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September 8, 2009

Air Chapter 11: flying the bankrupt skies

5 things you need to know about surviving travel with a bankrupt airline

msnbc.com



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If I were a bettin' man, I'd put some money on a big airline filing for bankruptcy protection in the not-too-distant future.

My oddsmaker is Robert Herbst, who publishes the Web site AirlineFinancials.com. "Based on my analysis," he told me, "US Airways and United Airlines look to have the greatest challenges over the next year."

Enough of a challenge to push them off the Chapter 11 cliff? Perhaps.

Point is, one day — maybe soon — you could be flying the bankrupt skies. How will that affect your trip?

For David Kazarian, the president of a medical services company in St. Petersburg, Fla., Chapter 11 meant an upgrade. Literally. When Continental Airlines filed for court protection from its creditors in 1990, he remembers how crewmembers went out of their way to make their customers happy.

"I overheard a supervisor saying, 'Whatever the passenger wants, let them have it,'" he recalls. "The following week, when flying to a business meeting with an employee that had never flown, I asked to be upgraded — both of us — so that she could experience first class. They did it."

Kazarian was so impressed that he flew Continental again and again, racking up enough frequent flier miles for lifetime platinum status. “But alas, once they started making money again, they forgot everything that got them there,” he adds. “I liked them better when they were broke.”

His experience is far from typical. Bankrupt carriers aren’t likely to win any customer service awards. More often, they bend the truth or try to break our bank accounts with new fees and surcharges.

Here’s what you need to know about surviving the bankrupt skies:

1. Not all bankruptcies are created equal

There are bankruptcies, and there are bankruptcies. When a legacy airline files for court protection, it’s probably just shedding debt with a little help from a judge. With a smaller airline, not necessarily. The company could stop flying altogether, warn experts like Wayne Plucker, a senior industry analyst at Frost & Sullivan. “It pays to follow their recent news,” he says. If you’re scheduled to fly on an airline that’s grounded, a larger carrier may accept your ticket with a change fee or offer a discount on a new fare. But they don’t have to accept your ticket. A federal law that required airlines to honor tickets on bankrupt carriers quietly expired in 2006.

2. Bankrupt airlines lie

As my colleague Edward Hasbrouck points out, airlines in bankruptcy are quick to claim that it’s business as usual. “It is misleading and borders on fraud for a bankrupt airline to say, ‘We will continue to operate normally, and we will honor all tickets,’ when the decision as to whether that happens will be made by the bankruptcy court, not the airline. The most they could truthfully say is, ‘We will ask the bankruptcy court for its permission to continue to operate, and to honor tickets.’” How true. Remember when Independence Air promised “our flights will continue to fly as scheduled, tickets and reservations will be honored,” back when it filed for bankruptcy protection in 2005? A few months later, it was gone.

3. Beware of the low-fare trap

If you’re tempted by a cheap ticket on a bankrupt airline, think twice before clicking the “buy” button, says Nicole Crain, a professor of economics and business at Lafayette College. “I would be cautious about buying tickets far in advance on a carrier that is in Chapter 11 because the airline might fail,” she says. “If a non-Chapter 11 carrier and a Chapter 11 carrier can both offer you the route you need at about the same price, book your flight with the carrier not in bankruptcy.”

4. Mind the sagging morale

It helps to understand what’s happening behind the scenes during a bankruptcy. The company is restructuring its finances in order to render itself economically viable. “So there would be some cost-cutting, but mostly it would involve reducing and re-arranging debt obligations,” says James Brock, a professor of economics at Miami University. “Reducing employee pay usually also occurs as part of the cost-cutting process, which sometimes results in less-than-gleeful

employees — depending on how this is handled by the management.” That can mean getting substandard service from the airline’s employees (which hardly seems possible at the moment, but I assure you, it can get worse).

5. Look out for the squeeze

While bankrupt airlines try to lure high-paying business customers like Kazarian, they are barely able to contain their disdain for the rest of their passengers, who they probably blame for the bankruptcy. After all, the low fares we demanded ran their airlines into the ground, right? Sure. Couldn’t have possibly been those astronomical executive salaries they paid out. Or their failing customer-service scores.

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One now-retired airline employee remembers her marching orders during her employer’s last flight through bankruptcy. “There was definitely a push to get all the extra revenue we could from overweight bags, itinerary changes, and so forth,” she says. “In fact, the employee who got the most extra revenue in a given month was given a precious day off.”

So apart from some service problems, bogus fares and empty promises, is there anything else air travelers need to worry about? Yes — and no, says Jeffrey Armstrong, a senior managing director for Conway MacKenzie, which specializes in corporate turnarounds. Let’s say one or more airlines file for Chapter 11 protection later this year. Chances are, they would have been carefully planned.

“I think most schedule reductions and service changes will already have been implemented, so the traveler will likely see very little change in the day-to-day operations after the filing,” says Armstrong. With continued good planning, it should stay that way until the company emerges from Chapter 11, he says, adding, “As the bankruptcy progresses, if the airline has not taken the proper steps to consolidate operations appropriately, then further schedule reductions and service changes may be necessary.”

And when that happens, what else can you do but laugh?

That’s what the captain of one Northwest Airlines flight tried during the airline’s last bankruptcy. At the time, several other airlines were also flying the bankrupt skies.

David Chen, a hotel executive based in Hawaii, remembers the in-flight announcement: “We know you have a choice of bankrupt airlines to fly with,” he quipped. “We’re glad you chose Northwest.”