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North Central's
Bud Sweet
and Hal Carr



Cover feature:

How to run an airline... profit style; North Central shows the way

**U.S. local carrier marks its 25th anniversary
with one of the best financial records to be
found anywhere in the airline world**

By Joseph S. Murphy
from Minneapolis

Late last month, North Central Airlines revealed its preliminary unaudited results for 1972: a \$7.5-million profit on \$120 million in revenues, the tops for the U.S. local airline industry and a record for North Central itself.

At the same time North Central marked the 25th anniversary of its humble origin as a division of Four Wheel Drive Co. in Clintonville, Wisc. And the tone of the 1972 fiscal performance is typical of the phenomenal financial record that chairman Hal Carr and his management have written over that quarter-century period.

For an airline to show a profit in 18 of the last 19 years, one would expect it to be blessed with a few operating advantages here and there to boost its position. One would think so, but that's not the case at North Central. If anything, the opposite is true.

Not only does it operate more flights in costly sub-zero temperatures than any other airline in the world, but it also has the shortest average stage distance and the shortest passenger trip distance of any U.S. local.

The real secret to North Central's success lies in knowing how to run a very lean, tight, cost-conscious airline, says Hal Carr. And if anyone knows what makes North Central tick, it's Hal Carr.

Actually, Carr seems synonymous with the airline's success. He was there as executive vp when it all began in 1948. After two years of start-up losses and two years of profit, he left to join McKinsey & Co., management consultants.

The next two years, in Carr's absence, North Central dove into the red with \$100,000 losses in both 1952 and 1953. In 1954, when he was lured back to run the airline, it already had amassed a \$200,000 loss, but Carr turned that around to an \$80,000 profit before the year was over.

On the eve of his return, Carr recalls, CAB had

told North Central's management that no U.S. airline had ever gone bankrupt, but that it looked like they were about to end that glorious record. CAB also had told North Central that the carrier had exhausted every bit of assistance it could expect from the government to make up for its own managerial deficiencies.

Since 1954, Hal Carr and North Central have shown a profit in every year except 1969—when a major route and equipment expansion combined with a traffic dip to take the airline's results into the red.

From a \$700,000 operation in 1948, when 112 employes and a fleet of three Lockheed 10As carried 11,000 passengers, North Central has boomed into a \$120-million operation with 3200 employes and a fleet of 16 DC-9 jets and 33 Convair 580 turboprops.

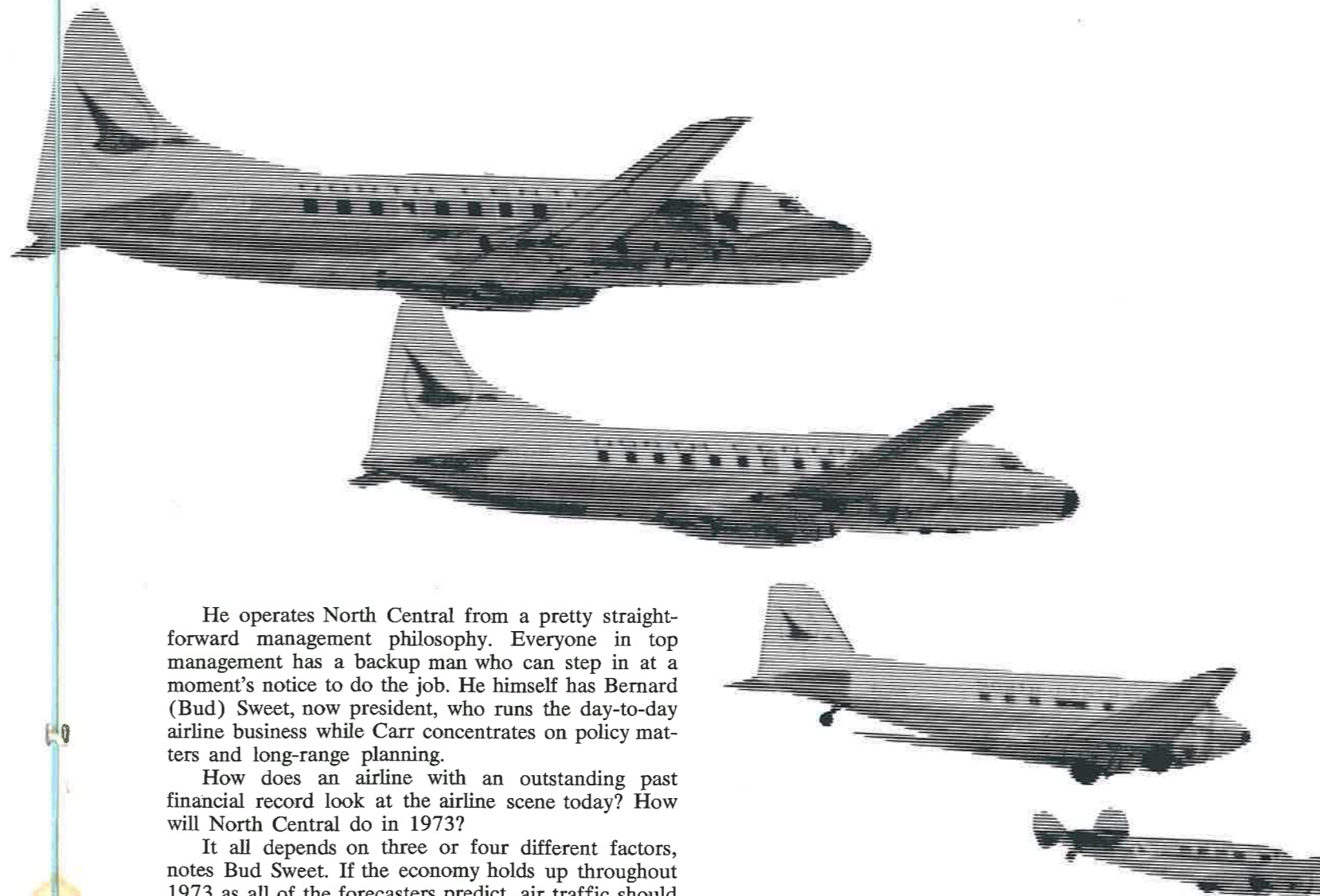
Over the 25-year span since 1948, the airline has carried 33 million passengers some 6.5 billion revenue passenger-miles and has shown a profit of \$14.2 million on total operating revenues of \$761 million.

Almost throughout the past 19 years, it has been a case of "North Central and somebody else" making a profit among U.S. locals. In 1971 it was North Central and Ozark, the year before NOR and Allegheny. In 1968, North Central was all alone with a \$70,000 profit while the rest of the local airline industry was losing \$28 million.

If one adds up the retained earnings of all of the U.S. locals, the North Central record stands out. At the end of 1971 it was the only local with a positive retained earnings record. Others showed deficits ranging from \$660,000 for Ozark up to \$23.5 million for Frontier.

Hal Carr has worked well from the beginning with his board of directors, and in all of his memory he can't recall a board vote that hasn't been unanimous. He tells the board that when times are good North Central will be among the leaders in profit and in bad times North Central will lose the least.

Since Art Mueller passed away in 1966, North Central has become the most publicly owned airline of all the locals, with upwards of 34,000 individual stockholders. Carr himself is the biggest single shareholder at about 3%, and the airline has no single "rich uncle," as he calls it, like most other locals.



He operates North Central from a pretty straightforward management philosophy. Everyone in top management has a backup man who can step in at a moment's notice to do the job. He himself has Bernard (Bud) Sweet, now president, who runs the day-to-day airline business while Carr concentrates on policy matters and long-range planning.

How does an airline with an outstanding past financial record look at the airline scene today? How will North Central do in 1973?

It all depends on three or four different factors, notes Bud Sweet. If the economy holds up throughout 1973 as all of the forecasters predict, air traffic should show a growth rate twice the rate of the gross national product growth.

Then there's Phase III. If voluntary controls work, that will be good. Phase II helped the airlines, which earlier were being hit by labor cost rises double those experienced in 1972. Most unions recently have held to one-year contracts in hopes that controls would end,

25 years of airline aircraft. From top: DC-9, Convair 580, Convair 340, DC-3 and Lockheed 10A Electra.

North Central success

and North Central itself has four new contracts coming up for renewal in the balance of this year. If restraint prevails, the outlook will be good.

Both Carr and Sweet have no doubts about the need for a fare surcharge to offset the new security rules. The proposed \$1 per passenger breaks down to 93¢ plus tax. When prorated on interline tickets with the rest of the fare, this would leave just about half of the 93¢ with North Central, and that's about what the carrier needs to cover its costs. It will cost \$2 million at North Central alone to do the security job.

Hal Carr thinks the CAB's local airline route-strengthening program has been one of the most enlightened, far-sighted and successful projects ever undertaken by the Board, and states flatly that subsidy today would be fantastically higher without it.

Although the program slowed down when the CAB declared a moratorium on new route authority during the recent recession, Carr is hopeful that renewed financial health among the trunks will encourage the Board to resume the strengthening program.

North Central got its biggest break in route-strengthening with the award of the Milwaukee-New York nonstop. It began the service in September of 1970 and traffic is still building. United, which began

at the same time and with more frequencies than North Central, cut its service from four flights daily to two, then shifted from LaGuardia to Newark, and finally dropped out of the market.

North Central uses the route to feed traffic on one-plane services from points west and northwest through Milwaukee to New York. It has the advantage of a half-filled airplane on arrival in Milwaukee and thus doesn't depend solely on the fruits of Milwaukee-New York traffic.

North Central is proposing similar treatment of its bids in other route cases. In the Detroit-Atlanta and Cincinnati-Atlanta cases, it proposes a "light touch of competition" as opposed to certifying a full-fledged, big trunk competitor in a market now served exclusively by one airline.

North Central's approach is to schedule its feeder through-flights at times when service is not now available. In its Detroit-Boston and Detroit-New York bids, it would feed traffic from the west and northwest to these destinations, rather than trying to divert traffic from existing services.

The regionals have one advantage competing in such markets: their single-class jets offer a service superior to trunk airline coach service. Some traveling businessmen prefer the regional because their company

rules preclude first-class travel and the one-class service averts the prospect of their being embarrassed by meeting competitors or customers in first-class compartments while they themselves are on their way to the back of the airplane.

In addition to its bids in the Atlanta, Boston and New York markets, North Central also seeks Milwaukee-Denver authority and extension of its Detroit-Toronto service to Montreal. The important thing, says Dave Moran, vp-traffic and sales, is that local airline route-strengthening must be continued in order to reduce future subsidy need.

As a measure of how the New York route has helped North Central, Hal Carr points out that breakeven on that flight is about 32 passengers on a 100-passenger DC-9. North Central's year-round load factor is 57 passengers, meaning that it gets about 8¢ a mile from 25 passengers above breakeven over the 738-mile segment—a sizeable contribution in offsetting subsidy need.

Although this route has proven to be one of the better awards to locals, North Central still trails other locals in route-strengthening benefits. In 1968, for example, it had an average length of hop of only 99.6 miles, compared to 146.1 miles for Allegheny. Since then, Allegheny has been strengthened to an average

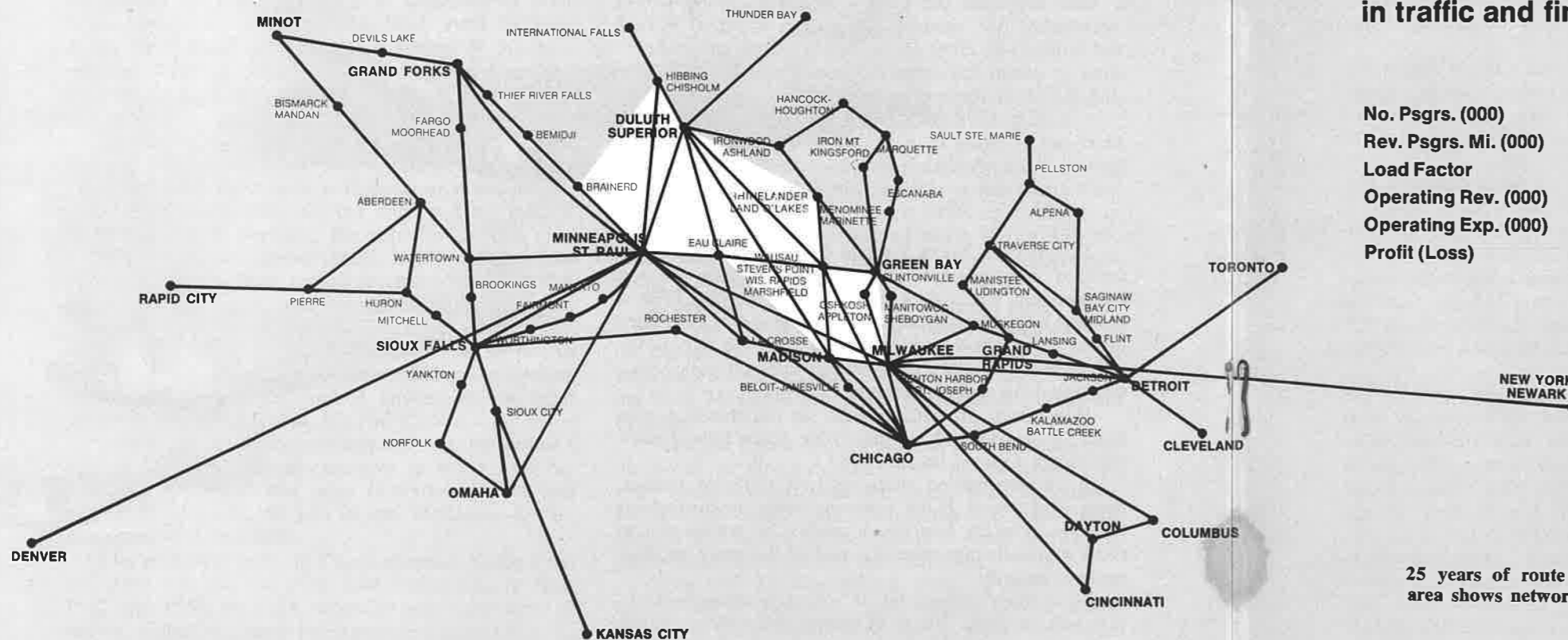
of 211 miles in 1972, a 44% improvement, while North Central's average improved only 30% to 130 miles. In average passenger trip distance improvement, North Central comes out about equal to Allegheny, rising from 187 to 232 miles while Allegheny rose from 245 to 300 miles.

One other aspect of North Central's success in which Carr and Sweet take pride is their equipment decisions. Carr says the worst mistake an airline can make is to buy the wrong airplane, noting that more than one local has gone out of business for that reason. Therefore, North Central puts great emphasis on its equipment decisions.

Carr recalls that the only big problem experienced in the past came when the technical side of North Central favored the Rolls-Royce Convair 600, but flight operations wanted the Allison-powered 580. The latter prevailed.

The 580 has turned out to be a winner. North Central now has 33 and expects to fly them until 1978. This year it will begin substituting DC-9s for some 580 services where traffic densities have grown to justify the 100-passenger jet in place of the 48-passenger turboprop. Thus, the first 580s may be retired from the fleet this year.

Instead of the present 33-16 ratio of 580s to DC-9s,



How North Central has fared in traffic and finance 1948 to 1972

	1948	1953	1958	1963	1968	1969	1970	1971	1972
No. Psgrs. (000)	11	220	777	1,215	3,014	3,243	3,753	3,793	4,319
Rev. Psgrs. Mi. (000)	2,000	38,034	125,931	203,829	518,424	609,973	806,165	865,736	1,029,193
Load Factor	n.a.	42.2	46.6	41.3	39.7	39.5	44.5	44.2	50.3
Operating Rev. (000)	704	4,887	13,059	27,877	55,226	68,428	91,952	100,796	120,000
Operating Exp. (000)	755	4,931	12,983	26,431	54,200	68,035	83,787	94,980	n.a.
Profit (Loss)	(\$128)	(\$119)	\$15	\$521	\$70	(\$2,378)	\$2,178	\$1,225	\$7,500

25 years of route development at North Central. White area shows network in 1948 when the airline was born.

North Central success

the trend will be toward reversing these numbers over the next few years. North Central recently bought, from Greyhound Leasing, two DC-9s operated by the bankrupt West German charter airline Atlantis, and will get three new DC-9s from Douglas this year to raise the number to 19 by year-end.

Carr feels that the twin DC-10 might well be the next new jet type that North Central buys, not as a full-fleet DC-9 replacement but perhaps a fleet of five to handle certain high-density segments on which a 100-passenger capacity will be insufficient.

Carr also sees a future need for a 50-to-60-passenger replacement for the 580, when and if a manufacturer comes up with one that will do the job. In the meantime, North Central won't do badly replacing 580s with DC-9s. The jet shows a maintenance cost of 28.9¢ per mile versus 38.3¢ for the 580, and its dispatch reliability is almost identical. The delay rate for

mechanical causes on the DC-9 is 1.39%, against 1.34% for the 580.

North Central maintains both DC-9s and 580s on a progressive schedule under which an aircraft is never out of service for scheduled maintenance for more than eight hours. The airline recently lost its veteran technical vp, Les Keely, to Frontier Airlines; his successor, Robert Gren, is now developing the next stage of computerized maintenance administration, which will include in-flight monitoring of systems to better predict the need for maintenance before a failure occurs.

On the sales side, North Central in the past has been predominantly a business-travel-oriented airline, with roughly 80% business travelers and 20% pleasure. Now it is putting a major new effort into expanding pleasure markets, posing itself as the outdoorsman airline with packages for fishing, hunting, canoeing in Canada and, coming next fall, big ski packages. It has engaged pro ski racer Jake Hoeschler as its advisor on the sport and plans to conduct ski seminars this fall.

A good example of how North Central coped with the recent recession is in its control of employe headcount. From the end of 1969 through 1972, it held employment increases to only 1.3% while passengers rose 35% in numbers and revenues climbed 75%.

Computerized reservations illustrate the automation that permits this kind of expansion to be handled by the same force. Had North Central still had manual reservations, it would have had to hire 225 additional people to cope with recent traffic growth. Instead, it not only needed zero staff increase, but has managed to sell about \$300,000 in computer services to 50 local accounts to help get better utilization of the computer staff.

Over the past 25 years, North Central has grown at an average rate of 16% per year. Looking ahead another 15 years, Hal Carr sees a 10%-per-year growth to an airline with revenues approaching \$500 million annually.

And he makes no bones about North Central's ambitions. It doesn't aspire to become a trunk airline; it is satisfied to remain a regional airline and to serve small communities as it has in the past.

He also feels that big manufacturing corporations sell goods to the U.S. government and get paid for their wares. By the same token, the U.S. locals are selling air service to small communities and should continue to get paid for it.

North Central feels the class rate system has proven far superior to all former approaches to local airline subsidy, and favors the idea that the class rate now in effect should prevail until a new one is developed and adopted by CAB. This eliminates the undesirable open rate situation that destroys an airline's ability to plan its operation.

Whatever the future of subsidy, route-strengthening, or the regional airlines for that matter, it's a good bet that Hal Carr and North Central Airlines will emerge as leaders in profit-management. It's just as good a bet that if all of the airlines of the world were managed the way North Central is, the airline industry today would be making a lot more money.

Financial Milestones at North Central

The only profit in 1968

North Central	\$ 70,000
Southern	(200,000)
Ozark	(649,000)
Piedmont	(654,000)
Texas Int'l	(1,444,000)
Mohawk	(3,346,000)
Allegheny	(4,862,000)
Frontier	(5,965,000)
Air West	(10,905,000)
Total	(\$27,955,000)

* The best retained earnings among locals

North Central	\$ 6,726,000
Ozark	(661,000)
Piedmont	(1,933,000)
Southern	(3,423,000)
Hughes Airwest	(11,109,000)
Allegheny	(18,488,000)
Texas Int'l	(19,851,000)
Mohawk	(20,761,000)
Frontier	(23,569,000)
Total	(\$92,069,000)

* As of 12/31/71

Our thanks to the people who made our 25th Anniversary our best year ever

Breaking records has become a habit.

We carried more passengers in one day of 1972 than we did in all of 1948. Flew more miles, employed more people. Our "good people make an airline great" philosophy has paid off for us... paid off for our passengers, too.

It simply means that people from Denver to New York, from the Dakotas to Ohio, count on us for airline service second to none.

good people make ^{our} an airline great

NORTH CENTRAL AIRLINES 

