

Southeast Region Fresh Fish Air Transportation Project

Final Report and Recommendations

***Includes Seattle Workshop Summary:
Regional Seafood Processor Representatives
and
Alaska Airlines***

***Prepared for:
Southeast Conference***



Research-Based Consulting

Juneau
Anchorage
Kodiak

July 23, 2007

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PREPARED BY:



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Table of Contents

Introduction 1

Seattle “Lean Workshop” Summary 3

 Attendance 3

 Summary 5

Action Plan 6

 Ease and time efficiency of system use 6

 Utilizing available space on early flights 6

 Short-term notification of space availability 7

 Filling unused allocated processor space 7

 Formula for allocation of additional space among communities and processors 8

 Freighter capacity and service days 9

 Tracking shipments 9

 Supplemental freighter service 9

Recommendations 11

This *Final Report and Recommendations* for the *Southeast Alaska Fresh Fish Air Transportation Project* is the third, and last, document reporting on the project, which ends June 30, 2007. An *Interim Report* dated April 6, 2007 was prepared for the Southeast Conference Mid-Winter Meeting, and a second report, *Sitka Meeting Summary*, dated May 10, 2007, documents the discussion and commitments of both Alaska Airlines and Sitka-based processors. All reports are available through the project sponsor, Southeast Conference.

The *Final Report and Recommendations* contains three major topics:

Seattle “Lean Workshop” Summary, documents the results of a two-day booking system improvement workshop sponsored by Alaska Airlines in Seattle June 12 and 13, 2007. This report uses the term “Lean Workshop” to reflect a proven method of solving systemic problems that results in lower cost, less time, and/or higher quality.

An Action Plan identifies key system problems, causes, and solutions as identified by processor/shippers and Alaska Airlines, and action plan responsibilities for implementing the solutions.

Recommendations are included for future consideration that could have a positive impact on meeting all of the fresh fish air transport needs of the region.

The purpose of the *Southeast Regional Fresh Fish Air Transportation Project* is to significantly increase the volume of fresh fish flown out of the region – both immediately and for the long term. The project goals start with an increase of 2 million pounds in 2007 over the estimated 16 million pounds flown out on Alaska Airlines in 2006.

For the long term, the project’s goal is an air shipping system that will accommodate all of the region’s demand for air transport of fresh seafood. McDowell Group estimates there are 25 to 30 million pounds of “air-eligible” seafood produced annually in the region. “Air-eligible” means seafood product of high enough quality and value to be flown to market profitably at today’s rates, and landed at air-accessible ports. If efficient systems and adequate capacity can be developed, fresh volume flown out of the region should quickly surpass 20 million pounds.

The *Southeast Regional Fresh Fish Air Transportation Project* was originally proposed as a 90-day summer season test program consisting of a processors’ cooperative that would charter a freighter on the three premium weekly market days (Tuesday, Sunday, and Thursday, in that order), flying out about 1.5 million pounds of product during the peak salmon season when Alaska Airlines’ aircraft are otherwise operating with peak passenger, freight and baggage load factors. The orientation of the project changed at the direction of the Southeast Conference Fisheries Committee to maximizing the utilization of the existing scheduled service offered by Alaska Airlines in the short term, while still evaluating the supplemental charter option.

The *Interim Report* contains an estimate of the potential volume for fresh fish air transport, and a summary of a region-wide (including Cordova) survey of more than 25 large and small processor/shippers in all communities. The survey asked for their evaluation of existing service, an estimate of the additional product they might ship with improved air service, and their suggestions for improvement. This report also includes a summary of tentative solutions to date.

The *Sitka Meeting Summary Report* documents the proceedings of this meeting of Alaska Airlines officials and Sitka-based processors. Contents include statements of the Sitka situation for both the airline and processors, lists of needs by both parties essential for improving the shipping system, and a seven-task action plan for both parties that they agreed would result in increased shipments from Sitka. The Sitka workshop was held specifically because the community does not benefit from the new "Combi" service and has actually lost capacity over 2006. Yet, Sitka has the most potential for generating additional airfreight business because of the large volumes of high quality, "air-eligible" fish landed there. A similar, but less formal, meeting was held in Juneau at the time of the Southeast Conference Mid-winter Meeting and the results were essentially the same findings and recommendations as the more structured Sitka meeting.

SEATTLE “LEAN WORKSHOP” SUMMARY

The primary purpose of the workshop was for airline and processor representatives, who operate and use the system, to work as a team to examine in detail the existing booking system and related operational issues. The short-term goal was to create solutions that improve the efficiency of the system so at least 2 million additional pounds of fresh seafood are shipped in 2007. A longer-range goal of the workshop was to discuss systemic and capacity solutions to carry all of the region’s fresh fish air transport demand, which is estimated to exceed 25 million pounds.

The timing of the workshop in early June was designed to have some improvements in place to accommodate the peak demand that will result from the 2007 summer salmon season. The workshop brought together eight Alaska Airlines cargo-related managers and nine representatives of regional processor/shippers.

The two-day workshop consisted of a full-day “Lean Workshop” professionally facilitated exercise, followed on the second day by a meeting on capacity and logistics, then by visits to the freight warehouse and call center hosted by Alaska Airlines.

The term “Lean Workshop” is used to explain the type of work that was done in the first day, June 12. This concept was originally developed by Toyota Motors and reflects an effective method of problem-solving and system improvements that results in one or more of the following:

- Increased quality
- Lower cost
- Less time

Attendance

The workshop was attended by representatives of seven regional processors invited from five major communities that generate over 90 percent of the fresh fish shipping demand in the region. By the nature of the workshop, attendance had to be limited, but the improvements generated by those participants should benefit fresh fish shippers in all of the region’s communities.

Processor/Shipper Representatives

Casey Boyer, Alaska Glacier Seafoods, Juneau

Rod Racaza, Seafood Producers Cooperative, Sitka

Kurt Sigfusson, Seafood Producers Cooperative, Bellingham

Jon Hickman, Sitka Sound Seafoods, Sitka

Hayley Mattisen, Sitka Sound Seafoods, Sitka

James Howe, Icicle Seafoods, Petersburg

Stephen LaCroix, Norquest (Trident), Ketchikan

Jeanne Benson, Ocean Beauty Seafoods, Seattle (Cordova, Excursion Inlet)
Gary Booker, Sea Level Seafoods, Wrangell

Alaska Airlines Management Attendees

Matt Yerbic, Managing Director, Cargo

Betsy Bacon, Director, Cargo Operations (and workshop organizer)

Kim Hantz, Workshop Facilitator

Susan Montgomery, Call Center Manager

The results of the workshop are included in the following Action Plan. While the action plan deals primarily with the problems, causes and solutions resulting from the Lean Workshop, it also incorporates all of the project's findings, solutions and recommendations that are included in the first two documents, *Interim Report* and *Sitka Meeting Summary*.

Special credit goes to the nine representatives of regional processors who gave two days of their valuable time and great constructive effort to work with Alaska Airlines to make a better system for both parties. In addition, special thanks go to Betsy Bacon, Director, Cargo Operations, who organized the workshop, and to Matt Yerbic, Managing Director, Cargo, who made the initial commitment for Alaska Airlines to sponsor the Lean Workshop.

Summary

The survey of nearly 30 regional processors revealed that most considered the system for booking fish for shipment as cumbersome and time-consuming. Another major issue for processors was the airline's practice of unloading fish at interim destinations without notification. Further, survey results showed that the larger the processor, the greater the degree of difficulty and inefficiency experienced with the system. Very small shippers had much less difficulty with the current system.

From the airline's standpoint, major issues include: processors not delivering the fish they booked space for; processors not notifying the airline in a timely manner when deliveries would fall short; and irregular product flow. Another important factor was the need to meet U.S. Postal Service contract requirements, and adhering to FAA maintenance requirements that involve the freighter being based in Anchorage.

Finally, it is important to recognize that the booking system is an imperfect work-in-progress that ultimately will transition to an on-line system, rendering the current phone and fax method obsolete. In the workshop, the airline was candid about their effort to enter the modern era of the airfreight business, beginning in 2003, as an adjunct to the airline's main business of transporting passengers. Management cited their investment in the "Combi" fleet, an option for an additional freighter in 2009, and their willingness reach out to their fish customers to sponsor the Lean Workshop as evidence of a their commitment to improving airfreight service to Southeast Alaska.

It is in the context of the regional seafood industry's ardent need for improved airfreight systems and increased volume shipped, the airline's revenue need to fill unutilized capacity, and the evolution from a difficult system to one that works well for both parties, that the following solutions and recommendations are presented by the project team. Most of the suggested solutions came from workshop participants.

Ease and time efficiency of system use

The problem: Most users report extensive delays on telephone hold to access the system, some spending hours daily attempting to confirm and track shipments. The limited hours of Call Center operation were also an issue, not matching well with fish shipping needs. The system delay/access problem and related high personnel cost are the leading complaints.

The cause (as discussed in the Lean Workshop): Call Center staff shortages, turnover, Seattle labor market shortages at Call Center wages, promoting superior performers to other areas of operation, lack of training, and lack of consistent protocol for procedures such as contacting processors to fill vacated space.

The solution: Alaska Airlines will improve Call Center organizational position, management, training, and recruitment, and establish formal protocols for handling requests, filling cancelled space, and timely notification of processors. Major workshop discussions dealt with issues of supervision, staffing and training regarding the Call Center. If Call Center issues are solved, much of the dissatisfaction with the booking system should be resolved.

Utilizing available space on early flights

The problem: Most of the unutilized space exiting the region each day is on late night/early morning flights up to about 10:00 a.m., even during peak salmon season.

The cause: Local Alaska Airlines offices are not open to receive fish in time to be loaded on early flights. The booking office closes from 7:00 p.m. to 7:00 a.m. (Seattle time), so processors are not notified of available space from cancelled bookings in time to respond for shipping on early flights, nor can they book space during those hours. No formal system exists for notifying processors of available space. Further, processor allocations involve only selected flights headed directly southbound from their communities, and not connecting flights that have substantial early capacity.

The solution: Alaska Airlines will work with processors and local offices to open early to receive fish for early shipping. The airline will establish an off-hour notification system at the Call Center allowing processors the ability to book the space, as well as adequate time to prepare shipments.

A second solution is the airline assigning additional daily space allocations on early flights to processors willing to deliver product for those flights. This would include, especially, allocations on early Juneau flights to Sitka processors that can ship product to Juneau the night before. The rationale for including Sitka processors (along with Juneau processors) is the shortage of allocated space available on Sitka-direct flights.

A third solution is for the airline to provide processors with space notification on all realistically possible routes, not just direct flights.

Short-term notification of space availability

The problem: Space often becomes available on very short notice, either by processors not filling their daily allocations, or by shortfalls in other cargo space demands that the airline becomes aware of for each flight. Currently, the system often fails to notify processors, either at all (some processors in the workshop reported seldom or never being contacted by the Call Center), or at least in time for a processor to prepare a shipment. For example, on the day of the Sitka workshop (May 10), one Sitka flight went out 10,000 pounds light that could have been filled by two of the processors at the workshop, had they been notified. Some processors do not return calls from the Call Center in time for booking newly-available space.

The cause: No formal Call Center protocol for how, when, or whom to notify when space become available on short notice. The workshop discussion revealed that procedures differed with various Call Center personnel, and that a formal protocol was not part of staff training.

The solution: Alaska Airlines should establish a formal protocol for timely notification for short-term space availability. Processors should develop an internal system for receiving notification and replying to the airline in time to confirm spaced and deliver product.

The protocol should include a processor contact priority list that has the goals of maximizing the volume of fish flown on short notice, maximizing airline revenue, and rewarding shippers for consistent delivery and performance.

Filling unused allocated processor space

The problem: Processors often do not utilize all of their daily space allocations. Fish availability, fleet delivery patterns, production schedules, weather at sea and other factors prevent a consistent product flow to the airline from processors. In addition, the lack of contact protocol has resulted in calls to processors unlikely to have the capability to fill the space, or processors that have minimal history of providing the airline with substantial, reliable business.

The cause: In addition to uncontrollable factors, the relationship between allocated/booked space the airline is holding and actual product delivered to the airline varies considerably among processors. For example, the airline now has a tracking system that shows, by day and by flight, space allocated versus product actually delivered by each processor. A quick look at this data at the workshop showed one major processor typically delivered about 50 percent of their allocation, but with significant daily variation. This is difficult for the airline and represents a revenue loss to hold this space.

Further, some processors do not always comply with the airline's eight-hour advance notification requirement for releasing allocated/booked space. The result is unused space with no time for other processors to fill it.

Finally, the airline does not have a formal protocol for notifying other processors when a processor does cancel space in compliance with the eight-hour requirement, so the airline itself is not effectively marketing space it knows is available.

The solution: Develop a notification protocol that allows processors that have the capability to fill space to have the time to prepare shipments (preferably a minimum of four hours, according to processors).

Have a processor priority list that would result in the most additional volume of fish (the goal of this entire project effort), that insures the most possible revenue for the airline, and that rewards the airline's best and most consistent customers.

Another solution is for processors (within the limits of sea safety) to engage in some degree of fleet management for the purpose of making product flow to the airline more consistent, to the extent possible. For example, one processor knew that some salmon troll boats would be willing to deliver on designated days, provided the processor could be assured of air shipping capacity for those fish.

Using the airline's new tracking system, track processor performance in filling assigned allocations and their record in timely notification of unused allocated space. Then adjust allocations to reflect ability to deliver fish as committed, and willingness to provide timely notification of unused space. Again, the purpose of this project is to maximize the volume of fish flown out of the region. This would be helped by allocations consistent with processor's proven ability to fill their commitment over the long term and throughout the year. Consideration should be given to recording reasons for delivery shortfalls. For example, processor deliveries hampered by weather, an aircraft mechanical, or early fishery closure, should not be viewed in the negative.

Formula for allocation of additional space among communities and processors

The problem: While each community and processor has some formal allocation of space on specific flights (for example, a Sitka processor may have a 5,000 pound allocation on one specific southbound flight each day), allocation of additional space that becomes available has been arbitrary, usually left to the individual Call Center employee, and, in turn, dependent on their level of experience and their relationships with various processor personnel. The results can be no calls to fill the space, calls to processors without the ability to fill the space, or to shippers that are not regular, consistent customers of the airline. The result, at times, is that the best, most consistent customers with the greatest ability to fill the space are not given the opportunity. This hurts both the industry and Alaska Airlines.

The cause: Lack of a formal protocol for notification, of a formula for assigning newly available space, and Call Center staff training.

The solution: Workshop participants agreed on a system that offers additional space in proportion to current allocations. For example, if a Ketchikan processor has 40 percent of the current allocation, that processor will be notified and offered 40 percent of the newly available space, and so on for all Ketchikan processors holding allocations. This honors the most productive and consistent customers while still offering proportional space to smaller, and occasional, shippers. Call Center personnel will be trained and monitored in this priority contact protocol.

The solution also includes evaluating processor performance in delivered poundage versus booked space, and timely notification when not able to fill allocations.

Freighter capacity and service days

The problem: Alaska Airlines' lone freighter serving the region does so primarily on days that do not meet the industry's most important market timing needs. Service is compacted into Saturday, Sunday and Monday each week, when the optimal days for delivery to market are Tuesday (by far the most important day), followed by Sunday and Thursday, respectively.

The cause: The Alaska Airlines freighter has schedule restrictions dictated by both the U.S. Postal Service (the reason the freighter serves the region at all, according to the airline) and FAA maintenance that requires the plane be serviced in Anchorage weekly. Further, the 2007 schedule was set without giving optimal fish market days priority, as the aircraft also serves the Anchorage market, non-fish customers, and airline/processor communications may not have been part of the schedule discussion at the time.

The solution: Alaska Airlines will evaluate revising the freighter schedule for the remainder of 2007 to include either Tuesday or Thursday in exchange for Monday, the least preferred day by processors.

Tracking shipments

The problem: Several processors cited examples of their shipments, once underway, being delayed and/or being taken off the aircraft en-route to the customer without the airline notifying either the shipper or the intended recipient. Shippers were unable to identify the status of their shipment en-route. The result has been damaged customer relationships and lost revenue to shippers and their customers. A brief special session on tracking was held following the Lean Workshop.

The cause: Until recently, the airline did not have a tracking system available to shippers, or a formal protocol for notification if shipments are delayed or taken off the aircraft en-route.

The solution: The airline now has CargoSpot, an automated system for tracking shipments that should solve much of the tracking issue. However, the removal of shipments, once boarded, remains a practice unacceptable to the airline's processor customers. If the practice continues, the airline needs to require strict immediate shipper notification protocol of their local station managers.

Supplemental freighter service

The problem: Even with significant improvements in the existing system, the fact remains that peak passenger and fish seasons occur at the same time – June through August. With the rising prices in the salmon market, summer airfreight demand will continue to increase, just when Alaska Airlines passenger, baggage, and sport fish shipping demands are at their annual peaks.

The cause: Scheduled airfreight capacity is fixed, as the same flights cover the same routes every day. In fact, the seasonal nature of tourism, sport fishing, and regional industry actually means less capacity for fish on passenger planes than in the off-season.

The solution: Test the regional processing industry chartering a single independent freighter during the peak demand season of June through August, 2008 to fly on the premium market days of Tuesday, Sunday and Thursday. At 30,000 to 40,000 pounds per flight, for 13 weeks, the charter services would supplement the scheduled service by hauling between 1.2 and 1.6 million pounds, primarily of salmon. This would represent a small fraction of the 16 million pounds shipped aboard scheduled flights in 2006, and likely would take volume the airline may be unable to accommodate with the current level of service during peak visitor/salmon season.

Issues to consider – in probable order of importance – are financial risk to processors for not meeting booked commitments, higher per pound cost, and responsibility for coordination.

In terms of financial risk, processors now pay no penalty for not filling their allocations and advance booking commitments. Processors involved would be making an investment in excess of \$1 million. The commitment to charter means about \$35,000 to \$45,000 per flight, depending on the aircraft and number of stops. Cost per pound – without securing northbound revenue – would be in excess of \$1.00, compared to the \$0.50-\$0.60 range of the current system. With refinement, costs might come in as low as \$0.80, based on a preliminary analysis provided by a well-researched industry source.

A supplemental freighter would also allow for stops at locations such as Klawock that may have suitable landing fields, depending on the type of aircraft, provided the participating processor makes the advance financial commitment. The project team was unable to conclusively evaluate the Klawock runway, as many factors (load factor, aircraft type, instrument availability, for example), affect legal landing requirements for each type of aircraft.

Coordination could be accomplished through the offices of a major processor via e-mail, fax and phone. Coordination would be simplified, provided processors make the financial commitment in advance of the test program.

RECOMMENDATIONS

1. Monitor the progress of the *Southeast Regional Fresh Fish Air Transportation Project* for the balance of 2007.

- Develop, with Alaska Airlines, a monthly fish shipping volume report compared to 2006, in order to measure progress toward the 2 million pound improvement goal for 2007.
- Conduct a season-end (September) survey of both processors and Alaska Airlines to evaluate short-term system improvements and accomplishments against the action plan.
- Hold a late-2007 Seattle workshop to evaluate program improvements in 2007 and plan system progress for 2008.

2. Begin planning for implementing test program for supplemental freighter service for peak season 2008.

3. Engage in discussion and planning with air carriers to establish increased seafood freight capacity by 2009.