MAKING THE UNCONTROLLABLE CONTROLLABLE

Vinay Dube talks about Delta's bold move to wrangle fuel costs by purchasing an oil refinery.

BY GORDON PRICE LOCKE

It is easy for most executives to recite road warrior stories. They almost always include an airline in their tale. Bad service, baggage headaches, delays, airport congestion, prices. Now there is something new to talk about — the airline that is not afraid to make a bold move.

Delta Airlines (NYSE: DAL) has put its "rules of the road" culture to work again and again using employee and leadership ingenuity to rule the skies. Delta tackled its merger with Northwest in 2010 with championship speed. It has emerged as a top-ranked airline with passengers, beat profit projections in 2012, and is now turning an eye toward controlling something that's always been considered uncontrollable — fuel costs.

Most analysts see air travel as commoditized transportation and that price is what matters. While competitive pricing is surely important, Delta has proved that service transformation is too. Delta has now found another differentiator — a $150 million transformational investment in supply chain control, owning it's own oil refinery.

It is apparent Delta's culture is getting enterprise-wide transformation right by embracing the initiatives necessary to make it happen over and over again. Vinay Dube, Delta's Senior Vice President for Asia Pacific, shares his point of view. Dube is an experienced executive and has witnessed his share of change, risk, failure, and success. Dube paints a picture of how Delta's leadership arrived at the decision to purchase an oil refinery, amidst likely scrutiny of analysts and pundits in the air travel industry.

BEING OPEN TO BUSINESS AS UNUSUAL

For many years, airlines have had to circle around a known set of controllables to run their businesses. Fuel costs was not one of those. The lack of control was looked at differently at Delta. Dube says, "Roughly 40% of your revenues go to pay for oil, and at Delta Airlines that is about U.S. $10 billion to $12 billion a year. Up to 20% of that cost is for refining crude oil — that was the opportunity." The airline purchased an oil refinery in 2012 and created a wholly owned subsidiary, Monroe Energy, to run it. It is now at full production.

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BIG LEADERS MAKE BIG PROMISES

Transformational initiatives are not always obvious. "Is my day-to-day different? No." Dube says. "But it is transformational for the airline's employees in many ways. . . . We have a unique business culture, and this decision cements for the employee that big leaders are willing to make big promises."

Culturally, employees feel that Delta's leadership is looking out for them. "Something like this helps surmount the typical cynicism that exists between employee groups at most airlines, it shows management is willing to try different things, willing to stick it out, walk down our own path," says Dube.

KEEP IT IN PERSPECTIVE

To make decisions like this Dube says, "you have to keep things in perspective." While volatile, the run up in fuel prices are nothing compared to the large increases in refining costs. The cost to take some measure of control was $150 million, roughly the cost of one wide-body aircraft. "The perspective was not to do nothing," Dube says, "it was if it does not work and we have to shut the refinery down and resell the asset, they would have gambled 2% to 3% of one year's fuel bill. For an airline that is used to small and large business transformation, that seemed to attract them like a magnet."

REMOVE BARRIERS TO CHANGE

Delta proved that looking at the same problem and never exploring a different point of view can be damaging. Everyone had to have the same take-away — they didn't have to live with the problem in order to move past a number of barriers to what initially seemed counterintuitive.

MAKE FRIENDS WITH RISK

"No other airline has done this before," says Dube. "We can buy a bad aircraft and return it. Since we have 750 aircraft, no analyst will really say anything like you bought one bad airplane. Yet, our risk was similar to the cost of one aircraft. Thus, because it is different, we can easily be criticized and a $150 million decision can be reacted to like it is a billion-dollar decision." Delta's decision allows employees and leaders to focus on running an airline while they enjoy the reward of lower fuel costs in 2013 and beyond.

THE RIGHT CULTURE CREATES SPEED

Delta is accustomed to constant change. "An airline can't control the health of the economy for example," Dube says, "which largely determines the passenger market, however, the question that emerged was: is there a way we can control this uncontrollable, called fuel costs?"

The employee culture, shareholders, and top leadership allowed Delta to consider something quite radical — what aspect of oil costs can we impact for the better? That path to execution was all about speed. "Every employee here is part of a values-based culture. They know our rules of the road at Delta, which says not everything can be explained or detailed out for you and unpredictable or different things can happen along the way — use thorough thinking, good judgment, and don't linger on it too long, take action," says Dube.