

**Testimony of Kerry F. Philipovitch**  
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**House Committee on Transportation & Infrastructure**  
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Good morning Chairman Shuster, Ranking Member DeFazio & distinguished Members of the Committee. My name is Kerry Philipovitch, and I am Senior Vice President of Customer Experience at American Airlines. Thank you for inviting me to talk with you about American Airlines' focus on improving customer service.

Our mission at American Airlines is to validate the trust that our team members, customers and shareholders place in us. Accomplishing this mission starts first with investing in our team. At American, we are investing in our 120,000 team members so that they, in turn, have all they need to safely transport the nearly 200 million customers who fly with us annually.

We are a global airline that operates nearly 7,000 daily flights to 350 destinations in 50 countries. While we strive for perfect customer service every day, the reality is the system is far from perfect, and given the breadth of our operation and the multiple customer interfaces throughout the travel process—some of which are outside the control of American—mistakes will happen. Nonetheless, when these customer service issues occur, we work quickly to fix and learn from them.

Despite our vigorous efforts to improve the customer experience, there have been some high profile incidents in recent weeks that set back some of the progress we've been making. And in response, we at American have taken action to create a better travel process for both our team members, and the flying public. I'll explain more about those changes below.

In short, it is the responsibility of our Company's leadership team to continuously reevaluate processes in order to put our team members in position to deliver great service, and to serve our customers. We gladly accept that responsibility.

### **A Changing Industry**

Customer service in the airline industry is more important now than ever because of the how our industry has changed over the past 50 years.

In the 1970s, flying was expensive—about 32 cents per mile—which cost about two percent of a consumer's annual income to purchase. The high cost of air travel meant it was not accessible to many and airplanes were about 55 percent full. Most Americans averaged less than one trip per year. For the privileged few who could afford to fly, the travel experience was luxurious and opulent.

Fifty years later—we've seen an industry evolve as market forces created volatile decades with more than 100 airline bankruptcies, mergers, and acquisitions. On the other side of this natural evolution, the U.S. airline industry today is stable, the safest in the world, competitive, and most importantly, open to all Americans. Air travel is more affordable and accessible than ever, as

competition has driven down the real price of flying to about 14 cents per mile, a 56 percent decrease since the '70s in real terms. With this open access and affordability comes more people; airplanes are now roughly 83 percent full. In the years that preceded the raft of bankruptcies in the airline industry—while other industries were focusing on improving their customer service—the airline industry was changing our business model in response to lower fares and increased demand, and simply trying to survive. Required changes to products and services were not always viewed favorably by customers.

As we moved past an unstable and vulnerable period, we are focusing on restoring the flying public's confidence in American Airlines' operation and improving our customer experience, which often times go hand-in-hand.

While we have made some noteworthy changes as a result of recent high-profile incidents, the reality is we've been hard at work to enhance our customers' experience ever since we've had the stability and financial wherewithal to do so. And we're seeing the results of our front-line team members' hard work to improve the reliability of our operation.

Our most recent example is American set new reliability records just two months ago for mainline flights departing on-time, flights arriving on-time, and extremely low rates of mishandled baggage. For customers, this means the plane left the gate when it was supposed to depart, it arrived when our schedule indicated it would, and all of the luggage that was supposed to arrive was waiting at the baggage claim carousel. This sounds ridiculously simple, but for an amazingly complex system, impacted by unpredictable weather patterns, an aging air traffic control system, and other variables out of the airlines' control, this seemingly simple task is extraordinarily difficult at times.

We are making great progress at American and our customers are noticing. American is proud to have recently been recognized by Air Transport World with the 2017 "ATW Airline of the Year" award, and we were named "Full Service Airline" brand of the year in the 2017 Harris Poll. In the recently released American Customer Satisfaction Index "ACSI Travel Report 2017," American showed significant year-over-year improvement and received its best ever score.

But this is a competitive marketplace, and customer expectations are shaped by both their travel experiences and the products and services they consume in other industries. During the years that airlines were restructuring to create a stable business, other industries were evolving their focus to build customer-centric cultures, and we understand that we have some catching up to do.

Competition within our industry is vigorous, and this is a good dynamic as we know this means we have to keep improving to attract and retain customers. In addition to competing with three other large U.S. airlines with international footprints, we compete with seven fast growing domestic carriers. These airlines have differing products, procedures, pricing, and service upon which we compete for customer loyalty. And all of this adds up to more choice for air travel consumers.

This intensely competitive environment is evidenced by the falling price of an airline ticket: adjusted for inflation, the average cost of an airline ticket has decreased by more than 24 percent

since 1995. Just last week, the Department of Transportation (DOT) announced that the cost of an airline ticket decreased by an average of nearly nine percent just since last year, while the U.S. Consumer Price Index escalated by 2.4 percent.

### **Taking Care of Our Team Members**

Industry restructuring took its toll on airline employees as well. And we have much work to do to restore trust with our team members. Our leadership team focuses every day on building an engaged and excited workforce of frontline team members, and on making sure that all of our team members feel valued, appreciated, and proud. The men and women of American work in noble professions that contribute positively to the U.S. economy and to people's lives. Every day, our customers are able to attend important business meetings, life events, and to see the world due to the work our people do to transport our customers to their destinations safely and on-time.

At American, we've added more than 10,000 jobs to the economy as thousands of aviation professionals have joined our team over the past three years. Pilots, aircraft technicians, reservation agents, and flight attendants are just a few of the professions that are quickly growing at American. These are well-paid positions and at American, the average annual pay for our team members over the past three years has increased nearly 40 percent.

We are also investing in enhanced training for our customer-facing team members. Their jobs are complex, especially when travel plans are disrupted, most often by factors outside of their control, including weather or air traffic control delays. By July, approximately 40,000 frontline team members will have completed an innovative new training initiative to help build customer interaction and collaboration skills and ensure they have the tools they need to serve our customers in all circumstances. In light of recent events, we are working to further enhance the curriculum to strengthen our team members' abilities to avoid and de-escalate contentious interactions.

### **Refreshing our Fleet, Infrastructure, and Technology for our Customers**

Supporting our team members is the most important thing we're doing to improve the customer experience, but it's far from the only thing.

At American, we take delivery of a new airplane on average every four days, and by the end of the year, we will have invested more than \$15 billion to make our fleet the youngest and most fuel-efficient in the industry. And there's much more to come. We have 302 new aircraft on order worth an additional \$18 billion through 2020. American is also investing in the customer experience onboard the aircraft. We're devoting nearly \$3 billion to things like more lie-flat seats; faster, satellite-based Wi-Fi; more in-flight entertainment options; more power outlets; refurbished airport clubs; and upgraded food and beverage choices.

And we're investing in the customer experience at the airport. American has \$17 billion in capital improvement projects underway at multiple airports in which we operate, including in Dallas/Fort Worth, Los Angeles, and Miami. We also have multiple airport improvement

projects in the queue, including contributing to a new regional terminal at Washington Regan National Airport to once and for all retire the dreaded Gate 35x.

Finally, like many companies, we are leveraging technology to improve the customer experience. We recently updated our mobile app to include more information and functionality for customers, and an easier-to-use interface. Later this year, we will launch new technology to communicate more accurate and timely information to customers if their travel has been disrupted, and provide customers with more self-service options to take control of their travel plans during irregular operations. We continue to evolve the back-end support tools we use to make operational decisions and serve our customers. Because our business is impacted by so many factors beyond our control, we are focused on providing strong safety nets to allow us to recover quickly when things go wrong.

### **We Have More Progress to Make As a Company**

With safety first, customer experience is American's most urgent priority. This is the right thing to do for our customers. And in light of the vigorously competitive nature of the airline industry, we know that great customer service is essential.

Given that we work in a business that relies on people serving people, and with 120,000 team members who are spread around the globe, it will be difficult to avoid inconsistencies and occasional missteps. But how we recover from those is key. We know it is the responsibility of airline leadership to ensure our teams have the proper training, tools, resources, and environment to create a reliable, convenient, and pleasant experience for our customers, and to provide them with support to fix problems when they occur. And it is that responsibility that is at the forefront of all we do.

On April 21, an incident occurred on an American flight from San Francisco to Dallas/Fort Worth that involved one of our team members and a customer traveling with small children. Clearly what was recorded disappointed all of us, and we took immediate steps to apologize to the customers involved and to the broader public who viewed the scene captured on video. Our focus was on ensuring our customer and her children were cared for during the rest of their trip.

We issued a prompt public apology and reinforced that this incident did not reflect the values of our company and team members, or how we care for our customers. We also removed the team member in question from duty to allow for further review. Situations like this are an outlier, but it is important for American to take responsibility when we don't handle things well. In this case as in any other, we accept that responsibility completely.

We understand travel can be stressful. Managing a difficult situation well is one of the most important aspects of our team members' jobs, and we need to make sure they have the training and empowerment to take appropriate steps to resolve challenging situations in real time.

Our team takes care of hundreds of thousands of customers each day. And they do a phenomenal job. We are proud of them and appreciate the care they give each other and our customers.

## **Heightened Review of all Customer Service Policies and Procedures**

Other recent airline events have drawn concern about customer impacts from airlines overselling flights. An oversale situation occurs when more confirmed passengers arrive at the gate on the day-of-departure than the number of seats on the aircraft. More than 50 percent of oversales are due to operational factors, including weight/balance restrictions, equipment swaps due to air traffic congestion, moving crew members to avoid future service disruptions, and accommodating Federal Air Marshals.

American's process for accommodating customers during oversale situations centers on soliciting volunteers to give up their seats. We do this in multiple ways. First, our Reservation Support Team identifies heavily oversold flights before customers arrive at the airport. With advance visibility to all customer itineraries, we can identify and reach out to customers for whom we have the best alternative options – sometimes even improving their routing or arrival time at their destination. Our team proactively calls customers to offer an alternate flight in exchange for a travel voucher. If that doesn't work, or we don't know a flight is oversold until customers check-in, then we rely on our gate agents to seek volunteers at the airport prior to boarding.

In just the short time since the United incident, we've worked to make our process even better. Our Day of Departure Desk—which troubleshoots departure issues across our network from Dallas/Fort Worth—now monitors every flight that is oversold and gets involved earlier than before to ensure that we can find volunteers.

Additionally, there is now a dedicated hotline into our Day of Departure desk so our gate agents can offer the compensation necessary to entice customers to volunteer. We have not established an upper limit on what we will pay to solicit volunteers, and have entrusted our team to make the best decisions to serve our customers.

Even before these new procedures were implemented, the number of involuntarily denied boardings at American was very small. In 2016, according to DOT statistics, out of 131 million American Airlines enplanements, only 8,312 customers, or 0.64 per every 10,000 customers, were involuntarily denied boarding. New procedures are already showing a reduction to the low numbers of involuntary denied boardings as we work to bring the number closer to zero.

We made another important change as well: we committed that we will not involuntarily remove a customer who has already boarded the aircraft to accommodate another passenger. Period.

We are also reviewing other policies and procedures to see if there are additional changes we can make to elevate further our commitment to customer service.

It is concerning to see that recent high-profile incidents have been interpreted by some as evidence that airline customer service is broken. While there's no question that we can do better, we're making steady progress. Overall airline customer satisfaction increased in 2016, reaching an all-time high in the J.D. Power airline ratings and tying the record in the 2016 American

Customer Satisfaction Index Travel Report. In fact, industry ratings in both reports have improved each year since 2012.

### **Working toward a Solution**

There is no question that flying can be stressful, and missteps along the way do occur. When they do, we first deliver a quick resolution to our customers, we commit to finding the root cause, and we incorporate those learnings quickly. It is this process that leads to continuous improvement at American. We are confident that the investments we are making in our operation, in our product, in airport infrastructure, and in our 120,000 team members will yield enormous benefits for the customers who travel on American Airlines.

A customer's flying experience is influenced not only by airline customer service, but by airports and a number of other touch points along the way. We have a great partnership with many of the stakeholders within the travel experience, including the Federal Aviation Administration, the Transportation and Security Administration, and Customs and Border Protection. We will continue to work collaboratively with all of our partners to improve the customer experience.

This is a time of great optimism at American Airlines, and it can also be a great time of optimism for air travel in our country. American is committed to validating the trust that our team members, our customers, and other stakeholders place in us each day. And we look forward to our continued work together to make this economic engine of our country all it can and should be so that Americans everywhere, have the choice to travel affordably, safely, and comfortably.

I appreciate the chance to be here, and I'm pleased to answer any questions you might have.