Delta Air Lines, Inc.

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Public Company
Incorporated: 1934 as Delta Air Corporation
Employees: 51,300
Stock Exchanges: New York
Ticker Symbol: DAL
NAIC: 481111 Scheduled Passenger Air Transportation;
481112 Scheduled Freight Air Transportation;
481219 Other Nonscheduled Air Transportation

Delta Air Lines, Inc., is the third largest air carrier in the United States and the largest U.S. carrier serving Europe. Its route network serves 317 destinations in 55 countries. Its domestic network operates around a hub system at airports in Atlanta, Cincinnati, New York, and Salt Lake City. The Delta Shuttle serves business travelers flying between New York City, Boston, and Washington, D.C. Delta emerged from Chapter 11 bankruptcy protection in May 2007, after only 19 months of reorganization.

FROM CROP DUSTING TO PASSENGER TRANSPORT

The history of Delta may be traced to 1924, when Collet Everman Woolman and an associate joined in a conversation with some Louisiana farmers who were concerned about the threat to their crops from boll weevils. Woolman knew that calcium arsenate would kill the insects, but the problem was how to effectively apply the chemical. Having learned to fly the boxy “flying jennys” during World War I, Woolman considered dropping the chemical from an airplane. He engineered a hopper for the chemical and later perfected the system, and then began selling his services to farmers throughout the region. As a result, the world’s first crop dusting service, named Huff Daland Dusters, was born.

In 1925 Woolman left the agricultural extension service to take charge of the duster’s entomological work. In 1928 the crop dusting operation broke away from its parent company to become Delta Air Service. Woolman continued his crop dusting business across the South and expanded into Mexico and South America. The company began to diversify by securing airmail contracts, and in 1929 inaugurated passenger service between Dallas and Jackson, Mississippi. Later, routes to Atlanta and Charleston were added.

Delta began its climb to prominence when the U.S. government awarded it an airmail contract in 1930, remaining in business even during a temporary but costly suspension in the airmail contract system in 1934. By 1941, the company, called Delta Air Corporation by that time, would be awarded three more airmail contracts. During World War II, Delta, under contract
COMPANY PERSPECTIVES

We intend to be the airline of choice for customers by continuing to improve the customer experience on the ground and in the air. Our business strategy touches all facets of our operations—the destinations we will serve, the way we will serve our customers, and the fleet we will operate—in order to earn customer preference and continue to improve revenue performance. At the same time, we intend to remain focused on maintaining the competitive cost structure we have obtained from our reorganization to improve our financial position and pursue long-term stability as a standalone carrier.

to the War Department, devoted itself to the allied war effort by transporting troops and supplies. Delta returned to civilian service in 1945 and entered an age of growth and competition never before seen in the airline industry.

THE GROWTH OF AIR TRAVEL
AFTER WORLD WAR II

On May 1, 1953, Delta merged with Chicago and Southern Airlines and continued to prosper as a major regional trunk carrier through the 1950s and 1960s. In June 1967 Delta merged with Delaware Airlines and officially adopted the name Delta Air Lines.

Delta’s exposure to the northeast part of the country increased with the acquisition of Northeast Airlines on August 1, 1972. In July 1976 Delta purchased Storer Leasing, a move that added several jets to the existing fleet of about 200. Recognizing the value of high technology, Delta formed two computerized marketing subsidiaries, Epsilon Trading Corporation in 1981 and Datas Inc. in 1982, to coordinate and sell more passenger seats on all Delta flights.

Delta’s consistent growth could be partially attributed to its successful transition of leadership. In the early days of commercial air transport airlines were run by individuals who would be better described as aviation pioneers first and as businessmen second. At American, Eastern, Pan Am, TWA, and Delta, these men established what could be described as almost dictatorial operations, retaining their posts as long as possible. Many of these leaders were majority stockholders who categorically refused to share their power or prepare successors to operate the company after them. For many airline companies, when the chairman did eventually die, there was a difficult period of readjustment to the new management.

The departure of Delta’s Woolman, however, was not surrounded by difficulties. He suffered a heart attack in his late 60s and was forced to relinquish some of his duties to Delta’s board members. As Woolman’s health deteriorated the board members gradually assumed more of his duties until his death at age 76. Although Woolman’s absence was deeply felt at Delta, business continued as usual, and the airline was able to make a smooth transition to a more modern, corporate style of collective management. Under the new consensus-style management, Delta quickly became recognized for having one of the best planning and management teams in the airline industry. The company also earned a reputation for being on very good terms with its employees, treating its workers as family. By maintaining pay and benefits above the unionized competition, Delta was able to keep the majority of its employees non-unionized.

Although the company did not invent it, Delta was the first airline to widely employ the so-called hub and spoke system, in which a number of flights are scheduled to land at a hub airport within approximately 30 minutes, enabling passengers to make connections for final destinations conveniently and quickly. By the early 1990s the “big push,” as it was called, was occurring about ten times a day at the Atlanta hub. Delta was also operating hubs at Dallas–Fort Worth, Boston, Memphis, and Cincinnati.

On the whole, Delta’s management style remained conservative throughout the 1970s. While it boasted one of the most modern jetliner fleets in domestic service, the company developed a reputation for purchasing new planes only after they had been proven, often in a costly way, at other airlines. This “wait-and-see” policy saved the company a large amount of money. Only after competing airlines had used the Lockheed 1011 for several years did Delta purchase the plane, and Delta began replacing its fleet of Boeing 727s with the 757, 767, and MD-88 in the late 1980s, later than most, with the intention of using these technologically advanced and fuel efficient planes for at least 20 years. This 15-year strategy for flight equipment and support facility planning was typical of Delta. According to the vice-chairman and chief financial officer at the time, Robert Oppenlander, “Success is based on the long term maintenance of a technical edge, which is cost efficiency.”

Delta also became known for having the most conservative balance sheet in the industry. With a debt-equity ratio that was consistently below one to one
(meaning that their debts were usually outweighed by their net worth), the company was able to do most of its financing internally. This conservative approach was aptly summed up in a statement by the late chairman W. T. Beebe: “We don’t squander our money on things like goofy advertising.”

A NEW BUSINESS STRATEGY

In the 1980s, however, Delta assumed a more aggressive corporate personality, as its commitment to internal growth became increasingly threatened by a general trend in the industry toward external growth. Throughout the 1980s, Delta became relatively smaller, as companies such as TWA, Texas Air, and Northwest expanded through mergers. In order to remain competitive, in 1986 Delta announced its intention to take over the Los Angeles–based Jet America; however, the $18.7 million deal never materialized. Later that year Delta went ahead with the $680 million purchase of another air carrier based in Los Angeles: Western Air Lines. As Delta’s Chief Executive Officer David Garrett explained, “For a merger to be worthwhile, two plus two has to equal seven.” Enlarged by Western’s hubs in Los Angeles and Salt Lake City, Delta management was able to make that kind of math work, in spite of initial difficulties integrating Western’s unionized workforce into Delta’s system.

In 1987 Ronald W. Allen, who rose through the ranks of Delta’s personnel administration department, was named the airline’s CEO. An aggressive and outgoing business person, Allen proved willing to make larger and riskier investments. Shortly after taking office, for example, he negotiated a $15 million dollar deal for Delta to become the official airline of Walt Disney World.

In the late 1980s and early 1990s, recession, rising fuel prices, and war in the Middle East all contributed to declining passenger traffic and inflated costs. Thanks in part to its financially solvent status, Delta weathered the industry troubles comparatively well, despite a 1991 operating loss of $450 million. Small, financially weak, and regional airlines were hardest hit by the trouble; Delta was one of the prime beneficiaries of the failure in January 1991 of Eastern Airlines, which like Delta had a significant portion of its routes in the southeastern United States. After Eastern’s demise, Delta flew over 80 percent of traffic out of Atlanta.

In 1991 Delta made a major move toward becoming an international player by purchasing a $1.7 billion package of assets from Pan Am, outbidding chief rivals American and United. The package, which included the assumption of $668 million of liabilities, gave Delta a hub in Frankfurt, Germany, dozens of European routes, including flights from Miami and Detroit to London, a New York shuttle route, and 21 Airbus A310s. As with the purchase of Western, the deal was viewed by some in the industry as a departure from Delta’s traditionally conservative business stance, and possibly too costly a purchase. Delta management, however, termed it a necessary stop in a consolidating purchase-or-be-purchased airline market: “We think it is a very conservative move,” Allen told Fortune magazine, adding, “To have missed this opportunity would have been the risky course.”

Delta appeared to have adapted well to the expansion-oriented market. Whereas Delta fliers used to joke that, although you might not know whether you would go to heaven or hell when you died, you would definitely have to change planes in Atlanta, the airline’s customers could fly to Europe via its Frankfurt hub, or to Latin America via Miami. As it adapted to the aggressive and expanding modern market, Delta strove to maintain its policies of good labor relations and attention to service. Delta’s employees were still among the highest paid in the industry and, like founder C. E. Woolman, Allen sometimes rode on Delta flights to interact with passengers. Indeed, Forbes magazine queried in a 1988 headline: “Is Delta too nice for its own good?” At the time, however, its emphasis on people seemed not to have hurt the company any.

### KEY DATES

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1924</td>
<td>Huff Daland Dusters, a crop dusting operation, is founded.</td>
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<td>1929</td>
<td>Now known as Delta Air Service, the company inaugurates passenger flights between Dallas and Jackson, Mississippi.</td>
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<tr>
<td>1953</td>
<td>Delta merges with Chicago and Southern Airlines.</td>
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<tr>
<td>1967</td>
<td>Delta merges with Delaware Airlines, becomes Delta Air Lines.</td>
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<td>1972</td>
<td>Delta acquires Northeast Airlines.</td>
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<td>1986</td>
<td>Delta acquires Western Air Lines.</td>
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<td>1994</td>
<td>Delta’s Leadership 7.5 program is launched, seeking to dramatically restructure and streamline operations.</td>
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<tr>
<td>2000</td>
<td>Total number of passengers carried during the year reaches an all-time high of 120 million.</td>
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<td>2004</td>
<td>Gerald Grinstein becomes CEO.</td>
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<td>2005</td>
<td>Company files for Chapter 11 protection.</td>
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<tr>
<td>2007</td>
<td>Delta emerges from bankruptcy.</td>
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RECORD PROFITS, NEW PROBLEMS

By 1992 it became clear that the financing agreement with Pan Am had come at a bad time for Delta. The general economic recession and continued high fuel prices, combined with the weight of Pan Am’s heavy debt load, resulted in net losses of $506 million for fiscal year 1991. In an effort to lower costs, Delta was forced to reduce its workforce by 5 percent, in addition to implementing wage freezes and salary cuts. At the same time, the company was eager to integrate Pan Am’s extensive European routes into its system, hoping to restore itself to profitability by improving its position as an international carrier. However, the lingering effects of the recession, as well as the Gulf War, had precipitated an overall decline in commercial air travel. To counteract this trend, Delta announced reductions of 45 percent on transatlantic fares at the onset of the summer 1992 season, resulting in record traffic of 8,511,966 passengers in August. In April 1993, in an effort to increase its share of transpacific air traffic, Delta launched new nonstop flights between Los Angeles and Hong Kong.

Initially, the stronger emphasis on overseas routes paid off for the company, leading to profits of $60.4 million in the first quarter of fiscal 1993, compared to a net loss of $125.2 million for the first quarter of the previous year. Inspired by this success, Delta strove to further expand its international presence by entering into code-sharing agreements with a number of foreign carriers in 1994, including Virgin Atlantic, Vietnam Airlines, and AeroMexico. Code sharing allowed an airline to purchase tickets from its rivals and resell them to its own customers, providing greater scheduling flexibility and control over prices. While some considered the practice deceptive, it had become prevalent throughout the airline industry by the mid-1990s, with the number of code-sharing partnerships reaching 389 by 1996. For its part, Delta established 14 such contracts with other airlines between 1992 and 1996.

Another wave of heavy losses in the first three months of 1994 forced the company to undertake a more drastic cost cutting scheme, and in April Delta launched its Leadership 7.5 program, a restructuring initiative designed to streamline operations. The goal was implied in the program’s name; Delta hoped to reduce the cost of flying to 7.5 cents per mile, per seat, with an overall aim to cut operating expenses by $2 billion over a three year span. The reorganization called for a reduction of 20 percent of the company’s workforce, a realignment of its domestic route system, and a discontinuation of some of its less profitable European routes. These drastic measures brought quick results, and the company was able to claim a net profit of $251 million for the fourth quarter of fiscal 1995.

Delta’s impressive financial comeback was not without costs to its reputation as a “family corporation.” The reduction of the company’s customer service team resulted in a significant increase in passenger complaints, and by 1997 Delta dropped to last place in on-time rankings among the ten leading U.S. airlines. The decline in customer service was hardly unique to Delta. Overall, the annual number of airline passengers in the United States jumped to 640 million in 1999, compared to 453 million in 1991, with the ratio of seats filled reaching an all-time high of 71.3 percent. Overcrowding, frequent delays, and poor service resulted in a substantial increase in the numbers of complaints lodged with the U.S. Department of Transportation in 1999, prompting Congress to consider legislation that would impose stricter regulations on the airlines’ business practices.

ALLIANCES, LABOR PROBLEMS, AND TERRORISM

Delta took steps to make it easier for flyers to use its network to get to more places. In 1999, it acquired the remaining 80 percent of the stock in Atlantic Southeast Airlines, making that company a wholly owned subsidiary. The following year, Delta purchased Comair for approximately $2.3 billion. Both of these operators were already partners in the Delta Connection program. In June 2000, Delta and its partners AeroMexico, Air France, and Korean Air launched SkyTeam, an alliance to provide more flights and easier connections for their customers while filling more seats. By 2007, SkyTeam would become the second largest airline alliance, with 14 partners from four continents.

The expiration of the Delta pilots’ contract in May 2000 was followed by several months of unproductive negotiations. When the impasse dragged into December, the pilots retaliated by refusing voluntary overtime during one of the airline’s busiest seasons, forcing Delta to cancel 3,500 flights over the course of the month. The new year brought little relief, and another 1,700 cancellations followed in the first ten days of January 2001. While the company enjoyed net profits of $897 million in 2000 and saw its total number of passengers reach an all-time high of 120 million, it was clear Delta still faced several unresolved issues, both with customer service and labor.

Then the industry was profoundly affected by the terrorist attacks of September 11, 2001, on the United States. All flights were temporarily suspended, and when they resumed people stayed away in droves. As national
fear surrounding flying ebbed, the heightened security still created inconveniences in the form of long lines and delays. All major airlines struggled during this time, and because Delta had a healthy balance sheet, it could (and did) keep borrowing money to stay afloat, despite losses of $1.6 billion that year.

COST-CUTTING EFFORTS

Even before the acts of terrorism, the company had been looking for ways to reduce costs. Despite its net profits, the company was carrying $10.5 billion in debt as of January 1, 2001. Delta laid off some 13,000 employees and began to shift the makeup of its fleet from three-engine planes to two-engine planes, which were less expensive to operate. Still, debt and losses mounted at Delta.

In 2004, CEO Leo Mullin resigned, and Gerald Grinstein, a Delta board member and former president of Western Airlines, came out of retirement to assume that position at age 71. To avoid bankruptcy, Grinstein cut jobs, increased flights, closed Delta’s hub at Dallas–Fort Worth, and changed the fare structure. To try to save the airline, Delta pilots, the only unionized Delta workers, agreed to pay cuts of 32.5 percent across the board as well as to changes in work rules. To compete with budget airlines, such as JetBlue and Southwest, which were attracting customers with their low fares, Delta launched its own budget carrier, called Song. Delta also sold its share in the Worldspan reservation system. Still, losses amounted to $5.2 billion in 2004.

In August 2005, the company sold its Atlantic Southeast Airlines subsidiary to SkyWest Airlines for $425 million. The following month, it announced more personnel cuts along with cuts in domestic flights and expanded international flights to Europe and Latin America. These efforts could not, however, offset the effects of increasing fuel prices and high labor costs as a legacy carrier. On September 14, 2005, with $20.5 billion in debt, Delta (and its wholly owned subsidiaries) filed for bankruptcy protection under Chapter 11. By that time, U.S. Airways had declared bankruptcy twice, United Airlines had been in bankruptcy for nearly three years, and Northwest Airlines had just filed for Chapter 11 protection.

BANKRUPTCY REORGANIZATION

The company secured a $2 billion financing package from its creditors that allowed it to keep flying during the reorganization. In 2006, the pilots accepted a contract that cut their pay more and terminated their pension plan. Grinstein cut the workforce from 70,000 to 47,000 and cut all salaries, including his own. He also capped executive perks, eliminated bonuses, and promised nonexecutive employees that they would share in stock incentives available after exiting Chapter 11.

In addition to reducing labor costs, Delta folded the operations of Song, “right-sized” its planes, and expanded its international routes. It shifted wide-body planes that had lots of empty seats on routes between Atlanta and South Florida to its international routes and expanded international business. By 2007, the company’s international flights represented 39 percent of Delta’s business, up from 20 percent before the bankruptcy.

At the end of 2006, U.S. Airways made an $8.7 billion bid for Delta, which Grinstein and the creditors refused. U.S. Air then upped its bid to $10 billion, which was also refused. For the year, Delta showed its first operating profit since 2000, in the amount of $58 million. In addition, J.D. Power and Associates ranked Delta second in overall customer satisfaction for the year.

2007 AND BEYOND

Delta emerged from bankruptcy on May 30, 2007, as an independent airline. Grinstein had moved the company through a successful reorganization process in only 19 months. As promised, more than 39,000 nonexecutive employees received stock incentives and raises. In August, the board announced that Richard Anderson, former CEO of Northwest Airlines, would replace Grinstein. Then, in November, published reports indicated Delta was discussing a merger with United Airlines. Delta quickly denied those reports.

Delta had a reconstituted fleet, lower labor costs, fewer domestic flights, and an expanded international network that would include China as of March 2008. It was also facing high fuel costs, an aging fleet that would need replacing, and intense competition domestically and for Atlantic flights. As evidenced by reported talks with United, and speculation that Delta might join with CEO Anderson’s former employer Northwest Airlines, Delta would need to contend with the continuing issue of consolidation in the airline industry.

John Simley
Updated, James Poniewozik; Stephen Meyer; Ellen Wernick

PRINCIPAL SUBSIDIARIES

Comair Holdings, Inc.; Delta AirElite Business Jets; Delta Connection Academy; DAL Global Services; Delta Technology, Inc.
PRINCIPAL COMPETITORS
AMR Corporation; UAL Corporation; Southwest Air
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