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Photo courtesy of ATA Airlines



# COMING *of* AGE

*While staying true to its low-cost carrier tradition, ATA Airlines has built a high-quality, full-service hub-and-spoke network.*

■ By Steve Hendrickson | *Ascend* Contributor

**S**keptics say it can't be done. While traditional thinking famously asserts that people can't have their cake and eat it too, airline strategists are nearly as unanimous in saying that you can't have a full-service, hub-and-spoke-oriented network airline and low operating costs. But try telling that to the 7,200 employees of Indianapolis, Indiana-based ATA Airlines. Their defiance of the conventional wisdom is propelling the carrier toward a brighter, stronger future amid the ever-changing U.S. air travel market.

As the 10th largest U.S. airline, ATA is the smallest of the so-called majors, defined by the U.S. Department of Transportation as having US\$1 billion or more in annual passenger revenue. But despite being the tiniest within that category, the magnitude of the carrier's growth and evolution has been nothing short of gargantuan.

## The Airline that Could

There have been so many incremental enhancement initiatives accomplished by ATA in recent years, efforts that have further

added to the credibility of its emerging brand, that it is hard to single out any one as being the preeminent breakthrough. Rather, what becomes apparent is that the confluence of these improvements is what has set ATA on a new, clearer course for successful growth.

One initiative was to improve operational dependability. So, when ATA rejuvenated its fleet and committed to a new terminal and gates

at Chicago Midway Airport, management laid the infrastructure groundwork to make that happen. Passengers demanded convenience and comfort, so the carrier responded with electronic tickets, assigned seating, online check-in, in-flight entertainment, along with an increasingly popular frequent flyer program.

The convenience of its Web site has been another initiative welcomed by passengers, but one that has helped the airline keep distribution costs down as well. Using its

Web-based booking engine in tandem with *SabreSonic™* Res, the online bookings accepted through the company's Web site now comprise nearly 40 percent of all ATA reservations.

ATA has steadily improved service-pattern quality to give business travelers the frequency they desire. Beyond that, the flight network was broadened through the 1999 acquisition of a regional carrier, Chicago Express Inc., which now serves 14 destinations as a feed

*Photo courtesy of ATA Airlines*



**George Mikelsons, who founded ATA Airlines in 1972 as a charter service, continues to lead the airline, which has grown to become the 10th largest scheduled U.S. airline.**



“But, as we reached a higher frequency level in several key cities, we began to see economies of scale working to our advantage ... certainly on the cost side, but also on the revenue side.”

carrier branded as ATA Connection. ATA was quick to upgrade the regional airline's original fleet of 19-seat J-31 aircraft to Saab 340 aircraft seating 32 passengers, improving passenger acceptance.

Still, other aspects of network growth have taken the form of additional service to Hawaii from the West Coast and new trans-continental nonstop flights between San Francisco, California, and New York City.

But, above all, and amazingly at times, the airline continues to maintain its low-cost philosophy through all of these service additions and enhancements. With such a powerful combination coming together — full service at low costs — the airline has found a secret for success.

### Low-Cost Emphasis Pays Off

If nothing else, ATA's roots as a charter carrier imbued it with an efficiency-driven culture that has carried over into its scheduled business. And clinging to its low-cost advantage has been job

No. 1. Today, the company's unit costs are lower than any other U.S. major airline, with its cost per available seat mile consistently near or below 7 U.S. cents. Even Southwest Airlines, famous for its rock-bottom cost levels, has not been able to keep CASM as low as ATA.

Part of the secret, to be sure, is ATA's relatively long average stage length, which is the longest in the U.S. domestic industry. Another factor is that its fleet has, on average, more seats per departure than any other domestic U.S. major airline. In addition, the airline invested heavily in a fleet renewal program during the last few years, replacing its Boeing 727-200 fleet with 737-800 and 757-300 aircraft, a move that gives it the youngest average aircraft age among majors in the U.S. marketplace.



**From its hub at Chicago Midway Airport, ATA Airlines flies nonstop to 33 destinations throughout North America and the Caribbean with its fleet of aircraft (above right) that includes the Boeing 737-800, 757-200 and 757-300. In 2003, the airline reported its first full-year profit since 1999, earning US\$15.8 million.**

The newer aircraft have helped dramatically improve operational dependability, on-time performance and passenger comfort. Also, the current mix of aircraft features a higher degree of fleet commonality, providing operational advantages that simplify training, support services and spare parts. But flying young, efficient, large planes on long missions is not the only strategy keeping ATA's low-cost carrier title safe.

Favorable, yet fair, agreements with its labor groups have provided the airline with flexible work rules and competitive pay scales crucial for success in today's changed economic environment. And as ATA has expanded its flight schedule, it has been able to achieve real economies of scale with its hard-working employees.

Hula, ATA's vice president of market planning. “But, as we reached a higher frequency level in several key cities, we began to see economies of scale working to our advantage ... certainly on the cost side, but also on the revenue side.”

The airline reached critical mass in several markets where its former service patterns were thin or even nonexistent. And the markets ranking highest in ATA's route structure are now business-oriented markets rather than vacation hotspots.

Indeed, the service buildup has cast a very different look on ATA's schedule, making it more attractive to passengers in general, but to business travelers in particular. The relatively low frequency flight patterns offered several years ago have been beefed up substantially.



Photo and graphic courtesy of ATA Airlines

The destination list has grown to include nearly all the major domestic business markets as well as keeping a large set of leisure points including eight spots throughout the Caribbean and Latin America plus three airports in the Hawaiian Islands.

The expanded flight offerings' impact on ATA's market-share trends have been encouraging, especially within the critical sphere of Midway Airport and the Greater Chicago market. In fact, ATA now boards nearly 50 percent of Midway's total passenger enplanements and about 11 percent of the overall combined total for both Chicago area airports. Among all the things that have taken shape during ATA's coming of age, the adolescent growth spurt of its Midway hub may stand as one of the most important milestones yet. But milestones have been in abundant supply at ATA in recent times, and they all seem to be fitting together nicely as part of a disciplined growth and maturation process.

"Given all the developments at ATA over the past several years, it really made sense to communicate, more clearly than ever, our extraordinary value proposition to passengers," said John Happ, senior vice president of marketing for ATA. "We're reminding people that they can have a great flying experience without paying the premium fares that many of the traditional major airlines might demand."

Thus, ATA's new, clarified brand promise has been telling passengers to expect "An Honestly Different Airline."

The subtext of that new brand message has focused on the most appealing features of the company's high quality, low-cost business model, including:

- Low, everyday leisure fares;
- No advance purchase or minimum stay requirements;
- Business (walk-up) fares that never exceed US\$299 for a one-way domestic trip;
- Advanced seat assignments;
- Change fees well below industry norms;
- No fees for same-day standby;
- Unused tickets that retain their original value;
- New planes that maximize reliability, on-time performance and comfort;
- Self-service and curbside check in at many airport locations;
- A modern, comfortable and convenient hub facility at Midway Airport.

ATA is making the right moves to continue its upward path; however, to fully appreciate the airline's strategic direction and really comprehend how far it has come in recent years, it is helpful to understand its origins. The story, as it turns out, began very modestly.

## THE HIGH • LEVEL view

News Briefs from Around the Globe

### Who

Sabre Airline Solutions

### What

Acquired EDS' axsResource Airport Resource Management Solutions product line. The addition of these new capabilities, furthered by the company's travel and transportation market alliance with EDS, broadens Sabre Airlines Solutions' already comprehensive airport resource management system suite of airport resource

planning and management tools offered to airlines and ground handlers worldwide.

### Why

The axsResource tools bring new capabilities to the resource management suite including acceleration to a Web-based delivery platform, increased focus on airport staffing capabilities and enhanced international features to meet global market demands. "By adding the

axsResource capabilities, we can better help airlines and ground handlers reduce airport handling costs through more efficient planning, administration and deployment of personnel," said Tom Klein, group president, Sabre Airline Solutions. "We are also fulfilling our mission to help airlines succeed by offering technology, products and services to address the issues that are key to their challenges in the current market." [E](#)

### **Humble Beginnings: A man, a plane and a dream**

In 1972, Capt. George Mikelsons founded an air travel club called Ambassadair in Indianapolis and acquired a single Boeing 720 aircraft to conduct charter flights to vacation destinations for his growing membership base. Six years later, as the airline industry was deregulated, Ambassadair doubled its fleet by adding a second B-720.

Mikelsons, still at the helm today as the chairman, president, chief executive officer and majority shareholder of ATA's holding company, recalled the early days fondly.

"We had a lot of fun, and I was just too darn stubborn back then to think about the long odds against success," he said. "And we were working so hard to make things go, we never had time to think about the possibility of failure."

That early "can-do" attitude has remained a hallmark of ATA's culture to this day.

By 1981, ATA, now established as a common-air carrier, was able to offer public charters and soon acquired a fleet of eight Boeing 707s. Subsequently, a holding company structure (now ATA Holdings Corp.) was implemented for Ambassadair, ATA and any future subsidiaries. The company continued to grow aggressively and, by 1985, had become the largest charter carrier in North America, boasting a fleet that included L-1011s capable of covering high volume, distant vacation markets from major U.S. cities or carrying troops on far-flung military air charter missions overseas.

Just 18 years ago, in 1986, ATA first tested the waters in the intensely competitive arena of scheduled service, initiating regular flights between Indianapolis and Fort Myers, Florida. While ATA would continue its industry-leading role within the charter category, expansion in the scheduled segment would ultimately become its new focal point and primary engine for growth going forward.

### **Finding a Base for Scheduled Operations**

There were many forays into various markets during the early years of ATA scheduled service as the company showed its willingness to explore potentially profitable opportunities in this area. After a period of experimentation and learning the key differences between charter and scheduled market dynamics, the carrier initiated scheduled service from Midway Airport in 1992. This airport selection would eventually form the foundation for ATA's scheduled flight network and become a strategic linchpin in its growth plans. By 1999, the Midway Airport hub operations had helped drive ATA's annual revenues past the US\$1 billion mark, making it the newest major airline in the United States.

### **Big Airline, Big Challenges**

The kind of dramatic growth exhibited by ATA would normally cause enough headaches by itself to challenge any management team, but with nearly 2 percent of U.S. market scheduled available seat miles last year, the airline

has also quickly become a competitor that other airlines can no longer afford to ignore. Plus, with its evolving hub at Midway Airport at the core of its network, ATA has been inexorably involved in a brutal, four-way battle for market position in Chicago with rivals United Airlines, American Airlines and Southwest Airlines. The smallest and least known of that group, ATA has been firmly focused on using its competitive strengths and overcoming its weaknesses, while never underestimating its foes. But, it would seem that competitive pressures have only forced the airline to mature more rapidly and for the better.

### **Major Challenges Still to Come**

With all that ATA has accomplished in its maturation process during the past several years, exciting things still lie ahead. The airline is not ready to rest on its laurels.

One challenge to ATA's continued growth trajectory was tackled recently when the company refinanced approximately US\$235 million in senior notes related to aircraft debt that were to come due this year and in 2005. Various note exchange programs and lease restructurings were developed to alleviate what could otherwise have created the risk of a troubling cash crunch. The restructuring paves the way for more growth from a financially healthier posture.

Never content with its progress in the ongoing battle for market position in the Midway and Greater Chicago marketplace, ATA has recently redesigned its hub schedule

## THE HIGH • LEVEL view

News Briefs from Around the Globe

### **Who**


Sun Country Airlines

### **What**

Successfully implemented the *Sabre*<sup>®</sup> *Aerodynamic Traveler*<sup>™</sup> Web Check-in and the *Sabre*<sup>®</sup> *Aerodynamic Traveler*<sup>™</sup> Gate Reader. The airline will access the tools through the *Sabre*<sup>®</sup> *eMergo*<sup>®</sup> Web-enabled and dedicated network solutions, an application service provider delivery method.

### **Why**

"Our customers needed relief from the longer lines at the Humphrey Terminal (at the Minneapolis-St. Paul International Airport)," said Mark Ondrey, director of information technology for Sun Country. "The collaborative efforts of Sabre Airline Solutions and the Sun Country staff have already paid off, with more than a third of

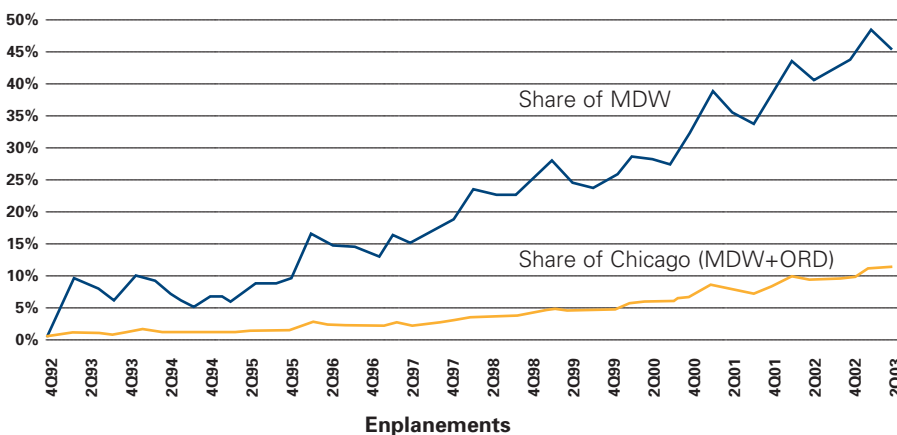
our passengers having checked in for their flights at [suncountry.com](http://suncountry.com) in just the first two weeks of availability. The improvements at the gates have enhanced the efficiency of our airport staff activities, and we've received extremely positive passenger feedback, making this implementation a true win-win for everyone involved." 

## Then and Now: The Top 10 ATA Mainline Nonstop Markets by Weekly Departures

Rank	March 1998	Scheduled departures per week	Scheduled departures per day
1	Chicago Midway — Orlando, FL	24	3.4
2	Chicago Midway — St. Petersburg, FL	24	3.4
3	Honolulu — Maui, HI	16	2.3
4	Chicago Midway — Phoenix, AZ	15	2.1
5	Chicago Midway — Ft. Lauderdale, FL	14	2.0
6	Indianapolis, IN — Ft. Myers, FL	14	2.0
7	Chicago Midway — NYC (JFK)	14	2.0
8	Chicago Midway — Los Angeles, CA	14	2.0
9	Chicago Midway — Ft. Myers, FL	14	2.0
10	Indianapolis, IN — St. Petersburg, FL	13	1.9

Rank	March 2004	Scheduled departures per week	Scheduled departures per day
1	Chicago Midway — NYC (LGA)	50	7.1
2	Chicago Midway — Newark, NJ	38	5.4
3	Chicago Midway — Minneapolis/St. Paul, MN	37	5.3
4	Chicago Midway — Los Angeles, CA	33	4.7
5	Chicago Midway — San Francisco, CA	33	4.7
6	Chicago Midway — Denver, CO	32	4.6
7	Chicago Midway — Dallas/Fort Worth, TX	32	4.6
8	Chicago Midway — Orlando, FL	28	4.0
9	Chicago Midway — Charlotte, NC	25	3.6
10	Chicago Midway — Washington, D.C. (Reagan)	25	3.6

### ATA's Share of Midway Airport and Chicago Overall Enplanements



**Top:** ATA Airlines has achieved critical mass in several markets where former service patterns were thin or even nonexistent. And the markets ranking highest in ATA's route structure, such as New York City and Los Angeles, are now business-oriented markets rather than vacation hotspots, such as Orlando, Florida, and Maui, Hawaii.

**Bottom:** The expanded flight offerings' impact on ATA's market share trends have been encouraging, especially within the critical sphere of Midway Airport and the Greater Chicago market. The growth at its Midway hub, where it now controls almost half of all enplanements, has been one of the airline's most important milestones.

structure to maximize the revenue and operational performance of its eventual 15 Midway Airport gates. The new architecture will unfold later this year.

The growing set of origin and destination markets served via ATA's connecting complexes at the Midway Airport hub has led it to pursue more sophisticated revenue management approaches designed to increase the financial performance of the overall network. Databases, software tools, process improvements and staff additions are all part of the push to ensure prices are set where they will boost sales to their maximum.

By the end of the year, the airline will wrap up an aircraft reconfiguration program and roll out a recently announced new business-class cabin, a product developed with the assistance of Sabre Airline Solutions Consulting, designed to further enhance ATA's value proposition to the business traveler. Low-priced fare add-ons are intended to make this a great bargain for those road warriors needing to be as productive as possible while in transit.

ATA also recently began studying the trans-Atlantic corridor with an eye toward launching scheduled flights to Europe by 2005 or 2006. Between its scheduled and charter service, the airline already flies nearly 20 percent of its overall capacity to international destinations.

Longer term, the company will consider a fleet replacement strategy for the L-1011. While the scheduled service side of the company has been growing at a breakneck pace, ATA is still the No. 1 military air charter and commercial charter carrier in the industry and is committed to maintaining that position. It is, after all, part of the original heritage of the company and a positive contributor to overall financial performance.

Perhaps the biggest question surrounding ATA's future deals with what domestic growth opportunities it plans to focus on beyond its potential at Midway Airport, which will reach its maximum gate capacity in a couple of years. But one thing seems certain, it will likely amount to aggressive growth taking place somewhere, and it will certainly include the low-cost carrier value orientation combined with super-serving customers a high-quality product that has made ATA successful in the past. **E**

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