Case Overview

The case begins with Delta's CEO Ed Bastian reflecting on the challenges internally and externally to Delta Airlines in the year since he became CEO in May 2016. As he became CEO, Delta had successfully rebounded from the 2008 "great recession" and then ran into computer problems, pilot protests that led to higher wages, and increased competition and changing customer demographics. This leads to the main questions of the case:

- How should Delta respond to increased global competition, especially to the threat posed by rapidly expanding airlines from the Persian Gulf such as Emirates, Etihad Airways, and Qatar Airways? And the more recent European newcomers such as Norwegian Air or Iceland's WOW offering rock-bottom fares connecting the U.S. East Coast to Europe?
- In addition, domestically, what should Delta's strategic response be to the changing demographics of the U.S. for its products and services?

The case proceeds with a brief history of Delta Air Lines, which started as a crop-dusting company in Georgia. C.E. Woolman purchased the firm in 1928, renamed it Delta Air Services, and expanded its operations to include passenger flights and U.S mail delivery. Woolman was also responsible for establishing superior customer service as one of Delta's primary sources of competitive advantage. In the 1940s, Delta relocated its headquarters to Atlanta and continued to expand and update its fleet. During the 1950s, Delta introduced the hub-and-spoke system, which became the defining business model of traditional air carriers. It continued to grow at a fast clip throughout the 1960s, adding transcontinental flights. Delta adopted the SABRE reservation system in 1978 to increase operational efficiency. Also in 1978, President Carter signed the Airline Deregulation Act, effectively removing government control over commercial airlines' fares and routes and paving the way for entry of new airlines into the sector.

The U.S. economy tanked in 1982, hitting airlines hard just as they were starting to adapt to the new regulatory environment. Delta reported its first financial loss ever in 1983. As conditions improved,

massive losses, forcing it to prune international routes and 15,000 jobs. In 2000, Delta teamed up with Air France, Aero Mexico, and others to form the SkyTeam alliance to counter the threat of other global networks such as Star Alliance and Oneworld.

Worldwide economic recessions coupled with rising fuel costs in the aftermath of the 9/11 terrorist attacks in 2001 proved to be too much to handle for even the major airlines. Delta filed for Chapter 11 bankruptcy in September 2005. Creditors provided financing worth $2 billion and the pilots agreed to changes in their benefits and compensation leading to savings of $280 million annually, enabling Delta to re-emerge from bankruptcy in April 2007. Difficult times continued with the 2008–2009 financial recession, with almost all major airlines losing millions on fuel hedges. Delta acquired Northwest in 2008 to become the airline carrying the highest traffic in the world at that point in time.

The next section describes Delta's current situation, including its leadership and structure. Delta services international and domestic passengers from several major hubs, with spokes connecting to smaller destinations. Since 2010, Delta has re-invested $2 billion to upgrade its airport facilities and the aircraft within its mainline fleet. Overall, Delta boasts more first-class seating and in-flight options than any of its domestic competitors. To cover gaps in its national and international networks, Delta has created a variety of joint ventures, alliances, and marketing agreements. Although Delta has traditionally pursued a differentiation strategy with a focus on customer service, it has recently shifted to more of an integration strategy by providing some extra services (such as inflight drinks) while aggressively cutting costs. Delta has been consistently profitable for several years, though revenue fell in 2016.

Next, the case details the challenges faced by the airline industry, including volatile demand and numerous exogenous shocks over the last decade. Another major problem is the fierce, price-dominated rivalry amongst competitors. Because of intense competition, the airlines almost reach marginal costs in terms of prices and have to make profits through volume. To increase revenues, airlines have adopted sophisticated dynamic pricing models and revenue management tools. While real, inflation-adjusted ticket prices have decreased since 1978, the average growth rate of passengers is expected to grow at an average of 2.2 percent over the next two decades.

There are two main strategic groups in the airline industry. Low-cost carriers (LCCs) compete based on price by using a point-to-point system with a limited number of jetliner models. In contrast, the hub-and-spoke-system utilized by traditional or "legacy" carriers have a higher cost structure, leaving them vulnerable to economic conditions. Their main advantage lies in the international market where there are a limited number of competitors and profits are protected by governmental restrictions. The recent wave of consolidation in the airline industry is one way in which traditional carriers have been able to manage their capacity and streamline their operations. Other cost-cutting measures include flying larger and more fuel-efficient aircraft over longer distances, fuel price hedging, and backward integration into fuel production. However, new entrants are contributing to overcapacity.

The next major section describes how Delta and other legacy airlines have started to unbundle services in order to offer a cheaper base fare, while generating additional profit from ancillary fees, in order to compete more effectively against the LCCs. This has resulted in the creation of a range of new and innovative á la carte offerings such as self and mobile check-in, baggage fees, mobile baggage tracking, upgraded airplane and airport facilities, priority boarding, automatic upgrades, and in-flight services. Booking services have not been used as a point of differentiation because of online travel agencies and booking sites that eliminate information asymmetry.

The case then describes some of Delta's major competitors, including American Airlines, United, and Southwest (domestically) and several Middle Eastern carriers (globally). The Middle Eastern carriers such as Emirates, Etihad Airways, and Qatar Airways are relatively new, but have been very successful. Supported and/or owned by their national governments, they are bulking up their fleets with 200 aircraft on order. These carriers have several strategic advantages, including being located within six hours of 60 percent of the world population. Further, the Middle Eastern and adjacent Asian economies are growing at a healthy pace, creating robust demand for international travel. Multiple agencies measure and report the performance of carriers.

Lastly, the case provides information pertaining to the "demographic challenge" faced by Delta. Customers can be segmented by personas (e.g., sky-warrior) as well as by generational cohorts. The Millennials (born 1980–2000) spend well, book closer to departure dates, and change flights often. Baby Boomers (born 1946–1964) have the highest amount of disposable income, while Generation X (born 1965–1979) is characterized by high levels of education, low brand loyalty, and high debt. The iGeneration (born after 2001) has grown up with the Internet and ubiquitous connectivity. Demographic trends include the fact that there will be no majority population in the U.S. by 2043, with Hispanic and African American populations increasing most rapidly. The population is also expected to migrate from rural to urban areas. The case closes with a summary of the key challenges facing the company given evolving demographics and competition.

Key Concepts

- External Analysis
- Competition
- Internal Analysis
- Core competencies
- Competitive advantage
- Corporate Strategy
- Vertical integration
- Diversification
- Strategic Alliances
- Mergers & Acquisitions
- International strategy
- Organizational Change
- Strategic Leadership

Suggested Discussion Questions

1. Carry out a PESTEL analysis to identify the driving forces affecting the airline industry.

2. **Conduct a Porter's five forces analysis to identify the industry's profit potential.**

3. **Based on the five forces analysis, what is Delta's strategic position? Can it be improved? How?**

4. **Assess Delta's resources, capabilities, and competencies using the VRIO framework.**

5. **Does Delta possess any core competencies that would enable it to achieve a (sustainable) competitive advantage? Explain.**

6. **What type of strategic move is Delta's entry into the refining business? Was it a good move? Explain.**

7. **Describe Delta's strategic position in the U.S. domestic market versus its global presence. How does Delta's domestic strategy differ from its global strategy?**

8. **What short-term objectives should Delta pursue, given the following challenges?**

    a. Changing American demographic (domestic U.S. market)

    b. The emergence of global carriers (international market)

9. Using a SWOT analysis, assess the considerations Delta's executive team should keep in mind moving forward (utilize the analyses in questions 1 to 5 above).

Suggested Answers

1. Carry out a PESTEL analysis to identify the driving forces affecting the airline industry.

Political – National governments play a pivotal role in the airline industry. In the U.S., the Airline Deregulation Act of 1978 removed government control over commercial airline fares and routes and made entry into the industry easier. The loss of revenue protection coupled with increased competition lead to an era of bankruptcies and industry consolidation. More recently, the global carrier threat has been magnified due to government ownership of airlines in the Middle East, which provides competitors like Emirates, Etihad Airways, and Qatar Airways with access to low-cost capital and the ability to negotiate favorable contracts with aircraft manufacturers.

In addition, the Gulf carriers benefit from credit guarantees and special financing from the Export-Import Bank of the United States for the purchase of Boeing aircraft. Delta has been lobbying aggressively to remove the Export-Import Bank's charter, despite Boeing's argument that the subsidies are necessary for it to compete effectively against Airbus, which receives similar aid from the European

Union. Operations of the Export-Import bank were suspended for new loans for several months in 2015, but its charter was later extended until 2019. In 2017, President Trump's appointment to the Export-Import bank would favor continued exports by Boeing.

Economic – While the U.S. economy is projected to grow at a steady rate of about 2 percent, the global economy is growing at 3.1 percent with many Asian, middle Eastern, and African countries are growing at 6 percent per year. The fact that the Middle Eastern airline hubs are on average six hours from these centers of growth is tilting the economic balance in their favor.

World GDP by Region: http://www.imf.org/external/pubs/ft/weo/2016/update/01/

Graphic World GDP and Airline profits: https://goo.gl/images/X9JZIS

Sociocultural – By 2065, according to Pew Research there will be no racial or ethnic group forming a majority in the U.S. This has wide ranging implications for the airline industry. In the past, domestic connectivity was important as the majority of the population was from the U.S. Now it will increasingly be important to have international connectivity for Asian and Hispanic Americans (the two most rapidly growing demographics) to travel to their countries of origin to keep in touch with extended family.

Demographically, Generation X is not a big spender while the millennials will not reach their peak spending capacity for another five to ten years, leading to a squeeze on potential airline revenues in the near term as Baby Boomers age and travel less.

Other sociocultural impacts involve lower demand for travel due to terrorist attacks, and projected shortages of pilots. A pilot shortage is projected due to growth in air travel and restrictions that U.S. pilots retire by age 65.

Graphic of U.S. population: https://goo.gl/images/Gcwsg9

Graphic of Pilot demand: https://goo.gl/images/O19PW5

Technological – Consumers are increasingly booking tickets, checking in to flights, and buying ancillary services through mobile apps and the Internet. As mobile technology usage is only expected to increase, the airlines will have to master how to provide and extract value from the consumer through these new channels. Newer aircraft are more fuel efficient than older aircraft and lower one of the primary expenses for airlines. Other technology impacts could relate to RFID luggage tags to reduce lost baggage or pilotless aircraft.

Ecological – Airlines represent a significant source of carbon emissions. Pressure to reduce carbon emissions and noise pollution from air travel will likely increase, as initial efforts by the European Union to place a carbon tax on airlines is moving toward global regulation. This will force airlines to upgrade their fleets to include more fuel-efficient planes. Middle Eastern carriers have an advantage here as well due to their younger aircraft.

Airline Carbon emissions: http://theconversation.com/airline-emissions-and-the-case-for-a-carbon-tax-on-flight-tickets-56598

Legal – Airlines are impacted by government approval of mergers. Additionally, U.S. bankruptcy laws permit renegotiations of contracts and thus make it easier for firms to return to profitability. The antitrust laws also protect competition at least on some routes, by forcing major airlines to cede full

or partial control in some markets as a condition of approval for large-scale mergers and acquisitions (http://www.nbcnews.com/business/business-news/us-air-american-merger-back-track-after-antitrust-settlement-f2D11577715). Airlines are also impacted by the operation of the Transportation Security Administration (TSA). This has led airlines, including Delta, to fund improved technology to facilitate passenger screening.

*Graphic of airline mergers: http://money.cnn.com/infographic/news/companies/airline-merger/ or https://goo.gl/images/KS7OkQ_*

Delta investment in screening (including video):
http://time.com/money/4352720/delta-new-security-checkpoints-tsa/

2. Conduct a Porter's five forces analysis to identify the industry's profit potential.

A Porter's five forces analysis helps us to assess how much of the gap between Value and Cost an industry can capture. The airline industry low profit potential industry due to the intensity of all five forces combined. Much of the following information has been pulled from the Marketline report on the airline industry: http://advantage.marketline.com/Product?pid=mLIP1252-0026&view=d0e482).

Threat of Entry (moderate) – The 1978 Airline Deregulation Act opened the door for newer and smaller airlines to enter the market, including a host of LCCs like Southwest and JetBlue. Government sponsorship (as in the Middle East) can also facilitate new entry. However, there are still some significant entry barriers in the industry including the importance of economies of scale (or at least broad flight networks) and limited access to distribution channels such as airport gateways, reservation systems, and sales intermediaries. In addition, the industry is highly regulated by the Federal Aviation Authority; for example, foreign carriers are not permitted to provide domestic flights in the U.S. Porter points out that high capital expenditures for aircraft are not a particularly strong barrier to new entrants, as investors will supply financing as long as industry returns are attractive. New aircraft have a high resale value, making it easy to recoup their expenses. Still, a recent trend includes established and new airlines offering low-cost international flights.

Power of Suppliers (strong) – Two firms (Boeing and Airbus) manufacture the majority of large aircraft utilized by the airline industry, giving them substantial power as suppliers. However, the duopoly of Boeing and Airbus is threatened by Commercial Aircraft of China (COMAC), and its first flight of C919 aircraft. Suppliers of smaller aircraft (e.g., Embraer, ATR, and Bombardier) are also highly concentrated and are moving to produce larger planes.

Other factors that contribute to strong supplier power are the importance of aircraft quality (safety and efficiency), the lack of available substitutes, and the fact that aircraft purchase agreements typically consist of long-term contracts that are costly to break. Staffing costs (pilots, flight attendants, mechanics, etc.) are likewise high; unionization further increases the negotiating power of airline employees. Fuel costs represent roughly 31 percent of an airline's operating expenses, making fuel another critical input. There are relatively few fuel suppliers, but airlines can partially counteract their power by fuel hedging and backward integrating into the refinery business, as Delta has done. However, aircraft manufacturers have not displayed an interest in forward integration, nor have airlines been in a position to start manufacturing their own planes.

Power of Buyers (moderate) – Buyers consist of disaggregated individuals, but price sensitivity is high and switching costs are low despite the existence of frequent flyer (loyalty) programs. Price comparisons are readily facilitated by sites such as Expedia and Travelocity, removing any pricing

power associated with information asymmetry. Airlines try to increase their power over buyers by differentiating their products and services.

Threat of Substitutes (high, at least for short-haul) – Other forms of transportation, such as trains, buses, and cars provide a viable substitute for air travel over shorter routes (readily available, convenient, and reasonably priced). The trade-off between time and cost increases with distance, however. In some cases, video-conferencing may be a viable substitute for business travel.

Rivalry (strong) – Domestic rivalry consists of four relatively balanced large competitors (American/US Airways, Delta/Northwest, United/Continental, and Southwest) alongside more numerous regional carriers. At the international level, the entry of Middle Eastern carriers is posing a significant challenge since they are matching prices while offering equal or better services and amenities as well as connectivity due to their central location. Buyers face low switching costs and display relatively low brand loyalty; attempts at product/service differentiation are only moderately successful. In addition, both "storage costs" (empty seats) and "exit costs" (labor contracts) are high, increasing the strategic stakes for industry incumbents.

In conclusion, it can be inferred that the airline industry is squeezed by all five forces, which does not augur well for it terms of capturing the value it generates. *Note*: Porter's five forces analyses of the airline industry (of varying quality) are readily available online.

3. Based on the five forces analysis, what is Delta's strategic position? Can it be improved? How?

Competition is increasing on the domestic front with the entry of LCCs and smaller, regional airlines. At the same time, the entry of new global carriers from the Middle East has led to increased rivalry over the more lucrative international routes. Moreover, European ultra-low cost competitors are also entering selected routes, connecting the East Coast of U.S. with Europe. To understand this issue further, an application of the strategic group mapping is helpful. See **Exhibit TN-1**.

This exhibit displays the strategic group map of the U.S. domestic airline industry. The two strategic dimensions on the axes are cost structure and routes. As a result of this mapping, two strategic groups become apparent, as indicated by the dashed circles: Group A, low-cost, point-to-point airlines (Alaska Airlines, Frontier Airlines, JetBlue, Southwest Airlines, and Spirit Airlines) and Group B, differentiated airlines using a hub-and-spoke system (American, Delta, and United). The low-cost, point-to-point airlines are clustered in the lower-left corner because they tend to have a lower cost structure but generally serve fewer routes due to their point-to-point operating system. The differentiated airlines in Group B, offering full services using a hub-and-spoke route system, comprise the so-called legacy carriers. They are clustered in the upper-right corner because their generally higher ticket prices reflect higher cost structures. The legacy carriers usually offer many more routes than the point-to-point low-cost carriers, made possible by use of the hub-and-spoke system, and thus offer many different destinations. For example, Delta's main hub is in Atlanta, Georgia. If one were to fly from Seattle, Washington, to Miami, Florida, the passenger would stop to change planes in Delta's Atlanta hub on your way.

Delta's ability to form alliances can potentially help mitigate challenges on both the domestic and international front. Domestically, Delta has forged partnerships with ExpressJet, Chautauqua Airlines, SkyWest and others as part of its Delta Connection Network. However, Delta ended its partnership with Alaska Airlines in May 2017, as Delta increased its service to Seattle. Partnering with potential rivals for shorter flights helps to decrease competitive intensity in the industry overall.

It is also helpful to bring out the differences between legacy carriers (i.e., American, Delta, and United) vis-à-vis low-cost carriers (e.g., Southwest, JetBlue, Frontier Airlines, Spirit Airlines, etc.). Some of the same differences listed in **Exhibit TN-2** hold not only for the U.S. domestic market, but also internationally.

Internationally, Delta is part of the global SkyTeam network alliance, has separate partnership agreements with Virgin Australia and Air France-KLM-Alitalia, and code shares with GOL (Brazil), Olympic (Greece), Virgin Atlantic (cross-Atlantic), and WestJet (North America), all of which extend its international reach. Delta's vast flight network, including its ability to connect domestic and international flights, helps to differentiate it from its competitors' more limited offerings (thus decreasing both rivalry and buyer power).

Given that fuel costs comprise roughly 30 to 40 percent of an airline's operating expenses, fuel suppliers exert considerable power over the airline industry. Most air carriers invest in hedging strategies to try to control fuel costs, but economic fluctuations are difficult to predict and can lead to significant losses as well as gains. After its purchase of the Trainer Refinery, Delta is in a unique position compared to its competitors, with a greater degree of control over its supply chain. However, aircraft manufacturers are still relatively more concentrated and powerful than the carriers, despite industry consolidation. Without the benefit of government subsidies (like those received by Middle Eastern airlines), Delta is at a comparative disadvantage with respect to aircraft purchasing.

As long as price points remain competitive with other transportation options, considering the trade-offs between time versus distance and virtual versus in-person communication, substitutes should not be a major threat.

In many ways, Delta's past strategic actions (alliances and refinery purchase) have positioned it well compared to its competitors, despite less-than-optimal industry conditions. Currently, Delta is attempting to move away from a clear differentiation strategy to more of an integrated approach, which comes with its own risks. By unbundling services and pricing them individually, Delta is better able to compete against LCCs while earning additional income from ancillary fees. The key will be to provide the right mix of services to attract and retain customers, especially as the customer base changes in the coming years.

4. Assess Delta's resources, capabilities, and competencies using the VRIO framework.

From the VRIO analysis in **Exhibit TN-3**, Delta might be able to leverage its existing resources and capabilities to create and sustain a competitive advantage. Airport hubs are costly to imitate, and given that the majority of new demographics are residing in cities, this is a strong advantage. International alliances take time and energy to build and have "teething" issues in the beginning; Delta has already surmounted these challenges. Delta's customer service is valuable, but replicable and exceeded by others, both domestically and internationally. The leadership at Delta has experience and depth, but replacements can be found, albeit with some time and effort. Finally, the maintenance organization of Delta is a robust resource that is tough to replicate. Perhaps Delta might consider leveraging its maintenance organization more strategically?

5. Does Delta possess any core competencies that would enable it to achieve a (sustainable) competitive advantage? Explain.

One of Delta's core competencies is the ability to develop alliances and joint ventures to provide an end-to-end experience for the international traveler. Given that domestic markets are getting more and more competitive, the international routes are a promising source of sustained profits. However, in order to extract value from international routes, an airline requires gates in the major international airports to use as bargaining chips to create alliances with other airlines. Secondly, an airline should possess a large and new fleet as well as solid maintenance support to service these routes. Delta has these assets; so, it has a robust foundation on which to build a sustainable competitive advantage.

Domestically, Delta's decision to diversify vertically by backward integrating into the oil refinery business may prove to be another core competency. While other large airlines may have the resources to copy Delta's strategic move, Delta has created a first-mover advantage in economies of scope and learning curve effects.

6. What type of strategic move is Delta's entry into the refining business? Was it a good move? Explain.

Delta entered the refining business in order to better control the costs of fuel, which has been a source of considerable financial uncertainty. It is a form of related, vertical diversification, in particular backward integration along the industry value chain.

There are both pros and cons to this decision. On the plus side, the acquisition provides Delta at least partial control over fuel expenses, which are a major component of the operating budget. At the time of the acquisition, Delta projected that the refinery would provide 80 percent of its domestic fuel needs and create savings of $300 million per year.

However, the Trainer facility was for sale specifically because of low profit margins. To assuage management concerns, Delta has hired executives with refining experience and has partnered with Phillips 66 and BP to help with operations that have shifted to produce more jet fuel.

Graphic Trainer refinery output before/after acquisition: https://goo.gl/images/S3sw2m

Despite analysts' skepticism, investors responded positively to news of the purchase in 2012 and Delta's stock price increased by more than two-fold in 2013. Another positive indicator is that the refinery returned a $3 million profit in the third quarter of 2013. To date, no other company has copied Delta's strategy. One unintended consequence of refurbishing the refinery to focus more exclusively on jet fuel production is that it has flooded the jet fuel market and caused prices to fall across the industry (i.e., benefitting Delta's competitors as well).

Additional sources:

http://www.philly.com/philly/business/transportation/Delta-reaffirms-its-commitment-to--the-Trainer-oil-refinery-Were-not-selling-it-.html

http://www.reuters.com/article/us-delta-jetfuel-exclusive-idUSKCN10E0EZ

7. Describe Delta's strategic position in the U.S. domestic market versus its global presence. How does Delta's domestic strategy differ from its global strategy?

Delta is facing stiff competition from LCCs in the domestic market. It has twice tried (unsuccessfully) to compete with them directly through the launch of its own budget service, first with Delta Express (1996–2003) and then with Song (2003–2006). Subsequently, Delta has moved to a more collaborative approach by allowing the LCCs to act as exterior "spokes" to its hubs (although Delta also partners with regional airlines for the same purpose). Competition from the LCCs has nevertheless led to a decreased market share for Delta within the U.S. and it will likely have a similar impact internationally.

In the international market, Delta faces threats from other legacy and global carriers, especially the new Middle Eastern airlines. In addition, more recent European newcomers such as Norwegian Air or Iceland's WOW have begun to offer rock-bottom fares connecting the U.S. East Coast to Europe.

Delta's infrastructure and control of gates at many major U.S. cities gives it a competitive advantage over its rivals. These facilities can be leveraged to develop alliances with other airlines, mutually benefitting both Delta and its partners. Given the changing demographics of the U.S. population, Delta will have to provide excellent connectivity to the "population centers" of the world such as India, China, and Central America while maintaining a strong infrastructure at home.

There is a clear contrast in Delta's strategy in the domestic versus international arenas. While Delta is successfully collaborating with LCCs and regional carriers to serve as spokes to its domestic hubs, the company competes fiercely in the international market with anyone that threatens its infrastructure within the U.S. and/or its access to international destinations.

8. What short-term objectives should Delta pursue, given the following challenges?

a. Changing American demographic (domestic U.S. market)

In the short-term, Delta should focus on increasing revenues by differentiating its ancillary products and services while matching the LCCs on base price. Understanding the features that are attractive to consumers will be critical in determining the optimal product/service mix. For example, Delta invested $1.2 billion in a new terminal facility at New York's Kennedy airport that includes an increased number of security lanes and gates, a lounge for frequent flyers, and an observation deck.

Delta should also focus on the Internet and mobile applications so as to provide higher customer satisfaction and to increase brand loyalty. Additionally, Delta needs to update its website security and Internet infrastructure.

b. The emergence of global carriers (international market)

Delta should maintain its strength in the U.S. market while continuously expanding its footprint in high-immigration and high-travel centers abroad. It should buy more gates and develop ground infrastructure at such cities, converting them into regional hubs. For example, the company has recently expanded its presence in Seattle as a gateway for international flights to Asia. Delta was shut out of airline partnerships in Japan, so it is partnering with Korean Air to provide direct flights to other parts of Asia and bypass Tokyo.

Another key feature of its international expansion strategy involves developing investment-based partnerships with domestic carriers in key foreign markets, such as Brazil and Mexico. For Europe, Delta partners with KLM and Air France on daily flights.

At the same time, Delta should also develop and fine-tune its offerings for Millennials, who will hit their peak spending in the next five to ten years. Delta needs to understand this segment and its aspirations better in order to provide services they value. For an article on Millennial business versus leisure traveler segments, please see: https://www.bcg.com/documents/file129974.pdf

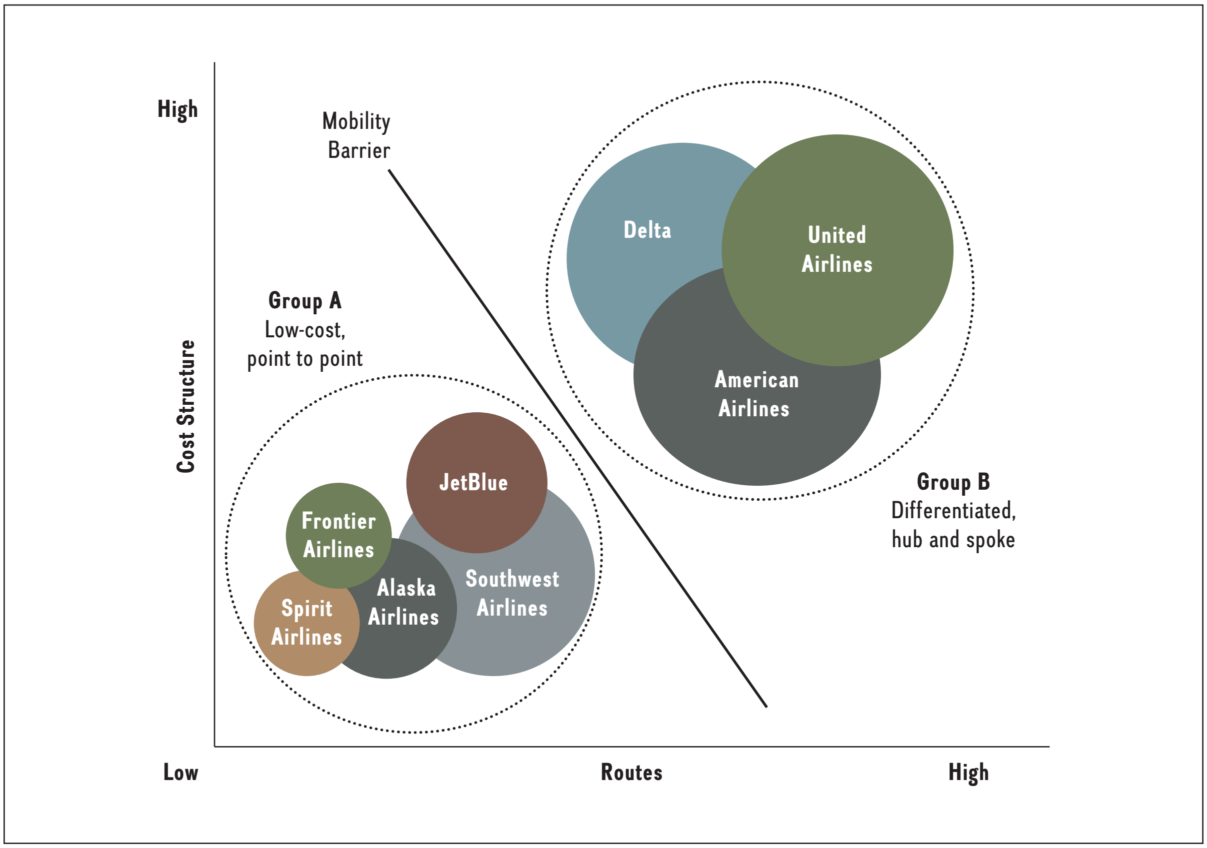
9. **Using a SWOT analysis, assess the considerations Delta's executive team should keep in mind moving forward (utilize the analyses in questions 1 to 5 above).**

Note how the proposed actions for question 4 leverage Delta's strengths (e.g., domestic infrastructure, international networks) to take advantage of potential opportunities (e.g., expansion into growing international markets, Millennial willingness to pay for added services). See **Exhibit TN-4**.

Additional Resources

1. Articles
    1. Nicks, D. (2016) "Why Delta's New Security Checkpoints Are So Much More Efficient Than TSA's" *Time*: http://time.com/money/4352720/delta-new-security-checkpoints-tsa/
    2. Boston Consulting Group (BCG). (2013). Traveling with Millennials: https://www.bcg.com/documents/file129974.pdf
2. Videos
    1. Delta history "This is Delta" excerpt (2:06 min): https://www.youtube.com/watch?v=gG1p06W1SY4
    2. Delta Airlines YouTube Channel: https://www.youtube.com/user/DeltaAirLines
    3. 'Spirit of Delta' video about the employee-contributed 767 jetliner (11:06 min): https://www.youtube.com/watch?v=2pD4SzJJjLM
    4. Delta combats long security lines (0:31 sec): http://time.com/money/4352720/delta-new-security-checkpoints-tsa/
3. Other
    1. Annual reports and other SEC filings are available at: http://ir.delta.com/stock-and-financial/sec-filings/default.aspx
    2. Google Finance page about Delta: https://www.google.com/finance?q=NYSE%3ADAL&fstype=ii&ei=AU4PWbi0IMed2Aar1oTwCA

EXHIBIT TN-1 Strategic Groups and Mobility Barrier in U.S. Domestic Airline Industry



Source: Rothaermel, F.T. (2018), *Strategic Management,* 4th edition. Burr Ridge, IL: McGraw-Hill.

EXHIBIT TN-2 SWOT Analysis of Delta Airlines, Inc.

Legacy Carriers	Low-cost Carriers
Hub-and-spoke business model	Point-to-point business model
Fly to major airports	Fly to less known airports
Full-service flight packages	Unbundled product, fee for service
Leverage partnerships and serve global networks	Compete in dense markets within a limited geographic scope
Diverse fleet	Homogenous fleet

Source: Rothaermel, F.T. (2018), *Strategic Management,* 4th edition. Burr Ridge, IL: McGraw-Hill.

EXHIBIT TN-3 VRIO Analysis of Delta Airlines, Inc.

Delta's Resources and Capabilities ... are they?	Valuable V	Rare R	Costly to Imitate I	Organized to capture value O
Major hubs	•	•	•	
International alliances	•	•	•	
Customer service	•			•
Leadership	•			•
Maintenance organization	•	•	•	•
Oil refining	•	•	•	•

Source: Courtesy of F.T. Rothaermel.

EXHIBIT TN-4 SWOT Analysis of Delta Airlines, Inc.

Strengths	Weaknesses
Experienced management with good track record Strong infrastructure and presence at major international airports in the U.S. International alliance network Economies of scale (largest domestic airline) Ownership of refinery to control fuel costs Strong financials facilitating investments in infrastructure	Higher cost structure than LCCs (multiple aircraft types)
Opportunities	**Threats**
Growing foreign-born American population in major U.S. cities Opportunities for providing value added services to Millennials, who are willing to pay for them and will reach their peak earnings in the next 5 to 10 years Growth in economies of Asian and Latin American countries leading to an increase in demand for international air travel	Increased competition on international routes from the Middle Eastern global carriers Domestic competition from LCCs and regional airlines Fuel price volatility Limited financial resources of Generation X to spend on frills provided by legacy airlines

Source: Courtesy of F.T. Rothaermel.