

# THE MEMPHIS NEWS

BUSINESS, POLITICS & THE PUBLIC INTEREST

**A Rare Whine** Area liquor store owners are asking customers to help protect them from the possibility of wine being sold at groceries. **Page 6**



**Stanford Shocker**  
Stanford Financial raided by feds, leader embattled.  
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**Where It's Needed**  
Attorneys volunteer services for Youth Villages kids.  
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**Busted**  
Multiple dealers, weapons nabbed in drug war.  
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# FLIGHT PLAN

## Navigating the Delta-Northwest Merger

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( cover story )

STORY BY ERIC SMITH THE MEMPHIS NEWS

PHOTOS BY BOB BAYNE

# Flight Plan

Memphis appears to be sitting pretty as the Delta-Northwest merger is forged, but expert navigation is needed for the city and the airport to stay on course



**I**n some ways, the merger between Delta and Northwest airlines resembles the air traffic control tower being built at Memphis International Airport. As their foundations become sturdier and their forms become clearer with each passing day, both undertakings hold the promise of a new look for air travel here.

Unlike the rising tower, however, the final shape of the airline consolidation – inked last fall and now in the midst of a lengthy integration process – is unknown. With no architectural renderings or blueprints on hand, and with no idea when or if the economy will improve, no one can say for sure what the “new” Delta Air Lines Inc. will resemble once the Federal Aviation Administration issues the company a single operating flight certificate.

This much is certain: Memphis is a hub for the world’s largest passenger airline, giving the city access to the world – and the world access to the city.

But while Delta officials have repeatedly expressed a commitment to Memphis and the airport as the merger develops, the city in a sense is flying blind, relying solely on the word of out-of-town executives that it will remain an integral part of the airline’s newly formed network. Though caution is required, optimism also remains in the form of possible airline expansion for the city.

All these factors leave only one question: Will Memphis flourish or fizzle with Delta as its hometown airline?

**READY FOR TAKEOFF**

Atlanta-based Delta Air Lines officially merged with Egan, Minn.-based Northwest Airlines Oct. 29 after the companies garnered regulatory approval from the U.S. Department of Justice. When that occurred, company executives projected the merger integration would last 12-24 months. Until that is completed, Northwest is a wholly owned subsidiary of Delta.

The multibillion-dollar deal is creating the world's largest passenger airline, with the new Delta employing 75,000 workers in 66 countries, serving 375 worldwide destinations and operating seven U.S. hubs. Delta absorbed Northwest's trio of hubs – Memphis, Detroit and Minneapolis-St. Paul – adding to its own roster of Atlanta, Cincinnati, New York (John F. Kennedy) and Salt Lake City.

Arnold Perl, chairman of the Memphis-Shelby County Airport Authority and a partner in the law firm of Ford & Harrison LLP, called the merger attractive for Memphis because it places the city as a critical link for the "world's premier global airline."

"With the airline industry struggling today, only the biggest and the best are going to make it," Perl said. "Clearly, Delta is going to be not only a survivor but a winner because of its mass, its network and its management leadership."

That management has repeatedly stated a case for keeping Memphis as an integral part of its network. Last summer, Delta CEO Richard Anderson stood before hundreds of the city's business and political leaders and confirmed the airline's pledge to keep Memphis as a hub, saying the merger was about addition, not subtraction.

The city already has seen the fruits of that commitment, receiving new nonstop flights to New York; Salt Lake City; McAllen, Texas; Lubbock, Texas; and Columbus, Miss. The company also has promised to replace some of its regional jet flights between Memphis and Atlanta with larger mainline aircraft.

Delta spokesman Kent Landers said Memphis has long been a successful part of the Northwest route system and will serve a similar role in the Delta route system for a multitude of reasons, chiefly because Memphis International is a well-run airport, because it is the lowest-cost hub in the country and because it boasts a "tremendous amount of efficiency and flexibility."

"That bodes well for Memphis' status in the nation's air system," Landers said. "As we committed to throughout the merger announcement and process, we do expect Memphis will continue to be an important hub in the Delta network and continue to serve customers there as Northwest did before."

Mergers often result in an immediate cutback of flights, but one anomaly with the Delta-Northwest merger was the airlines' lack of redundancy. Within the U.S., the companies had only 12 overlapping nonstop domestic "city pairs," a route between departure and arrival cities. The airlines also complemented each other overseas thanks to Northwest's foothold in Asia and Delta's foothold in Europe.

"The places Northwest is strong, Delta has little presence. And the places Delta is strong, Northwest has little presence," Anderson said in Memphis last year. "When you think about a map of the world, you want to cover the map of the world."

Airport authority president and CEO Larry Cox, another local proponent of the merger, said the consolidation gives the new Delta a reach unmatched by any airline in the world.

"Delta and Northwest were strong in different parts of the globe and U.S. You put them together and they've got the total package," Cox said. "That's huge

# STILL NO. 1

For the past couple of years, aviation analysts were convinced Hong Kong would overtake Memphis for the honor of world's busiest cargo airport.

The Asian city's airport was experiencing rapid growth in shipping and it cut into Memphis' lead with each passing year.

But Memphis held on to the top ranking for 2008, according to preliminary data from Airports Council International, the Geneva-based organization that tracks the world's airports.

Thanks primarily to the FedEx super hub, Memphis International moved 8.1 billion pounds, or 3.7 million metric tons, of cargo last year. Granted, that was a 3.8 percent decline from 2007, but amid the global recession, the mark was high enough to stay ahead of Hong Kong's 3.63 million tons.

Memphis has held the title of the world's busiest cargo airport since 1992, the first year that the ACI began keeping statistics. It's a distinction that brightens the outlook for Memphis International Airport and the city no matter what happens down the road with Delta post-merger.

**"If you look at Memphis compared to the industry ... you have to say that Memphis is doing quite well and likely will continue to do so."**

**— JON ASH**

President of Washington-based InterVISTAS-ga2 Consulting Inc.

as we come out of a recession. As we get the global economy booming, you're going to have air service from Memphis to almost any place in the world with one stop or in some cases two stops. It's a wonderful asset we have."

**'TERMINAL M'**

What, specifically, will being a Delta hub instead of a Northwest hub mean to Memphis and Memphians? That depends on whom you ask, but most agree that the debate hinges on Delta's hometown of Atlanta, less than an hour's flight time from Memphis.

During the initial merger talks last year, Memphis' smaller size and its proximity to Atlanta were seen as detriments to the city. Memphis seemed almost superfluous compared to Atlanta-Hartsfield Jackson International Airport, the flagship of Delta's extensive hub-and-spoke system.

Hartsfield-Jackson, the world's busiest passenger airport with close to 90 million passengers annually, is so famous for bustling air activity that an old joke says, "Whether you go to heaven or hell, you'll have to change planes in Atlanta."

Some saw that airport's dominance as a reason to eliminate Memphis' hub, but others saw that it might work to the city's advantage. With plenty of open gates, room for expanded capacity and the shortest connection times for any hub in the country, Memphis quickly became viewed as a way for Delta to relieve congestion at Hartsfield-Jackson and enhance the airline's routing schemes.

"Atlanta is at capacity," Cox said. "It's a great hub, and it will always be the mother ship, I believe, of the Delta airline system, but they can run connecting passengers through Memphis cheaper, quicker and with better customer service because we're not totally packed. You don't have to get on a train and go four concourses over. You get off your airplane and walk to the next airplane."

Not only that, but Memphis doesn't have passenger facility charges. And the airport's low landing fees and minimal delays – because of a mild climate and more efficient air traffic controllers – save carriers time and money.

"In this period of economic distress, airlines are looking to shed costs, not absorb them," Perl said. "When you add all this up, Memphis International works. It works for the passenger, it works for the airline."

Another storyline that perhaps benefits Memphis emerged last month when Delta's lease renegotiation with Hartsfield-Jackson appeared to be on shaky ground.

John Moore, president of the Greater Memphis Chamber, mentioned to a news outlet that – should the renegotiation falter – Memphis could become known as "Terminal M," a satellite of sorts for Hartsfield-Jackson, the sprawling airport that needs a subway system to transport passengers to its numerous concourses and gates.

"It takes almost as long to get to



**Richard Anderson**



## MERGER AIDS AEROTROPOLIS

Memphis' transportation assets are legendary. Home to the world's busiest cargo airport, five Class I railroads, a vibrant river port and a host of highways and Interstates, the city's tagline of "America's Distribution Center" isn't hyperbole.

Following the merger of Delta and Northwest airlines, Memphis can add another distinction to its resume: hub for the world's largest passenger airline.

Operating as a key link in Delta's extensive global air network strengthens the notion that Memphis is the nation's lone aerotropolis, an "airport city" concept in which the airport is the chief economic engine that drives commerce for the entire region.



John Kasarda

John Kasarda, director of the Frank Hawkins Kenan Institute of Private Enterprise and a business professor at the University of North Carolina at Chapel Hill, coined the phrase. He said Memphis boasts the right collection of transportation

networks — centered on Memphis International Airport and its \$22 billion economic impact — to earn that aerotropolis distinction.

Kasarda said the merger will enhance the city's aerotropolis because of the connectivity and access it offers travelers. But that doesn't mean the merger comes without caution. Kasarda said maintaining the hub status is critical, albeit secondary to Memphis' most important aerotropolis asset — air cargo capacity.

"It is, of course, important that regional leadership do everything possible to buffer the Memphis hub from any cutbacks and work with Delta executives to actually bolster it in the years ahead," Kasarda wrote in an e-mail while traveling overseas. "Even with some potential reduction in hub passenger service, however, the backbone of the Memphis aerotropolis will remain in place with the FedEx world hub."

Arnold Perl, chairman of the Memphis-Shelby County Airport Authority, said the merger gives Memphis the chance to increase passenger counts, especially if Delta adds seats and flights here. That growth would help the airport find more balance between its passenger and cargo traffic, further aiding aerotropolis efforts.

"One of the weaker links in this aerotropolis today is the discrepancy between our preeminence in air cargo — No. 1 in world — and us being a relatively small passenger hub," Perl said. "The merger can help us overcome that by growing this hub as a complementary piece in Delta's global network."

The Greater Memphis Chamber recently registered the trademark "Memphis: America's Aerotropolis; Where Runway, Road, Rail & River Merge." And Memphis International Airport plans to showcase the aerotropolis concept, as well as a host of capital improvements being made at the facility, to executives from around the globe when it hosts the Airport Cities World Conference and Exhibition in April 2011.

your gate (at Hartsfield-Jackson) as it does to fly from Memphis to Atlanta, depending on what time of day it is," Moore said. "My point was that it doesn't matter if Memphis was across the street or across town. We have gates. We have capacity. That capacity — gate capacity and runway capacity — is a huge asset that I know Delta is going to take advantage of in the years to come."

While most analysts expect Delta and Atlanta to come to terms on the lease renegotiation, Memphis will be waiting in the wings for added capacity. Jon Ash, president of Washington-based InterVISTAS-gaz Consulting Inc., said Memphis would be not only willing, but able, to handle it, giving the city an advantage in the ever-changing air travel industry.

"It positions Memphis in a growth mode," Ash said. "If you look at Memphis compared to the industry — if you look at Memphis compared, for example, to Cincinnati, which took quite a hit — you have to say that Memphis is doing quite well and likely will continue to do so."

think it will still be meaningful."

Delta spokesman Landers didn't comment specifically on the possibility of dropping a hub, whether in Memphis or elsewhere. He instead noted that this isn't a year for growth in the airline industry, and that corporations are always looking to make adjustments to improve their services as well as their bottom lines.

"The reality is, Delta and the entire industry are reducing capacity in the United States and internationally in 2009 to reflect the current economic climate," Landers said. "One of our principles is to always be ahead of the economic environment that we operate in to make sure our capacity reflects that, because that's how we maintain and preserve a profitable airline, which is good for the communities we serve and our employees and customers."

It's widely agreed that air travel will plummet in 2009. Boyd Group International, an Evergreen, Colo.-based research company, is forecasting 41 million fewer airline passengers



Memphis-Shelby County Airport Authority executives Larry Cox and Arnold Perl tout the merger of Delta and Northwest airlines as good for the city and airport. So far, Memphis International Airport appears to be in a good position as hub for the world's largest passenger airline. Memphis could benefit from congestion in Atlanta, or the city could see contraction if the economy becomes a burden for the new Delta.

### HOLD THE CHAMPAGNE ...

But what if Memphis doesn't continue to do well? What if the economy — probably the biggest variable today for any industry — forces Delta to eliminate one of its seven U.S. hubs, which some analysts claim is too many?

Bijan Vasigh, economics and finance professor at Embry-Riddle Aeronautical University in Daytona Beach, Fla., and managing director of Aviation Consulting Group LLC, is among those who believe the newly merged airline has too many hubs to remain competitive from a cost standpoint and likely will be forced to scale back.

"One way for the new airline to cut costs simply would be to reduce expenses through a deconsolidated hub system," Vasigh said. "That is some sort of a warning for those airports. It happens this year or the following year, but for sure Memphis could be one of the candidates for that, or Cincinnati."

Bob McAdoo, an aviation analyst at Avondale Partners in Kansas City, Mo., foresees Delta keeping Memphis as a hub, even if the airline doesn't add capacity here in the coming months or years.

"It may not be as big a hub, but there are certain times when Memphis has a natural edge," McAdoo said. "I would guess it would be smaller, but I don't think it's going to disappear. I

(6.6 percent) in the U.S. this year, not only because fuel costs are still high — though not as high as last summer — but mostly because the economy has slashed demand.

"The message is clear: In 2009, the U.S. airline industry may find itself jumping from the fuel-price frying pan into the reduced-demand fire," reads a Boyd Group report.

On the home front, the news is equally troubling. Delta reported a loss of \$1.4 billion in the fourth quarter of 2008. And passenger traffic in Memphis declined last year; the airport notched 5 million enplaned passengers in 2008, down 3.6 percent from 5.2 million in 2007. Enplaned passengers are people who board planes at a certain airport, instead of passengers who are just passing through via a connecting flight.

The industry-wide dropoff has airport executives like Cox cognizant of the need to keep Memphis International competitive in the changing landscape because he understands that Delta — or any passenger or cargo carrier — will look for economical advantages in a tight market, including the removal of a city's hub status and the overhead that comes with that designation.

"Anything is possible," Cox said. "If you say all things are guaranteed, that's not true. That's the reason we have to work smarter every day. We have to make sure we are a good

partner for the airlines, particularly Delta and FedEx, keep our costs low and provide them the facilities and things that they need to be successful in Memphis. I think that ensures our long-term success.”

**STAYING A STEP AHEAD**

This isn't the first time Memphis has been a hub for Delta. In the 1950s, following Delta's merger with Chicago and Southern Air Lines, the city was the company's third-largest hub behind Atlanta and Dallas. Ultimately, though, Delta decided to remove its hub in Memphis and establish one in Cincinnati.

That void was filled when Southern Airways, a feeder airline for Delta, opened a hub here. Southern merged with North Central Airlines in 1979 to form Republic Airlines, which merged with Northwest in 1986. Northwest kept its Memphis hub, although many travelers maintained their preference for Delta, something Northwest had to overcome in the early years as it became saddled with the "Northworst" moniker from a reputation of poor customer service.

Now, after all those years, Delta is once again Memphis' hometown airline. Over the next few weeks and months, Memphis customers will see Delta signage replace Northwest signs in the ticketing and concourse areas, as well as on airplanes.

"At a broad level, we are moving quickly to make a consistent experience from a brand perspective for our customers in all of our hubs," Landers said. "That will be occurring in Memphis very quickly."

Local travel agents for the most part seem pleased with having a Delta hub here because of the sheer size of the airline and an exhaustive selection of nonstop and connecting options. The way they see it, a larger network means more choices for their clientele.

"We're getting the largest airline in the world. That carries a lot of clout," said Vicki Rush, CEO of A&I Travel Service Inc.

Jennifer Kruchten, president of Travelennium Inc., noted that the transition into one airline has been seamless and subtle so far. Her customers aren't hung up on the name or logo that graces the outside of the aircraft – only where the aircraft takes them and at what cost.

"The traveler doesn't care. They don't care as long as it gets them from A to B and gets them there safely," Kruchten said. "So far, so good."

Another result that's been good is agents haven't seen an increase in airfare. If anything, they've seen some fares drop because of the economy as airlines struggle to attract travelers. Even during sound financial times, however, this merger might not have increased airfare in the short term.

"As a result of this merger, there was no real lessening of competition in Memphis. It didn't substantially inhibit competition," Ash said. "Airmiles may go up, but that's more likely in the future to be a function of fuel prices and capacities."

Rush, whose company began in 1953, the same year Delta established its first hub in Memphis, cited a few reasons she thinks Memphis is in good shape: The Delta CEO knows Memphis from his time as top executive at Northwest; the Memphis airport is efficient and economical; and FedEx is headquartered here. But she understands that things change quickly, especially in an industry that relies on the stability of so many factors for success.

"Business is business, and when it comes down to it, if we're a productive hub, we're fine," Rush said. "If we're not a productive hub, we're not."

**SELF-ESTEEM ISSUES**

If any citizenry expects Memphis not to be a productive hub and therefore "not fine," it's Memphians themselves, who seem prone to inferiority complexes. One only has to look to the city's lone professional sports franchise for an example.

Although Memphis Grizzlies owner Michael Heisley has gone on record as saying he will not move the team, the city harbors a collective fear that Heisley – an out-of-towner who operates the team from Chicago – will someday abandon Memphis for a better deal.

But during that transition, Southwest Airlines beefed up its presence in Nashville, which the airline dubs a "focus city," and is now the largest carrier with 51 percent of the airport's enplaned passengers. The move from American hub to a Southwest focus was significant in Nashville, which relies less on just one carrier and has evolved from a connecting airport to an origin-and-destination airport.

"That was the more significant shift for us," Richard said.

That shift has been significant in a host of other airports. A 2005 study by the U.S. Government Accounting Office noted that the loss of hub status wasn't as severe as some might expect and even provided some opportunity for new service. At six cities

vice, but you can't put a gun to somebody's head and say you've got to serve Memphis," Cox said. "The reason we don't have those airlines is some of them have come and gone (such as Frontier Airlines). And when you've got one airline that has a large presence with lots of air service – more air service than the community could ever support without being a hub – it makes it difficult for others to come in, because normally in a fortress hub an airline will defend its hub."

**TOWARD THE HORIZON**

In aviation parlance, visual flight rules allow pilots to operate aircraft using their sight, while instrument flight rules mandate the use of instruments in poor weather or controlled airspace. Memphis and its airport

**"It may not be as big a hub, but there are certain times when Memphis has a natural edge. I would guess it would be smaller, but I don't think it's going to disappear. I think it will still be meaningful."**

**— BOB McADOO**

Aviation analyst, Avondale Partners, Kansas City, Mo.



**Delta Air Lines Inc. is now Memphis' hometown carrier following its merger with Northwest Airlines, and visitors to Memphis International Airport in the next few months will begin seeing Northwest signs replaced by Delta signs. How much will the merger affect air travel in the city? Delta executives have promised to keep Memphis a hub, but the overall economy could play a role in how many new flights – if any – the city receives.**

The same could be said for Delta. Though the airline's CEO, Anderson, has said repeatedly that Memphis will continue to be a hub, and though Anderson himself served as CEO of Northwest in the early 2000s and forged a relationship with airport brass, Memphians wouldn't be surprised to see their hub status diminish over time.

A similar scenario played out in Pittsburgh, which lost its US Airways hub a few years ago. The city lost numerous flights and its airport is now a shell of its former self without hub status.

But life without a hub isn't always negative, something that Memphians should keep in mind if that time ever comes. American Airlines "de-hubbed" Nashville in 1996, about a year after the airline started downsizing its presence there; it went from operating 79 percent of Nashville's flights in 1992 to just 15 percent in 2008, said Emily Richard, spokeswoman for the Metropolitan Nashville Airport Authority.

– Nashville, Greensboro, N.C.; Colorado Springs, Colo.; St. Louis; Kansas City, Mo.; and Columbus, Ohio – other airlines' traffic increased or saw little change.

The report read, in part: "In most cases, while total capacity and passenger traffic decreased, the reduction was largely attributable to the loss of connecting passenger traffic from the departing carrier. There was little diminution in local passenger traffic for most of these markets because other carriers increased their capacity to replace it."

As for Memphis luring other carriers, most notably low-cost carriers such as Southwest and JetBlue, the chances of that happening here are slim as long as Delta keeps a hub here and offers numerous destinations each day. Carriers with hubs tend to view those airports in a proprietary fashion, but Memphis airport officials said they'll continue to seek more carriers and more seats for anyone flying into and out of the city.

"Our arms are always open for more ser-

might need both skill sets to navigate the aftermath of a merger whose full ramifications will unfold over the next year and beyond.

Despite a horizon full of obstacles, airport officials remain optimistic about the city's and the airport's prospects as a Delta hub.

"The future is every bit as good as the past," Perl said. "By virtue of the Delta-Northwest merger, the future looks brighter than ever."

But it's not just the Airport Authority's official view. Ash, the industry analyst whose company's research was used in the GAO study, also sees a bright future for Memphis, for Memphis International Airport and for those who fly from or through here.

"Things always evolve. Conditions always change. If the competitive environment changes, things can change," Ash said. "But from a near- to medium-term perspective, one has to assess the position of Memphis as a pretty strong position within new Delta." ■