

Survivor

Island Air stays steady in a tumultuous market that left go! and Mokulele consolidated and Aloha Airlines shuttered

By Dave Segal

Charlie Willis calls Island Air a survivor.

Leaning back in his chair at the interisland carrier's corporate office near Honolulu Airport, the owner and chairman of the regional carrier makes a mental checklist of other locally based airlines that have graced the Hawaii skies during the 30 years that Island Air has been in existence.

"Think about all the other companies that have come and gone," he said. "Discovery, Mid-Pacific, Aloha, Mahalo and of all of these other people, Hawaiian in bankruptcy, Aloha in bankruptcy, Mesa in bankruptcy."

And that's not even including two local airlines in concept, Blue Hawaii Airlines and FlyHawaii Airlines, that never got off the ground.

"It's really kind of interesting when you think about it," he said. "When you put all those names up there, Island Air is still there."

Not that it has always been easy.

Willis' family-owned company, Novato, Calif.-based Gavarnie Holding LLC, completed a sale to purchase Island Air from Aloha Airgroup on May 11, 2004. Only twice during his ownership, he said, has the airline made money for the year.

And when Mesa Air Group's go! came into the market in June 2006 and initiated a fare war, Willis did the only thing he could do to survive: He pulled back.

"If you look at all the different things that have happened over the last three or four years, what we've done is we've had to react to what the marketplace demands and, of course, the competition, and we retrenched," Willis said.

That meant going from a work force of about 550 to just under 300 and from 10 aircraft to three.

Now with Aloha Airlines gone, and with go! having formed a joint venture with Mokulele Airlines, Island Air is slowly expanding. Last month it acquired an additional 37-seat Bombardier de Havilland Dash-8 aircraft to increase the size of the airline's fleet to four. It represents a sign of confidence in the future of the company, which Willis said is now cash positive.

"It gives us flexibility for the fleet planning and stuff like that," he said. "Lesley (Kaneshiro) has done a magnificent job as a CEO of monitoring costs and increasing revenues. I'm really proud of her."

Island Air got its start in 1980 as Princeville Airways when it flew between Honolulu and Princeville, Kauai, with two DHC-6 Twin Otter aircraft. Even though it later expanded service, its main function was to transport passengers to and from the Princeville Resort.

In May 1987 Aloha Airlines' parent company purchased Princeville Airways and renamed it Aloha Island Air before shortening its name in 1992 to Island Air. In April of that year Island Air took delivery of its first Dash-8, the aircraft it currently uses. Gavarnie signed a purchase agreement in December 2003 with Aloha Airgroup and completed the sale five months later.



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Owner, Island Air**

Willis said one of the keys to Island Air's survival has been that it did not pick a fight.

"We've managed it appropriately," he said. "I think we tried to stay out of harm's way. Since the beginning we've never tried to be confrontational. We just tried to provide a good, reliable service to the customers. We tried to match capacity with demand. At the same time, we didn't get into fare wars with all these people. Now Mokulele is trying to go into a fare war with its Caravans, their nine-seat operation, with a \$39 Honolulu-Lanai fare (that will begin May 20).

"You put two and two together and you say, 'Oh my God, here's another fare war by those wonderful people (Mesa Air Group's go!) that brought you the Aloha demise.' We have heard from sources that they want to put us out of business."

That's not the first time that Mesa has been accused of such a tactic. E-mails discovered during Hawaiian Airlines' bankruptcy indicated that Mesa was planning such a tactic against Aloha when it entered the market - an accusation that Mesa Chairman and CEO Jonathan Ornstein denied. Still, to this day, many former Aloha employees blame Mesa's go! for putting Aloha out of business.

Ornstein, whose airline ironically has a code-share agreement with Island Air, scoffs at Willis' claim.

"There's not an airline in the world that doesn't offer an introductory fare when they enter a market," he said in reference to the Honolulu-Lanai promotion. "Thirty-nine dollars is an introductory fare. Our average fare is about \$65, which is still pretty inexpensive versus where it used to be prior to go!'s entrance, and certainly inexpensive compared to other domestic flights on the mainland."

Willis has always had the airline business in his blood.

His father ran Alaska Airlines for 15 years beginning in the late 1950s, and besides owning Island Air today, Willis also heads a business that leases equipment to airlines all over the world.

"It seems like a natural thing to do," he said about becoming involved in the airline industry.

However, what he wasn't counting on, he said, was "how irrational the competition would be."

"I've never seen any type of competition like this," he said about the interisland fare wars. "You gotta ask yourself, Is the public well served by the policies that are in place? That's not for me to make that decision."

When go! entered the Hawaii market, interisland prices plummeted to as low as \$1 one way for a go! promotional fare. At various times go! also triggered fare wars with one-way tickets as low as \$9, \$19 and \$29. Aloha, for its part, gave away 1,000 tickets for free. Mostly, though, one-way fares seemed to hover around \$39 until moving up to their current level of \$58.

"No matter how good we are as a company, no matter what airplanes we have, it doesn't make any difference," Willis said. "If somebody wants to give tickets away (or offer below-cost fares), you're not going to be competitive. Fortunately what we did was we pulled our capacity out of the market, and unfortunately 250 people lost their jobs because of that mess."

ISLAND AIR HISTORY

» **1980:** Princeville Airways is incorporated by Colorado-based Consolidated Oil and Gas as a subsidiary and begins scheduled service between Honolulu and Princeville, Kauai, with two DHC-6 Twin Otter aircraft. The main function of the service is to transport passengers to and from Princeville Resort.

» **May 1987:** Aloha Airlines' parent company, Aloha Airgroup, purchases Princeville Airways and renames it Aloha Island Air.

» **1992:** Aloha Airgroup applies to register "Island Air" as its trade name.

» **1995:** Island Air receives FAA "Part 121" certification to allow it to operate larger aircraft. In April of that year, Island Air takes delivery of its first 37-seat de Havilland Dash-8, the aircraft it currently uses.

» **December 2003:** A purchase agreement is signed between Aloha Airgroup and Novato, Calif.-based Gavarnie Holding LLC.

» **May 11, 2004:** Aloha-Gavarnie sale of Island Air is completed.

» **March 2006:** Island Air receives U.S. Department of Transportation approval to offer large carrier aircraft with more than 66 seats and introduces the 78-seat Q400, which is later returned to the mainland after the entry of Mesa Air Group's go! intensifies the interisland competition.

» **2010:** Island Air celebrates its 30th anniversary as Hawaii's second-oldest carrier.

Source: Island Air website

Today, Ornstein describes the interisland market as "stable."

"The biggest issue we all face overall is declining traffic due to the economic environment and extremely high fuel prices," he said.

Hawaiian Airlines President and CEO Mark Dunkerley says surplus capacity in the market last year has disappeared, and "pricing has returned to more rational levels."

"All in all," he said, "I describe the current market condition as representing a reasonable balance between supply and demand."

Hawaii aviation historian Peter Forman said that when Island Air brought a 78-seat Q400 jet-prop aircraft into the marketplace in March 2006, it was with the intention of competing on some routes with incumbents Hawaiian and Aloha airlines. But when go! entered the market in June of that year, it wasn't long afterward that Island Air sent the Q400 back to the mainland.

"Island Air quickly surmised that fares would be far too low in those markets for quite some time, so they pulled out the Q400, which in retrospect was a smart business decision," Forman said. "They then concentrated on some of the smaller, less populated islands. Their niche is they are flying the more substantial aircraft because many of their competitors are flying the Cessna Caravans, and they're still flying the larger twin-engine Dash-8s. Their challenge is to generate sufficient volume of flying to fill those airplanes on the thinner routes."

Forman said what Island Air needs to do is stay flexible and look for new market opportunities.

"They have been flexible in looking for and moving into the markets that make sense," he said. "As long as they continue that strategy, they should be able to find a way to make the business work in Hawaii."



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Passengers enjoy the sun and light breeze as they board their plane.



Island Air navigates a tumultuous market and now has plans to expand.



Flight attendant Myra Dombrowski, left, and boarding agent Chris Sadorra clean and prepare a plane for another flight.



Baggage agents Mike Raquedan, left, Kaimiola Carter, Herman Hermano, Isiah Zaplan and Kapono Luis load baggage onto a plane.



Kaipokai Lee checks in with customer service supervisor Dior Andrade.