A6 - Excellent

NYIT
MGMT 650
A6 Module
Business Plan

A- / B+

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Executive Summary

This is not what an executive Summary is.

This business plan report provides a summary of the company's mission, history and their bankruptcy details, products, services, competitive advantages, future products/services, market analysis, issues, strategies and the financial plan to deal with the bankruptcy. Methods of analysis include SWOT and Issue Based Scenario Planning. Strategy recommendations include differentiation strategies, new outsource maintenance department, different benefits for pilots.

Business Plan Objective

The objective of the business plan is to look at the main issues that are surrounding American Airlines forcing them to file for bankruptcy and provide strategies to get back on its feet by fixing those issues.

Mission

AMR Corporation is committed to providing every citizen of the world with the highest quality air travel to the widest selection of destinations possible. AMR will continue to modernize its fleet while maintaining its position as the largest air carrier in the world, with a goal of becoming the most profitable airline. AMR is the airline that treats everyone with equal care and respect, which is reflected in the way each AMR employee is respected. AMR recognizes that its employees are the key to the airlines success and invests in the futures and lives of its employees. By investing in tomorrow's technologies and by following a strict adherence towards environmental regulations, AMR demonstrates its commitment to the world environment.

American Airlines Summary

American Airlines is a major U.S. airline and a subsidiary of AMR Corporation. It is headquartered in Fort Worth, Texas, adjacent to its largest hub at Dallas/Fort worth International Airport. American Airlines operates international and domestic network, with scheduled flights throughout the Caribbean, North America, South America, Europe, and Asia/Pacific.

American Airlines has two affiliates: American eagle, another is the code-share regional brand. In the last several years, American Airlines has a popular culture; On October 15, 1998 American Airlines became the first airline to offer electronic ticketing in the 44 countries it serves. And one year later, American Airlines, together with British Airways, Cathay Pacific, Canadian Airlines and Qantas, founded the global airline alliance one world.

On November 29, 2011, AMR Corporation filed for Chapter 11 bankruptcy protection. American currently operates maintenance bases at Tulsa (TUL) and Fort Worth Alliance (AFW). American announced that it will close its maintenance base at Fort Worth Alliance Airport by December 2012. (1) American executives have said they prefer to come out bankruptcy as a stand-alone airline, but they are exploring other options including a tie-up with U.S Airways. This is not the first time for American Airlines near to bankruptcy. When Robert Crandall left in 1998, and was replaced by Donal J.Carty, who negotiated the purchases of the near bankrupt, in April, 2001. Two months later, under the help of the Trans World Airlines, American Airlines first officers hired in June 2001. One year later, the airline received a 100% rating on the first corporate equality index released by the human rights campaign ,and in the same year they has maintained their rating in respect to policies on employees.

Not sure what you mean

American Airlines has undergone additional cost-cutting, including rolling back its "More Room throughout Coach" program that is eliminated several rows of seats on certain aircraft, ending three-class service on many international flights, and standardizing its fleet at each hub. But, American airline also expanded the new markets in the word, such as: Ireland, India and mainland China. On July 20, 2005, American airlines announced a quarterly profit for the first time in 17 quarters; the airline earned $58 million in the second quarter of 2005.

American Airlines began losing money in the economic downturn that followed the attacks. On February 9, 2010, Japan Airlines officially announced that it will strengthen its relationship with American Airlines and one world. After one year, both JAL and American Airlines announced that they will start their joint-venture operation starting April 1, 2011.[2] But it doesn't change the American Airlines state. On November 29, 2011 AMR Corporation filed for Chapter 11 bankruptcy protection.

On September 18, 2012, the airline announced it has notified more than 11,000 workers of possible job loss as part of its bankruptcy reorganization. American Airlines also said it is cutting flights by one to two percent for the rest of September and October 2012.

On October 25, 2012, the American airline announced its plans to hire 2,500 pilots over the next 2 years. In a letter to employees, the CEO of American Airlines said they will hire new pilots to staff new international and domestic routes. Company spokesman said that about 1,500 of the new hires would replace retiring pilots, or jobs that open up due to attrition. American has about 7,500 active pilots today. [3]

Products and Services

American Airlines primarily offers aviation services. They serve 260 airports in more than 50 countries/territories with an average of 3,300 daily flights. Now they are offering a lot of services which are the following:

- Booking services (hotels, cars, vacations, cruises, tours)
- Club lounges, executive centers and gift shop in select airports
- Credit card services (their very own card and partner with banks)
- Travel mileage or frequent flyer program
- Cargo services
- Business programs (travel programs for companies doing business)
- Group traveling (meetings, leisure, wedding)

Competitive Comparison

They try to differentiate themselves by offering more services than other competitors. The services that most competitors do not have are business programs, group traveling, credit card services, club lounges and their executive centers. Most airlines only offer booking services and mileage programs. Due to the many programs they offer, they are able to get a competitive advantage over others. Furthermore, they are also offering lowest pricing guarantee on most booking services wherein if you find any similar service that offers a lower price, American Airlines will match that pricing.

One big advantage that they offer that a lot of airlines do not offer is the wifi technology on the airplane. They are offering wireless services while the plane is in flight. A lot of business companies need wifi to conduct their business. By having internet services during flight will attract a lot of customers.

Technology and Future Products/Services

As a big airline in the world, the American also has their own technology, such as: Mobile Platforms, Self-Service Check-In, In-flight Connectivity and so on. Until 2012, American Airlines fleet consists of 608 aircraft. In the future, American Airline has 5 ways to protect their company.

First, they will continue initiatives related to fleet renewal, facility renovations, and upgrades to their technology infrastructure.

Second is earn customer loyalty, they must deliver value for every customer and differentiate their airline.

Third: Strengthen and Defend the Global Network.

Fourth: be a good place for good people: the future depends on creating a good place to work and build a career, where all employees are treated with respect and dignity, and where diversity is embraced.

The last one is fly profitably, they must constantly find ways to cut costs, operate more efficiently, and generate additional revenue for the company to sustain our business, grow, and create job security.[4]

Marketing Analysis

Profitability of the market:

There are three forces threat the airline business profitability:

1- Threat of substitute products: Due to recession customers will try to reach their destination with lower cost alternative vehicles.
2- Threat of existing Rivals – American air line compete directly with other airline companies like Delta Airlines, Jetblue Airways, United Continental Holding , and they

are all having very difficult financial situation, therefore they might reduce their prices to attract more customers.

3- Threat of industry dominated: As most of the American Airline company aircrafts are bought from Boeing, it is not easy to bargain with Boeing to reduce the price of aircrafts.

Competitors

American Airlines competitors are the ones in the same industry that also offers aviation services in the same area as them. This means that their competition is global. Many countries offer aviation services through other countries/territories that clash with American Airlines. Usually customers are able to choose from around 3 or more airline services that travels to a particular territory.

One big competitor group for American Airlines is the budget airlines. These budget airlines offer low pricing for travels that a normal aviation services cannot fight. These budget airlines sometimes even offer $0 ticket for travels. These $0 tickets will add gas cost and some other small other fees that add to a small number which is still smaller than the price of a regular airline service. Many customers are looking for low cost travels as many try to save money as much as possible.

Competitor Analysis

There are direct competitors in domestic market like Delta, Alaska and international market like Lufthansa, Qatar Airways. ...etc. But there are also indirect competitors of Americans Airlines are would be the Telecom Industry. The telecom industry threat airline company market is due to the enhancement of technology, for instance people can have a video conference meeting and do not need to travel to different countries for business reasons.

SWOT Analysis:

How is that a strength

Strengths:

- **Reputation and Brand strength:** one of the oldest companies in the industry.
- **Strategic Airport locations:** Dallas, Miami and Chicago provide a company a perfect business position

How and why

Weaknesses:

I told you not to write it this way. Here you give me explanation

- **Maintenance**
- **Finance position:** the company entered bankruptcy in 2011
- **Pilots leaving the company**

Opportunities:

How, more detail needed

- **US Economic reform**: there is opportunity to improve US economy after Obama has been selected for US presidency for the next time
- Increase the opportunity to penetrate Asian market and improve international market.

Threat:

Not clear

- Competitors reduced costs because of bankruptcy.
- Fuel market instability.
- Growth on videoconferences and other travel substitution.

Identify Issues

The first issue of American Airlines is their maintenance. As the strength of the company is the reputation and the long history, the maintenance problems is affecting their strength and damaging customers' confidence. Three reported incident for loose seats and many of scheduled flight delayed because of maintenance problems put the company in front of a series of challenges to keep their customers in the same level of satisfaction. Secondly, another important issue is that the pilots are trying to leave the company because the new contract imposed on them cutting their benefits and salaries. These issues are going to force the company to reduce their flight numbers and accordingly the company revenue will be affected negatively, and it won't be able to rectify its financial crisis. Lastly, their customer service during inflight is being complained that they are not treating the customers well.

Strategies to Resolve Issues

- The first priority in the strategy is to change their maintenance department workers because they are outsourced. They should look for a new outsourcing company that handles better maintenance on their planes. This will help fix the loose seats while improving their overall maintenance services.

- By using the motivation theory, we can try to motivate the pilots by letting them have increased salary/benefits if the company revives with higher revenue. This way pilots will still work for them while having increase motivation. Another way is to give stock options to pilots wherein they get shares in return for their services.

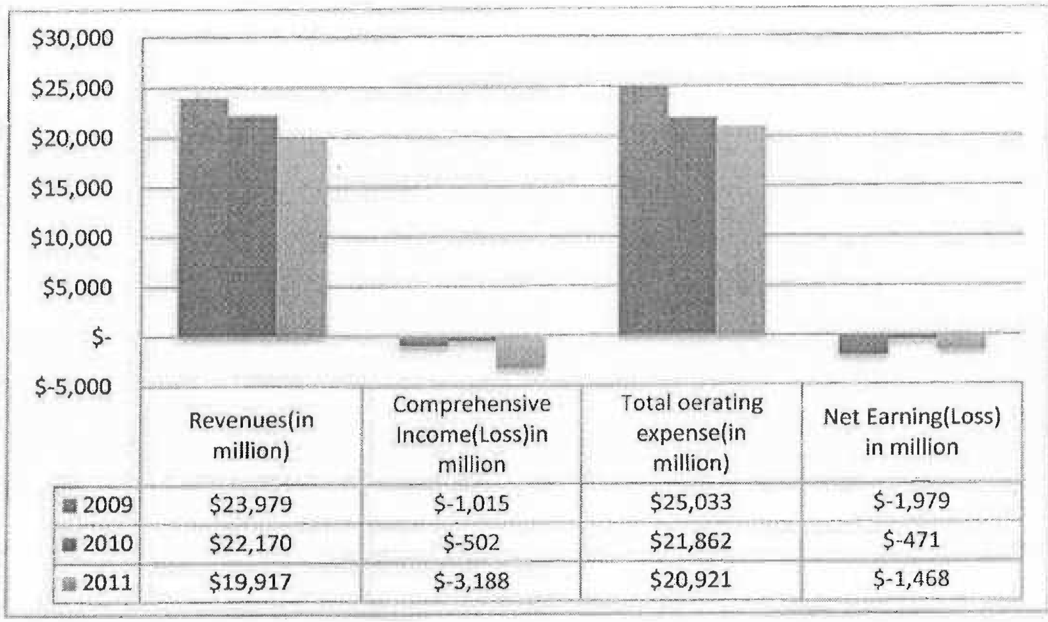
Differentiation Strategy

Select one!

- Differentiate themselves by increasing their first/business class seats and reducing economy class seats. Furthermore, reducing the travel ticket price for the first/business class seats so that people are able to travel more at a reduced price while having 1st class services during inflight.
- They can also offer extra mileage points for people so that frequent flyers are able to redeem more prizes. They can also offer free travels whenever they reached a certain amount of travel in x months like 1 free travel for every 10 travels in 2 months.
- They can offer free inflight entertainment and wifi so that people will be satisfied during their travels while also be able to deal with business customers due to free wifi.

Projecting the Financial Plan

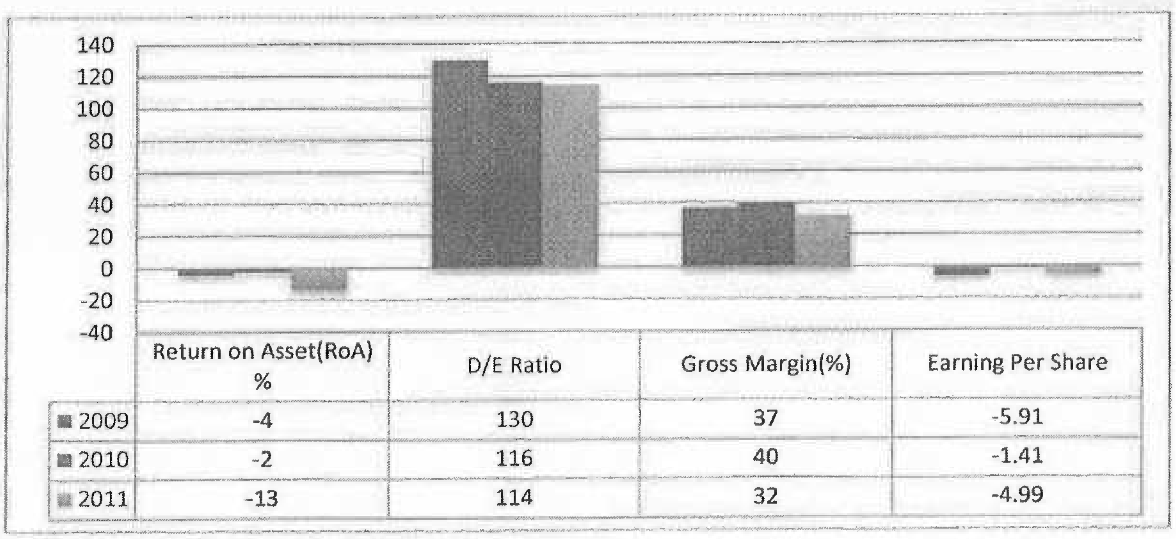
We can see from the chart below, the revenue becomes less and less. It is 23,979 in 2009, and decrease by nearly 4,000 million dollars in 2011. Although the total operation expense decreased year by year from 2009 to 2011, the net earnings were still negative, and the net loss reached 1,468 million in 2011. Also, we can see the comprehensive loss reached 3,188 million dollars in 2011, and the numbers of comprehensive were negative in the recent year.



	Revenues(in million)	Comprehensive Income(Loss)in million	Total oerating expense(in million)	Net Earning(Loss) in million
2009	$23,979	$-1,015	$25,033	$-1,979
2010	$22,170	$-502	$21,862	$-471
2011	$19,917	$-3,188	$20,921	$-1,468

Source: AMR 2010 and 2011 Annual Report

From the chart below, we can see the RoA were negative in the 3 years, although the gross margin are more than 30%. The numbers of earning per share are negative too. The Debt ratios of the three years are all more than hundred percentage, which mean that the total liabilities are much higher than the total asset of the company. The company might go to bankrupt at any time because of that.

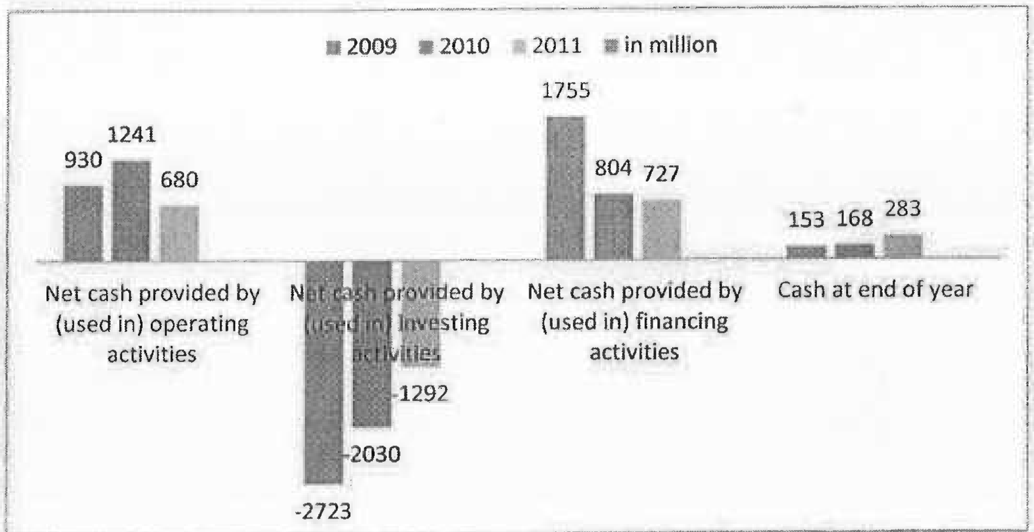


	Return on Asset(RoA) %	D/E Ratio	Gross Margin(%)	Earning Per Share
2009	-4	130	37	-5.91
2010	-2	116	40	-1.41
2011	-13	114	32	-4.99

Source: AMR 2010 and 2011 Annual Report

We can see the numbers of Net cash provided by (used in) investing activities from the chart below, they are all negative from 2009 to 2011. Because the company's capital expenditures, including purchase deposits on flight equipment, were still high in those years, there were not so much cash on the end of those years. Although there were more cash in 2011 than the other two year, the cash provided by the operating activities and financing activities were lower that the other two.

Statement of Cash Flow



Source: AMR 2010 and 2011 Annual Report

Balance Sheet

AMR CORPORATION BALANCE SHEETS (in millions)

		2009	2010	2011
Assets				
	Total Current Assets	6642	6838	6757
	Equipment and Property	15181	12264	11041
	Equipment and Property under Capital Leases	295	244	393
	Other Assets	3320	3168	2785
	Total Assets	25438	25088	23848
Liabilities				
	Current Liabilities	7728	8780	8630
	Long-Term Debt	9984	8756	6702
	Obligation Under Capital Leases	599	497	-
	Other Liabilities and Credits	10616	11000	10784
	Liabilities Subject to Compromise	-	-	4843
Equity				
	Stockholders' Equity (Deficit)	-3489	-3945	-7111
	Total Liabilities and Stockholders' Equity (Deficit)	25438	25088	23848

Source: AMR 2010 and 2011 Annual Report

We can see the form above that the numbers of shareholder's equity are all negative these three years, and then the ROE (return on equity) were zero in the three years. The shareholder's equity in 2011 was twice less the one in 2009. The current assets were not change too much, but the equipment became less and less. Current liabilities have gotten more in the three years, and the long-term debt became less and less.

As we mentioned above, the gross margin of the company is high, but the company still had a huge loss in 2011. The company should get more revenue to reduce the liabilities. For this purpose, we can analysis the some sectors below.

	Year Ended December 31		
	2011	2010	2009
American Airlines, Inc. Mainline Jet Operations			
Revenue passenger miles (millions)	126,419	125,486	122,418
Passenger revenue per available seat mile (cents)	11.63	10.94	9.91
Available seat miles (millions)	154,321	153,241	151,774
Passenger load factor	82.00%	81.90%	80.70%
Regional Affiliates			
Revenue passenger miles (millions)	9,895	8,812	8,255
Available seat miles (millions)	13,507	12,179	11,566
Passenger load factor	73.30%	72.40%	71.40%

Source: 2011 Annual Report

We can see from the chart above, all of those three factors are higher that Regional Affiliate's. Meantime, we can see the passenger load factor and RASM (revenue per available seat mile) are getting higher and higher in the three years. To increase the revenue, the company should increase the first-class seats to increase the RASM.

Another issue of the company is higher than normal number of pilot retirements. It could adversely affect AMR's operations and financial results. The Company recorded a $1.3 billion increase in pension and retiree medical and other benefits obligations and a corresponding increase in stockholders' equity in 2011, and nearly 500 million dollar increase in pension in 2010.

(in million)	Year Ended December 31		
Operating Expense	2011	2010	2009
Aircraft fuel	8,304	6,400	5,553
Wages, salaries and benefits	7,053	6,847	6,807
Maintenance, materials and repairs	1,284	1,329	1,280
Food service	518	490	487
Total operating expense	25,033	21,862	20,921

Source: 2011 Annual report

We can see the chart above, the food service expense is getting bigger yearly, but the expense increased primarily due to the international flying. If the company wants to improve their service quantity, they might spend more on both international and domestic flying. One more thing we should motion is the aircraft fuel expense increased 30.1 percentages in the company's price per gallon of fuel from 2010 to 2011.

Reference:

1: ^ AA to shutter Fort Worth maintenance base in Dec. - Yahoo! News

2: Japan Airlines and American Airlines Announce Joint Business Benefits for Trans-Pacific Consumers – Yahoo! Finance

3: ^ "Creditor, 'prospective merger partner' US Airways gives support to American exclusivity extension". *LeveragedLoan.com.* July 15, 2012. http://www.leveragedloan.com/creditor-prospective-merger-partner-us-airways-gives-support-to-american-exclusivity-extension/.

4: http://www.aa.com/i18n/aboutUs/corporateResponsibility/profile/flightplan-2020.jsp

Need a better conclusion