

substantial previous losses, the creditors were expected to receive only 7% of the \$30 billion the airline owed. Instead, United Airlines and others, including some airlines that have consolidated, proposed that creditors receive stock in place of the debt owed.

Bruce Wakefield, president of U.S. Airways, stated, “The merger or buyout by America West Airlines of U.S. Airways has allowed the merged airlines to become a stronger airline with U.S. Airways strong on the east coast and America West on the west coast.” In 2005, Delta needed more than \$5 billion in cuts to avoid bankruptcy, and it planned layoffs and service cuts despite the \$425 million cash infusion from the sale of South East Air. Despite these announcements, Clayton Securities analyst Ray Neidi said he expected the airline to file bankruptcy “some time after Labor Day in 2005,” and that prediction came true. Delta and Northwest Airlines filed and entered bankruptcy in 2005. With Northwest machinists on strike and not agreeing to the proposed cuts, the question continued to surface about whether Northwest Airlines and Delta can restructure and survive. Delta started with merging the discount airline Song into the main airline structure. For Northwest, outsourcing the machinists’ jobs and flight attendants jobs helped the bottom line, assuming the flight attendants do not strike.

The demand for airline travel slowly increased from 2002 to 2006, which enabled the airlines to increase prices by 10.3% in first quarter of 2006, compared to first quarter of 2005, to cover fuel costs and other escalating costs, such as security. However, when considering Michael Porter’s Five Forces Model, these price increases and time delays because of security screening encouraged customers to find substitute methods of travel. Traveling by car between cities regionally became more economical. However, if the price increases do not decrease airline demand, then suppliers and buyers in the airline industry benefit.

Airline Suppliers and Buyers

Until 2006, the unprofitable airline companies adversely affected the supplier power, buyer power, and barriers to entry within the industry. Creditors (buyers of aircraft) and the manufacturers (suppliers) have a vested interest in the success of airline companies. To insure potential buyers for aircraft and insure creditors have received payment for the leased aircraft, the creditors (lessors) and manufacturers continued to supply funds for airlines to stay in business.

For example, it was reported that General Electric and Airbus provided funds for U.S. Airways and America West to consolidate. By keeping the major airlines flying, these creditors (lessors), such as General Electric and Morgan Stanley, have avoided substantial losses and avoided being stuck with many unused aircraft as each airline reorganizes. At the same time, these agreements have helped an industry remain in competitive turmoil.

The two principal manufacturers and suppliers of aircraft, Airbus and Boeing, lost business since 9/11 and the travel industry only recently returned to the same level of business prior to 9/11. Boeing, for example, lost sales because of 9/11, and in addition, it has trailed Airbus the last four years in the sale of new aircraft. All the while, Boeing’s bread and butter airplane, the 737, accounted for less than 50% of its revenue. In competition with Boeing, the larger Airbus was built to carry more passengers and was claimed to be more fuel-efficient because of the increased size of the aircraft and additional load availability.

However, Boeing entered into a game-saving strategy by developing the Dreamliner. This 787 aircraft sold for \$120 million. The advantage of this aircraft was that it was built mostly of plastic composites. The plastics have been proven to be lighter and stronger than aluminum, making the aircraft more fuel-efficient, with fewer parts. The production function became simpler and more efficient than the production of the older aluminum aircraft.

Because of the economic uncertainty in the airline industry, the market for newer aircraft continued to remain uncertain. For example, Airbus has not sold many jumbo