Airline Industry Overview
Framework

• Market
• Product
• Customer
• Competition
• Companies
• Economics
  – Revenues
  – Cost
• Externals
Global Market

• 2000 Airlines operating more than 23,000 aircraft, providing service to over 3700 airports.
• In 2006, there were 28 million scheduled flight departures and carried over 2 billion passengers.
• Growth of world air travel has averaged approximately 5% per year over the past 30 years.
• Annual growth in air travel has been about twice the annual growth in GDP.
• Expected to double over next 10 – 15 years.
US Market

- 100 certificated passenger airlines operate over 11 million flight departures per year
- Carry over one-third of the world’s total air traffic
- 745 million passengers in 2006
- $160 billion in total revenues
- 545,000 employees and over 8,000 aircraft operating 31,000 flights per day
- Commercial aviation contributes 8 percent of the US Gross Domestic Product, according to recent estimates
Market

• US Commercial
• Cost – Safety – Growth
• Consolidation
  – Southwest – AirTran
Products

• The Good, the Bad, and the Ugly
• Other
  – Advertising
  – Airport Gains
  – Credit Cards?
(Good) First Class
Emirates Private Room
Emirates Shower
## Fees (Bad)

<table>
<thead>
<tr>
<th>Airline</th>
<th>Checked Baggage (each way)</th>
<th>Meals (each way)</th>
<th>Pets (each way)</th>
<th>Unaccompanied Minor Service (each way)</th>
<th>Seat Assignment / Legroom (each way)</th>
</tr>
</thead>
</table>
| **Air Canada Fees**      | 1st Bag: $25 CAD, Tickets issued before September 7 or travel before October 27th Bag Free  
2nd Bag: $35 CAD  
3rd Bag $100 CAD ($90 CAD paid online) | Snack: $3-$5     
Meal: $3-$13 | Checked: $105 (North America routes)  
Cabin: $50-$100 (per direction)  
Cargo: See AirCanada.com | Per Child: $100 (age 8-11) | For Tango level airfares, seat selection starts at $18 |
| **AirTran Fees**         | 1st Bag: $20  
2nd Bag: $25  
3rd Bag: $50 | Snack: Free  
Meal: Not offered | Checked: Not offered  
Cabin: $69  
Cargo: Not offered | Per Family Non-stop: $49 (age 5-15)  
Per Family Connecting: $69 (age 8-15) | Fee's Starting at $15 for Seat Assignment |
| **American Airlines Fees** | 1st Bag: $25 (Int'l: Free)  
2nd Bag: $35 (Int'l $30-$60)  
3rd Bag: $150 | Snack: $3.29-$4.49  
Meal: $5.29-$10 | Checked: $175  
Cabin: $125  
Cargo: See AAcargo.com | Per Family: $100 (age 5-14) | None Found |
| **Spirit Airlines Fees**  | Carry-On: $45 ($30 Online) (If does not fit under seat)  
1st Bag: $38 ($28 online); Int'l: $43 ($33 online)  
2nd Bag: $45 ($35 online); Int'l: $50 ($40 online)  
3rd Bag: $95 ($85 online); Int'l: $100 ($90 online) | Drink: $2-$3  
Snack: $2-$4  
Meal: $3-$14 | Checked: Not offered  
Cabin: $100  
Cargo: Not offered | Per Child: $100 (age 5-14) | Free Spirit Assigned Seating at Check-In. Customer-Requested Seat Assignments/Deluxe Leather $1.00-$50.00 per seat. Big Front Seats $12-$199 per seat. |
Ryanair confirms it WILL bring in charges for on-board toilets

By SARAH GORDON
Last updated at 7:06 PM on 6th April 2010

Ryanair has confirmed that it is pushing ahead with its controversial scheme to charge passengers for use of toilets on its aircraft, meaning spending a penny on a flight will soon cost as much as a pound.

The no-frills airline is working with Boeing to redesign the cabin and develop coin-operated toilets on 168 of its planes.

Not content with charging passengers for use of the facilities, the airline is also looking at reducing the number of toilets on board, leaving just one available cubicle for up to 189 passengers.

More charges: Spending a penny could soon cost a pound

To use the remaining toilet on board, passengers would be forced to part with either £1 or €1 for each visit.
Customer

• Business
  – Time
  – Amenities

• Pleasure
  – Cost

• Low Switching Cost
  – No Loyalty – Why miles exist
Competition

- 1937 – 1978: Civil Aeronautics Board regulates Air Travel as Public Utility
- 1978 – Present: Airline Deregulation Act
  - Cost per passenger is 30% less in 1990 vs. 1976 (accounting for inflation)
  - 9 airlines went bankrupt from 78 – 01, and American today
  - Low Cost Airlines
  - Hub & Spoke
Low Cost Airlines

Low Cost Carriers US Domestic Traffic

- RPMs
- RPM Shares
Competition

- Cost cutting to maximize seats
  - Product of high fixed vs. variable cost
- Excess capacity due to competition
  - Changing with recession
- Barriers to Entry are less than expected
- Substitutes are generally comparable in cost
  - Trains, Buses
  - Exception: E-Meeting
Companies

- Consolidation
- Service
- Image

David Neeleman
Economics (Profits)
### 2009 Summary

#### FINANCIAL (millions except stock price)

<table>
<thead>
<tr>
<th>Delta</th>
<th>American</th>
<th>United</th>
<th>Continental</th>
<th>US Airways</th>
<th>Southwest</th>
<th>JetBlue</th>
<th>Alaska</th>
<th>Air Tran</th>
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<td><strong>$7,044</strong></td>
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<td><strong>$2,105</strong></td>
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<td><strong>$854.2</strong></td>
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<td><strong>$174.0</strong></td>
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<td><strong>2.7%</strong></td>
<td><strong>-5.8%</strong></td>
<td><strong>0.7%</strong></td>
<td><strong>2.7%</strong></td>
<td><strong>3.7%</strong></td>
<td><strong>2.5%</strong></td>
<td>8.5%</td>
<td>9.5%</td>
<td>7.4%</td>
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<td><strong>-$99</strong></td>
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<td><strong>$7.4</strong></td>
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<td><strong>$5.8</strong></td>
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<td><strong>$5.3</strong></td>
<td><strong>$25.1</strong></td>
<td><strong>$5.6</strong></td>
</tr>
</tbody>
</table>

#### OPERATIONAL (mainline)

| ASM's (total)(million) | 98,002 | 32,558 | 23,144 | 23,294 |
| International ASM's (million) | 49,535 | 17,475 | 14,922 | 14,922 |
| International % of ASM capacity | 45.6% | 38.7% | 43.5% | 50.9% |
| RPM's (million) | 74,457 | 25,955 | 18,362 | 18,588 |
Bankruptcy

- 2001 – 2011
  - US Air
  - United
  - Delta
  - Northwest
  - American
Improvements

• Addition of Fees
  – Baggage
  – Food
  – Internet

• Cost Cutting
  – Food
  – Pillows
Externals

• Unions
  – Pay & Benefits

• Regulation
• Government Support
• Weather
• Terrorism
Fuel

- Hedge
- Efficiency – New 787
- Alternatives – virgin biofuel