Southwest Airlines CEO Gary Kelly: ‘If Things Don’t Improve, This Just Can’t Continue’

- Going into the office every day, Southwest Airlines CEO Gary Kelly describes the Dallas headquarters atmosphere as feeling a bit like the mountain hotel from the 1980s horror flick The Shining.
- “We’ve got a skeleton staff here,” he said. “Our headquarters can accommodate about 5,000 people roughly and there are maybe 100 people here every day."
- Kelly, who succeeded Southwest founder Herb Kelleher in 2008, spoke with The Dallas Morning News on Thursday about how the airline known for its upbeat attitude and friendly service is handling the toughest financial crisis in aviation history. His answers have been edited for brevity and clarity.
- How do you see the flying experience now?
  - I’ve only flown Southwest and the Southwest experience has been phenomenal. Everybody has to wear a mask and we don’t book the middle seat, effectively, right now. We’ve got all of our cleaning protocols in place. The customers are very happy. The feedback that we get from the people that fly is record levels of satisfaction. The operation is running very smooth, very much on time. And it’s a pleasure to fly. You can also get a good, low fare.
- We’re in the seventh month of this pandemic. How would you describe where the airline industry is today?
  - Oh, gosh, the effect has been catastrophic. There’s no other way to think about it.
  - You go back to the spring and a lot of it was so new for the United States. People were wondering whether this was going to be more like a seasonal flu. I was reluctant to make any predictions in the spring about what would happen. I’m more of a planner rather than a prognosticator. All we could do is try to establish some boundaries for planning, especially when the federal government came through with the CARES Act. It just provided us some breathing room. We made radical adjustments and changes to the airline.
  - We know a lot more seven months in than we knew one week in. I believe we’re going to have to muddle through this until we get a vaccine, until we functionally reach herd immunity.
- Is it frustrating to watch the pandemic drag on?
  - It’s frustrating if one lets himself get frustrated. We don’t have time for that. We’ve got to keep our eye on the ball. We need to run a safe airline. We need to do everything we can to make sure the business survives. We need to do the best job we can to take care of our people and our customers. And we’ve just got to persevere. We’re battle-hardened at Southwest. We are up to the challenge. I don’t see that it serves any purpose to be frustrated with things that are totally outside of your control.
- You and other airline executives had predicted that travel would be down about 30% in fall. That forecast isn’t looking very good right now.
I never predicted that. What I was sharing was that was our guess. That was our plan, knowing we could adjust it if need be. It’s easier for us to cut flights than it is to add flights back. But in any event, that’s way too optimistic currently because we’re down twice that much.

What I would predict now is that I don’t see that changing significantly from here until we get a vaccine. We’ll see some lift at that point and until behaviors change. People are going to have to be confident that we’ve reached herd immunity. Until we get to that point, I wouldn’t expect us to see a significant improvement in our traffic. That will be sometime in 2021 at best.

Airlines For America’s Nicholas Calio said there may not be a full recovery until 2024. Are you looking at the possibility of an extended three- or four-year recovery?

It’s 34 years in the business for me. It was a long decade after 9/11 and it was a long slog after the Great Recession in 2008. Absolutely, we’re prepared for a long recovery here.

We were very well prepared for the pandemic coming into it with record low levels of debt. We had plenty of cash and we boosted our cash reserves dramatically this year. And we’re working on adjusting our cost structure. We’ve already got a low-cost structure in the first place and very well suited to serve the leisure side of the market in addition to the business travel market.

But I’m certainly not bullish that business travel is going to bounce right back. In fact, I would argue that relative to a normal recession and recovery scenario, this will be twice as long. I wouldn’t be surprised to see business travel languish for a decade before it gets back to 2019 levels. So yes, we’ll be prepared for that.

Southwest announced service this week to Miami and Palm Springs, Calif. Why would you fly to Miami after you’ve been so strong in Fort Lauderdale?

First of all, there are huge numbers of growth opportunities remaining for Southwest.

No. 2, we’re in an environment where our business challenge is customers. We’ve had a catastrophic reduction in customers flying -- off 65% versus a year ago. And so what we need to remedy our business problem is more customers. At this point in time, there’s no way to get more depth in the market.

The opportunity for us is more breadth and tap into new destinations that will give our loyal customers another opportunity to choose Southwest. We serve multiple airports in the Washington, D.C., metro area. We serve multiple airports in the Boston metro area, in the San Francisco Bay Area and the Los Angeles basin area. We believe South Florida offers the same kind of potential.

Palm Springs is similar and different. It’s a unique destination. You get a little seasonal contradiction there -- its high season is in the winter months, which is helpful. We’re already the No. 1 airline in California in every way.

As long as we’re covering our flight costs, we’ll be contributing cash. And that’s key when we have so many assets that are being underutilized and so many employees that are also not working to their full potential. That makes the marginal cost of adding the service really, really small.

Do you think you’ll need to continue spacing out seating when it’s not profitable to do so?

I don’t think we can do it indefinitely. I agree with that. And I think our customers understand that. What we hear from customers is they’re very comfortable with what we’re doing. Obviously, the middle seats are an element of that. Right now, we are interested in learning more about the science of physical distancing on the airplane given all of the other layers of safety and health
protection that are in place. In the end, it’s all about what customers are comfortable with.

- Customers are really happy with the Southwest Promise today. I’m not really prepared to say when we might change, but at some point yes, absolutely, we’re going to have to get our business back. It’s just going to have to be at the right time.

  - Southwest had 28% of employees take voluntary leave or early retirement. Why do you think they’re willing to do so when the global economic outlook is so uncertain?
    - It’s not just one thing that went into people’s decisions. It was probably a handful of things and with some people maybe more. You have a lot of people that really answered the call. They could do this personally, from their own financial perspectives, and they could help out their family members here at Southwest. They could help the company.
    - It was also a reflection of the generosity in terms of the offer. If you were thinking about retiring over the next several years and you had this pretty lucrative offer, for a lot of people, it’d be crazy to pass it up. I suspect that there were a lot of people who understood this is a really tough time. ‘I’m not sure exactly what kind of effort and sacrifice it’s going to take. And I might not be up for that.’ That’s fair, too, because we are going to need all hands on deck to get through this crisis. Our folks are going to have to work really, really hard.
    - I was pleased with that result because it certainly helps us get our costs down and we’re able to take care of our people and not force any involuntary furloughs.

- What’s the possibility of avoiding furloughs in early 2021 as this pandemic continues?
  - If things don’t improve, this just can’t continue. We can’t lose the kind of cash we lost in the second quarter, for quarter upon quarter upon quarter. We’d be out of business. A lot depends on how the revenue environment improves. That’s front and center of why we are announcing Miami and Palm Springs because it will help chip away at that revenue deficiency.
  - There are still some levers we can pull. But the vaccine has to come online. It’s got to work. We’ve got to begin to get back to normal. Or else we’re just talking about a completely different catastrophic scenario for the airline industry, and other industries for that matter.

- Competing airlines are taking a page out of the Southwest playbook by lowering and dropping change fees. Does that cut down on Southwest’s competitive advantage?
  - The differences between our airlines just shift. I will point out that they’re not moving to the Southwest position because most tickets aren’t subject to change fees, but with us, it’s all tickets. It’s somewhat hypocritical to claim that this is the right thing to do and then not do it. They have been all about fees and sticking it to customers for a long time. It’s not effective now or they wouldn’t be making a change.
  - This just means that now they’re going to have to match our fares. And our cost structure’s lower and our fares are lower. For them to replace this change fee revenue, they’re going to have to raise fares. It’s just going to make it more difficult for them to make a profit and still try to match Southwest fares. That’s why they did this in the first place. They needed some gimmick to strip out revenue and reduce their published fare knowing that they can get money from hidden fees. And now that advantage is being taken away.
  - I think it’s better for Southwest. It’s a more level playing field.

- Are the next six months going to be just as damaging as the last six?
  - I think we’re past the dark days of March and April. Things for us have been pretty stable since July Fourth. We went into a stall when the COVID-19 cases
spiked so sharply there in early July, which was a shame because we were on a pretty good trajectory and people were feeling more and more comfortable with travel.

- The good news is it’s pretty stable. Stable’s good but we’re at unsustainable levels and it can’t go on indefinitely. Beyond the self-help steps taken, what is the government going to do in terms of creating CARES Act 2 and what will be in there for continuing the payroll support for the airlines? That has a major bearing on our outlook for the next six months.
- Our visibility is not very far into the future. It’s pretty easy to predict that we shouldn’t expect much improvement in 2020. But I’m still hopeful about the first quarter of next year.
- We’ll continue to press Congress and the administration for CARES 2. I think that would be very helpful to the country, not just the airlines, but to the whole country. We’re in a situation that, absent some kind of sovereign effort for liquidity, the country goes into depression.
- No company can be prepared for an almost total loss of revenue and customers. The only way through that temporary trough is with assistance from the government.

**United Launches Interactive Map Showing U.S. Travel Restrictions**

- United Airlines created an interactive, color-coded map detailing everything travelers need to know ahead of planning a trip.
- The map features a color-coded map and a drop-down menu of more detailed restrictions and state-specific rules.
- The map lists everything from whether or not entry into a state is allowed, potential quarantine measures, testing requirements, and even mask mandates for all 50 states and Washington D.C., the company shared with Travel + Leisure. Travelers can see if restaurants, tourist sites, or hotels are open and if there are any specific restrictions in place.
- "We know it’s a challenge to keep up with the ever-changing list of travel restrictions, policies and regulations so we are offering a simple, easy tool that helps customers decide where to travel next," Linda Jojo, the executive vice president for technology and chief digital officer, said in a statement. "By providing the most up-to-date information on the destinations we serve, customers can compare and shop for travel with greater confidence and help them find the destinations that best fit their preferences."

**United Airlines Cuts Capacity and Revenue Estimates**

- United Air now expects its third-quarter scheduled capacity to drop about 70% from a year earlier, a sharper drop than it had forecast.
- The Chicago company now expects third-quarter passenger revenue to fall about 85% from the year-earlier period, United Air said in a Securities and Exchange Commission filing. That compares with its previous guidance of an 83% decline.
- But it doesn’t “expect the recovery from covid-19 to follow a linear path,” United said. “As such, the company's actual flown capacity may differ materially from its currently scheduled capacity.”
- The company “expects demand to remain suppressed and plateau at levels of around 50%, relative to 2019 levels, until a widely accepted treatment and/or vaccine for Covid-19 is widely available,” it said.
• United Airlines continues to expect to burn an average $25 million of cash daily during the third quarter.

Hawaiian Airlines parent lowers third-quarter capacity outlook 'slightly' to down 87%

• The air carrier said it expects capacity for the third quarter to be down 87% from the same period a year ago, which is slightly lower than previous forecasts, as a result of reduced travel demand resulting from quarantine requirements.
• Regarding demand, the company said flow passengers for the third quarter through Aug. 31 were down 87% and revenue passenger miles were 96% below last year's levels.

EasyJet: Flyers frustrated at changing quarantine

• The airline expanded its schedule to 40% of its normal capacity last month, but now says it expects that to fall.
• "Customer confidence to make travel plans has been negatively affected" by "constantly evolving government restrictions", EasyJet said.
• "We know our customers are as frustrated as we are," it added.
• In the airline's latest statement, Mr Lundgren said: "Following the imposition of additional quarantine restrictions to seven Greek islands and the continued uncertainty this brings for customers, demand is now likely to be further impacted and therefore lower than previously anticipated,"
• "We now expect to fly slightly less than 40% of our planned schedule over the current quarter."
• The airline said this would be achieved by "continued schedule thinning as we continue to focus on profitable flying".

Ryanair lands $1 billion as European airline bonds begin to take off

• Ryanair sold an 850 million euro ($1 billion) bond on Tuesday, its first in three years, in a sign that European debt markets are starting to reopen to airlines, which were crippled by the coronavirus crisis. The sale by Europe's largest low-cost carrier is the second by an airline in Europe since the COVID-19 pandemic after majority state-owned Finnair issued a hybrid bond, which combines debt and equity features.
• Ryanair’s balance sheet, one of the strongest in the industry with more than 3.9 billion euros of cash at June 30 and aircraft worth about 7 billion euros, was behind investor demand, analysts said.
• It also raised 400 million euros from shareholders last week.
• “Ryanair is in a better place, therefore it’s going to be easier for it to get the financing it wants,” Azhar Hussain, head of global credit at Royal London Asset Management, said.
• It is one of three airlines, together with easyJet and Southwest Airlines, that still holds investment grade ratings, ratings agency S&P said in August, noting all three are low-cost carriers.
• Many airlines, including Lufthansa and British Airways owner IAG saw their credit ratings cut to “junk” status during the pandemic.
Delta and Virgin Australia suspend transpacific partnership as latter restructures

- Delta Air Lines and Virgin Australia are suspending their partnership on flights that span the Pacific Ocean as the Australian carrier slims down under new ownership.
- The move will see the carriers temporarily halt coordinating schedules, fares and other activities between Australia and the U.S. under their transpacific joint venture.
- Delta and Virgin Australia plan to resume their pact in the future.

Airbnb bouncing back quicker than hotel industry amid pandemic

- The home rental platform experienced huge demand for its bookings amid the pandemic, seeing an average 32% week-over-week growth from April 27 to the beginning to June, Edison Trends reports.
- Bookings on Airbnb, which filed to go public in August, dramatically declined during the pandemic, like hotels Marriot and Hilton, according to the report. However, Airbnb’s bookings dropped the smallest percentage at 56% compared to Marriot at 75%, and also experienced the fastest bounce back.
- Its recent performance is not only outperforming other vacation options, like hotels or other home rental apps, but it is also up year-over-year, hitting new highs.
- “Airbnb spending in July was up 22% over the previous July, and spending the week of August 17 was 75% higher than the equivalent week in 2019,” the report shared.
- The rental company has seen an increase in demands for long-stay rentals and “staycations,” according to Ediston Trends. The demand suggests people are using Airbnb as either as office options or taking advantage of the ability to work from home in a potentially nicer home, or nicer location.