

Low Cost Carriers in the U.S.:

Shifting Strategies Required for the Next Growth Phase

William S Swelbar
Eclat Consulting

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Topics to Be Covered



- ◆ The LCC Growth Cycle Matures
- ◆ Measuring the Levels of LCC Exposure
- ◆ The Myth of Market Stimulation
- ◆ Is the Current “Regional Armada” the Right Artillery?
- ◆ Rethink the Architecture, or Else?

LCCs: This Growth Cycle Matures

The Next Phase of LCC Growth Will Require a Different Mindset About Market Size



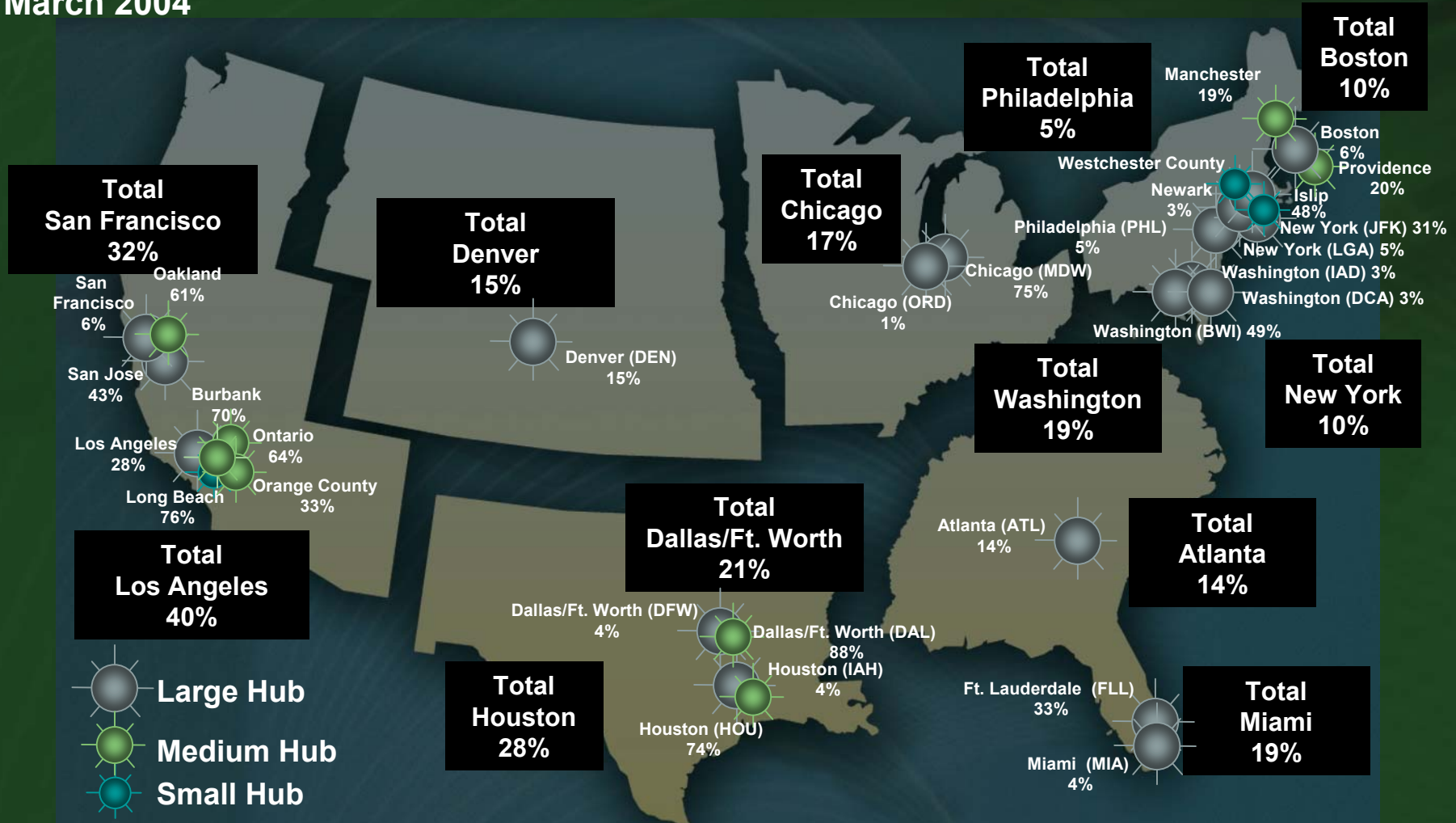
LCC Markets Entered

	Total City Pairs	Large Hub Airports to/from			Medium Hub Airports to/from		Small Hub Airports to/from
		Large Hub	Medium Hub	Small Hub	Medium Hub	Small Hub	Small Hub
1994	3	3	--	--	--	--	--
1995	54	8	30	3	12	1	--
1996	44	12	23	4	4	1	--
1997	56	15	26	9	1	4	1
1998	51	19	20	9	1	2	--
1999	57	20	26	5	6	--	--
2000	55	20	31	4	--	--	--
2001	53	24	21	6	2	--	--
2002	24	10	10	4	--	--	--
Total	397	131	187	44	26	8	1
% of Total		33.0%	47.1%	11.1%	6.5%	2.0%	3.0%
Cumulative % of Total			80.1%	91.2%	97.7%	99.7%	100%

LCC Penetration of Top CMSA Markets — The Battle Rages East



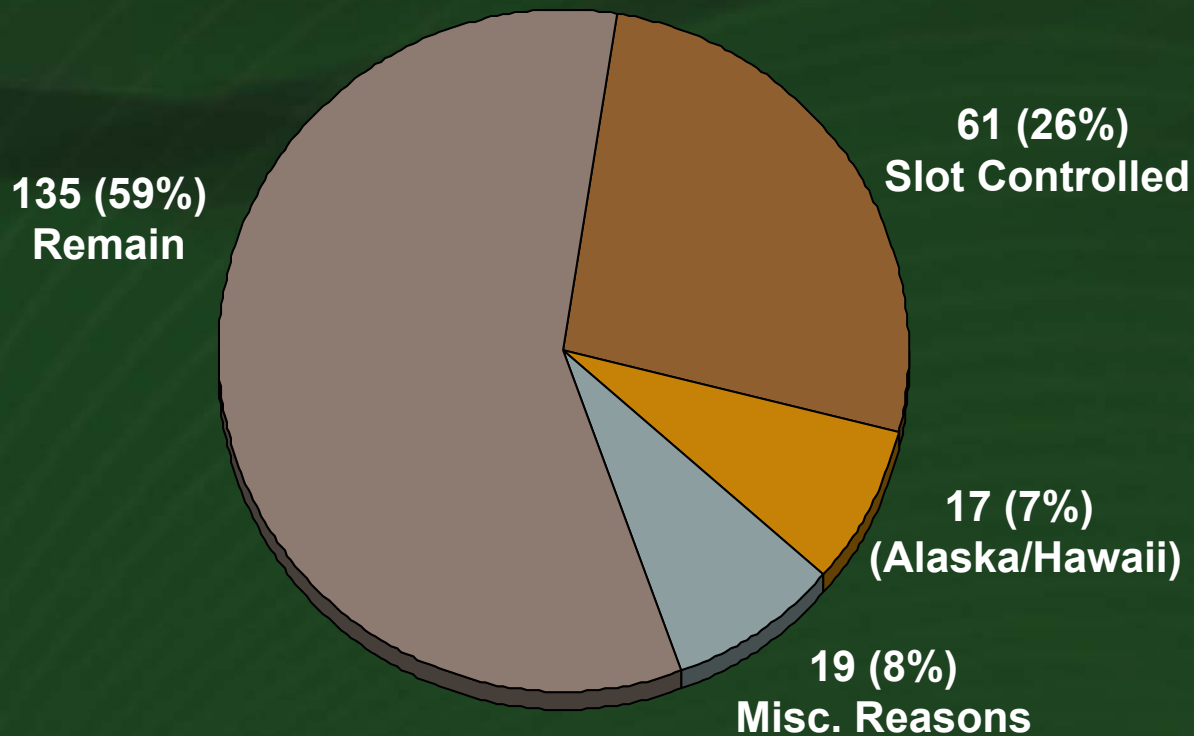
March 2004



Only 232 City Pairs Are Seen as Likely New Candidates for LCC Expansion



**232 U.S. Markets With Over 100 PDEWs
Have No Low Cost Carrier Service**



All of the Remaining 135 Markets Have Issues



Served By Secondary LCC Market		24
Hub Dominant	Gauging the Competitive Response	47
Hub to Hub		44
Wright Amendment "Blocked" Airports		7
Other		13
Total		135

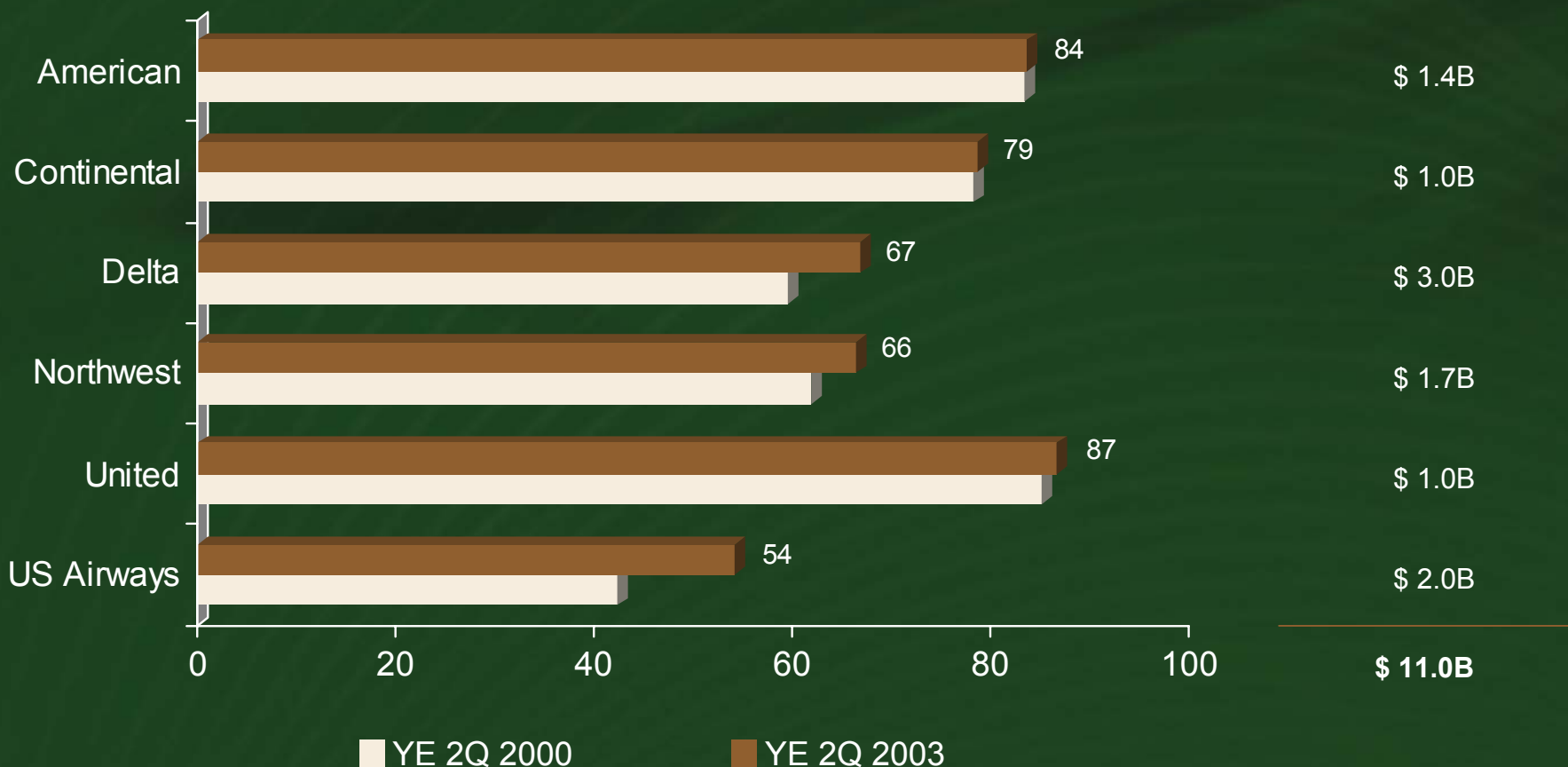
The LCCs' Impact on the Industry's Segments

Delta and US Airways Have the Most to Lose From Planned LCC Growth



Percent of Revenue Exposed to Direct LCC Competition

Remaining Domestic
Revenue
Not Directly Impacted

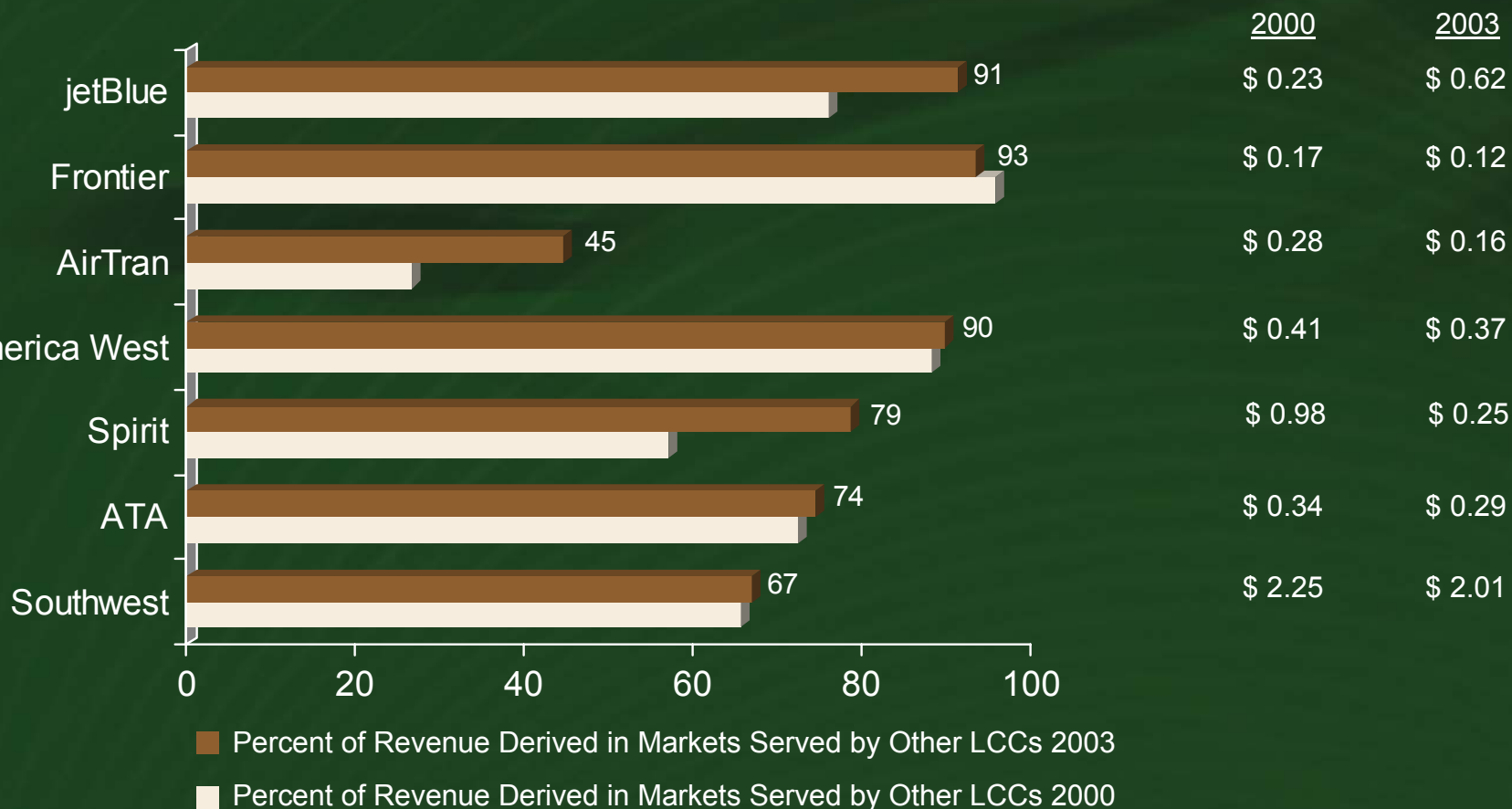


LCCs Have High Levels of Direct Competition With One Another



Percent of Revenue Earned in Direct Competition With at Least One Other LCC

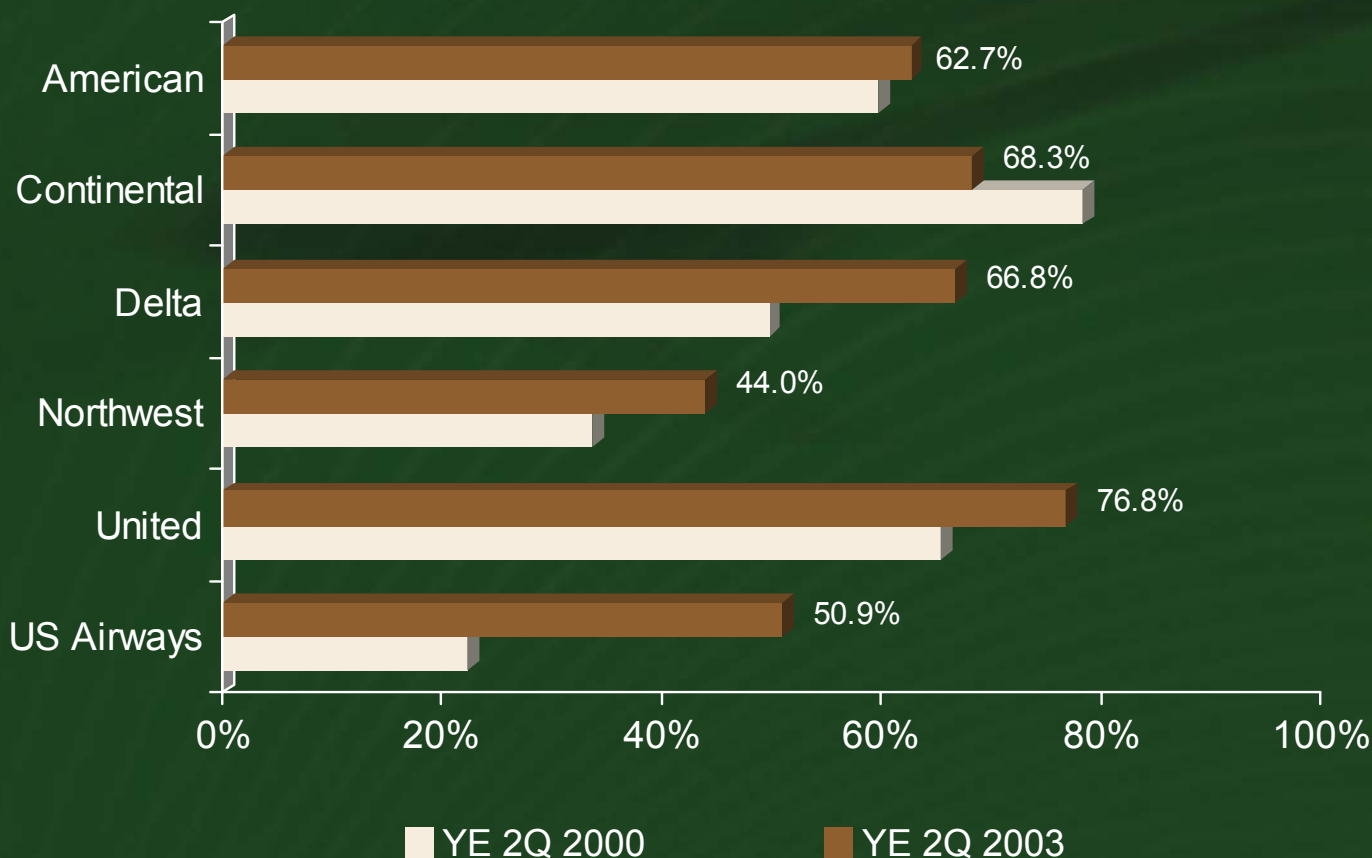
For Every \$ in Revenue by Competing LCC Carriers, Carrier Earns:



The Network Carriers' Regional Affiliates Have Significant Exposure to the Growing LCC's



Percent of Revenue Earned in Direct Competition With at Least One Other LCC



Percent Monopoly Markets

American	10.5%
Continental	11.1%
Delta	9.6%
Northwest	18.0%
United	6.9%
US Airways	13.4%

American	10.9%
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Continental	8.0%
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Continental	17.0%
-------------	-------

Delta	19.9%
-------	-------

Delta	18.0%
-------	-------

Northwest	13.3%
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Northwest	26.9%
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United	10.5%
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United	11.1%
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US Airways	9.6%
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US Airways	18.0%
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The Myth of Market Stimulation

Traffic Growth Is One Thing...

The Myth of Stimulation — Total Market Traffic Stimulation Is Less Than 12%



1994 - 2002

	New City Pairs Introduced	Actual Passenger* Stimulation		Redirected Incumbent Traffic
		Ind. Carriers	Total Market	
Southwest	188	+11.2M	+11.1M	(.1M)
AirTran	82	+7.0M	+4.8M	(2.2M)
jetBlue	20	+3.9M	+1.8M	(2.1M)
Spirit	35	+3.6M	+3.5M	(.1M)
ATA	41	+2.3M	+1.3M	(1.0M)
Frontier	31	+1.8M	+1.5M	(.3M)
		+29.8M	+24.0M or +11.7%	(5.8M)

*Measured 12 months prior to service inauguration by LCC, versus 12 months after

With or Without LCC Presence, Revenue Has Declined Significantly in Markets of All Sizes



A Look at Revenue 3Q 2003 v. 3Q 2000

	Large Hub Airports to/from			Medium Hub Airports to/from		Small Hub Airports to/from
	Large Hub	Medium Hub	Small Hub	Medium Hub	Small Hub	Small Hub
# Markets	612	1,256	10,830	537	8,800	15,042
Traffic	-9.6%	-.7%	-2.2%	+.9%	-2.1%	-2.4%
Avg. Fare	-17.6%	-12.9%	-12.3%	-10.0%	-10.4%	-10.4%
Revenue	-25.5%	-13.5%	-14.2%	-9.2%	-12.3%	-12.5%

Longer Haul and Shorter Haul Markets Have Produced Very Different Traffic Results But Similar Revenue Results



Another Look at Revenue

3Q 2003 v. 3Q 2000

1,000 Itinerary Miles or Less

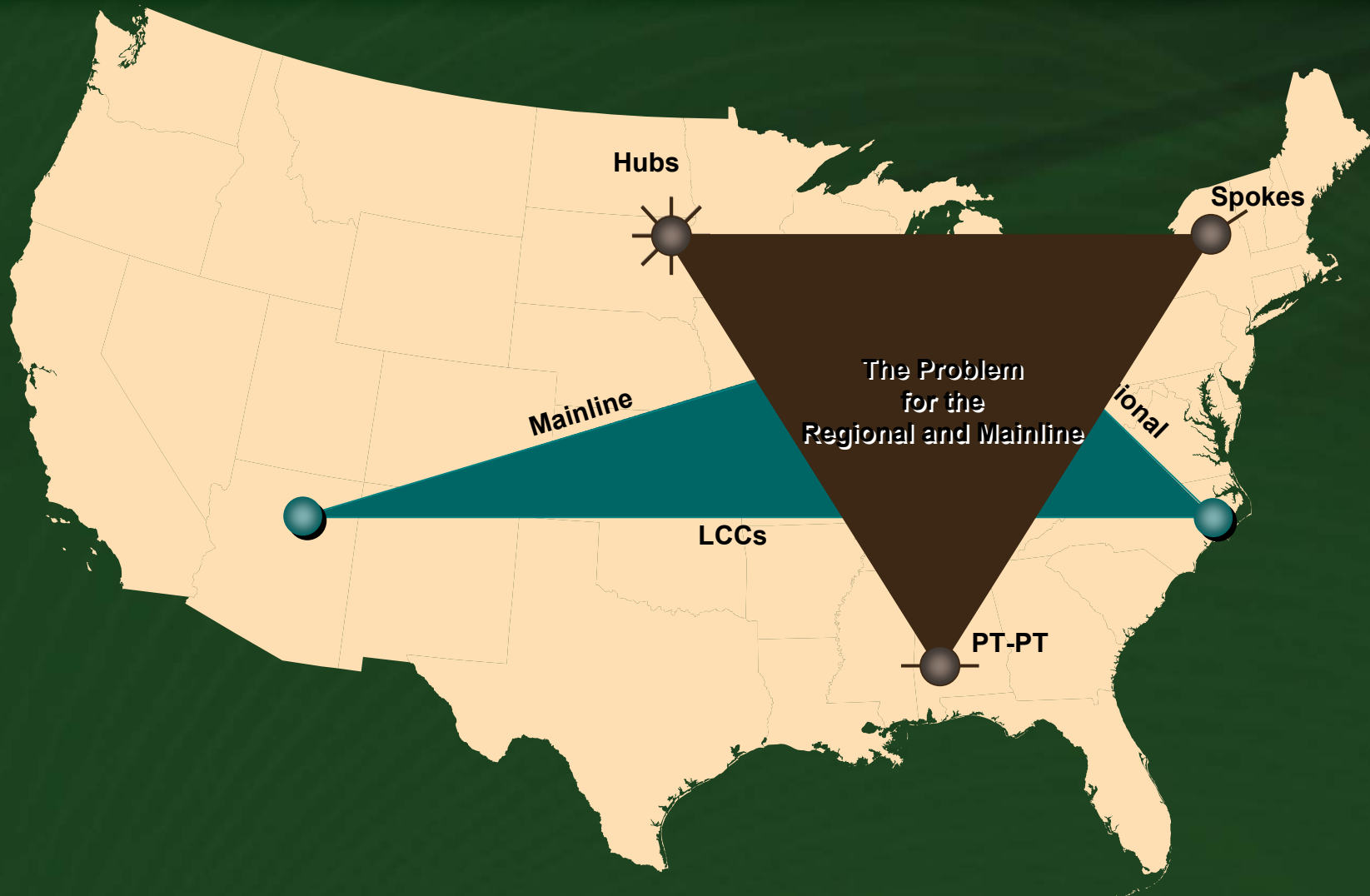
	Large Hub Airports to/from			Medium Hub Airports to/from		Small Hub Airports to/from
	Large Hub	Medium Hub	Small Hub	Medium Hub	Small Hub	Small Hub
Traffic	-15.2%	-7.8%	-7.4%	-8.7%	-8.4%	-6.5%
Fares	-10.6%	-9.0%	-11.8%	-6.3%	-10.9%	-12.2%
Revenue	-24.2%	-16.1%	-18.3%	-14.5%	-18.4%	-18.0%

More Than 1,000 Itinerary Miles

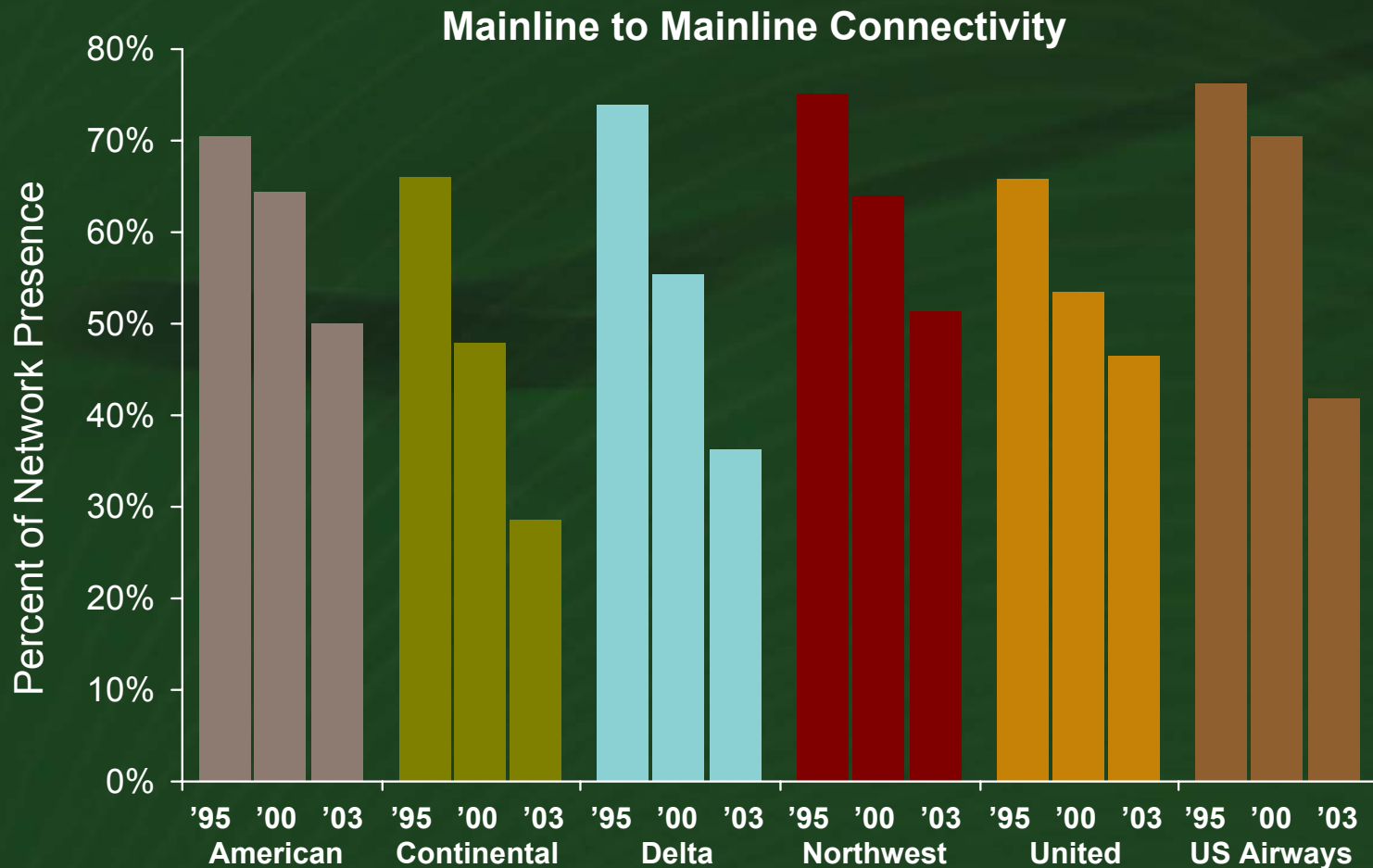
Traffic	-3.1%	+7.9%	+5.9%	+13.4%	+8.4%	+8.4%
Fares	-24.2%	-17.9%	-14.5%	-16.2%	-11.9%	-9.2%
Revenue	-26.5%	-11.4%	-9.5%	-4.9%	-4.6%	-1.6%

The Next Phase of Growth by the LCCs Will Challenge the Current Network Architecture

The Next Phase of LCC Growth Will Be An Attack on the Network Carriers Through Their Regional Affiliates



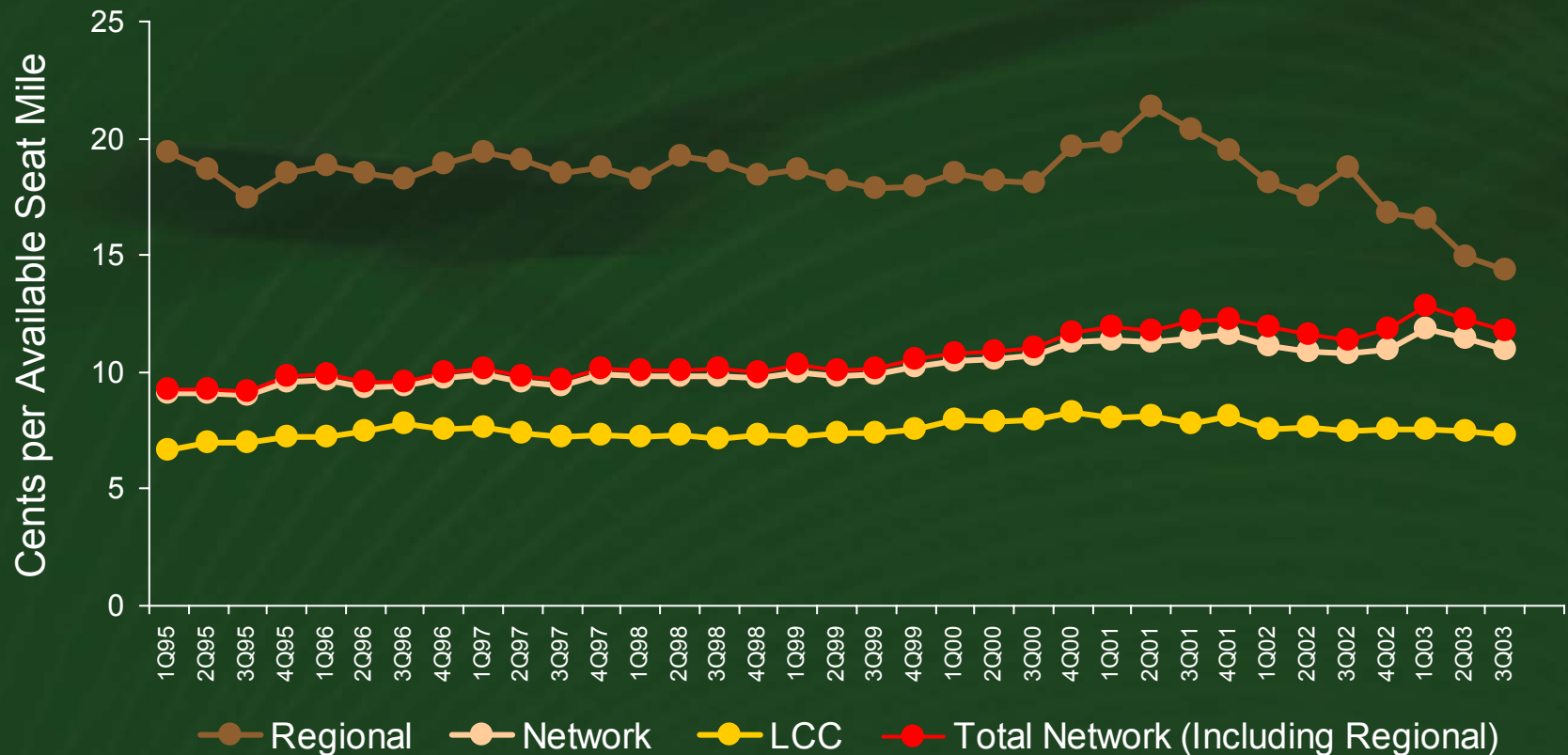
Have the Network Carriers Become Too Reliant on the Regional Jet?



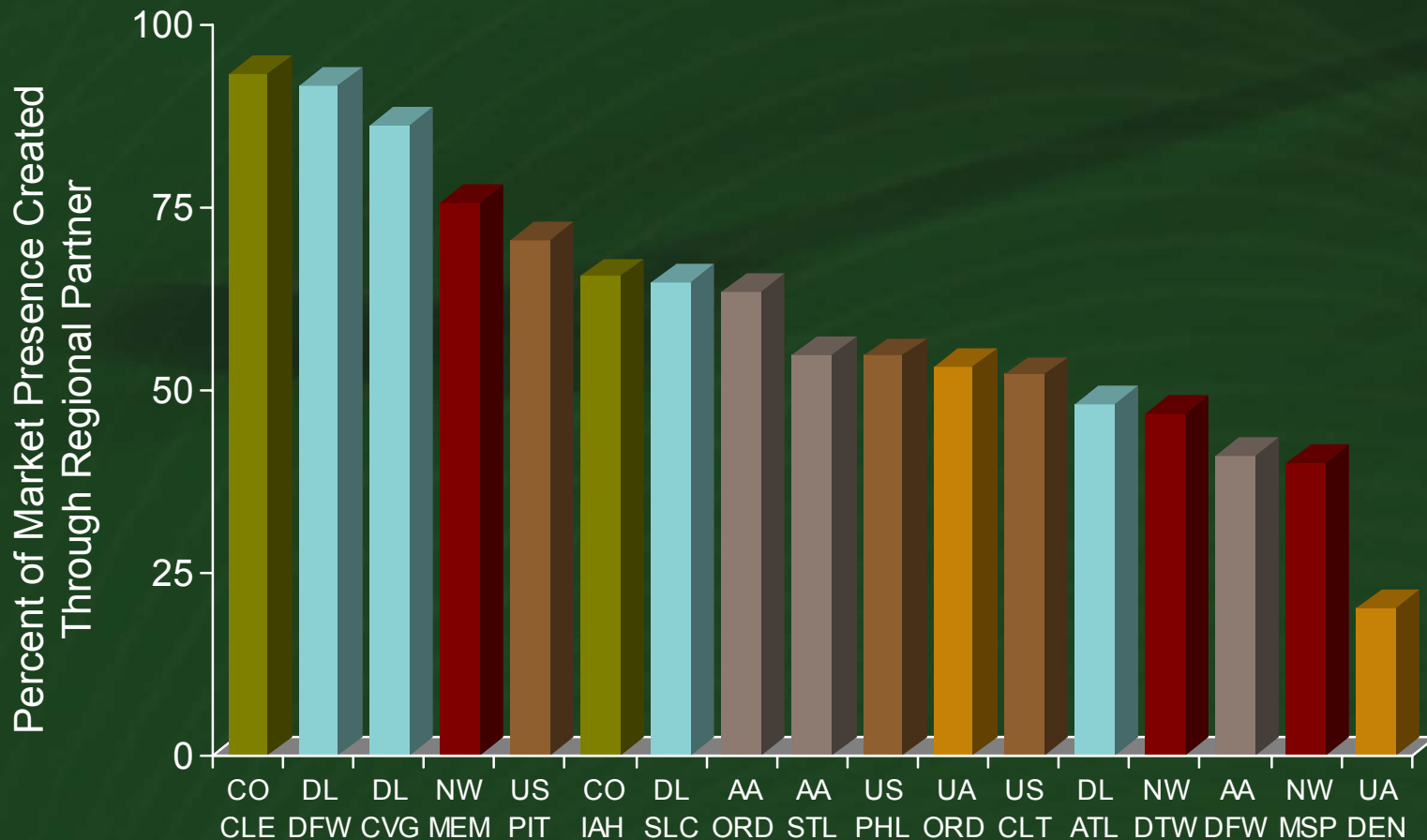
Current Regional Carrier Capacity Is Not Cheap Capacity On A Per Seat Mile Basis



Despite the Substantial Reductions in Regional Carrier Unit Costs, They Remain 31% Higher than Mainline Unit Costs

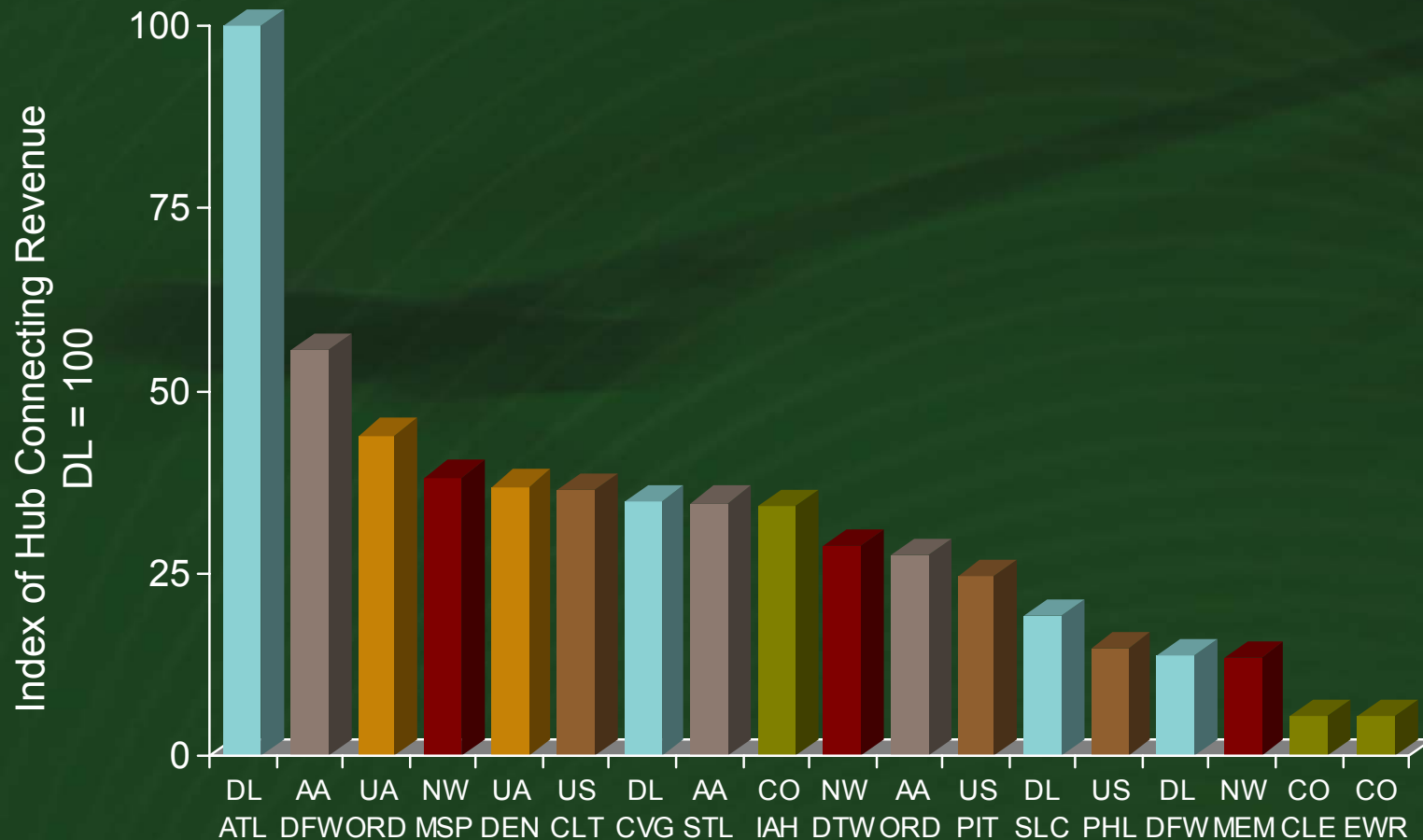


Are All of the Mid-continent Hubs, Reliant on Regional Jet Capacity, Necessary?



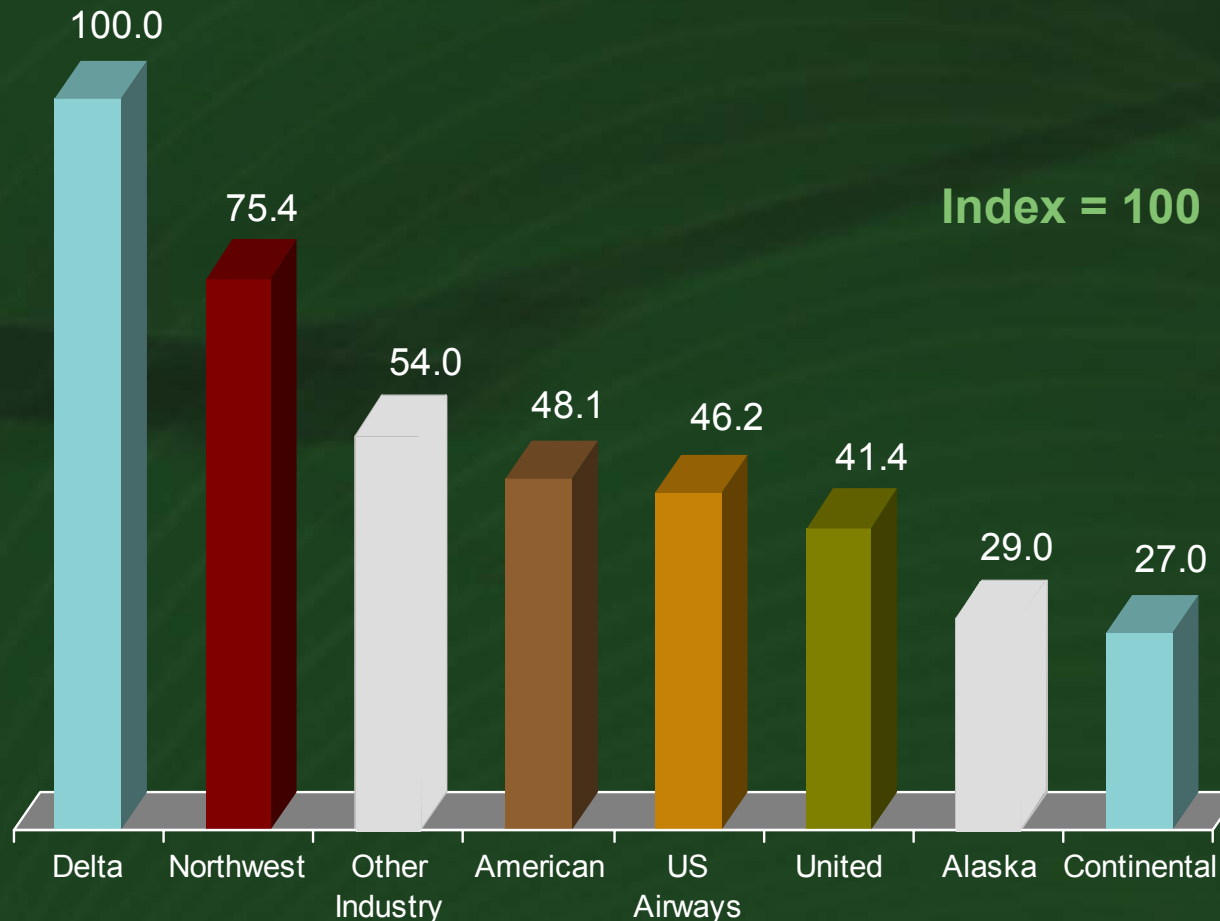
Excludes IAD, JFK, EWR, LAX, SFO, MIA (International Gateways)

If Connecting Revenue Is to Be the Target of Planned LCC Growth, the Power of the Hub Will Be Tested



Excludes IAD, JFK, EWR, LAX, SFO, MIA (International Gateways)

Network Carrier Vulnerability to Growth by the "Big 3 LCCs"



Other Industry Comprised of: America West, Spirit, AirTran, Southwest, Midwest, ATA, Frontier, Sun Country and jetBlue.
(Listed in Order of Vulnerability)

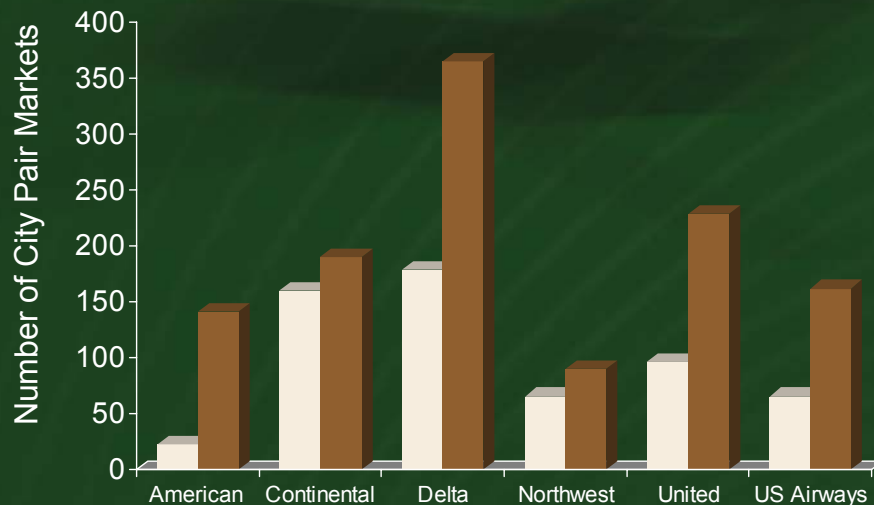
Is It Time to Begin Rethinking the High Frequency/Small Aircraft Approach In This Pricing Environment?

LCCs v. The Feeder Partners -- Growing Battle with Limited Artillery?

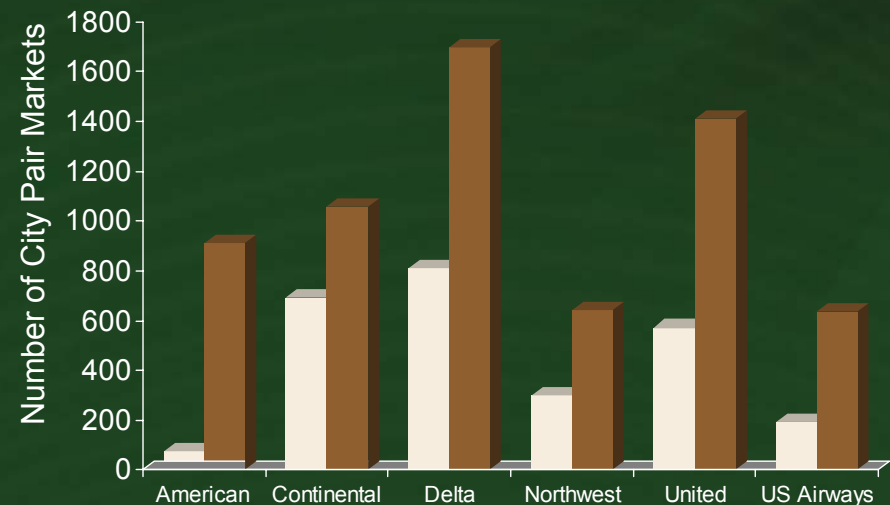


Number of City Pairs Where Network Carrier Regional Jet
Competes With an LCC Service On At Least 1 Frequency

Nonstop Competition



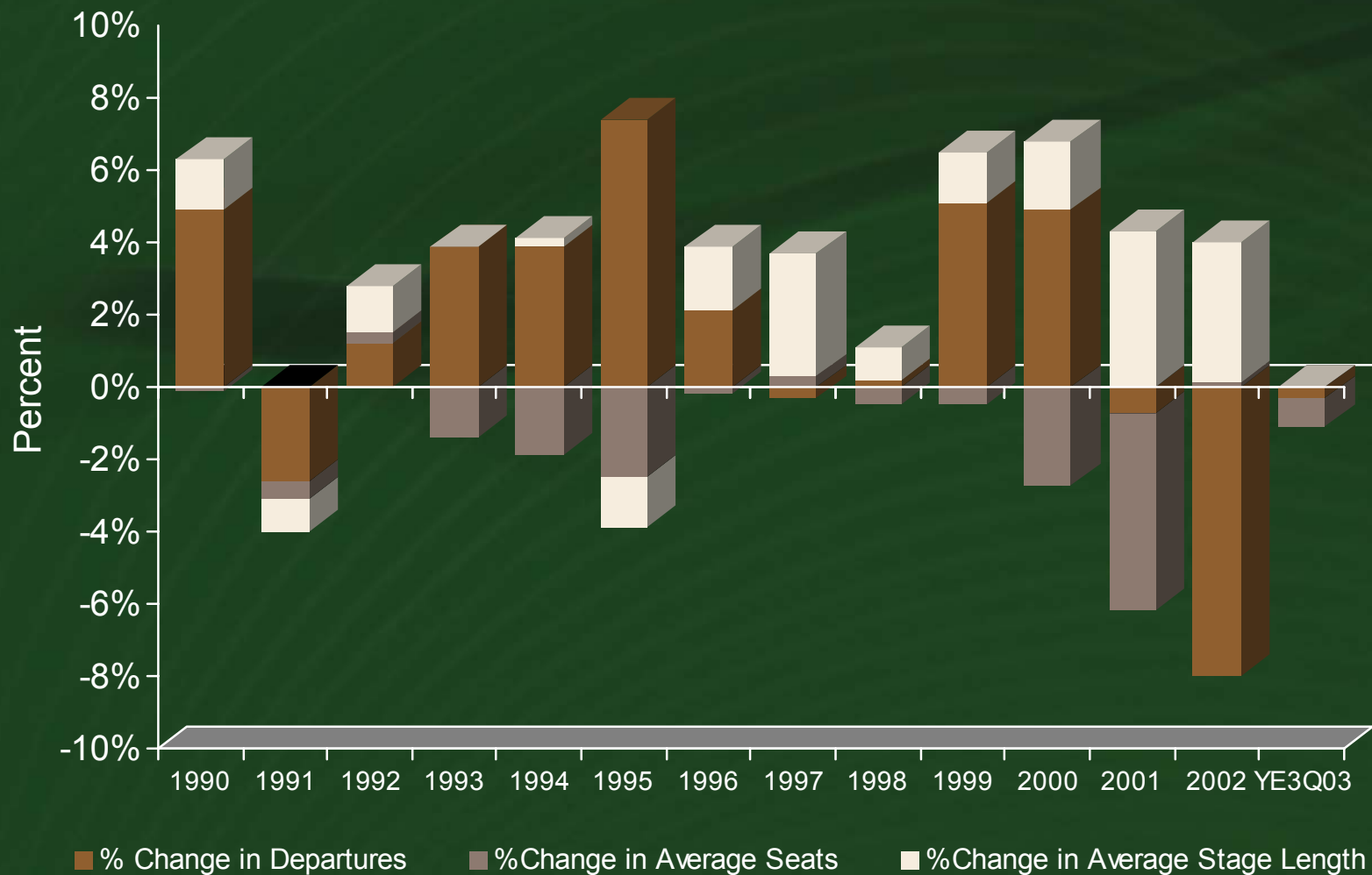
One-stop Competition



July 2000

July 2003

Sources of Capacity Change in the US Domestic Market



Conclusions – If the Network Carriers Are to Minimize/Block Future LCC Encroachment



- ◆ For the Network Carriers that Have Restructured at Least Once: It's Time to Get On With the Next Phase of Restructuring (i.e. rethinking the network architecture)
 - The Current Regional Partner - Mainline Carrier Relationship Is Dysfunctional and Changes Will Prove Necessary
 - Financial Relationship
 - Cross subsidy inside a network is one thing, guaranteeing profit while absorbing 100 percent of the market risk is quite another
 - Labor Issues
 - Expectations at the current regional level are too high
 - Significant mainline concessions permitting use of 70 seat aircraft are not enough to overcome the structural disadvantage faced by existing network carriers
- ◆ For the Network Carriers That Have Not Gotten Through the First Phase of Restructuring: Best of Luck
 - Phase 2 Will Prove Much More Difficult Than Just Rate and Productivity Reductions Whether From Labor or Fixed Capital

Conclusions – If the LCC's Are to Continue Exploiting the Network Carrier's Domain



- ◆ Do Not Underestimate the Competitive Response
 - The next phase of US domestic growth will challenge the network carrier's strongest hubs
- ◆ Do Not Falsely Believe That Cost Reductions at the Network Carriers Have Been Fully Realized
 - The gap is closing and will close further
- ◆ We Are Entering a New Phase of the Growth Cycle
 - Markets Are Smaller
 - Already Have Seen Both Service and Price Stimulation, therefore
 - Stimulation Rates Will Be Lower
 - jetBlue has signaled growth opportunities that are not domestic markets
 - As have other LCC's with announcements into Mexico

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