

# Dealing With The Virtual Airline

By Michael Boyd

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It happened in the petroleum industry. It's happening in the airline business. Or, more accurately, it's already happened in the airline business. Brand virtualization.

Today, you go to the gas station and pump a brand of gas in to the tank of your SUV. But where that unleaded came from, how it was produced, who produced it, who moved it and who put it into the filling station storage tank, are all different companies, and they can change month to month, and even gas station to gas station across town. The only thing that's the same is that the sign at the station says "Conoco" or "Shell."

Twenty years ago, oil companies were involved from the wellhead to the gas pump. Today, it's different vendors and suppliers for every part of the logistics stream. It's all been farmed out to independent surrogates.

Tumble to this: that's exactly what's happened in the US airline industry over the last 15 years. Today, it's not only possible, but probable, that you can book a trip on a major airline from a mid-size community on the East Coast to one on the West Coast, and never in the process deal with anybody directly working for the airline brand. It's all been outsourced.

Think about it. You book the seat on-line. No contact whatsoever with an airline employee. And in the event that you do need human intervention, there's a better than even chance the guy on the other end of the phone is in a call center in some Third World country. He's successfully completed Level Three of English As A Second Language, and thinks that "FRA" is the code for "France."

You go to the airport. Get a boarding pass at a kiosk. Or, have it sent to your iPhone. You flash it at the gate, which, like the rest of the airline brand's

operation at the airport, is staffed by outsourced vendors, or a "regional" airline. You board the RJ, operated by an outsourced vendor. You fly to the connecting hub - to a concourse again where staff are outsourced to a "regional" airline. Board another outsourced flight, and fly to your final destination.

Not one interaction with any staff or employees of the airline brand from which you bought your ticket. Just like at the gas station - the whole process is now virtual. You have no contact with anybody that is directly working for the airline. Vendors, all.

And, you'd best believe that this is sooooo much more cost-effective than having the airline itself do it with their own employees. Airline employees tend to want to make a career at the carrier. They stay around for years, moving up the pay scale. And - yikes! - they may even be in a union, one of those pesky groups that want to bargain for things like pay and working conditions. Truly, it's much more enlightened to just farm the work out.

**Just Like The Fast Food Business.** Youbetcha, it's better from a cost-approach to outsource this work to vendors. They just hire kids, or maybe not-so-kids, and pay 'em wages that will encourage them to work a while, and then move on, to be replaced by other bottom-of-the-scale new hires, creating a cycle that keeps labor costs low. It's the same approach that's been used in the fast food industry for years. Turnover is the key to low labor costs and a real barrier to union entry.

Sounds great. But what's been created is a system that is not focused on service. Not focused on excellence. It's just focused on labor costs. And it's one that offers employees almost zero potential for career growth - just like at the local Burger World.

This extends across the board: The ramper at East Upchuck has a career path that will last until the ground contract is re-bid in two years. The pilots and flight attendants on the "regional" airline to which flights have been outsourced are really caught in a special bind: there are limited flow-through opportunities to majors, and worse, those mainstay 50-seat jets are going to get retired faster than new jobs will open at majors. (See recent comments by Republic Airlines CEO on the matter, by the way.)

The point is this: there's not a lot of long-term career-play for employees involved in this oh-so-cost-efficient virtual airline system. But, so what? It works, right?

Here's a clue: airlines are not the same as Burger World. Slapping secret sauce on a hamburger and keeping the yogurt machine churning out sugary glop is not the same as the skills and training needed to professionally handle an airport passenger service and ramp operation.

So, let's touch that third rail that we're not supposed to mention: a lot of this outsourced work is shamefully done. To be sure, there are stellar companies in the business, like SkyWest, where there is a career path, and the training infrastructure in place to make it work.

But that's not the norm. It's not uncommon for consumers to get abused (unintentionally, usually) by vendors where the "customer service" staff has less training than a day-old puppy. Situations where they are clueless as to why the flight's late, or visually looking like they just came from a street fight. Or, hamstrung with really incompetent rules - like, the incidents where people actually standing in line to check-in for a 34-seat airplane are cut off 30 minutes before departure - and responding aggressively when consumers get understandably ticked off.

Why should they care? It's just a temporary job. If the customer doesn't come back, no big deal.

Training in customer service skills? Sure, we do a half-day program, you might hear. But to do more would be un-economic, don't ya know: There's too much turnover to spend the money,

**Future?** Two dynamics are emerging: Ground outsourcing will continue and expand. But in the cockpit, the trend will be toward flying shifted by to the major, simply because of changes in airplane economics. As 50-seaters get retired, we can expect that 80+ seaters be the capacity floor - and they will be flown in-house.

Plan on it.