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Delta Air Lines Strategic Audit

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Delta Air Lines Strategic Audit

An Undergraduate Honors Thesis
Submitted in Partial Fulfillment of
University Honors Program Requirements
University of Nebraska-Lincoln

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Abstract

This case study focuses on Delta Air Lines, a prominent company in the airline industry. We conducted a strategic audit utilizing theories and principles central to strategic management to complete the case study. Our research used publicly available information that included the company's website, SEC filings, news articles, and industry analysis. The goal of this case study is to collect and analyze data, apply strategic management concepts to a contemporary organization, and evaluate the firm's potential for competitive advantage.

We looked at many factors for Delta Air Lines, including firm analysis, industry analysis, external analysis, internal analysis, performance analysis, competitive dynamics, business level strategy, corporate level strategy, and strategic decision making. Using these factors, we created a comprehensive audit that focuses on Delta Air Lines' core competencies and evaluates the company on how well it leverages its strengths. Our competitive analysis also focused on the company's key competitor, American Airlines. This strategic audit of Delta Air Lines covers its overall strategy and industry-specific methods for success. Information about the broad business environment and industry-specific insights are used to create a comprehensive understanding of the firm. Our audit has found that Delta Air Lines' operational excellence, brand strength, competitive advantage, and financial performance have well-positioned the firm in the industry to continue its success and increase its profitability in the coming years.

Key Words: Delta Air Lines, Airline Industry, Domestic Airlines, Strategic Management, Strategic Audit, Case Study

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Executive Summary

Delta Airlines, founded in 1925 as a local crop dusting service, became an industry leader despite challenges and transformations. The company's trajectory, from its small beginnings to its current position as one of the world's largest airlines, reflects a commitment to growth, innovation, and adaptation to industry dynamics.

Delta adopts a mechanistic organizational process focusing on specialization, formulation, centralization, and hierarchy, ensuring a top-down approach to uphold consistency and quality. The company's functional organizational structure domestically enhances operational efficiency and resource optimization in a cost-sensitive industry. This high-level organizational framework aligns with the company's differentiation strategy and enables the company to navigate the challenges of the airline industry effectively.

Delta Airlines strategically targets high-value consumers by enhancing amenities to attract premium fare-paying passengers, especially business travelers who contribute significantly to airline profits. It employs a broad differentiation strategy, offering unique products and services, a premium in-flight experience, a reliable route network, strategic partnerships, and exceptional customer service. Its diversification strategy involves maintaining a geographically diverse business, utilizing joint ventures and partnerships, and offering various services like maintenance, repair, overhaul operations, vacation packages, co-branded credit cards, and cargo services.

Despite financial challenges, Delta achieved a 13% premium revenue increase and a record 8.5 million loyalty program member growth in 2022. Committed to ESG, Delta emphasized sustainability with fleet advancements. High operational efficiency, a 98.6% trip completion rate, and significant workforce recruitment contributed to success. Key indicators highlight a focus on employee and customer satisfaction, with engagement scores surpassing benchmarks. Delta's on-time performance (84.1%) and customer satisfaction scores reflect a dedication to service quality. Leading in market cap, Delta maintains a robust financial compensation structure aligning executive interests with company performance.

Delta is confident in its three-year plan, focusing on operational excellence, brand strength, competitive advantage, and financial performance. The company's long-term strategic priorities include running the world's best airline, unlocking the value of its trusted brand, transforming through digital means, and delivering long-term shareholder value. As an audit team, we believe Delta is poised to ride the resurgence of travel and increase profitability through the coming years. Its investment in SAF allows it to cater to climate-conscious consumers and stay ahead of ESG requirements.

Industry and Firm Overview

History

Delta Airlines was founded in 1925 in Georgia as a small, local crop dusting service. Originally named Huff Daland Dusters, the company began to expand its services into mail carrying and small passenger flights. After gaining more success in the space, the headquarters, originally located in Macon, Georgia, was relocated to Monroe, Louisiana in 1929. It was here where the company changed its name to Delta Air Corporation. In 1930, the passenger services of Delta's business became the most profitable sector and the company ramped up services, offering flights between Dallas, Texas, and Jackson, Mississippi from Shreveport and Monroe, Louisiana. In the next decade, it expanded its route network to include various cities in the southeastern United States.

During World War II, Delta contributed transportation and cargo services to the US military. This led to the monetization of the aircraft fleet and an increase in expansion in the 1950s. Throughout the 1960s, Delta began offering many luxury services to passengers and expanded its fleet of pressurized planes that were first introduced in the 50s. Alongside this, they began acquiring more regional airlines to expand their network. Throughout the next two decades, Delta invested in the hub-and-spoke system. This concentrated flights and operations in select cities with major airports, such as Atlanta, helping to improve overall efficiency. During this time, Delta acquired Northeast Airlines for about \$25 million in 1971 (Walker, 1971).

Delta continued to grow throughout the 1990s and 2000s. It established partnerships with various international airlines and expanded its global reach, becoming a member of the SkyTeam Alliance. The acquisition of Pan Am's transatlantic routes in 1991 further solidified its position as a major global carrier. Despite this, Delta faced financial hardship in the mid-2000s and filed for bankruptcy in 2005. It emerged from bankruptcy in 2007 and subsequently merged with Northwest Airlines, creating one of the world's largest airlines. This period saw significant changes in Delta's fleet and operations.

The 2010s were an age of innovation and investment in the customer experience. It introduced new cabin classes, upgraded its fleet with more fuel-efficient aircraft, and expanded its international routes. The airline also focused on sustainability and environmental initiatives. Like the entire airline industry, Delta faced challenges during the COVID-19 pandemic due to travel restrictions. It implemented various safety measures and adjusted its operations to navigate the crisis while also focusing on cargo and repatriation flights.

Delta Air Lines has consistently ranked among the world's largest and most prominent airlines, serving millions of passengers each year and playing a crucial role in both domestic and international travel. Its history is marked by growth, innovation, and adaptation to changing industry dynamics (Delta Airlines, 2023-h).

Business Preview

Delta defines its principal business model as “connecting customers across our expansive global network,” or, in other terms, consumer air travel (United States Securities and Exchange Commission, 2022-b). Delta considers its staff and training the most significant contributors to its success. The company also relies on customer retention; this is precisely why Delta boasts a robust loyalty portfolio. Programs like SkyMiles create an appealing convenience that keeps frequent fliers returning to Delta. Delta’s loyalty programs have proven to be quite lucrative, although they rarely share its financials on this aspect of their operations. However, in their 10K, it was revealed that Delta made nearly \$5.5 through its partnership with American Express and sold \$5.7 billion in SkyMiles (Leff, 2023).

Companies like Southwest or Frontier attract low-budget fliers, whereas Delta targets corporate travelers. Delta targets this demographic by enhancing the level of comfort available to passengers willing to pay extra or established customers. The higher margins inherent with business professionals prime this market as a reliable demographic for Delta (C, 2015).

Mission, Vision, Values, and Ethics

Mission: We—Delta's employees, customers, and community partners together form a force for positive local and global change, dedicated to bettering standards of living and the environment where we and our customers live and work.

Vision: To be the World's Most Trusted Airline.

Values: Honesty, Integrity, Respect, Perseverance, Servant Leadership

Delta Airlines has four primary guides for each respective segment of its business operations. Rules of the Road outlines the company’s principles and expectations of modeling leadership, The Way We Fly sets forth basic expectations of employees, Delta’s Code of Ethics and Business Conduct focuses on business conducted around the world, and the Annual Flight Plan sets corporate goals for the year. Delta’s mission statement and business model work cohesively, as the mission focuses on connecting its customers worldwide, and the business model invests in the working and living environment of its employees and customers (Delta Air Lines, 2016).

Leadership

In May 2016, Ed Bastian was named to lead Delta Air Lines as Chief Executive Officer. Bastian has been with the company since 1998 when he joined as Vice President of Finance and Controller. He has helped to steer the company through challenges such as 9/11, the Great Recession, and COVID-19 using a values-based leadership approach and placing empathy, humanity, and devotion to service as his top pillars. His leadership has assisted Delta in becoming the world’s most reliable and most awarded airline. Bastian was recently named Chief Executive magazine’s 2023 Chief Executive of the Year.

In May 2016, Glen Hauenstein was named President of Delta Air Lines. Hauenstein joined Delta in 2005, and his leadership helped Delta transition from focusing on domestic transportation to a

nearly even split of domestic and international service. Before joining Delta, Hauenstein worked as Chief Commercial Officer and Chief Operating Officer at Alitalia - an airline based in Italy whose revenue grew almost 20% in his time there.

In 2021, Alain Bellemare joined Delta as President - International. Bellemare comes in with strong international aerospace experience. He previously served as President and Chief Executive Officer of Bombardier - a business jet manufacturer based in Montreal. In his time there, he led the company through intense certification through the European Aviation Safety Agency (EASA) and the Federal Aviation Agency (FAA) for their first commercial aircraft. Bellemare has extensive experience in the creation of aerospace systems.

Dan Janki is the Chief Financial Officer of Delta. Before joining the company in 2021, Janki was President and Chief Executive Officer at General Electric Power Portfolio. He has over 25 years of executive leadership experience and works closely with Bastian to form Delta's strategy and vision. Outside of these four leaders, Delta has a strong leadership committee consisting of talented chief executives and senior/executive vice presidents who have a wide range of experience, which can be viewed in Appendix A (Delta Air Lines, 2023-b).

Company Outlook

Delta claimed to be "executing well against [the] three-year plan." Delta highlighted joint ventures, service, operations, brand, and customer service as key elements of their industry leadership. Delta projected confidence in expected demand, expecting earnings per share (EPS) to grow to \$5.00 - \$6.00 in 2023 and above \$7.00 in 2024.

On Capital Markets Day, Delta set out to do the following four things:

1. Run best-in-class operations. Delta is a leader in reliability and projects non-fuel unit costs to decline 5% to 7% YOY in 2023.
2. Strengthen brand and customer experience. Delta is experiencing a significant growth in premium seating margin and NPS.
3. Extend competitive advantage. Delta invested in new facilities in four major airports and formed new partnerships.
4. Restore financial performance. In June 2023, Delta announced that the company is expected to meet the top end of its original earnings per share guidance for fiscal year 2023 at \$6 per share.

In the report, Delta detailed how the company delivered on its long-term commercial strategy, which is split into the four following areas (Delta Air Lines, 2022 -b):

1. Deepen Network Advantages. Delta maintains 4 core and 4 coastal hubs, with growth targeted in the core hubs. However, the coastal hubs help lead JVs and expand international market share.
2. Expand Premium Revenue. Delta expects premium seating mix to grow 30% by 2024.
3. Grow Loyalty Ecosystem. Delta forecasts strong growth among loyalty customers, going from \$4b AmEx Remuneration in 2021 to an expected \$6.5b in 2023.

4. Increase Revenue Diversification. Delta expects premium and non-ticket revenue growth to be 80% of the revenue growth for the company.

Delta outlined its four long-term strategic priorities: run the world's best airline, unlock value of Delta's trusted brand, transform through digital, and deliver long-term shareholder value. Delta is showing commitment to these priorities in a few ways. Delta is aiming to migrate to the cloud by 2024 and deploy mainline free in-flight wifi by the end of 2023. Additionally, Delta generated positive free cash flow in 2022 and increased the weight of free cash flow in executive compensation plans. Finally, Delta is investing in next-generation aircraft that are 15-25% more fuel efficient (Delta Air Lines, 2023-e). Overall, Delta is looking to grow its topline revenue primarily by offering best-in-class experiences for customers and incentivizing loyalty. Delta is in a financial position to invest in digital, people, and aircraft, which will help drive cost-effective and high-quality operations for years to come.

External Analysis

General Environment

The government heavily regulates the domestic airline industry, but the industry also receives high assistance from government and non-governmental support. According to the IBISWorld Report, domestic trips by US residents and corporate profit are expected to increase over the next five years. Higher revenue is expected for the industry as airlines offset the higher oil prices by increasing airfare and passing costs to consumers.

Political

Delta and other airlines face political factors that present opportunities and challenges in operating in different regions. The factors include government regulations on safety, security, finances, and environment, aviation policies set by the Federal Aviation Administration (FAA), and navigating the political stability of other countries where the airlines operate. Delta has 120 Open Skies agreements, and the agreements eliminate government interference in commercial decisions of routes, capacity, and pricing (U.S. DoS, 2017). All airlines operating in the US are subject to following FAA regulations and staying current with any changes set forth by the administration. The war in Ukraine has created political instability and has had the global impact of increasing flight times, airspace closures, and carbon dioxide emissions (ITF, 2022). Increased regulatory environments are meant to improve customer safety while allowing airlines to set pricing, routes, and capacity.

Economical

The factors from the global economy that have impacted Delta's financial performance include rising interest rates and increased fuel prices. One way the rising interest rates affect Delta is the increased cost of debt and the eventual increase in lease rates for aircraft (KPMG, 2023).

Rising interest rates can influence consumer spending and overall economic conditions that decrease passenger demand for air travel. Increased fuel prices have had a negative effect on Delta's operating costs. Fuel prices reached a 14-year high in 2022, rising 70% in the first six months because of the war in Ukraine (Flightworx, 2023). The increase is felt substantially because fuel costs account for 18-20% of Delta's costs (Gupta, 2023).

Social

Evolving customer expectations for travel preferences, including flight amenities and environmental sustainability, provide an opportunity for Delta Air Lines. Consumers have a growing demand for on-board Wi-Fi, and Delta has spent more than \$1 billion in upgrades. The upgrades will include free Wi-Fi for customers on over 1,200 planes by 2024 (Black, 2023). Wi-Fi has been on airplanes for decades, but the speed and reliability vary from one aircraft to the next and from airline to airline. A survey by McKinsey found that almost 40% of global travelers are willing to pay 2% extra for carbon-neutral tickets to reduce their climate impact (Ahmed et al., 2022). Preferences for selecting carbon-neutral flights vary across regions, but the trend's popularity is increasing. Delta Air Lines purchases carbon offset carbon emissions for each flight, allowing passengers to fly carbon-neutral (Delta Air Lines, 2023-g).

Technological

Advancements in technological innovations protect against potential threats and provide opportunities. Delta has safeguards to protect data and privacy from cybersecurity risks and potential Artificial Intelligence (AI)-related threats (Delta Air Lines, 2022-d). The airline is subject to federal laws regarding the privacy of customer and employee data. AI is also used in helpful ways to streamline the carrier's baggage system and identify weather patterns on the ground and at high altitudes. The usage of AI shows baggage transfer drivers the sequence of gates they have to deliver or transfer bags to (Hines, 2023). AI can identify potential aircraft maintenance issues before they occur, improving safety and reducing downtime for the aircraft.

Environmental

The airline industry is feeling public pressure to reduce its environmental impact. Delta is lowering its impact by investing in alternative fuel sources for reduced carbon emissions and developing waste reduction and recycling programs. The company has committed to replacing 10% of fuel with sustainable aviation fuel (SAF) by 2030 (Delta Air Lines, 2022-c). Additionally, Delta is committed to net zero carbon emissions by 2050. The company executes sustainable fuel agreements with corporate customers to support sustainable business travel. Delta continues to reduce waste by eliminating single-use plastics aboard flights, and it has resumed recycling and production donation programs to promote sustainability (Delta Air Lines, 2023-g).

Legal

legislation and regulations continue to threaten Delta and other airlines' operating environments. The company faces ongoing legal cases of lawsuits and class actions. Delta was hit with a

lawsuit regarding its carbon-neutral claims in May of 2023 for \$1 billion (Newburger, 2023). Delta is also facing a consumer antitrust class action of US airfares over accusations of driving up costs by reducing available seats (Stempel, 2023). Airlines sit in a heavily regulated industry and face additional challenges related to labor disputes, contractual obligations, or customer claims. Delta must maintain a solid legal framework to have a compliant operation.

Industry Environment

The domestic airline industry is a vital component of the global transportation sector, serving as a primary mode of travel for millions of passengers each year.

One of the fundamental drivers of the domestic airline industry's profit potential is the state of the economy. A robust and growing economy tends to translate into increased business and leisure travel, which, in turn, can bolster airline revenues. Conversely, during economic downturns or recessions, people and businesses may cut back on travel expenditures, affecting the airlines' bottom line. Therefore, a proper domestic analysis of the economy is required.

Throughout 2023, the airline industry has made significant strides in recovery following the COVID-19 pandemic. The industry faced a large loss in profit as travel restrictions and quarantine mandates forced many potential flyers to utilize other means of transportation or not travel at all. As the pandemic subsided, airlines such as Delta began offering lower priced tickets to spur potential travelers to take advantage of the discounted rates. Now, travel is becoming more expensive as significant global supply issues have caused inflation to rise domestically (Woodyard, 2020). This contributed to weaker revenue growth following the initial hit of the pandemic, as rising costs of living have led to lower disposable income. This trend has prevented consumers from taking leisure trips, causing revenue to weaken. After the post pandemic recovery, the domestic airline industry has slowly declined amidst pricing issues.

Because of this, the profit potential could go either way in terms of macroeconomic trends. The industry faces challenges that could decrease profitability. The Federal Reserve's decision to raise interest rates to combat the high inflation will increase borrowing costs for airlines, affecting expansion plans and limiting the amount of aircraft they can purchase. Elevated inflation could also drive up the prices of equipment, which airlines may pass on to consumers, potentially curbing consumer spending on flights. Labor costs are expected to rise due to crew shortages and wage increases, adding to the industry's expenses. Low-cost airlines continue to pose a threat, particularly as consumers become more price-conscious in the wake of high inflation and pandemic-related losses. Despite these challenges, the future outlook for business travel remains relatively positive, with both businesses and consumers gradually returning to pre-pandemic travel patterns, though this recovery will depend on various factors, including cost considerations and evolving travel preferences (Caputo, 2023).

On the positive side, airlines are poised to benefit from a recovering economy. As the economy strengthens, rising disposable income will likely lead to industry growth, enabling more customers to purchase plane tickets and premium services like first-class seats and extra baggage. Additionally, the expected expansion in corporate profits is set to drive sales of

business-class tickets for business-related activities, creating opportunities for higher profit margins (Caputo, 2023). This economic upturn may also limit competition from low-cost airlines, allowing legacy carriers to maintain their pricing power.

Porter's Five Forces

Threat of New Entry:

New airline industry entrants are unlikely to succeed due to the significant upfront costs and the ubiquity of established airlines. These barriers are particularly troubling when considering the paper-thin margins in the airline industry. The International Air Transport Association estimates that industry net profits will reach \$9.8 billion in 2023, or 1.2% net margin (International Air Transport Association, 2023). Costs like fuel, airport gates, and new technology keep just staying in the black, a challenge for even industry giants. Consequently, volume is the name of the game in the airline industry, instituting a significant barrier to entry for prospective airlines. Passengers are unlikely to alter their air travel choices, as many airlines are profiting on higher margins on their loyalty programs than their actual travel services (Singh, 2023-b).

Threat of Substitutes:

The airline industry faces an array of potential substitutes: car travel, Amtrak, or water travel. However, the convenience of air travel is unrivaled. Traveling by plane is faster and easier than any alternative, but regulation does prompt some intriguing questions about the airline industry's future. The environmental complications of air travel are a hot-button subject and prompt action from legislators. Specifically, President Joe Biden's proposal for Amtrak expansion created some initial tension in the airline industry, but progress has slowed substantially. Even if Amtrak improves its presence in the United States, Amtrak travel is more time-consuming, similarly priced, and more likely to be delayed (Amtrak Guide, 2020).

Power of Suppliers:

Domestic airlines use many suppliers with varying degrees of power. The COVID-19 pandemic caused significant implications on the strength of suppliers for domestic airlines - specifically with ordering new aircrafts. Airbus and Boeing have rapidly dropped production levels and are only projected to deliver roughly 75% of orders in 2023. Removing the current backlog is estimated to take up to ten years (ING, 2023). This forces airlines to use older airplanes for longer and delays growth in the number of flights airlines can offer.

Power of Buyers:

Due to the nature of domestic airlines, the power of buyers is high. If an airline can not fill (or mostly fill) a flight, it will be hard to recoup the lost maintenance, personnel, fuel, and airport space expenses. Today, airlines use highly sophisticated systems and algorithms to track what consumers will spend on tickets. They adjust based on past bookings, capacity, and average demand to make as much revenue as possible for the company (Chitty, 2018). Airlines will fail

to sell tickets if they start pricing above what consumers are willing to pay. Therefore, they must keep an eye on the market. Airlines are at the mercy of events such as COVID-19, natural disasters, and significant events that may impact demand at any given point.

Intensity of Competitive Rivalry:

The competitive rivalry between domestic airlines is high. A few major players compete for the same consumers, resembling an oligopoly. Airlines must differentiate by cost, experience, and/or reliability to gain a competitive advantage. Maintaining this advantage and continuing to innovate and grow is expensive - which allows safety from new entrants but raises the competition between rivals. Antitrust controversy has occurred over high-profile mergers in the past few years (JetBlue & Spirit). Therefore, the most successful way to grow and maintain a position as a major player is to increase the strength of your own company with costly projects. The nature of competition can be seen as cutthroat. Additionally, low-cost airlines pose a major threat to general ticket sales. If consumers become more price-sensitive, these cost leading airlines may take away customers from brands like Delta who often charge on the higher end. The airline industry is expensive to enter and also expensive to exit. The fixed cost of buying planes, hiring staff, and managing logistics causes the firms in the industry to fully commit to do their best, creating a high level of rivalry.

In sum, the biggest threat for domestic airlines is the power of their suppliers and the intensity of the competitive rivalry. Both of these forces can decrease profit margins on an airline's services. If suppliers decide to raise their prices, there are not many alternatives for airlines to source from. Additionally, if competitors begin to lower prices, others will have to follow suit to not lose market share. These high pressures guide many executive team's decisions to maintain a high competitive advantage.

Airline industry profitability is slim today; consequently, increased pressure from external threats produces negative outlooks for airline companies. Environmental regulations and attitudes force airlines to invest heavily in the research and development of sustainable travel. Committing significant capital to a relatively young field puts airlines in a precarious situation. However, if a competing airline can achieve a practical recipe for sustainable aviation fuel or another environmental breakthrough, it puts itself in a durable position as regulations continue to tighten.

Industry Concentration

Delta leads domestic airlines in revenue, market capitalization, and passenger miles, which can be viewed in more detail in Appendix B. From September 2022 to August 2023, Delta led the industry with a 17.6% share of the market (measured by domestic revenue passenger miles). The four largest carriers made up 67.4% of all miles flown domestically during this period (Bureau of Transportation Statistics, 2023-a).

The total industry revenue was \$185.5 billion in 2022 (Burns, 2023). Delta led the industry with a 27.2% share of the market by total revenue in 2022. The industry is highly concentrated among the top firms, with the three largest domestic carriers generating 78% of the total revenue.

Among these carriers, Delta held 35% market share (measured by total revenue) in 2022. Delta generated over twice the revenue of the fourth largest US airline, Southwest, and over five times the fifth largest US airline, Alaskan Air (Yahoo Finance, 2023 a-e).

This market share concentration among the largest airlines demonstrates the high industry competitiveness and barriers to growth and scaling. Like American and United, Delta leverages its volume and hub-and-spoke model to stay competitive. Operationally, Delta leads the four largest domestic carriers in on-time departures, as seen in Appendix C (Airoldi, 2022).

Internal Analysis

Resources and Capabilities

There are many resources Delta Airlines employs to remain an industry leader. It employs tangible and intangible resources to remain competitive in the domestic airline business. Although many resources are used for domestic airline companies, there are a few that make Delta unique and are key to its strategic positioning.

Hub and Spoke Model:

The hub-and-spoke model is an important operational resource for Delta. Delta establishes hub airports such as the Hartsfield-Jackson Atlanta International Airport in this model, where many flights meet and connect to other destinations. This model increases efficiency when routing passengers, optimizing flight schedules, and maximizing connectivity between flights. Delta's hub-and-spoke system is a critical resource and capability because it allows the airline to efficiently transport passengers and goods to a wide range of destinations with minimal layovers. It enhances Delta's competitiveness by providing convenient and comprehensive travel options. Having Hub airports in major airports also helps take customers from other airlines whose cheapest option is to use Delta.

Labor Relations:

Labor relations between Delta and its employee unions and workforce is another important resource it uses. It encompasses negotiations, contracts, and the overall relationship between the company and its employees, including pilots, flight attendants, ground crew, and other personnel. Effective labor relations are what make Delta's operations smooth. Maintaining positive relations helps prevent disruptions due to strikes or labor disputes, ensuring that flights are on schedule and customer service remains consistent. In recent history, there have been many transportation-related strikes that have impacted the airline industry. By avoiding these conflicts, Delta can continue to provide great service to customers and not face any labor related disputes. It's also essential for workforce management, including hiring, training, and retaining skilled personnel.

Aircraft Fleet:

Delta's fleet includes many different planes, from smaller regional jets to large, long-distance aircraft. These assets are essential for providing air travel services to customers and are used more efficiently than many other airline companies. The average age of an aircraft in its fleet is seventeen years, significantly older than all other domestic competitors. By investing in proper maintenance, Delta spends less on acquiring new planes and, through its technical operations team, is dedicated to maintaining a smarter, lower-cost fleet without sacrificing any operational integrity. The composition and size of the aircraft fleet are strategic decisions that impact Delta's route network, capacity, and competitiveness. Having a mix of planes for various routes and demands allows Delta to offer services to changing customer needs and optimize its operations for efficiency (Baldanza, 2019).

Strategic Alliances and Partnerships:

Delta has formed many strategic alliances and partnerships with other domestic and international airlines, many of which fall under the SkyTeam. These relationships involve code-sharing agreements, joint ventures, and coordinated schedules to increase efficiency and incentivize international travelers to fly Delta when visiting the US. Alongside this, it allows Delta to offer more destinations and connections to customers by sharing costs with the partner airlines. These partnerships are a primary reason for Delta's global expansion and competitiveness in the domestic airline industry (Routes News, 2018).

Delta's specific resources are vital to its overall business strategy, helping the company provide efficient and convenient air travel services, maintain positive labor relations, build customer loyalty, and expand its network.

Competitive Positioning

Delta holds a firm position in the airline industry, likely due to the array of resources at its disposal. To better understand Delta's competitive edge, it is crucial to evaluate the company's strengths through a Value, Rarity, Inimitable, and Organized (VRIO) analysis. Each resource contributes to Delta's success, but its labor relations and hub-and-spoke model may provide the most comprehensive benefit to the company. Delta has kept unionization low in a historically high-unionization industry, a task that keeps workforce negotiations brief and low-cost. Additionally, its hub-and-spoke model reduces the number of flights the average traveler must take to reach their desired destination. Delta's additional resources hold their value proposition but do not hold the same unique quality or pragmatic barriers that Delta's labor relations have. Delta continues to renew its aging fleet, which sits around the industry average of 14 years (Wyman, 2023), but its fleet does not stand out among key competitors. Delta's partnership with SkyTeam may also open up significant opportunities related to cost and international travel, but its partnership does not hold a significant competitive edge compared to similar industry alliances. For a more in-depth analysis of these resources, please refer to Appendix G.

Core Competencies

Delta repeatedly referenced its people and culture as a core competency for the firm that helps it stay competitive in the market. People and culture were highlighted in the four key presentation takeaways and five competitive building blocks of competitive advantage, with the presentation stating, "Delta People Are The Foundation Of Our Success And Future." Delta measures net promoter score (NPS) as a measure of customer satisfaction and loyalty. According to the presentation, 50% of NPS created by the company is a direct result of the company's people and service. Delta hired 25,000 new employees in 2022, a very large investment that underscores the complexity of running best-in-class operations and maintaining a high quality culture. According to Delta's 10-K, "Forbes recognized Delta as No. 6 on its list of the World's Best Employers for 2022, making it the highest-ranked airline on the list (Delta Air Lines, 2023-e).

SWOT Analysis

As the domestic airline industry continues to recover from the pandemic, fears of a recession have been high. Despite high inflation and high interest rates, consumers have proven that they are determined to make up for lost time. International travel has become more trendy for consumers - a movement that Delta should capitalize on. It can be costly to invest in new destinations; however, Delta can continue strategically utilizing its partnerships with other airlines. Currently, Delta has partnerships with AirFrance, KLM, Virgin Atlantic, China Eastern, Korean Air, Aeromexico, Latam, WestJet, and more (Quvein, Lee & Kartashova, 2023). With these partnerships, Delta can share resources, customers, and routes. Domestic Delta consumers may purchase a ticket on any of these airlines through the Delta ecosystem, providing a seamless transition for international travel. By leveraging these partnerships, Delta can continue offering its consumers more international choices without adding enormous costs.

A major threat to Delta's success is its dependence on the strength of the US economy. When the economy is growing and wages are increasing, consumers are more likely to spend on discretionary travel. Additionally, more business travel is completed, and more discretionary income can be spent on upgrades. However, when the economy is struggling and inflation is high, consumers start to decrease their travel budgets.

To help mitigate this threat, Delta can continue expanding its debit and credit card programs. Partnering with American Express, Delta expects to have earned up to \$7 billion from its credit card program within four years. Banks often pay a fixed cost per mile to the airline as a customer reward. Additionally, American Express often also hosts incentives for Delta to sign up more customers. This allows Delta to earn money from consumers when they are buying groceries, paying rent, or placing any other charges on their Delta account - even if they aren't buying plane tickets, providing Delta an added level of security even during economic downturns (Sumers, 2019).

Delta is heavily dependent on domestic flights, Atlanta and London in particular, according to Cirium (2023). About 20% of Delta's flights touch Atlanta, whereas other main airlines' biggest

hubs account for 11-15%. Delta's most revenue-generating international flight flies from Atlanta to the Heathrow Airport in London. Delta can expand its international presence by flying to other airport hubs in Europe, diversifying its flight offerings while simultaneously branching into its opportunity of international flights.

Delta had a high turnover of employees in 2022 of 30% (Airolidi, 2023). Delta has recently signed a new contract with the pilot labor union that will cost the company an additional \$7 billion to pay out to pilots over the next four years. If there is decreased employee turnover, Delta will not be losing employees to its other main competitors and will save money during the onboarding process by needing to onboard fewer employees.

Delta is offsetting its carbon emissions by purchasing carbon offsets. If the company were instead to start investing in the development and production of Sustainable Aviation Fuel, the potential of fuel price fluctuations would not affect revenue costs, and the company would reach Carbon Zero goals by emitting less carbon instead of spending extra capital on carbon offsets, which should strengthen the firm's financial position and future regulatory compliance.

Performance Analysis

Firm Performance

Like the rest of the airline industry, Delta spent the years since 2020 struggling to return to its pre-pandemic functionality. Delta is returning to the basics, specifically focusing on deepening its presence on the coast. In 2022, Delta solidified its presence in its Boston and Los Angeles hubs, two areas with great international flight potential. Delta also boasted a variety of awards for its outstanding service to corporate travelers in 2022.

Delta still feels the financial aftermath of COVID-19, but the airline is beginning to see significant improvements that once seemed out of reach. Despite economic conditions, travel demand continued to rise, and in Q4 of 2022, Delta's premium revenue exceeded 2019 by 13%. Delta's loyalty program also saw an 8.5 million member increase, a record year for the program. (Souza, 2023)

Delta has made a systematic effort to tie its performance to its commitment to ESG (Environmental and Social Governance). The airline is taking measures to become more environmentally friendly through fuel efficiency, fleet improvements, and carbon offsets. Delta's fleet has already seen significant advancements in sustainability practices, such as introducing its most fuel-efficient aircraft, the A321 (Delta Air Lines, 2022-a).

This year sparked some optimism after a dark period in the travel industry. Delta credits its operational durability and culture as its primary catalysts for success. Delta's trip completion rate of 98.6% is certainly indicative of an efficient travel channel (Bureau of Transport Statistics, 2023-c). Additionally, although air travel turnover stays high, Delta's ability to recruit high volumes of staff, 25,000 in 2022, ensures a strong workforce at the airline's disposal (Delta Air Lines, 2023-d).

Key Performance Indicators

Delta Air Lines, like many large corporations, uses a balanced approach when evaluating its performance, considering various stakeholders and metrics. While financial metrics are undoubtedly important, Delta primarily focuses on employee and customer satisfaction.

Employee Satisfaction

Delta has a strong focus on employee satisfaction. In 2020, CEO Ed Bastian stated, "We believe taking care of our people first and then taking care of our customers, and then taking care of our brand, is a virtuous circle. Our employees are the foundation of everything we do" (Business Roundtable, 2020). This emphasis on employee well-being represents Delta's high value on the satisfaction and engagement of its workforce. Its core mission highly depends on the relations it forges with employees. Through its emphasis on employee satisfaction, Delta has been able to evade many labor disputes other airlines face, which has undoubtedly helped its bottom line. Two numerical key performance indicators prove its emphasis on employee satisfaction: Employee Engagement and Employee Turnover Rates.

Employee Engagement

Employee engagement at Delta has been on the rise. In 2022, Delta reported that the average engagement score for survey participants was 79. This is higher than the overall US industry benchmark (Delta Air Lines, 2023-a) and industry competitor American Airlines, which had a score of 77. They continue to leverage this information by providing resources to improve engagement across departments and issue the survey annually to track progress. This led to a corresponding increase in employees who viewed Delta as a favorable place to work.

Turnover Rates

Similarly, turnover rates offer a unique insight into how a company is for the well-being of employees by analyzing how quickly individuals in their respective fields enter and exit their positions. In Delta's case, its employee turnover rate is 2%, which by many industry standards is considered incredibly low (Fortune, 2023). On average, the rest of the domestic airline industry experiences anywhere between 18% and 20% in a given year. Throughout the pandemic, Delta was still able to retain staff. The firm had a motivated base of core employees who decided to stay with the company due to Delta's ongoing efforts to invest in the company culture and provide a wealth of resources to employees.

Customer Satisfaction

Likewise, Delta places an emphasis on customer satisfaction. In a statement by CEO Ed Bastian, he stated, "Our top priority is to deliver the safest, most reliable, and most caring service to our customers" (Ignatius, 2022). This dedication to customers reflects Delta's core mission, where customer happiness is the center of its success. Just as it highly values its employees, it recognizes that satisfied passengers lead to the most successful outcomes financially. By focusing on customer satisfaction, it consistently provides exceptional service,

strong customer loyalty, and positive relationships with consumers. Two key performance indicators that prove this are customer satisfaction scores and on-time performance.

On-Time Performance:

On-Time Performance tracks the percentage of flights that depart and arrive on time. This metric is key as airlines with lower on-time performance rates, did not have high customer approval rates. In Delta's case, its on-time rate is 84.1% in 2022, making it the most punctual airline in the US (Airoldi, 2022).

Customer Satisfaction Scores:

Surveys and feedback from passengers help assess the airline's performance in terms of service quality and overall experience. Delta consistently ranks highly in customer satisfaction surveys and awards. For example, in the American Customer Satisfaction Index (ACSI), Delta has continuously improved its scores over the last decade as seen in Appendix D. In recent years, customer satisfaction scores show a stark difference in leadership and a continued commitment to the customer experience (ACSI, 2023). This is evident in Delta's mission statement, which focuses on "making the travel experience even more enjoyable."

Competitive Advantage

Delta Airlines is currently the leading airline in market cap at \$25.53B and leads the next domestic airline by more than \$9B, as seen in Appendix B. Delta also has the highest market share within the United States, measured by total passenger miles over the last twelve months (see Appendix B). The company has maintained its positioning since pre-pandemic levels. Based on stock returns (see Appendix E), Delta Airlines generally outperforms airline indices and the S&P 500.

Financial Compensation

According to the 2022 proxy statement, seven named executives own roughly 2.5 million shares of common stock (currently valued at roughly \$92 million), with the CEO owning 1.5 million shares. The company enforces minimum stock ownership for executive officers (based on a multiple of base salary), which helps align their financial interests with the company's financial performance. The proxy statement disclosed details of the 2021 executive compensation plan, which was in place for five named executives and consisted of both an annual plan and a long-term incentive plan. From 2020 to 2021, the number of performance measures were reduced in both plans. The company also frontloaded the vesting plan and promised incentive plan payouts in cash, rather than stock. These plan changes showed Delta's commitment to a strong executive compensation program that could better weather economic downturns like the COVID-19 pandemic.

Compensation is structured in a manner that puts roughly 90% of compensation "at-risk", or subject to meeting incentive goals, for executives (see Appendix F). The annual incentive performance measures are related to short-term business goals. In 2021, these measures were

pre-tax income and operational performance (a combination of operational metrics such as NPS, on-time arrival, and flight completion). The long-term incentive performance measures are related to long-term business goals. In 2021, these measures were total revenue per available seat mile (TRASM), customer service (NPS), and free cash flow. In 2021, 93.75% of the annual target awards were achieved by the executives and 88.75% of the long-term target awards were achieved (United States Securities and Exchange Commission, 2022-a).

Competitive Dynamics

Key Competitor: American Airlines

American Airlines is the competitor in the domestic airline industry with the closest operational similarity and the next highest market share to Delta. Founded in 1926, American now has destinations all over the United States and internationally. They employ similar rewards programs and strategies to maintain a high market share and remain profitable.

Competitor Mission and Values

Delta and American Airlines have both similarities and differences. One example is their contrasting mission statements. American Airlines's mission statement is "committed to provide every citizen of the world with the best service of air travel to the extensive selection of destinations possible" (Mission Statement, 2021). While both mention their commitment to providing value, American's mission statement is focused on business operations, whereas Delta has an overarching mission to offer bounding benefits beyond its operations. Similarly, the vision statement for American is "To be the world's most reliable, affordable, and profitable airline" (Mission Statement, 2021). This mirrors the mission statement and is more operational. Its mission and vision statements show Delta's overall simplification and dedication to customers.

Competitor Resources

American Airlines shares many essential resources and capabilities that play integral roles in their respective operations. American also employs the hub-and-spoke model for ease of operations. The hubs for American are primarily concentrated in the northeastern and southern regions of the U.S., leaving room for growth and improvement in the middle and northwest areas of the country (American Airlines, 2023-a). Alongside this, American has a vast aircraft fleet; however, the average age is 12.8 years, showing a need for more commitment to maintaining aircraft for extended use (Airfleets, 2023). American also employs various strategic alliances and rewards programs to promote customer loyalty and maintain an international presence. Like Delta's SkyTeam, OneWorld Alliance comprises some of the world's leading airlines, serving over 900 locations. The AAdvantage program offers similar rewards to Delta SkyMiles and the same lounge benefits and perks for loyal customers (American Airlines, 2023-c). The one significant resource that American has yet to replicate is Delta's strong labor relations. Delta's strategic labor negotiations (detailed in Appendix G) keeps it a step ahead of the competition, driving its workforce satisfaction up.

Product and Geographic Market

Delta and American Airlines compete to be the top domestic airline in the United States, leveraging alliance partners, credit cards, and reward programs to differentiate themselves. Through American Airlines alliances, consumers can fly to over 900 destinations in 170 countries. Delta's partners have flights landing in over 1,000 locations in 180 countries. Both companies are trying to leverage consumer demand and reach as many locations around the globe as possible.

Additionally, both companies extend credit lines to consumers - strengthening their connection with their customers. American Airlines currently offers seven personal credit cards and two business cards. Delta offers four different personal credit cards. Customers can build higher status with the airlines through these credit lines and receive various perks. Additionally, credit cards prove to be highly profitable for these companies. Through AAdvantage and SkyMiles, customers also enjoy rewards based on flight miles and purchases with each airline (Coates & Quebin, 2023). Given how competitive both companies are in each of these categories, they are considered direct competitors. They are attempting to differentiate themselves from each other and other competitors in the airline space.

Performance Relative to Industry

As noted in Appendix B, American Airlines has the second highest share of the domestic airline industry at 17.3%, just below Delta at 17.6%. Despite this high market share, American Airlines ranks third in the number of passengers and departures in August 2023. Delta ranked second in both metrics, with Southwest coming in first. American Airlines is set back by its on-time percentage. Only 75% of their flights departed on time in 2023, ranking American 11th in the industry. Additionally, American Airlines has canceled 1.37% of their flights this year, ranking at fifth. Meanwhile, Delta places seventh for on-time departures and fourth for cancellations (Bureau of Transportation Statistics, 2023-a).

While American struggles with some in-flight operations, their rewards program is quite successful. The company was the second airline in the world to launch a rewards program in 1981. AAdvantage is the largest airline reward program, with over 115 million members in 2021 (American, 2021). Their rewards program can be seen as less advantageous than most airline rewards because miles expire after 24 months, and each mile costs roughly 1.7 cents (Etsel, 2023). Regardless, American Airlines has built a loyal base of customers.

Performance Relative to Delta

American Airlines is among the most prolific competitors in the domestic airline industry and performs similarly to Delta financially. In 2022, American Airlines Group saw \$48.97 billion in revenue compared to Delta's \$50.58 (Appendix A). Their operation models are quite similar: both are domestic titans in the airline industry with international ties supported by their respective alliances. Delta Airlines travels to approximately 280 locations internationally, while American offers flights to 350 destinations (American Airlines, 2023-b). However, Delta's alliance, SkyTeam, is more well-established with a wider network, boasting a market share of

13.7% compared to American's, Oneworld Alliance, of 11.9% (Placek, 2023). Delta is attempting to compete with American's expansive network via its alliance. Still, Delta's reliance on the SkyTeam reduces their payoff, as they must share much of their revenues with the partnered airlines. Delta's robust investment in luxurious rewards perks is beneficial in attracting frequent fliers. While American's rewards program technically has more members, its member activity rate is relatively low at only 18% (American, 2021). However, American Airlines can reach a broader customer volume due to its impressive number of destinations, driving up its market share.

Competitive Strategic Actions

Delta Pilot Recruitment

In November 2022, Delta Airlines announced a significant change in its pilot recruiting strategy. The airline will offer jobs to "full-time, active-duty U.S. military pilots up to two years before their retirement" and conditional job offers six months out for pilots in the Active Guard Reserve (Staff Writer, 2022). This is one element of Delta's multi-prong approach to acquiring talent, including partnerships with HBCUs and other organizations. The major airlines focus on attracting pilots because experts believe airlines in North America will be short 30,000 pilots by 2032 as retirements outpace new pilot supply (Koenig, 2023). In response to this move by Delta, United Airlines announced the launch of its own military pilot program in September of 2023. United candidates do not need to hold an Airline Transport Pilot Certificate when applying. They only need it to start the position. United has also launched United Aviate Academy, a flight school that aims to have at least half of the individuals being women or people of color (United Airlines, 2023).

American Airlines Winter Capacity

American Airlines is expanding its winter capacity in the Caribbean and Latin America. This expansion allows for more flight options in the countries, including increased capacity on ten routes (Garbuno, 2023). The firm announced its largest-ever flight capacity for the season after recent expansion announcements of Delta and United Airlines. American Airlines has historically had the most significant presence out of the domestic carriers in the area. Latin America has emerged as a dynamic region in the airline industry, and Delta is attempting to capture more market share by entering a joint venture with LATAM Airlines Group, a Brazilian airline holding company. American Airlines had 27% of passenger revenue share in 2022 for flights between South America and the United States, while 18% was split between Delta and LATAM as the two work to increase their share by expanding flight offerings (Reed, 2023).

Business Level Strategy

Delta Airlines improves its amenities to appeal to the high-value consumer. Quality meals, luxurious airport lounges, and attentive in-flight service await those willing to pay the premium of Delta airfare. Professionals appreciate the benefits of the robust rewards programs, a vital

element of the Delta business model. Business travelers make up nearly 75% of airline profits (Brock, 2022). Therefore, Delta strives to incentivize loyalty. If Delta takes a larger piece of the “corporate pie,” it will likely see an overall market share improvement. Delta decreases its overhead by utilizing partnered airlines to travel to destinations out of its network and focuses on improving the actual travel experience. Personalizing the travel process with various amenities gives Delta the edge among airlines for meeting professionals’ high expectations.

Delta does not use a cost-leadership position to give itself an advantage in the domestic airline industry. That said, the airline industry has small margins - from 2018 to 2023, the industry profit margin was only 3.7% (Burns, 2023). In order to remain successful, Delta has to keep a close eye on costs, especially as fuel and labor become more expensive. In the second half of 2023 alone, Delta’s fuel costs are estimated to rise by \$400 million, causing Delta to lay off some of its corporate workers (Kaur & Shetti, 2023).

Market Approach

Delta Air Lines has a broad approach to the market by offering a wide range of destinations and appeals to various customer segments. The key customer segments for airlines that Delta targets are business and leisure travelers, frequent flyers, families, and international travelers.

For business travelers, Delta Air Lines offers priority boarding and access to airport lounges. Leisure travelers enjoy in-flight options, comfortable seating, and a variety of destination choices. Frequent flyers have loyalty programs and exclusive perks with the Delta SkyMiles Loyalty Program (Delta Air Lines, 2023-c). Families benefit from in-flight Wi-Fi and flight amenities. International travelers have access to expanding flight destination options, including the expanding Latin American market (Staff Writer, 2023-a).

Broad Differentiation

Delta Airlines employs a broad differentiation business strategy in the highly competitive airline industry. It offers a range of unique and distinct products and services compared to its competitors. This strategy is driven by a commitment to delivering superior value to their customers.

Delta leverages value drivers that align with its differentiation strategy. By evolving to meet the needs to appeal to a wide range of customers, for example, with its mobility-impaired seat design (Street, 2023) and an expanded menu for those with dietary restrictions (Woods, 2023), Delta shows its commitment to being the airline of choice for a broad base of customers.

Similarly, Delta has built an extensive and reliable route network that ensures customers can quickly reach various destinations. This not only provides convenience but also appeals to business travelers and tourists seeking diverse travel options. Additionally, its strategic partnerships with other airlines and the SkyMiles loyalty program offer added value to frequent flyers.

Customer service is another crucial component of Delta's differentiation strategy. It aims to provide exceptional customer service throughout the travel experience, from booking to

disembarkation. This commitment to superior service appeals to customers who value a hassle-free and pleasant journey.

Delta Airlines' focus on these value drivers aligns with its differentiation strategy, making it an appealing choice for travelers who prioritize a premium travel experience. Their ability to consistently deliver on these drivers has helped them maintain a strong position in the market.

Strengths and Weaknesses of Broad Differentiation

The differentiation aspect of Delta's strategy leads the company to garner strong brand loyalty and achieve higher profit margins. However, Delta would be more prone to financial underperformance in market downturns when demand for premium seating decreases. Additionally, Delta must continually invest in activities and resources to outpace the differentiation efforts of other firms pursuing a similar strategy.

To achieve the broad aspect of its strategy, Delta offers customers many different seating options and auxiliary services. However, this complexity can lead to higher operational costs and difficulty meeting the various demands of customers. Additionally, board resource allocation can be a challenge for managers pursuing a broad strategy.

Corporate Level Strategy

Vertical Integration

Delta Airlines has slowly become more vertically integrated. In a 2014 interview with Harvard Business Review, then CEO, Richard H. Anderson, detailed multiple steps towards adding more stages of the value chain to Delta's operations. The company had reclaimed its reservation system, becoming the only major US airline carrier to own this process. Additionally, Delta acquired an oil refinery, allowing better fuel cost management. These steps allow Delta better visibility of the current environment.

Delta's refinery is based in Trainer, Pennsylvania. Recently, the plant has begun processing biofuel - greatly improving Delta's environmental impact (Sanicola & Kearney, 2022). By having ownership of the process, Delta was able to leverage the resource to best meet their needs which would not have been possible through a third party.

Delta's in-house reservation system is based in Atlanta, Georgia. While the system normally runs smoothly, in 2016 a failure in a piece of electrical equipment caused 2,300 canceled flights over the course of four days. While there were deep consequences for this failure, including full refunds and vouchers issued to hundreds of passengers, Delta was able to resolve the issue in just an hour and reboot the system 13 hours later (Kurtz, 2016). Meanwhile, a more dire situation happened to Southwest in December 2022 when 16,700 flights were canceled, leaving 2 million passengers stranded over a nine-day period around Christmas. Southwest's meltdown was due in part to aging technology and antiquated systems (Isidore et al., 2023). Also noteworthy is Delta's maintenance, repair, and overhaul operation (MRO) which services all of

Delta's fleet. Delta has created security and peace of mind for its travelers and employees by investing in its value chain. The value chain can be seen in full in Appendix H.

Corporate Diversification

Delta is vertically diversified forward through Delta Vacations, which puts together wholesale vacation packages for consumers. The MRO business mentioned earlier services customers from all over the globe (in addition to Delta's fleet). The MRO business specializes in servicing next-generation aircraft, further contributing to Delta's differentiation strategy. Together, MRO and Delta Vacations generated \$850 million in revenue for the business (United States Securities and Exchange Commission, 2022).

Delta operates a strong, geographically diversified business with special strategic capabilities to service consumers traveling internationally, domestically, and regionally. Delta is part of the SkyTeam Airline Alliance, which carries 14,500 flights daily to 1,150 destinations in over 175 countries. Delta utilizes four joint ventures to access transatlantic, intercontinental, and Asia-Pacific markets. These joint ventures are often accompanied by equity investment. Through strategic hubs, Delta maintains a strong presence in the United Kingdom, Mexico, France, South Korea, and the Netherlands. Additionally, Delta has contractual arrangements with three regional carriers to service small and medium-sized cities in the domestic market, one of which is a wholly-owned subsidiary, Endeavor Air.

Delta offers a diverse set of options to consumers traveling on its flights. Delta offers many business and premium travel tiers, which helps the company reduce "reliance on the most price-sensitive customer segment" (United States Securities and Exchange Commission, 2022). Delta's roughly 1200 aircraft fleet contains 18 different models, allowing the company to tailor to customers flying any given route. Delta offers a co-branded credit card through American Express, connected to Delta's award-winning SkyMiles program. Delta is on track to collect "nearly \$7 billion in revenue from American Express this year from the sale of miles, ancillary services, and brand fees" (Gilbertson, 2023). This is nearly 12% of Delta's expected 2023 total revenues. CEO Bastian claimed earlier this year that credit card activity on Delta American Express credit cards approaches nearly 1% of US GDP. This business segment is much more profitable than its traditional transportation service because it doesn't require carrying high operational or fuel costs. Lastly, Delta's cargo business generated just over \$1 billion in revenue in 2022.

Delta Air Lines's diversification strategy adds value by reducing risk, generating new revenue streams, expanding market reach, and building customer loyalty. As Delta expands its comprehensive travel experience for customers, direct value is created for the company as it builds financial and social value. Geographic diversification allows Delta to tap into new markets while providing customers with more travel options and building loyalty. By operating in multiple regions, Delta Air Lines protects itself financially from financial downturns in any one segment. Through vertical integration, Delta has gained more control over its operations while reducing costs and mitigating risks. The SkyMiles program fosters partnerships with various companies while rewarding frequent fliers and building customer loyalty. As Delta diversifies, social and

financial values coincide to provide an efficient, effective, and enjoyable service for Delta Air Lines customers.

Mergers and Acquisitions

Delta Airlines has a history of successful mergers and acquisitions that bolstered its position as a top airline. In recent history, the most notable was the merger with Northwest Airlines in 2008. In the past five years, however, the airline has taken a more passive role in acquisitions, increasing its stake in many international airlines without fully acquiring them.

In 2017, Delta bought 10% of Air France and 32% of Aeromexico, increasing its international footprint. Concerning Air France, Delta bought new shares from capital increases valued at \$875 million after Air France purchased 31% of Virgin Atlantic Airways, remaining the largest owner of the smaller airline. CEO Ed Bastian explained the acquisition: "A dynamic global landscape means it's more important than ever for Delta to deepen ties with our global partners to provide opportunities for mutual growth. Bringing together the strengths of Delta, Air France-KLM, and Virgin Atlantic into a joint venture will create the trans-Atlantic partnership of choice for customers" (Zhang, 2017). Similarly, Delta purchased \$620 million worth of Aeromexico's outstanding shares, increasing its stake in the company to 49%. With this, Delta began implementing larger codesharing and joint cooperation to employ a larger consumer connection throughout the Americas. These acquisitions aimed to take full effect in 2017. Although the stock price fluctuated from Q1 to Q2 in 2017, there was a general growth trend, and earnings per share more than doubled from \$0.77 to \$1.62 (Macrotrends, 2023-b).

Following this trend, at the end of 2019, Delta bought an additional 20% of LATAM Airlines Group, South America's largest airline. This came after LATAM exited a longstanding partnership with American Airlines, which led to its divestment from the Oneworld Alliance. Delta also invested an additional \$350 million throughout the purchase to support its transition into the SkyTeam alliance, significantly shifting power for airline alliances (Rosen, 2019). Despite the massive gain for Delta and SkyTeam, the COVID-19 pandemic subverted the economic gains, and financial metrics post-acquisition did not accurately reflect the benefits derived.

Overall, regarding network effects and global strategy, these increases in international airline stakes are vital to competing on a global scale. Customers can derive additional value through the partnerships and utilize the expanded SkyTeam to reach more destinations. With a focus on its differentiation strategy, providing these options to consumers through partnerships successfully maintains a loyal customer base.

Corporate Governance

Board of Directors Structure

Delta's Board of Directors consists of twelve independent members. Demographically, the board is not particularly diverse at approximately 50% white and 75% male. However, the industry

experience of the board is vast. The board introduces perspectives from a wide spectrum of the transportation industry; from an executive, a pilot, and a former secretary of transportation. The board also includes executives from various relevant sectors, such as food service, energy, and corporate finance (Delta Air Lines, n.d).

The CEO of Delta, Edward Bastian, is on the Board of Directors, but he is not the chair. Former United States Deputy Secretary of Energy Francis Blake is the board's current chair. Blake holds no other title at Delta and is therefore considered the “non-executive chairman” of Delta Airlines. More details of the board can be seen in Appendix I.

Large Stockholders and Employee Ownership

The company's largest shareholders are referenced in Appendix J with additional detail. The five largest stockholders are The Vanguard Group, Inc., BlackRock Fund Advisors, Capital Research & Management, PRIMECAP Management Co., and SSgA Funds Management, Inc. The largest individual stockholders are Edward H. Bastian, Glen W. Hauenstein, and Peter W. Carter.

Delta Air Lines does not have a traditional stock ownership structure. Therefore, it is not possible to say what percentage of the company is employee-owned. However, Delta does have a profit-sharing program in which employees can earn a share of the company's profits. In 2022, Delta employees received over \$500 million in profit-sharing payments. Employees have a significant stake in the company's success.

In addition to profit-sharing, Delta also has an Employee Stock Ownership Plan (ESOP) that allows employees to purchase company shares at a discounted price. However, ESOP participation is not mandatory, and the ESOP does not own most of the company's shares.

Recent Shareholder Votes

The DEF14A contained six matters for a shareholder vote. Thirteen board members went up for election, and all were elected. The board recommended the executive compensation package be approved (on an advisory basis) and that EY serve as the company's independent auditor for the upcoming year, both of which passed. The board recommended that executive compensation be voted on an advisory basis every year, which passed.

The Delta Flight Attendant Union pushed a “Freedom of Association and Collective Bargaining Policy,” which would commit Delta to non-interference of trade union formation/joining, good faith bargaining should a union form, and uphold the highest standard of applicable laws. Delta recommended that shareholders vote against this policy, touting industry-leading employee treatment and compensation while claiming the policy could harm employer-employee relations (Delta The Flight Attendant Union, 2023). The policy did not pass.

Mr. John Chevedden submitted a proposal requiring shareholders to ratify termination packages where severance payments are more than three times the employee's base salary and short-term bonus. Mr. Chevedden argues the policy allows shareholders to control “golden parachute” severance packages and improves corporate governance. The Delta Board recommended a

vote against this policy, claiming, among other things, that it hinders the company's ability to attract and retain top talent. The policy passed which will prove to be a considerable governance change going forward for the company (United States Securities and Exchange Commission, 2023-a).

Current Organizational Structure

Delta Air Lines follows a mechanistic organizational process with a high level of specialization, formulation, centralization, and hierarchy. This can be seen in their 2017 corporate responsibility report. At the time, Delta had around 80,000 employees - they are now over 100,000 strong (Delta Air Lines, 2017). As mentioned in the "Mission, Values, and Ethics" section of the report, Delta has created four main documents to encourage consistency across the board despite having a large number of employees: "Rules of the Road" details the company's core values and mission, "The Way We Fly" details the culture that is expected by all employees, "The Code of Ethics and Business Conduct" provides the standards on legal and ethical commitments made by the company, and the "Annual Flight Plan" guides annual corporate goals. By having a strong top-down structure, Delta attempts to ensure a high level of quality produced by the company across the board.

Domestically, Delta follows a functional organizational structure as detailed in Appendix K. They have a clear leadership committee reporting to the Chief Executive Officer based on company functions. Generally, a mechanistic and functional organizational structure is used by cost-leadership firms. While Delta differentiates itself in the domestic airline industry, the cost margins are tight, forcing it to cut costs wherever possible. The functional and mechanistic organization process and structure allow a consistent brand image while preventing duplication of resources.

Control Systems

Ernst & Young LLP audits Delta Air Lines' internal control system over financial reporting and found that Delta had effective control in 2022. The company has audited Delta Air Lines since 2006 (Schlangenhein, 2006). The Audit Committee of the Board of Directors represents and assists the Board in overseeing the integrity of Delta's financial statements, compliance with legal and regulatory requirements, independent auditor's qualifications and independence, and performance of the internal audit department and independent auditors.

Delta Air Lines uses operational control systems to monitor performance. One example is the flight scheduling system, which schedules all flights that use equipment from the fleet. During an earnings call, the Chief Financial Officer emphasized that the company's metrics for on-time arrivals, as dictated by its Operational Excellence Calculator and its Operational Performance Commitment, are fundamental controls for its operations. (Motley Fool Transcribing, 2023).

Recent Strategic Decision Analysis

Delta recently announced its corporate membership in a coalition led by the Greater Minneapolis Saint Paul Regional Economic Development Partnership to make the Minneapolis metropolitan area a sustainable aviation fuel (SAF) hub in the Midwest. Delta joined the Minnesota SAF Hub coalition alongside corporate partners Bank of America, Ecolab, and Xcel Energy. The coalition has a multi-phased strategy to scale SAF to a commercial level through production and transportation-focused initiatives. The coalition will focus on creating a robust supply chain to provide low-carbon and low-cost SAF for use at the MSP Airport (Staff Writer, 2023-b).

Airlines across the industry hope to embrace SAF, widely considered one of the world's best-emerging innovations. However, there is far more demand than supply, and SAF is much more expensive than traditional jet fuel. In 2022, SAF made up roughly 0.1% of all jet fuel produced globally while going for approximately 250% of the price of traditional jet fuel (IATA, 2023).

For Delta, which runs a major hub out of the MSP airport, this coalition could grant the company premier access to SAF and enhance its ability to meet sustainability goals. Delta has set an aggressive target for SAF to account for over 95% of fuel by 2050 (Calma, 2023). Through this coalition, Delta's goal is to "use SAF for more than 10% of its fuel at MSP by 2027, with sights set on 50% by 2035" (Greater MSP, 2023).

Overall, this strategic initiative is very good for the company. By partnering with value chain players, researchers, and local municipalities, Delta is taking the right approach to access SAF and reduce emissions. With many partners converging on the big problems limiting the growth of SAF, we believe this coalition is more likely to be successful than the approaches being taken by other industry players. Delta is on track to gain valuable insights into efficiently implementing SAF across its geographical footprint, which could lead Delta to develop an inimitable capability. Beyond its alignment with Delta's carbon emission goals, this strategic initiative is aligned with Delta's differentiation strategy. Offering low-carbon flights would be a significant differentiator for climate-conscious customers.

Appendices

Appendix A: Leadership Committee Bios

Name	Leadership Role	Company Tenure	Previous Company
Ed Bastian	Chief Executive Officer	25 years	Frito-Lay International
Glen Hauenstein	President	18 years	Alitalia
Allison Ausband	EVP and Chief Customer Experience Officer	38 years	None
Alain Bellemare	President - International	2 years	Bombardier
Dan Janki	EVP and Chief Financial Officer	2 years	General Electric Power Portfolio
John Laughtner	EVP and Chief of Operations	29 years	None
Tim Mapes	SVP and Chief Communications Officer	32 years	BBDO Worldwide
Eric Phillips	SVP and Chief Digital Officer	25 years	None
Rahul Samant	EVP and Chief Information Officer	7 years	AIG
Joanne Smith	EVP and Chief People Officer	21 years	None
Alicia Tillman	Chief Marketing Officer	3 months	Capitolis
Henry H. Ting	SVP and Chief Health Officer	2 years	Mayo Clinic

(Delta Air Lines, 2023-b).

Appendix B: 2022 Industry Revenue Split and Market Share

Company (Stock Symbol)	2022 Revenue (Domestic & Global)	Market Cap (as of 9/27/2023)	Last 12 months Passenger Miles (as of 8/31/23)
Delta Air Lines (DAL)	\$50.58 billion	\$25.53 billion	132.56 billion
American Airlines (AAL)	\$48.97 billion	\$8.174 billion	130.77 billion
United (UAL)	\$44.96 billion	\$13.271 billion	120.72 billion
Southwest Airlines (LUV)	\$23.81 billion	\$15.81 billion	127.0 billion
Alaska Air Group (ALK)	\$9.65 billion	\$4.613 billion	48.12 billion
Total	\$185.5 billion	NA	~753 billion

(Burns, 2023)

(Yahoo Finance, 2023-a)

(Yahoo Finance, 2023-b)

(Yahoo Finance, 2023-c)

(Yahoo Finance, 2023-d)

(Yahoo Finance, 2023-e)



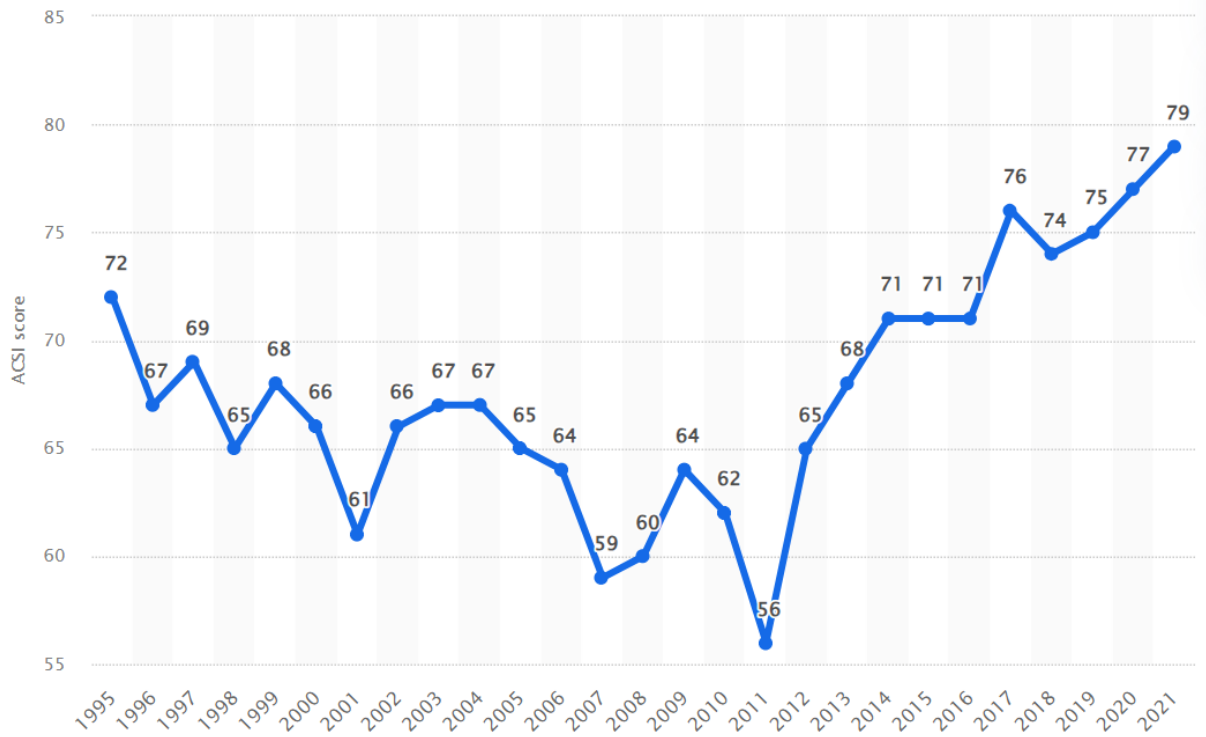
(Bureau of Transportation Statistics, 2023-b)

Appendix C: North American Carriers' 2022 On-Time Performance

Carrier	2022 On-Time Arrival (within 15 minutes of scheduled arrival time)
Delta Air Lines	84.1%
Alaska Airlines	81.4%
United Airlines	81.3%
American Airlines	78.8%
Southwest Airlines	74.7%
Frontier Airlines	69%
JetBlue Airways	67.1%
Allegiant Air	66.5%
WestJet	60.7%
Air Canada	55.6%

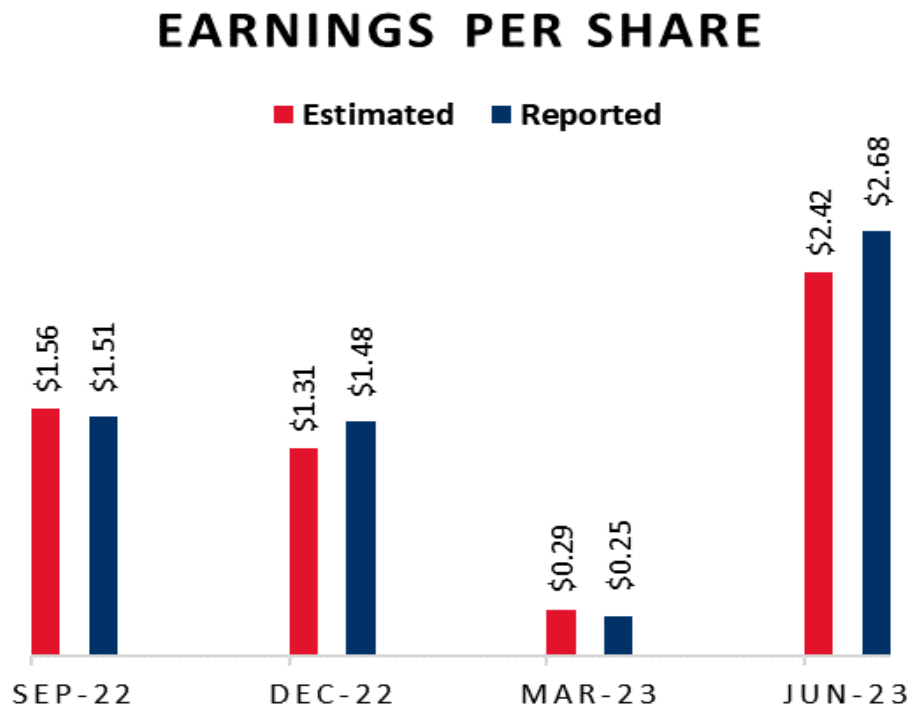
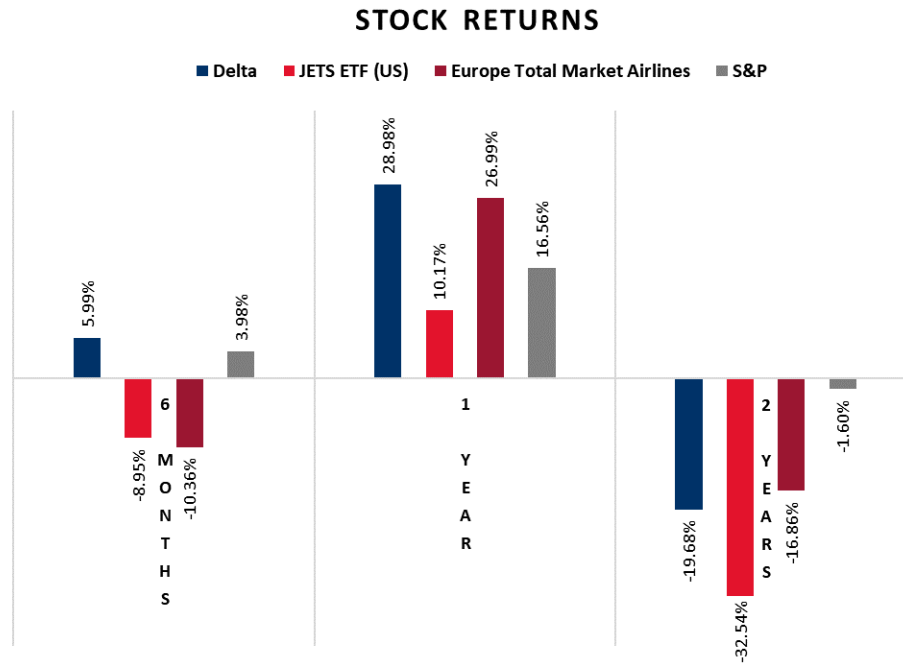
(Airoldi, 2022)

Appendix D: Delta U.S. Customer Satisfaction % from 1995 to 2021



(ACSI, 2023)

Appendix E: Delta Stock Returns & Earnings Per Share



(Google Stocks, 2023)

Appendix F: 2021 Compensation Mix

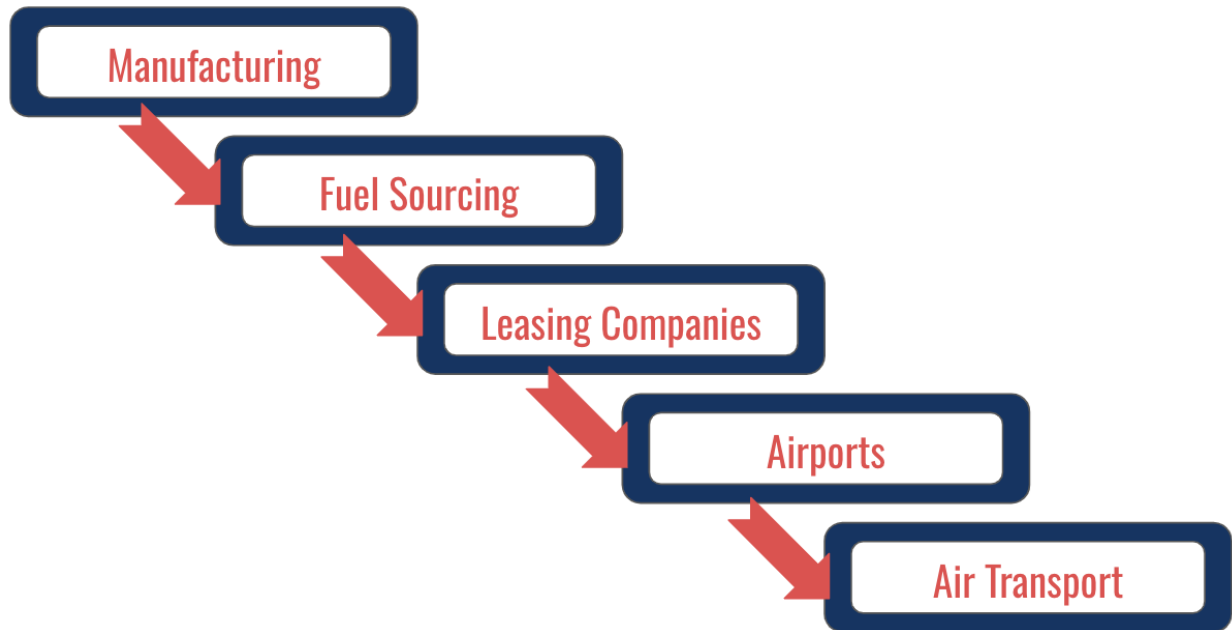


(United States Securities and Exchange Commission, 2022-a)

Appendix G: VRIO Analysis Grid

<p style="text-align: center;">Hub and Spoke Model:</p> <p>Valuable: Although American Airlines holds one more domestic hub than Delta, Delta's strategic selection of its hubs sets it apart from its competitors. (Radka, 2021)</p> <p>Rare: Compared to competitors, Delta's hubs are spread more evenly throughout the United States, particularly on the West Coast and in the Midwest.</p> <p>Inimitable: Joining an established strategic airline alliance may reduce the cost of developing a network resembling Delta's, but Delta's pioneership make their network difficult to imitate.</p> <p>Organized: A high volume and even distribution of hubs increase the accessibility of Delta aircraft to smaller airports outside of its direct flight network.</p>	<p style="text-align: center;">Labor Relations:</p> <p>Valuable: Delta is historically the quickest of established airlines to conclude negotiations with their employees, in turn, Delta does not need to meet an industry standard for benefits as they often set the standard (Singh, 2023-a).</p> <p>Rare: Airlines tend to struggle with labor relations, establishing Delta as one of few airlines that is able to come to prompt and amicable agreements with its workforce</p> <p>Inimitable: Delta's ability to negotiate with its employees has reduced unionization rates to 20%, far below the industry giants who average above 80% (Reed, 2019).</p> <p>Organized: Delta's low unionization rates and prompt negotiation increases the amount of capital that can be put into alternative areas of its business model.</p>
<p style="text-align: center;">Aircraft Fleet:</p> <p>Valuable: Delta's fleet includes over 1250 aircrafts, increasing the volume of flights that it may offer at any given time.</p> <p>Rare: Delta's fleet is one of the largest, but the largest airlines all have a comparable number of aircrafts available.</p> <p>Inimitable: Delta's fleet is not an easily imitated resource, the dropoff between the third and fourth largest airline fleets is by nearly 50% (Gilbert, 2023).</p> <p>Organized: Delta's fleet is being updated and substituted constantly, ensuring that the passenger experience includes the most modern technology possible.</p>	<p style="text-align: center;">Strategic Alliances and Partnerships:</p> <p>Valuable: Sharing resources with strategic partners reduces the burden of expenses.</p> <p>Rare: Partnerships are not unique to Delta, most prevalent competitors also participate in strategic alliances.</p> <p>Inimitable: Strategic alliances are quite imitable and various prevalent airline alliances have similar benefits to that offered by SkyTeam.</p> <p>Organized: As a founding member of SkyTeam, Delta has utilized its status to develop a significant flight network via alliance members.</p>

Appendix H: Vertical Value Chain



Appendix I: Board of Directors Committee Structure

Board Member	Experience	Education	Audit Committee	Corporate Governance Committee	Finance Committee	Personnel and Compensation Committee	Safety and Security Committee
Edward Bastian	Delta Executive						
Greg Creed	Food Service		Member			Member	
David G. Dewalt	Cybersecurity	Ph.D.	Member	Chair			Member
William Easter	Energy		Chair	Member			Member
Leslie D. Hale	Hospitality	MBA			Member		Member
Christopher A. Hazleton,	Pilot			Member			Member
Michael P. Huerta,	Federal Transportation						Chair
Jeanne P. Jackson	Private Equity	MBA			Member	Member	
Vasant M. Prabhu	Corporate Finance	MBA			Member		Member
Sergio Rial	Energy	LLM, MBA		Member	Member	Chair	
David S. Taylor	Manufacturing			Member	Chair	Member	
Kathy Waller	Corporate Finance	MBA	Member	Member		Member	

(Delta Air Lines, n.d).

Appendix J: Largest Stockholders

Organizations

Largest Stockholders	Percent Owned	Shares Owned	Total Value (\$)
The Vanguard Group, Inc.	10.98%	70,643,159	2,613,796,883
BlackRock Fund Advisors	4.57%	29,386,776	1,087,310,712
Capital Research & Management	4.13%	26,563,427	982,846,799
PRIMECAP Management Co.	3.47%	22,343,868	826,723,116
SSgA Funds Management, Inc.	3.44%	22,150,815	819,580,155

(CNN, 2023)

Insiders

Largest Individual Stockholders	Position	Shares Owned	Total Value (\$)
Edward H. Bastian	Chief Executive Officer	2,197,025	75,995,094
Glen W. Hauenstein	President	1,058,502	36,613,584
Peter W. Carter	Executive Vice President	448,202	15,503,307

(Johnston, 2023)

Appendix K: Domestic Organizational Structure

CEO						
Chief Communications Officer	Chief of Operations	Chief Legal Officer	Chief Financial Officer	Chief Customer Experience Officer	Chief People Officer	Chief Information Officer
Marketing	Corporate Safety	International	Financial Reporting	Innovation	Talent Management and Development	Information Technology
Advertising	Security and Compliance	Legal	Controller Organization	Customer Experience	Recruitment	Digital Strategy
Product Development	Crew Resources	Regulatory	Corporate Audit	Airport Customer Service	HR Service Delivery	Cybersecurity and Infrastructure
Corporate Communications	Flight Operations	Government Affairs Sustainability	Financial Planning	In-Flight Service	Diversity and Inclusion	
Social & Traditional Media Engagement	Operations Analysis & Performance		Investor Relations	Reservations	HR Policies and Programs	
Community Engagement	Operations & Customer Center		Treasury	Customer Care		
	Subsidiary Airlines		Fleet			
	Technical Operations		TechOps Supply Chain			
			Fuel Management			

(Delta Airlines, 2023-b)

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