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U.S. Regionals: A New Outlook

Regional airlines are feeling the pain as major carriers reduce flying on 50-seat regional jets. But pending resolution of labor issues, regional airlines in the United States may have new opportunities flying 100-seat RJs.

■ By Lauren Wolters and Chris Spidle | *Ascend* Contributors

During a time when major U.S. network carriers are cutting costs at every turn, including reducing or, in some cases, completely eliminating the use of their regional partners, these regionals must become more innovative to survive. There are risks — those of leaving the bad “known” for the possibly worse

“unknown” — for these smaller operators. But if they are nimble and clever, by inventing a new role for themselves because their old one that now depends on 50-seat RJs is shrinking fast, the door to greater opportunities may open — opportunities to profitably avoid shrinking by finding new business models.

Regional airlines have for decades been an important link with the air transportation system across the United States. Since deregulation of the airline industry in 1978 and the founding of the Essential Air Service, these carriers have connected people across the region, bringing travel and tourism to smaller cities and communities. They have been responsible for virtually anyone to get from their local runway to the largest cities around the world.

The critical role of regional airlines has not diminished during the past 30 years. Rather, the role of these carriers has grown in both size and importance.

“The entrepreneurial spirit of regional carriers has propelled meteoric growth from humble beginnings before deregulation to a large share of the U.S. airline industry today,” said Shane Batt, vice president and global solutions partner for *Sabre Airline Solutions*®. “Regional carriers are now a core, integral part of airline networks. Regionals have grown beyond their domestic roots and now serve Canada, Mexico and the Caribbean with a modern fleet of more than 1,000 mostly jet aircraft.”

Last year, regional airlines carried more than 158 million passengers, and that number continues to increase year over year, even as costs have risen and service has been reduced, highlighting the importance of regional airlines and the dependence of the communities they serve on them.

The regional airline segment has been one of the most innovative and chameleon-like airline segments. Many of these carriers have matured their fleets from prop planes to regional jets to meet the ever-growing demand for regional air service.

Currently, 70 percent of airports nationwide receive scheduled air service



Photo courtesy of Eclipse Aviation

The next-generation 100-seat Bombardier CRJ1000 regional jet has 38 signed orders and options in those contracts for an additional 23 aircraft and is scheduled to enter into service next year.



solely from regional airlines, accounting for more than 442 airports in the continental United States, Hawaii and Alaska. In addition, 140 rural communities are reached only by a single regional airline that operates with some subsidies from the Essential Air Service of the U.S. Department of Transportation.

Historically, regional airlines served airports that were either unreachable by larger jets or had low traffic density and were therefore unprofitable for major airlines. But the answer to the question of when to use a major or regional airline has also been influenced by cost issues.

When labor rates at majors climbed in 2000, fuel was inexpensive, and it was cheaper for majors to push flying to their regional affiliates, driving significant growth for these smaller operators. However, now that fuel costs have soared to painful levels and majors have lowered their labor rates, the scales are tilted back. On a per-seat basis, regional jets are comparatively fuel inefficient and possess higher operating costs, so major airlines have more incentive to take advantage of the lower cost per seat of flying full Boeing 737s infrequently in smaller markets rather than offering frequent 50- or 70-seat regional jet service.

As the latter cost shift began to occur, capacity began to shift back to the majors — capacity they are now cutting. Also, as traditional airlines shrink their own capacity due to rising fuel costs, they are also reducing use of their regional partners.

This shift is redefining the market for regional airlines and, possibly, changing the way they operate.

But now the cost see-saw could shift again. With new, larger regional jets on the horizon — offering better fuel efficiency and lower overall operating costs — there could be new opportunities for regional airlines, assuming labor issues can be resolved.

As of July, Bombardier had received 39 signed orders for its CRJ1000, a 100-seat regional jet and extension of the CRJ900, with options in those contracts for an additional 23 jets. The first of these are expected to be in service next year. Bombardier's market analysis indicates the manufacturer will deliver more than 6,300 new 100- to 149-seat regional jets by 2027 as well as 6,100 new 60- to 99-seat aircraft and 500 new 20- to 59-seaters.

Clearly, Bombardier has identified huge potential for larger regional jets.

"We anticipated the need for larger regional aircraft when we introduced the CRJ700 regional jet in 1997 and the CRJ900 regional jet in 2000," said Bombardier Aerospace President and Chief Operating Officer Pierre Beaudoin in a press release last year announcing the launch of the



Photo courtesy of Embraer

The 100-seat Embraer E-190/195 regional jet, a direct competitor of Bombardier's CRJ1000, also competes directly with the Airbus A319 and Boeing's 717 and 737.

new CRJ1000. "These aircraft are now the backbones of many airline fleets worldwide. Today, with the CRJ1000 aircraft, Bombardier continues to build on its ongoing commitment to product innovation. The CRJ1000 regional jet combines the proven platform, reliability and flexible cabin configurations of its predecessors, with its closest competitor having up to 15 percent higher trip cash operating costs."

With the better economics of flying larger jets fewer times a day, capacity regional airlines added earlier this decade may need to change, and the 100-seat RJ adds an additional and potentially helpful option to the menu.

The CRJ1000 competes with Embraer's E-190/195, which is a 100-seat regional jet in service at airlines such as jetBlue. These aircraft compete directly with Airbus' A319 and Boeing's 717 and 737, both of which are staples of many fleets at major airlines.

The larger-seat-capacity RJs that operate with greater efficiency will likely heighten regional carriers' ability to more effectively compete, thereby becoming more appealing to their larger airline partners.

During these unpredictable times for the airline industry, never has it been more critical for U.S. regional carriers to innovate and adapt to keep their share of smaller markets. They need to rethink their entire operating structure. And only those regional airlines that can change and lower their costs will survive. ■

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