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Team 5 Case Analysis

Introduction & Background/Problem Identification

Mesa Airlines has a lot of opportunity and has been a growing business for some time now. Let's look at a brief overview of Mesa's SWOT analysis.

Strengths: They are working with cost-savings advantages and an electric aircraft.

Weaknesses: They are in a huge shortage of pilots.

Opportunities: They have a training pilot program that they are working on to train skilled pilots that will be well prepared to fly for them.

Threats: A lack of pilots to fly, means that they are struggling in recruiting and have to work to stay at the top when gaining new pilots.

It is recommended that Mesa Airlines work towards better wages for pilots that are coming in. They need to continue to market and share the pilot training program so that they can fast track with new well-trained pilots and keep the momentum in working to get away from the shortage that they have found themselves in.

Mesa Airlines started in Farmington, New Mexico with founder Larry Risley and his wife Janie in 1982. It all started when they purchased a five-seat Piper Saratoga aircraft. They began operating flights between two cities and called their new airline Mesa Air Shuttle. The name originated from the airport in Farmington which sits on actual Mesa. A mesa is a flat-topped mountain or hill. In 1984, they added their first twin-engine aircraft. It was a nine-passenger Piper Chieftain. They renamed to Mesa Airlines in 1987, went public, and expanded to 11 aircraft. In 1989, they started a codeshare agreement with Midwest Express and operated a large network out of Milwaukee.

In the 1990s they developed a lot of change as they continued to grow. They added Aspen Airways, including a codeshare agreement with United Airlines that way they could operate with United Express in 1990. They obtained Air Midwest and became the launch consumer for the Beechcraft 1900D and began to service as Florida Gulf Airlines in 1991. In 1992, they entered a long partnership with America West Airlines, which continues today with American Airlines. They also acquired WestAir Commuter Airlines in 1992. They were named the 1992 Air Transport World Regional Airline of the Year in 1993. Obtaining Pittsburgh based Crown Airways, in return they continued to strengthen their relationship with US Airways in 1994. In 1998, Jonathan Ornstein returned to Mesa and was appointed CEO. Jonathan moved the headquarters from Farmington to Phoenix. In 1999, Mesa gained CCAir along with its US Airways routes and 13 CRJ-200 aircraft. They also finalized the purchase of 36 Embraer 145 aircraft.

The 2000s came and Mesa continued to grow. In 2000, they expanded codeshare with America West and USAir, signed new codeshare with Midwest Express, and Michael Lotz was appointed president. In 2001, they became the launch customer for the CRJ-900 and began an agreement with Frontier to operate as Frontier JetExpress out of Denver. Mesa formed Freedom Airlines and recalled employees furloughed during the post-9/11 turndown, in 2002. In 2003, they re-established a codeshare agreement with United Airlines, and Freedom Airlines began a codeshare with Delta Airlines to operate as Delta Connection. Mesa founder Larry Risley passed away in 2004 and was honored by aircraft tail numbers ending in LR. The LR aircraft still fly today. In 2005, Mesa celebrated its 100th regional jet and was named the Air Transport World Regional Airline of the Year for the second time. They entered inter-island markets in Hawaii by launching go! Airlines with five CRJ-200 aircraft, in 2006. Mesa began a joint venture with Shenzhen Airlines in China, starting Kungpeng Airlines, in 2007.

Mesa restructured by eliminating 50-seat aircraft to become the first regional airline to operate only large regional jets, in 2010. In 2013, they extended the term of CRJ-700 flying for United Airlines and added 30 new Embraer E-175 aircraft to operate as United Express. They then extended and expanded the CRJ-900 contract with US Airways, in 2014. In 2015, they scaled down operations to bases in Phoenix, Dallas, Houston, and Washington DC. They also announced the addition of 18 more Embraer E-175 aircraft. They announced the addition of 12 more E-175 aircraft and opened a brand-new state-of-the-art training center in Phoenix, in 2017. In 2018, Mesa returned to the public market with a successful IPO on Nasdaq after seven years as a private company. In 2020, they again extended their United Express contract, adding 20 new E-Jets. Mesa announced a partnership with DHL to operate Boeing 737-400F cargo aircraft and entered a new contract with American Airlines to operate CRJ-900s for five years. In 2021, they announced plans to invest in Archer Aviation and Heart Aerospace, joining the initiative to decarbonize air travel. Most recently in 2022, Mesa celebrated their 40th Anniversary.

The problem that Mesa has been having is keeping Pilots. There is a shortage of employees and Pilots as well as working towards finding the solution with loans for Pilots to obtain enough flying hours to qualify for airline positions. The problem stems from the Covid-19 pandemic. The pandemic followed with trainings that were suspended and pilots that lost their jobs. This then began a concern for Mesa Airlines being understaffed. Now that things are opening back up and trainings are in session, pilots have to become certified, and they are continuing to experience a shortage. The Federal Aviation Administration rejected a request by Republic Airways Inc., another regional airline, to half the required hours for pilots who go through a special program at the airline's training academy. They found that the Republic's proposal would not provide the "equivalent level of safety." The issue lies within the safety of the pilots, passengers, and employees as carriers are looking to weaken rules and cut corners. Typically, pilots have about 250 hours of flying time under their belts coming out of flight school with commercial licenses. Although, in the U.S., pilots must have at least 1,500 hours of flying experience to qualify for a job at an airline. The only exception would be if they were former military pilots or graduates of colleges and universities with professional aviation programs. Mesa is hoping to accommodate over 1,000 pilots a year by offering a program and their own light-sport planes to pilots for $25/hour to be able to fly up to 40 hours a week. In 2022, Mesa was up 5.44% in sales growth. They had a –12.72% Return on Average Assets and 15 total Investments and Advances. Here is a list of questions that Mesa asks themselves when it comes to moving forward in business:

- Is this the right thing to do?
- Is this legal?
- Am I authorized to do this?
- Is this permitted under our Code?
- Would I want to see this reported in the media?

Literature Review

In the last few years, Mesa Air and many other small, regional airlines have been running into pilot shortages that have been extremely difficult to overcome. According to Peter Greenberg of CBS News, this has mostly been caused by the growing demand for air travel and the Covid-19 pandemic. With this growing demand and the current requirements for commercial pilots including the 1,500-hour rule, airlines have struggled to hire enough qualified pilots to keep up.

To make this problem worse, federal aid was issued to many major airlines to keep flights on schedule and ensure large amounts of employees were not laid off by these airlines. Even though these airlines received federal aid, Greenberg stated "the airlines were desperate to preserve cash. While they could not lay anyone off until after the aid ran out, they could offer very attractive early retirement and buyout packages to employees across the board." Peter went on to say that many of these airlines expected about 4% of their employees to accept the early retirement/buyout offers but ultimately about 8% of these employees accepted the offers. As you can imagine, this led to many of the major airlines stuck without enough pilots to keep up with demand.

This leads us to our Wall Street Journal article "Airline's Pitch to Aspiring Pilots: Fly Our Planes Now, Work for Us Later," (Slider, 2021) as many of these major airlines started hiring as many pilots as they could. This is where many of the small, regional airlines are having trouble hiring enough pilots to keep their planes in the air. Large airlines like Delta and Southwest began offering wages that many of the regional airlines cannot compete with.

According to Alison Slider of the Wall Street Journal, these smaller airlines are trying to find new ways to hire more pilots, but it has still been tough. Along with raises, Mesa Air also recently purchased 29 planes that they will be renting to prospective pilots at $25 per hour to get as many pilots qualified as possible. Slider stated Mesa Air is even offering interest-free loans for people that want to complete their 1,500 hours of flight time, allowing them up to 40 hours per week of flight experience. Mesa Air is also offering seniority status for pilots that complete the program once they are hired as commercial pilots. Mesa Air hopes to offer this program to more than 1,000 pilots per year in the future.

SWOT Analysis

Mesa Airlines has a lot of potential despite the industry woes. Let us go over some of their strengths that give them that potential. Mesa Airlines is the first and only airline to operate narrow-body aircraft. This is advantageous to the company because it is the lowest in fuel burn. Which means they have a cost-saving advantage that others do not currently have. It is their willingness to be innovative that benefits them the most. Currently, they are working on Archer Maker aircraft. This will be a fully electric aircraft that will help decarbonize air travel. Also, their pay rates are some of the highest for regional flights, if not the highest. According to Mesa-Air.com, they are paying captains $150 per hour and first officers $100 an hour. National average for a pilot in America is between $74 and $95 per hour.

Like many in the industry, Mesa has its fair share of weaknesses. They currently lack skilled workers to fill those high-paying positions. It has been a shortage of pilots, and this affects Mesa Airlines' day-to-day business. Another thing that has affected them is their finances. Author Howard Hardee of flightglobal.com, reports "Mesa Airlines lost $183 million last year alone." This does not sit well when Mesa Airlines prides itself on being regional and regional flights were down most of 2022. In fact, author Howard Hardee of flightglobal.com reports that seating capacity of regional flights fell below the pandemic levels in 2022.

Despite the mishaps, a lot of good opportunities exist for Mesa Airlines. Mesa Airlines can train and recruit pilots at a high rate. They have tailored their training to combat the pilot crisis. According to flightglobal.com "they currently have over 400 pilots in their training pipeline." On another high note, Charley Grant of the Wall Street Journal reports, that the stock is up in the travel industry so far in 2023. One of the biggest winners so far in 2023 is United Airlines. A new partner to Mesa Airlines. United Airlines will be helping Mesa Airlines with some of its financial struggles and collaborating with them on the electric Archer Maker aircraft.

This helps combat the pilot shortage by freeing up money to invest in pilot programs or other areas of the business. Mesa Airlines are investors themselves. They have invested in a company called Heart Aerospace. Heart Aerospace is planning to produce a 19-seat electric aircraft. This will be the first of its kind.

Some threats still exist for Mesa Airlines moving forward. With the lack of pilots and fast-tracking those in training, trust from the public will have to be earned. Without the public trust, they will have trouble filling the seating capacity they are looking for. They are also susceptible to the aerospace market. When things are good, they are great. However, when you are not a main airline when things are bad, things become catastrophic. Another threat to being a smaller airline is the competition for pilots from commercial airlines. Bigger commercial airlines will have the top picks of pilots. Leaving others to find new enticing ways to recruit. Author Jon Sindreu of the Wall Street Journal states, “many regional aircraft are operated by small firms under fixed-price agreements with mainline airlines, and the latter has spent a decade cutting feeder traffic to consolidate into fewer hub airports.” The latest crisis in the aerospace and travel industries has justified these cutbacks. This will be a continued obstacle for smaller airlines.

Recommendations

The pilot shortage that Mesa Airlines has experienced is not a unique experience for the company—many competitors are finding themselves in similar situations, struggling to find enough pilots to go around and keep planes in the air. In the above analysis, Mesa is offering a unique solution by providing planes to pilots in training for a small hourly fee, that will allow them to get the allotted hours required to fly commercial much quicker than they did in the past. Additionally, airlines have found that fair wage compensation is helping ease the shortages that airlines are experiencing, and Mesa should follow in those footsteps if they plan to combat the shortage in the same way that other airlines have.

Many major airlines have “formed partnerships with flight schools and universities in an effort to ensure a steady pipeline of candidates,” according to Alison Sider with the Wall Street Journal (Sider, 2021). Adding to the issue, the mandatory retirement age of 65 has contributed to a large wave of pilots leaving the field. To continue the effort in hiring more pilots, Mesa is offering a $20,000 signing bonus to compete with other major airlines that are offering enticing signing benefits (Slider, 2021). In addition to this, Mesa should consider a partnership with universities to help mold candidates for their open positions.

So why are airlines facing the shortages we have been seeing since 2020? The answer is one that will not surprise many—the Covid-19 pandemic. As it has with other lines of business, the beginning of the Covid-19 pandemic was just the beginning of pilot shortages for Mesa and many other airlines. Because of job insecurity and suspended training programs, young pilots struggled to get their foot in the door, and tenured ones felt forced into an early retirement (Sider, 2021). Jobs for pilots became scarce, and field saturation plummeted. Fast forward to the current day, and those same positions pilots sought are a struggle to fill:

> “In response, airlines are now taking measures to address the problem by investing in training facilities and recruiting programs, and by offering to subsidize education costs for prospective pilots. Companies are spending hundreds of millions of dollars to boost pay and benefits, and airlines in the U.S. and Europe are luring back a generation of flight officers who had decamped to the Middle East and Asia” (Wall & Tangel, 2018).

Mesa should consider continuing their training incentive program until the pilot shortage is resolved and their airline is properly staffed. Additionally, incentives are allowing airlines to fill openings quicker than anticipated, and it is forecasted that the pilot shortage issue will be a short-lived one. Mesa's best course of action would be to follow these same incentives that other airlines have: Offer training, bonuses, job security, and most of all—pay well.

Conclusion

Mesa Airlines, founded in 1982, has grown and expanded over the years as the demand for flights continues to rise. Much like their competitors, Mesa has faced struggles in 2022-2023 due to aftereffects of the pandemic and the ongoing pilot shortage. They have struggled to keep themselves staffed and flights in the sky and have taken alternate routes to bring in more potential pilots. One of those routes being a training incentive program, where they are helping pilots find ways to fly planes to reach the hours required to fly commercial aircrafts. Along with this effort, they have offered signing bonuses and competitive salaries to try to keep themselves properly staffed. Mesa has some advantages in the market as well that may make them a more desirable airline to fly with—one advantage being their capacity to fly narrow body aircraft, conserving fuel, and being more appealing to those pilots who value the impact they have on the atmosphere. Also, it is reported they have many pilots in their training pipeline, which will allow them to fill their open positions with qualified candidates. If Mesa continues facing its issues with their competitive benefits, training programs, and monetary incentives—we may just see them overcome the pilot shortage faster than other commercial airlines.

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