentially acquiring the Northwest property. What is that gonna mean with respect to their customer and preferences and their travel experience? I'll have the opportunity to spend time with the Governor of Michigan tomorrow and spend time with her and understand what some of her concerns of her may be from employee based perspective. And what does it mean to the region you know the hook in between an airline and the economic development of a region is undeniable. And they are tied together. And certainly I think one of the reasons Atlanta is who we are is because of the growth of Hartsfield Jackson airport as well as the growth of Delta airlines. And so the relationship and the ties between the community and the government agency within the community and the airline are tied. And I spent a lot of time with government authorities as a result

Richard Warner

You look at Bellsouth which was acquired. We lost it as a corporate headquarters. You look as Georgia Pacific which was acquired private company you know essentially lost that head quarters. This is like the only time in recent history that we have won, if you look at it and purely win or lost terms.

Ed Bastian

Well it's, we try not to look at it as a win or loss. I know it's a great win for Atlanta. It's a wonderful win for Atlanta, but empathetic too to our new 2500 colleagues from Minneapolis and Detroit and the great North as to how they feel about that, but it's a big one for Atlanta. Atlanta is home of the largest airline in the world. And it already has the greatest airport in the world. And now it's going to have the largest invest airline in the world. And that's a fabulous experience. And you compare that to where we were sitting several years ago, we were all wondering whether Delta airlines was going to make it. We were all wondering whether you know this company called US airways is gonna steal our company and take it out to Phoenix and fending that off and getting the restructuring done. It's as rewarding as anything I've ever done Richard.

Richard Warner

Next step is this the kind of a job that you can hold? And as get more and more tenure in it that history gives you perspective that nobody else could possibly have is this the job to end all?

Ed Bastian

I got my job. I think it's a wonderful experience. I probably wear especially now that I'll be picking up the responsibility for the Northwest operations. I'll probably have too many hats. I'd probably need to give up one of my titles, probably be hiring a CFO in the future, somebody that can spend full time on the finance responsibilities going forward. So I can concentrate more one the Northwest side of the business and retain the Deltas president title as well. Still but its a job where you live in the public domain and you spend a lot of time with a lot of quality people whether be your customers or your employees. And I get a lot of energy from that

Richard Warner

As you walk down Concourse A or Concourse T at Hartsfield is there a buzz? Do people know who you are?

Ed Bastian

A lot of people and employees do, and I take my time. I talk to them on the way through. I am never the OJ Simpson running through the airport experience. They would tackle me if that was the case. So they like to connect to their leadership and it's one thing I love about this company because it is a connected company.

Richard Warner

And may I ask when they approach you after recognizing you, what do they say? What is one thing memorable that they said?

Ed Bastian

The majority of our employees thank me. And you know the airline industry doesn't necessarily pay the best but when you get compliments like that that's all the reward I need.

Richard Warner

Well hope you have a good flight on Northwest all the way up to Detroit.

Ed Bastian

Thanks Richard, I'm sure I will.

Richard Warner

And appreciate your cutting out 30 minutes of a very busy schedule to be with us, good stuff.

Ed Bastian

I appreciate it, thank you...

Richard Warner

That's Ed Bastian president and CEO of Delta airlines...you can watch our broadcast, listen to in Atlanta WCFO radio as a rebroadcast. You can also download the audio track of this broadcast on itunes, just log on and do a search on the term Georgia's Business and you'll find the files to download it. And you can sound off to me directly at Richard Warner.com. Love to hear from you. For now I'm Richard Warner thanks for watching. And for all of us here at GPB, until we meet again next week, don't sell yourself short.