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Your Credit Score is Worth More than the Plane

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> If a capitalist had been present at Kitty Hawk back in the early 1900s, he should have shot Orville Wright; he would have saved his progeny money.
>
> - Warren Buffett

The [a] airline [b] business [c] is [d] brutal [e]. Your seat availability today depends on aircraft orders placed a decade ago. Your inventory — empty seats — expire the moment the gate closes. Everyone from the mechanics to pilots are unionized. And competitors offer virtually the same product. **In 2024, every major US airline lost money flying passengers** [1]. Good thing that flying planes isn't how airlines actually make money.

The real moneymaker? That shiny piece of plastic in your wallet that lets you check a bag for free [2]. That means airline hubs aren't just about filling seats on direct flights all over the world; they're about maximizing credit card sign-ups and, more importantly, ongoing credit card spend [3].

A hub in a large population, high-income catchment like the San Francisco Bay Area (~8 million people @ ~$130k per capita) has a potential credit card spend 12x higher than a smaller, less affluent metro like St. Louis (~2 million people @ ~$40k per capita) [4]!

United Airlines: The Coastal Overlord

United has played the geography game best. Their hubs are a list of America's largest and wealthiest metropolitan areas: San Francisco, Chicago, New York (technically Newark), and Washington DC. These are an advertiser's dream for premium credit card products. Add to this their significant operations in Los Angeles and secondary hubs in Houston (oil money and the fourth largest US metro) and Denver (perhaps the largest physical catchment of any US hub), and you've got a network of people who buy $8 lattes on their United Explorer card [5].

Delta Air Lines: Premium Brand, Mixed Geography

Delta has a strong reputation for reliability and is usually seen as the most "premium" of America's major airlines. While they're big in New York and have made strong pushes into premium markets like Los Angeles, Seattle, and Boston, the rest of Delta's hubs lie inland.

Minneapolis, Detroit, Atlanta, and Salt Lake City are all captive "fortress hubs" (>70% of flights) with reasonable enough economies, but they can't rival the high-income sizzle of a big coastal city. As the pre-merger saying at Northwest went for Minneapolis: "It's cold, dark, and nobody wants to go there. But it's all ours! [f]

American Airlines: What's Geography?

American Airlines is what happens when you merge a bunch of airlines together without a coherent strategy. The market agrees: American has a ~$7b market cap while Delta and United hover around $30b.

Miami is American's only star. They split (and seem to be getting pushed out of [g]) Chicago. They're tied for #2 with United in challenging Los Angeles [6]. Dallas is a solid large fortress hub, (about as good as Houston) and everything else is weak.

American's cardinal sin is Philadelphia. During their merger, US Airway's fortress hub and primary transatlantic gateway was chosen over American's (very strong) New York hub to cut costs.

Philadelphia and New York's catchment has overlap, but losing what was a leading position in America's largest city has been the strategic blunder American has never really overcome. Today, American limps along in New York, serving high-traffic business markets but with far less connectivity than United or Delta.

The rest of American has leaned into the retirement rich, low credit card spend Sun Belt. They fly an incredible volume of domestic travelers through Charlotte (North Carolina lol) and Phoenix but these cities are smaller than the other major airlines' secondary hubs [7].

Miles > Miles Flown

As Southwest continues it's fall as the only US airline to consistently make money transporting passengers [8], the credit card wars have intensified. During Covid, United and American each borrowed ~$5b against their mileage programs. Delta borrowed $9b [9].

So next time you're 30,000 feet up remember: your cabin crew is primarily there for your safety, but also for your comfort, and your credit score.

Notes

1. This means <$0 of net income from flying people around. In industry parlance: cost per available seat mile (CASM) higher than passenger revenue per available seat mile (PRASM) [h]. This was the case for Delta, United, American, Southwest, JetBlue, and Spirit in 2024 and 2023. Only exceptionally well run (and much smaller) Alaska had a higher PRASM than CASM in 2024 (as well as 2023).
2. Geography is somewhat correlated to business travel which industry analysts love to obsess over. This is moderately important — my consultant friend's team of 5+ spending $12k / person to fly roundtrip business class across the Atlantic for two days is really profitable!

   There just aren't that many clients like this though. In 2019, Apple was United's #1 customer, spending $150m / year with the airline ($35m of that bought them 50(!!) business class seats every day between SFO and Shanghai [i]), but the whole account was <0.4% of the airline's ~$44b of revenue.
3. Though this certainly helps! Direct flights are disproportionately chosen by business travelers and other price-insensitive flyers, and they cost less to operate. American Airlines has spent the last decade losing the New York market because their merger with US Airways forced them to focus on Philadelphia as their transatlantic gateway.
4. Similarly to sports teams [j], the thing that matters isn't as much metro area but what major hub is closest. Aside from being large and rich, San Francisco pulls fliers from all of northern California and parts of Nevada. St. Louis unevenly splits Illinois with Chicago, and loses in the south to Nashville. Pittsburgh was too close to DC to stay a hub, but has kept good service because it's the airport for Appalachia and half of Ohio. PIT also has a really good CEO [k].

   Some airports like New Orleans, Las Vegas, and Orlando move a lot of people but aren't as valuable because they don't have strong local traffic (fliers get your credit card because the airline can take you everywhere).
5. It then also makes perfect sense for United to be the most international of the US airlines [l].
6.

Los Angeles and New York are essential but very tough markets. They're big, rich, and everyone wants to go there. However, this competitive dynamic though, means that no one airline can ever really dominate the market (though American sure got close in the past!) — they're too big of a prize.

In NYC

United	24%
Delta	22%
JetBlue	16%
American	13%

In LA

Delta	20%
American	15%
United	15%
Southwest	10%

Chicago has this problem a little bit too, but after some gate shenanigans [g], it seems like United might beat American.

Delta had American's problems a few years ago, so got competitive in small but rich hub cities. They've dominated JetBlue in Boston, but have a mixed record against Alaska in Seattle, and are now even challenging American in Miami.

7. American also has a Washington DC operation at (the much more premium and convenient) National / Reagan airport but the airport is packed, has tiny runways (no big planes) and a "perimeter rule" [m] that limits flights >1,250 miles (about as far as Oklahoma City).

   American also has a crazy idea to be the leading airline in the "125th-200th" largest metros in the US. [n] This has a different problem: serving these markets well means increasing frequency by "downgauging" to smaller planes. These smaller planes cost more to operate so you need richer customers. That might exist in Hyannis, Martha's Vineyard, but probably not in Topeka, Kansas.

8. Southwest did so many things differently (point-to-point, and was profitable for 47 consecutive fiscal years. But the airline's egalitarianism, point-to-point domestic network, and dispersed geography meant is could never develop as much of a halo around its credit card points. As the airline's underinvestment in technology caused operational mayhem, there was no golden mileage goose to fall back to.

9. United's MileagePlus program was appraised at $22b (>70% of its market cap), American's AAdvantage program at $20b-$32b (300% - 450% of its market cap). Delta's Skymiles program was not publicly appraised.

Links

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