A Strategic Analysis of the Delta Northwest Merger
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EXECUTIVE SUMMARY

Delta and Northwest have consistently been ranked among the top 6 US airlines and internationally stand out among airlines as very well respected companies. With the skyrocketing cost of oil, continued introduction of low cost carriers that further fragment the market, and globalization, airlines are facing many pressures to remain competitive while maintaining a profit. For Delta and Northwest, it is most beneficial and strategic to merge to create one combined value added airline carrier, Delta. The merger will create a stable airline in a quite volatile market, which will have the most expansive and impressive network worldwide. For the merger to take place and provide beneficial results, there are some contingencies as to what shall happen with the airlines in order to realize the proposed benefits. This strategic analysis takes a look at the benefits of such a merger from a general management perspective.

TRENDS IN THE AIRLINE INDUSTRY

- Rising oil prices poses risk for profits- match most fuel efficient planes up with routes, use of newer planes, control fuel burn rate, upkeep maintenance
- Greater focus on international travel- more international flights will add to increased revenue for the company
OIL

The airline industry is a tough industry in which a company can maintain profitable given the high cost of fixed assets. One of the most expensive items necessary for airline operations is the cost of jet oil. It is estimated that for every $1 increase in the price of oil, it will cost the company $45 million in expenses. In 2007 alone, Northwest spent $3.7 billion on fuel and anticipates spending $5.2 billion in 2008. 1 Airline companies must purchase jet fuel, rather than normal crude oil, and since 2002, the cost of jet fuel has risen 300% and looking at year over year increases has risen 61%. 2 In the last few months, four airlines have gone out of business because they are unable to keep up with the rising cost of oil. 3 In 2003, $.17 of every dollar went to pay for oil, but now in 2008, $.43 of every passenger revenue goes to pay for oil. 4 There is little way for airlines to cut significant costs through jet fuel purchases as it is a necessary component of the operations. The only way for airlines to earn the most from their jet fuel is to continue operating the most fuel efficient planes and match up the right planes for the right routes. This can shave off unnecessary fuel burn and will add up to great cost savings for the company. Additionally, airlines should ensure the constant overhaul and maintenance of the engines in order to maintain optimal performance and generate the fuel efficiency that the engine is capable of.

INTERNATIONALIZATION

The growing trend in the airline industry is evidenced from the growing connectivity of the economy. With the increase of international business, there is a resultant increase in international travel. It is estimated that 25% of domestic travel is done by corporate customers and the percentage internationally is even larger. As a result of the increasing globalization and growth from developing countries, there are even more locations around the world that individuals are doing business. Through the synergy of both Delta and Northwest’s routes, the new airline will provide service to all areas in the world that business is being conducted. Most importantly, the Asia Pacific region is experiencing the highest growth rate in terms of business, and Japan has the world’s second largest economy. This will provide access to the most important areas and most promising for customers looking to do international business.

Aside from the fact that international travel is growing at an exorbitant rate and the route structure of the merged airline will be impressive, the real benefit from these trends lies in the profit. International flights are the most profitable flights for an airline and with an increase in international travel more so than domestic flights, the airline will generate a better profit margin on their flights.

Competition

- Low cost carriers prove to be large competitors, but merger will provide more streamlined routes and greater customer base.
- Open skies agreement in effect March 2008 will create a more competitive landscape both domestically and internationally.

There has been a large increase in low cost airlines such as Southwest, Jet Blue, Ryanair, and Germanwings. The network carriers such as American, Continental, Delta, and Northwest have lost customers to these low cost carriers for a variety of reasons. From 2000 to 2008 low cost carriers have grown at a rate of 20% whereas network carries have decreased by 3%.
Low cost carriers are growing quickly because they enter the market hoping to get a niche consumer. One third of all US travelers fly on low cost carriers.\(^5\) While start up costs are high for these low cost carriers, their operational expenses are lower than the large airlines because they offer less flights, give less options during the flight, and utilize a point to point service. The large airlines such as American, Continental, and Delta fly through what is known as a hub and spoke format. This is where the airline has one or more hubs, which is a central airport that flights are routed through, and then fly out to spoke locations or other airports. The low cost airlines don’t have the expense of maintaining gates at the airport, which can add to the lower prices of their flights. The lower price of flights then attracts consumers who just want to get from point A to point B without any frills. Therefore, low cost carriers can generate a large market share.

The market currently is too fragmented. There are thousands a flights each day all around the world and new airlines are continually entering the market. This creates too much competition and no regularity as airlines are continually entering and leaving the market. In a fragmented industry, consolidation is the best option. Consolidation of airlines can further cut costs and create more efficient processes that will eventually help both the airline and the customer. The merger of Delta and Northwest, both network airlines, cannot change processes to combat these low cost carriers, they can create more streamlined routes and keep their large customer base.

Currently, the market is dominated by 6 main network airlines, those that are operating on a hub-spoke format. American has approximately 19% of global market share, followed by Delta with 16%, United with 15%, and Northwest with 9%. The combination of Delta and Northwest executives tout merger’. USA Today. April 16, 2008.
Northwest will combine the market shares to be largest within the domestic US market and across the globe. In terms of US share, Delta is the third largest airline, while Northwest is the fifth largest. With the merge of both airlines, they will together be the number 1 airline in the US, and also globally.

In 2007, the EU and United States signed an “Open Skies” agreement which eliminates previously stated rules and regulation on the number and frequency of international airlines that can enter the country. However, these rules were eliminated in 2007 when the agreement was drafted and approved and at the end of March 2008 airlines are free to fly across these borders without any limitations on the number of flights or frequency of flights. The result of this will increase competition from international airlines and will further make a competitive landscape. It is estimated that the Open Skies Agreement will boost transatlantic traffic by 1/3 to approximately 37.5 million passengers a year. The best way to combat this competition is to make a stronger more cohesive airline that will garner market share domestically and internationally. Domestically, the new Delta airline (the merged Delta and Northwest) will be able to combine to have a large market share spread across the United States. New airlines that are able to come into the country from the European Union will not pose too large a threat to the merger airline. In fact, this pact will allow future growth for the new Delta as it will be able to enter and fly in the European Union more often and freely.

**Delta and Northwest**

September 11, 2001 greatly changed the aviation industry. Many airlines suffered from the decrease in flying as millions of Americans became fearful of flying and were forced out of business or to file Chapter 11 Bankruptcy. In 2001 along, there were 150,000 job losses and a

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total of $29 billion loss in profits. In the years following the September 11\textsuperscript{th} tragedy, four out of the six main US carriers declared Chapter 11 Bankruptcy largely in part due to the terrorist attack. Delta and Northwest were among these airlines who declared Chapter 11 in 2005. Coincidentally, both Delta and Northwest filed bankruptcy in the same court in NYC on the same day within 30 minutes of each other. After restructuring efforts and cutting costs, both airlines came out of bankruptcy within two years and have streamlined their operations to remain in better financial state.

**Other Mergers and Airline Combinations**

- Air France-KLM and US Airways-Amer... paid for operations and in providing cost efficiencies. These mergers have shown the benefits of merging and have provided a basis on future mergers of similar size.

Mergers or acquisitions in the airline industry are not that uncommon. Many smaller airlines have been part of a merger with larger airlines as a means to cut costs, phase out unprofitable routes, and build up a larger fleet. Another benefit of the merger is to create a company that can be more stable and can withstand financial changes. While there are many mergers that can be considered controversial or not yet complete, the financial savings that these consolidations have produced, speak for themselves. These mergers have also provided a basis for future mergers as to what areas to improve and ensure are compatible.

Air France and KLM merged in 2004, which created the world’s largest airline based solely on revenue. As a result of this merger, the company has saved approximately $722 million and in 2011 estimates a savings of $1.4 billion. The Air France-KLM merger is called a

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retain their individual name. Both Air France and KLM operate through a holding company but maintain themselves as a separate carrier.  

Savings from this “merger” or partnership have been realized through a lower cost in purchasing and maintenance of the aircraft and mostly through improved logistics between the companies.

One of the most common and well known merger happened in 2005 when US Airways and America West merged to create one airline called US Airways. At the time, US Airways was in bankruptcy, but because of strategic assets each company had, they worked together to create efficiencies in operation. Almost two years after the merger was completed, the company booked a $427 million profit.

The America West and US Airways merger is among one of the most controversial mergers because it did not appear seamless. There was clear culture clashes between the two airlines and the pilots of both airlines did not agree on a common pay structure. However, while this merger did not work as planned, the merger serves as an example of what did not work and what not to do in an airline merger. It also provides analysis of what to look into before going through the merger. Therefore, the America West and US Airways, while it did not achieve all the efficiencies that it planned or hoped it would achieve, provides insight and helps guide Delta and Northwest in their pre-merger due diligence to ensure the deal will work to the best for both companies.

**Why a Merger with Delta and Northwest?**

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In 2006, Delta underwent what they believed was a hostile takeover attempt from US Airways. After careful consideration of the fully optioned $11 billion deal, Delta realized that the synergy would not prove to be beneficial to their airline. Instead, it would leave the combined company with $23 billion in debt and they would have to cut 10,000 jobs. Additionally, an analysis of route structure proved that the airlines would not achieve much efficiency through combining the routes, as there was overlap and not much benefit through fleet structure.

Almost two years past between that attempt, Delta should focus and merge with another airline that would help stabilize their financial structure and make them stronger going through to the future. Northwest and Delta are complementary airlines and will form a synergy to make them an extremely stable and competitive airline in this industry.

Delta and Northwest do have the option of staying independent, however this is not a smart move. With the trends discussed above, most namely, the rise in oil prices, airlines need to ensure their financial stability and ability to service their customers. Their business proposition is to get customers from one place to another and if they can’t deliver their service, they aren’t going to succeed or remain in business. With the continued rise in oil prices, neither Delta nor Northwest will remain that competitive. Additionally, with the increase in international travel, Delta will be at a disadvantage as they do not have ability to fly into Asia Pacific region and Northwest would need to invest heavily in new route structure to Europe, Latin America, and Africa. Therefore, combining these two airlines is the best option for both Northwest and Delta.

LOGISTICS AND OPERATION

Fleet
- While different airframe manufacturers, both Delta and Northwest utilize wide bodied, medium, and short bodied aircraft, which makes the integration of fleets simple.

• **No exclusive contracts with engine manufacturers, reduce complications merging fleets and gives leverage power in the future for better engine deals**

An important aspect of combining two distinct airlines lay in the aircraft use. In the past, other airline mergers have been complicated as a result of incompatible fleet. However, with Delta and Northwest this is not a problem. Together, the new airline will have approximately 800 mainline jets, 650 regional jets, to equal a total of 1450 total planes. Of these planes, both Northwest and Delta operate the Boeing 757-200. Both airlines utilize wide bodied, medium bodied, and short bodied planes. This provides an advantage for the company because each gate already has the ability to service one of these planes and does not warrant additional gate purchase to accommodate different sized planes. Delta generally has a newer fleet, with an approximate age of 18 years old, which utilizes mostly Boeing manufactured airframes. They are the largest operator of Boeing 757 and Boeing 767 aircraft, a wide bodied airplane. For short range flights, Delta uses MD-88 and -90 to service domestic locations.

Northwest spreads their fleet with both Airbus and Boeing airframes. The majority of international planes are those designed by Airbus, more specifically A330, A320, and A319 aircraft. Additionally, Northwest utilizes the MD-9 plane, which is about 30 years old and is not frequently used by other airlines because it is an outdated plane. The MD planes are not intended for long range flight, but rather the short “puddle hopper.”

Besides for the difference in airframe manufacturers, both airlines have wide bodied, medium bodied, and short bodied planes to service their customers. While the airframes are different, both airlines have engineers and technicians to work on the differing sized planes. This will reduce the need to train employees on the different planes. As well, the merger will not need

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to cut front line jobs, so all the technicians currently working on the planes will remain dedicated to that hub and those aircraft.

Neither airline has exclusive contracts with engine manufacturers. As a result, if Delta and Northwest merge, the consolidated airline will utilize various engine manufacturers and can leverage for better deals and discounts through purchasing for their fleet. Additionally, engine manufacturers will work more closely with the larger airlines to construct overhaul and maintenance repair agreements. This can also result in a better deal for the airlines as they may have more bargaining power with these engine manufacturers.

**OPERATIONS**

- *Combination of Delta and Northwest are well aligned for service domestically and internationally*
- *Minimal overlapping routes expand operations globally to all regions making their global network much stronger. Delta has strength in Latin America/Africa/Europe and Northwest has significant prominence in Asia/Pacific Region.*

**HUBS**

Delta’s hubs are located in Atlanta, Salt Lake City, Northern Kentucky/Cincinnati, and JFK airport, with a secondary hub located in Los Angeles. Northwest’s major hubs are Amsterdam, Detroit, Memphis, Minneapolis/St. Paul and Tokyo. The integration of both airlines will create a well diversified selection of hubs across the United States and internationally. Northwest’s presence in the Asia/Pacific region is a great benefit due to increasing importance placed on the Asian Region.

With the new Delta, the operations will be based out of Delta’s main hub in Atlanta. This hub was chosen because it is among one of the largest airline hubs in the world and has a more central location in the United States. Since many of Delta flights are to international locations,
the hub in Atlanta will allow these international flights and would not require rerouting planes or any serious operational changes. The Minneapolis/St Paul facility will become the second headquarters for the merged airline.

**ROUTES**

Besides for the hubs, Delta and Northwest provide complementary routes that will greatly benefit from the merger and create a remarkable global network. Of all routes currently existing, there are only 12 overlapping domestic routes with no international overlapping routes. Of these 12 overlapping routes, there are 8 other United States carriers that operate the exact route. The remaining four routes have less than 500 passenger demand. Only 2% of the Northwest seats are flown in indirect competition with Delta and 3% of Delta flights compete with Northwest. This then shows that even with the merger there is not a loss of routes or market share.

In terms of flight locations, both Delta and Northwest have competencies in very different markets. Delta is well established in the European market with service to over 332 destinations in 57 countries, and is the only major US airline to fly to Africa. Delta has placed 50% of their international capacity in Europe, 22% expected to be in Asia Pacific, and 28% in Latin/Caribbean. Delta is adding international routes at the fastest rate among United States airlines. In international travel, Delta is well regarded as they have been in the European market for a while and has a vast flight path.

Northwest has prominence within the US and mostly in Asia/Pacific, which it has operated routes for over 60 years. With an international hub in Tokyo, Northwest has service to all the major cities in the Asian region. As 25% of air travel has been attributed to corporate

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business needs, the growing importance and growth rate within Asia has allowed Northwest to grow as their routes are well serviced, established, and developed. Other airlines within United States do not have well established flights to the Asia Pacific region. This is a result of a bilateral agreement limiting air traffic into Asian airports. Therefore, Northwest poses a great competitive advantage and will further strengthen the global connectivity of the new Delta airline. The creation of an extensive global network is one of the strongest value added aspects driving this merger between Delta and Northwest.

**HUMAN CAPITAL**

- Integration of pilots from Delta and Northwest while maintaining seniority levels poses problem, but can use union and past mergers as guidelines. Create guidelines such as miles flown, hours in flight, time with the company, experience as pilot,
- Senior management has signs of simple integration. Delta’s CEO Anderson would be ideal to be CEO of the merged airline.

**Pilots**

One of the most important areas in the analysis of this merger and whether or not it will work and realize the proposed benefits lies in the way human resource policies are designed and implemented. Delta and Northwest will have a combined group of employees of about 85,000. The front line employees will not have any job losses and the merger will not anticipate job losses in a large number of other employees. This merger will not disrupt many employees and place them in jeopardizing situations, which will provide employees with a positive outlook.

Delta and Northwest once merged will result in 11,000 to 12,000 pilots. Both pilots for Delta and Northwest are represented by the Air Line Pilots Association. Pilot’s status and seniority with the airline affect a number of aspects, most importantly the pay salary level, the flights the pilots get to choose (international flights versus domestic flights), and the pension packet. The hardest part with this merger will be ensuring that the pilots are able to keep the job
status that they currently have and not suffer the loss of status. There are two main distinctions with the Delta and Northwest pilots. Delta pilots tend to be younger than Northwest pilots, since a majority of their older pilots left before the company filed for bankruptcy in 2005. Northwest pilots are older and therefore would have accrued more time at the same company and will get tenure. Additionally, the pay levels for Delta and Northwest at equal tenure levels are different, which also poses another problem. Less experienced pilots at Delta can make more money than experienced Northwest pilots. Due to all these factors, Delta pilots don’t want to have their seniority based on the start date, but rather on other factors such as number of miles flown. Northwest pilots do have more incentive than Delta pilots in negotiating for a deal because of the significant pay increases as well as access to larger planes that Northwest did not currently fly. Therefore, it is important for Delta to also receive incentives for creating a pay scheme that will be beneficial to them as well as not harm the Northwest pilots.19

The pilots for both Delta and Northwest have failed to reach an agreement before the announced merger, but have continued to work out a comparable situation for the two pilot groups. Typically with mergers, the Air Line Pilots Association has not been as proactive in trying to sort out differences with the pilot lists, so the preemptive work will work to the benefit in this merger.20

In order for the new Delta to remedy and pacify both parties, the Air Line Pilots Association should develop a detailed seniority pay level that will appease both pilot groups. Such could be a system based on start date, total miles flown as pilot, number of international routes flown, and total piloted times. This detailed system will satisfy the most number of pilots and not reduce their seniority or pay levels too drastically.

19 Mike Stone and Claudia Montoto. FT.com. Delta/Northwest merger put on two weeks ‘life support’; chances of failure increasingly high – sources.
Culture

Among the biggest hurdle with the merger is the corporate culture. One of the largest criticisms regarding the US Airways America West merger is that the cultures are extremely different and hard to fully mesh in a cohesive manner. However, both Delta and Northwest are similar in size, market capitalization, and their mission and vision. They concentrate on delivering value to customers and growing a network. While no merger can be seamless, there are various steps that can be taken to try to reduce the length of merging the companies. Open communication, support, and a “we” rather than “Delta vs Northwest” attitude can be stressed. While not all Delta and Northwest employees may be excited by the prospect of the merging of companies, the benefits to the employees including increased job security should be focused on as a benefit to the employee. There will also a greater number of career choices for the employees.21

Management

Since Delta and Northwest will merge, the decision as to what will happen with the senior executives comes into effect. Some mergers have resulted in joint executive committees, but in the airline industry having a joint executive committee is not the best decision. Instead, the management team should be structured to optimize efficiency and effectiveness through matching the most experience individuals for the position, not necessarily based on time with the company.

Delta’s CEO Richard Anderson has been in his position for about a year now. However, before assuming his role as CEO and coming over to Delta, Anderson was CEO of Northwest

Airlines, and had a 14 year career with that airline from 1990-2004. Northwest’s CEO Douglas Steenland has been CEO for nearly 3 years now. For the new Delta airline, Richard Anderson fits perfectly in role as CEO of the combined airline. With his knowledge and prior working experience at both airlines and his senior role, this positions Anderson perfectly for the position of CEO. Doug Steenland would assume a role on the board of directors. Interestingly, the Vice President/CFO of Northwest also has previous experience working at Delta. Due to the fact that Anderson and a few other employees have experience working for both Northwest and Delta, this will help in the integration of the companies. With the new company, the executive board will consist of 7 Delta employees, 5 Northwest employees, and one representative from the Air Line Pilots Association.

**MARKETING**

- *Both airlines are already part of the same marketing alliance, Sky Team, which will minimize the need for change in marketing initiatives, reservation system, and flyer miles.*

  Important aspects in combining these two carriers will result in how to market the combined carrier and how will the marketing objectives change. One facet of this merger that works extremely well is that Delta and Northwest are already both part of the Sky Team Alliance. While there are many other partners in the Sky Team Alliance, among the most powerful are Air France and KLM, who merged in 2004. Since the companies are already working together in marketing initiatives, this will greatly reduce the cost of having re-brand and fully introduce a new concept. The new airline will operate under the Delta name. Delta has an extremely high recognition among consumers and strong brand equity.

  In addition to the marketing benefits, the logistics of reservations and redemption of miles is simplified because the two companies are extremely similar in makeup, but also because
of the participation the Sky Team alliance. All of Sky Team Alliance utilizes a common reservation system and frequent flyer programs. There are slight differences between the reservation systems and frequent flyer programs, however these differences will not cause serious problems when merging.

The most important aspect is for consumers who are worried about what will happen to their frequent flyer miles. Northwest utilizes a frequent flyer program called World Perks and Delta utilizes a frequent flyer program called Delta Sky Miles. In terms of reward systems, these two airlines have extremely similar programs, which will help simplify the integration.

Consumers may be upset or worried that their miles will be lost, but rather, this merger will help the consumers. Typically, Northwest grants free flights at 20,000 miles where Delta grants it at 25,000 miles. With the merging of the two airlines, consumers will be able to combine the flights they have if they flew on both Delta and Northwest and therefore are subject to free flights that they might not have other words have access to.

**FINANCIAL**

- *Delta and Northwest can cut costs by an estimated $1.5B a year as a result of the merger and can generate more profit as result of global routes*
- *The merger does not guarantee a fare increase for customers*

**How?**

The Delta Northwest merger will take place in an all stock switch, in which Northwest and Delta stocks will be traded to a combined new Delta stock. “Northwest shareholders will receive 1.25 Delta shares for each Northwest share they own. This exchange ratio represents a
premium to Northwest shareholders of 16.8 percent based on April 14 closing prices.” The deal is valued at $17.7 billion.

With increasing oil costs and operating expenses, airlines are receiving less profit and incurring more expenses. Delta and Northwest should merge, which will cut costs by an estimated $1.5 billion a year. Costs will be cut through less serviced routes and a decrease in assets as some of the older planes will be serviced out. Air France-KLM is backing this merger and providing full support because they feel that it will greatly enhance their Sky Team alliance. In addition to the savings, Delta/Northwest can make more profit because they have more international flights, which prove to be most profitable. The merger is in essence an exchange of stock. Both Northwest and Delta stocks will be traded in for the new shares of the combined company.

Many of the projections of what will be saved if this merger is based on the idea that they will be realized right away. While the $1 billion estimate seems rather low, it will continue to grow over the years as more efficient processes are fixed and the services will be streamlined. So with the initial $1 billion in cost savings, the Delta Northwest merger will actually return much more in the long run.

The merge of these two airlines is not guaranteeing a raise prices for consumers. With the cost savings in other areas of the business, the company will not be forced to raise prices in order to compete with the skyrocketing oil prices. While this is a risk that may happen, the combination of Delta and Northwest will provide better prices than if Delta and Northwest were

to operate independently from each other. Delta and Northwest are not going into this merger as a means to decrease competition and raise the fare prices. There are still low cost carriers that will be able to provide cheap flights without the frills and both Delta and Northwest realize this. Therefore, in the short term, consumers do not have anything to worry about in terms of the price of airfare to increase as a direct result of the merger.

**RISKS**

- *The merger may not take place because the DOJ will refuse it and deem it anticompetitive. This is unlikely because of the lack of overlapping routes.*
- *The merger needs to be passed quickly before the change in government, as the new government may have differing views on the merger*
- *Other airlines attempting to follow suit if the Delta Northwest merger gets approved. Any other airline merger will still not be able to be as effective at the Delta Northwest.*

There are a few risks associated with this merger. First and foremost, one of the risks is that the merger can not be fully implemented. In order for the merger to be realized, the Department of Justice Antitrust Committee must approve it. The committee analyzes the merger to see if it will make the airline industry anti-competitive and the resultant effect on the consumers. Internationally, the merger has already been approved by the European Union for international antitrust immunity. This is because the routes are not overlapping and therefore will not prove to be anticompetitive.\(^{23}\) Getting domestic approval has not been approved yet and can take up to 6 months for the Department of Justice to review the information and make a selection.

Both Delta and Northwest hope that this merger will get approved because they have less of a chance if the government political parties switches come January.\(^{24}\) The new government may not approve the merger and will then place both Delta and Northwest to operate

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independently and try to deal with the rising oil prices, putting greater strain on these airlines and the airline industry in general.

If the Delta Northwest merger does get approved by the Department of Justice, other US airlines may feel the need to consolidate as well in order to become financially stable. Continental and United have been in talks already as two airlines who may consider the consolidation. However, this can be trumped by the fact that Northwest owns a voting series of Continental preferred stock (series B preferred stock), which extends until 2025 and will therefore allow Northwest to use its Golden Share to block a suitor for acquiring Continental. 25

CUSTOMER SERVICE

The merger of Delta and Northwest not only makes sense for the airlines themselves, but it is a strategic decision that will benefit the employees as well as customers. Employees will have greater job security. Customers will have great choice of flight locations and times, as well as greater choice when selecting the flight. With no guarantee of flight fare increase, customers do not have any real reason to be afraid of this merger. Additionally, both Delta and Northwest are well established companies that have experienced large number of passengers and have always been dedicated to servicing their customers. Even with the combination of employee teams, the company will better service their customers.

FUTURE

Going forward in the future, there are a few areas that the new Delta should focus on. This new merged airline should focus more on international travel and scale back domestic travel. As previously stated, the profit margin is much higher for international travel

25 Montoto, Claudia and Mike Stone. Delta/Northwest merger put on two weeks ‘life support’; chances of failure increasingly high – sources. FT.com.
than it is for domestic travel. As well, domestic low cost carriers will continue to grow and will therefore continue to garner market share. The new Delta has such an expansive network of flights, it should utilize these routes to their advantage and continue to develop international routes.

Additionally, as time goes on I believe that 2 hubs near other Delta/NW hubs should be slowly eliminated. This would be the most beneficial as a means to keep costs down. One of my other recommendations was to scale back on the domestic travel and this would also reduce the need for all the hubs in the mid West.

Also, in order for the merger to be successful and all the benefits to be fully realized, it is imperative that the company continues open communication for the employees. This way they will feel more involved in what the company is doing. Communication within the company will also keep employee morale up and therefore can help total company efficiency.

**CONCLUSION**

Through operational and logistical reorganization, the combined airline can cost costs through new efficiencies. It will create the world’s largest carrier and will service all major regions internationally as well as provide domestic flights. Financially, the merger will save $1.5 billion in operating costs and create a more financially stable company that will be able to absorb the rise of oil and volatility of the airline industry. Both airlines can survive, sustain, and operate effectively without the merger, however the merger will positively affect the airline and be best for both Delta and Northwest employees and customers.
Appendix

Delta Airlines (DAL)
### Financials (In millions of USD)

#### Income Statement

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#### Balance Sheet

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#### Cash Flow

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<td>Cash from Investing Activities</td>
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<td>Cash from Financing Activities</td>
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<tr>
<td>Net Change in Cash</td>
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<td>614.00</td>
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### Northwest Airlines

#### Financials (In millions of USD)

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<td>Total Revenue</td>
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<td>12,538.00</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>406.00</td>
<td>3,223.00</td>
<td>2,537.00</td>
</tr>
<tr>
<td>Operating Income</td>
<td>-4,063.00</td>
<td>2,666.00</td>
<td>-2,425.00</td>
</tr>
<tr>
<td>Net Income</td>
<td>-4,119.00</td>
<td>2,093.00</td>
<td>-2,392.00</td>
</tr>
</tbody>
</table>

#### Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Current Assets</td>
<td>4,968.00</td>
<td>5,637.00</td>
</tr>
<tr>
<td>Total Assets</td>
<td>21,032.00</td>
<td>24,517.00</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>4,845.00</td>
<td>4,104.00</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>17,745.00</td>
<td>17,410.00</td>
</tr>
<tr>
<td>Total Equity</td>
<td>3,296.00</td>
<td>7,377.00</td>
</tr>
</tbody>
</table>

#### Cash Flow

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income/Starting Line</td>
<td>-4,119.00</td>
<td>2,093.00</td>
</tr>
<tr>
<td>Cash from Operating Activities</td>
<td>362.00</td>
<td>1,576.00</td>
</tr>
<tr>
<td>Cash from Investing Activities</td>
<td>-263.00</td>
<td>-356.00</td>
</tr>
<tr>
<td>Cash from Financing Activities</td>
<td>149.00</td>
<td>486.00</td>
</tr>
<tr>
<td>Net Change in Cash</td>
<td>248.00</td>
<td>1,476.00</td>
</tr>
</tbody>
</table>
Overlap of Route Structure for Delta and Northwest

### Statistics

<table>
<thead>
<tr>
<th>Category</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$43,034 Million</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>116</td>
</tr>
<tr>
<td>Forecast Revenue Growth to 2012</td>
<td>2.8%</td>
</tr>
<tr>
<td>Forecast GDP Growth to 2012</td>
<td>2.2%</td>
</tr>
<tr>
<td>Recent Employment Growth</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Average Wages per Employee</td>
<td>$32,059</td>
</tr>
<tr>
<td>Average Profit Margin</td>
<td>2.8%</td>
</tr>
<tr>
<td>Average Revenue of Enterprise</td>
<td>$135,927,191</td>
</tr>
<tr>
<td>Imports Share of Domestic Demand</td>
<td>N/A%</td>
</tr>
<tr>
<td>Exports Share of Revenue</td>
<td>N/A%</td>
</tr>
</tbody>
</table>

### Key Facts

- Competition in this industry is high.
- Volatility medium (revenue fluctuations between 3 and 10 points)
- The life cycle stage is mature.

The top 5 players account for 68% of industry revenue:
- ANA Corporation 19.30% - 19.90%
- Delta Air Lines Inc 16.30% - 16.30%
- UAL Corporation 15.30% - 15.30%
- Continental Airlines Inc 9.40% - 9.40%
- Northwest Airlines Corporation 7.70% - 7.70%

### Industry Summary

#### Products and Service Segmentation
- **Passenger Air Transportation Services by Mainline Carriers**: 54.2%
- **Passenger Air Transportation Services by Regional Carriers**: 27.8%
- **Air Freight Services**: 0.0%
- **Other Services**: 6.2%
- **Charter Services**: 1.8%
- **Excess Baggage Services**: 1.2%

#### Major Market Segments

<table>
<thead>
<tr>
<th>Segment</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>60.0%</td>
</tr>
<tr>
<td>Corporate</td>
<td>25.0%</td>
</tr>
<tr>
<td>Passenger</td>
<td>9.5%</td>
</tr>
<tr>
<td>Freight &amp; Express</td>
<td>3.1%</td>
</tr>
<tr>
<td>Charter</td>
<td>1.5%</td>
</tr>
<tr>
<td>Mail</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other</td>
<td>0.0%</td>
</tr>
</tbody>
</table>