SPECIAL FEATURE
Illustrations of fare entry effects on price and traffic
(See Charts on pages 1-6 following.)

As we indicted in our initial report, one of our goals is to respond to consumer input. In this regard, there has been considerable interest in Tables 3 and 4, where the report identifies markets that experienced increases or decreases in average fares of greater than 33 percent, and shows how this has affected traffic levels. Both in the first report and the current report most of the large changes in price are directly attributable to entry by a low fare carrier. In this report, lower prices resulted from entry by Southwest and several other low fare new entrant airlines. In response to the interest in this aspect of our report we are here attempting to elaborate by providing additional details on how low fare entry affects average prices.

The fares that many low fare carriers charge can greatly expand the air travel market, enabling many who would otherwise not travel by air to do so. They also provide competitive alternatives for many travelers who would otherwise have to pay higher fares, and often compete down the prices of incumbent carriers who previously charged much higher prices.

The charts on pages 1 through 6 (Charts A1-C5) illustrate the effects on traffic, fares, and competitors in five city-pair markets—Baltimore-Chicago and Baltimore-Cleveland, where Southwest entered, Atlanta-Columbus, Ohio, where ValuJet entered, Kansas City-San Francisco, where Vanguard entered, and Denver-Reno, where Reno Air entered. In each chart, the data show the number of passengers by $25 fare increments. The charts reflect data either for periods before and after low fare new entry (that is, for the fourth quarter of 1996 and the fourth quarter immediately preceding low fare new entry), or separately for network airlines and low fare airlines for the fourth quarter of 1996.

Charts A1-5 on pages 1 and 2 reflect total market data for the five individual city pairs. The data shown to the right of each chart show the total passengers and average fares for each period reflected in the chart, and changes in traffic and price between the two periods. These charts show how the entry of low fare service changes the structure of price in the market and increases traffic volume. In each instance traffic volumes at low fare levels increased substantially, the level of the lowest fares in the market were reduced substantially, and most passengers who had previously paid higher fares before low fare entry now do not.

To illustrate, Chart A-1, for Baltimore-Chicago shows that before Southwest entered very few passengers paid less than $100 and the largest number of passengers for any fare increment paid between $276 and $300 (11,650 passengers). For the fourth quarter of 1996, 156,340 passengers paid less than $100, and most paid between $51 and $75. Very few passengers continued to pay fares in the $250-$325 range. When Southwest entered this market (via Midway airport), three network carriers served the market via O'Hare.

These same tendencies are repeated in each of the remaining charts on pages 1 and 2.

Charts B1-5 on pages 3 and 4 reflect data for the network carriers only that compete in the same five city-pair markets. These charts show that in response to low fare entry, network airlines carry many more passengers at lower fares. In the Atlanta-Columbus market (page 3, Chart B-3), Delta carried 230 passengers in the $26 to $50 range before ValuJet entered. It carried 17,360 during the fourth quarter of 1996. In addition, most passengers that had previously paid high prices have benefited from lower fares. Nevertheless, a significant number of passengers continue to pay higher fares.

Charts C1-5 on pages 5 and 6 compare data for the network airlines versus low fare carriers for the fourth quarter of 1996. These charts illustrate that the low fare carriers do not attempt to segment the market through price discrimination nearly to the extent network airlines do when not confronted by low fare competition. Looking at Baltimore-Chicago as an example (Chart C-1), while all Southwest passengers paid between $51 and $100, a substantial number of network airline passengers paid up to $174 and a significant number continue to pay even higher prices. Referring back to the charts on pages 3 and 4, before Southwest entered the network price range was much more diverse, with the largest band of passengers in the $250 to $375 range.

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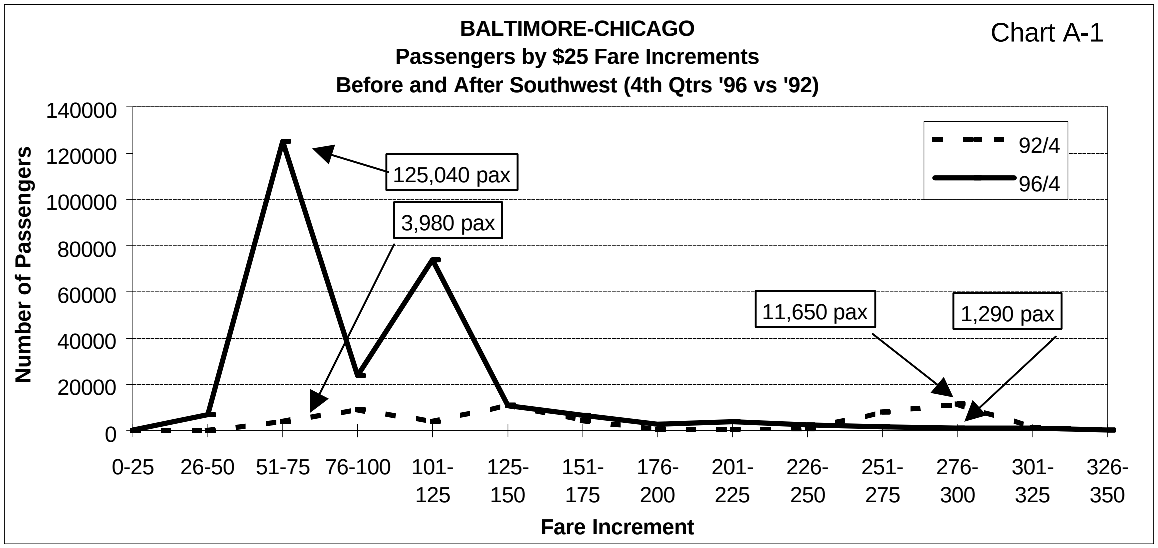
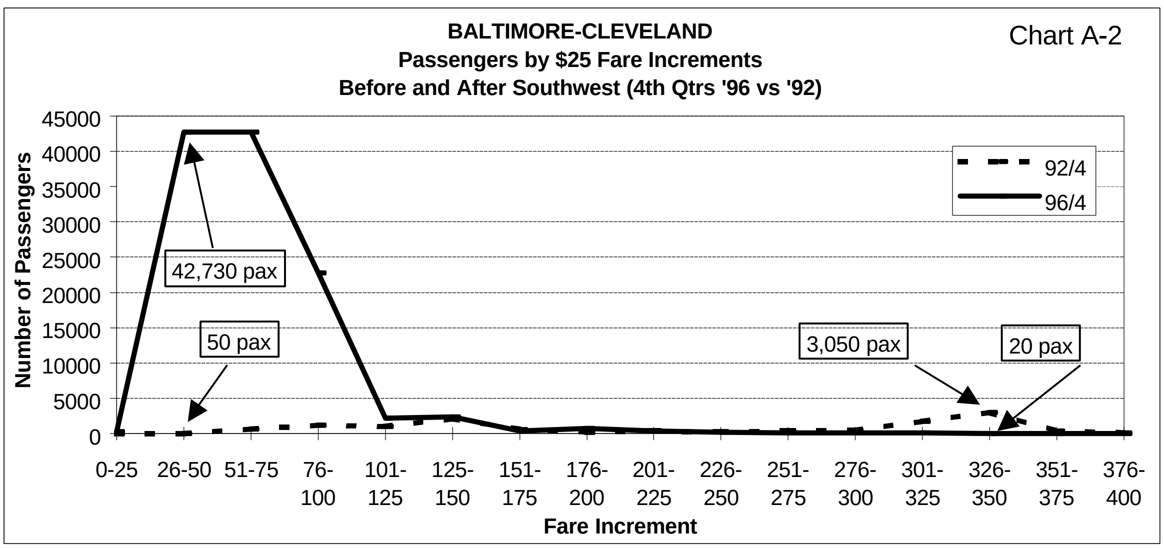


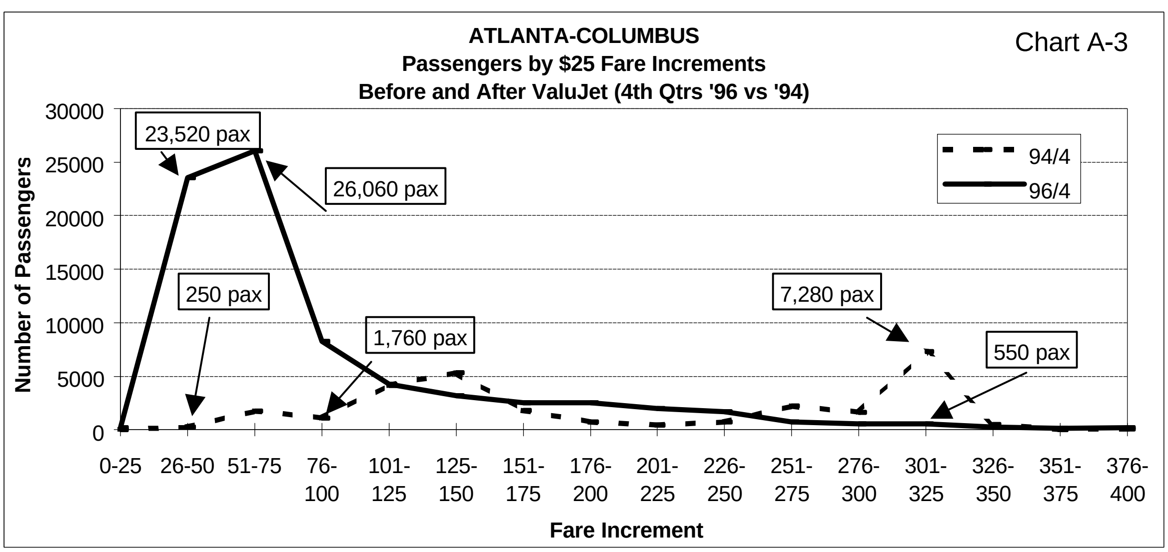
Passengers:
96 263,310
94 57,970
Increase:
Amt. 205,340
% 354

Avg. Fare:
96 $93
94 $190
Decrease:
Amt. $97
% 51



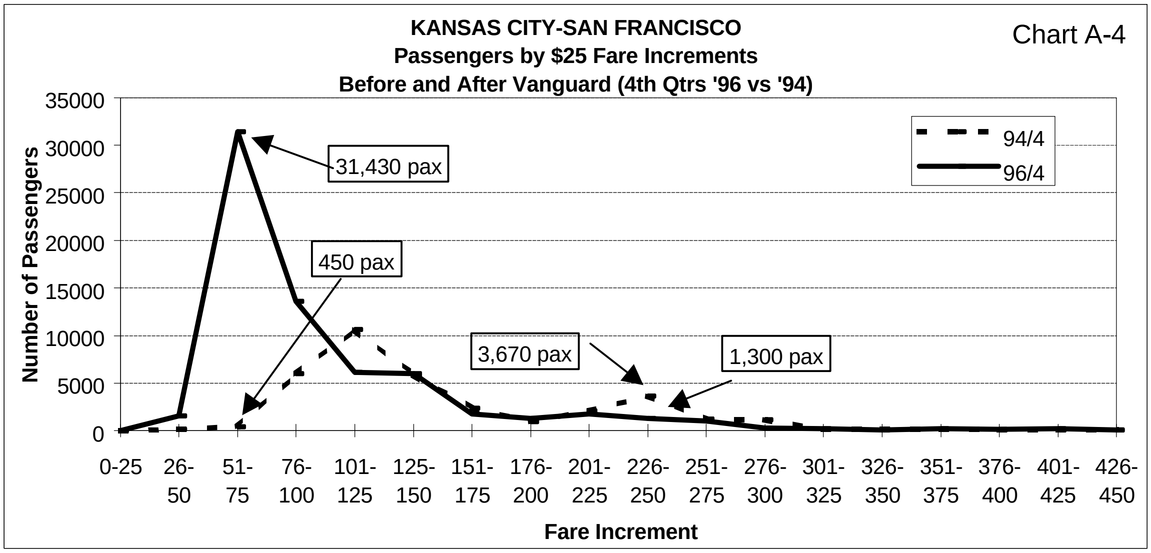
Passengers:
96 115,040
94 12,790
Increase:
Amt. 102,250
% 799

Avg. Fare:
96 $66
94 $233
Decrease:
Amt. $167
% 72

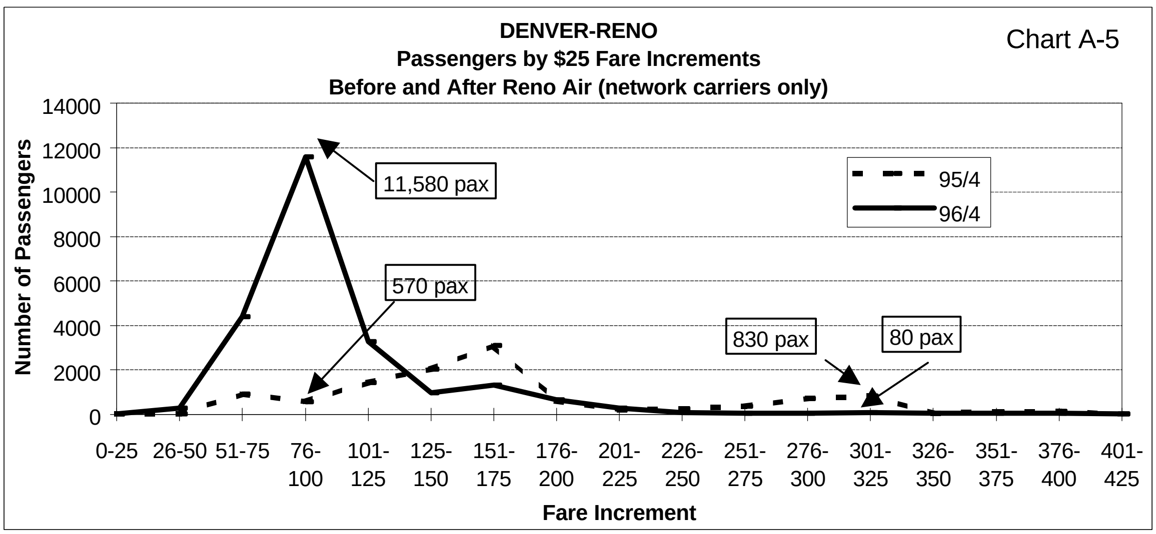


Passengers:
96 76,910
94 28,370
Increase:
Amt. 48,540
% 171

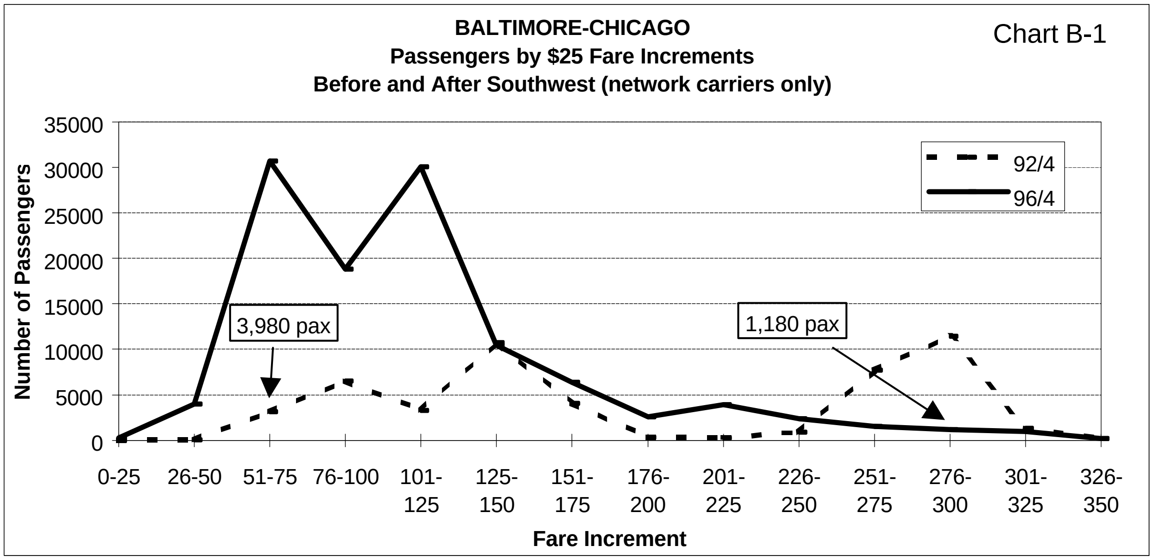
Avg. Fare:
96 $89
94 $202
Decrease:
Amt. $113
% 56

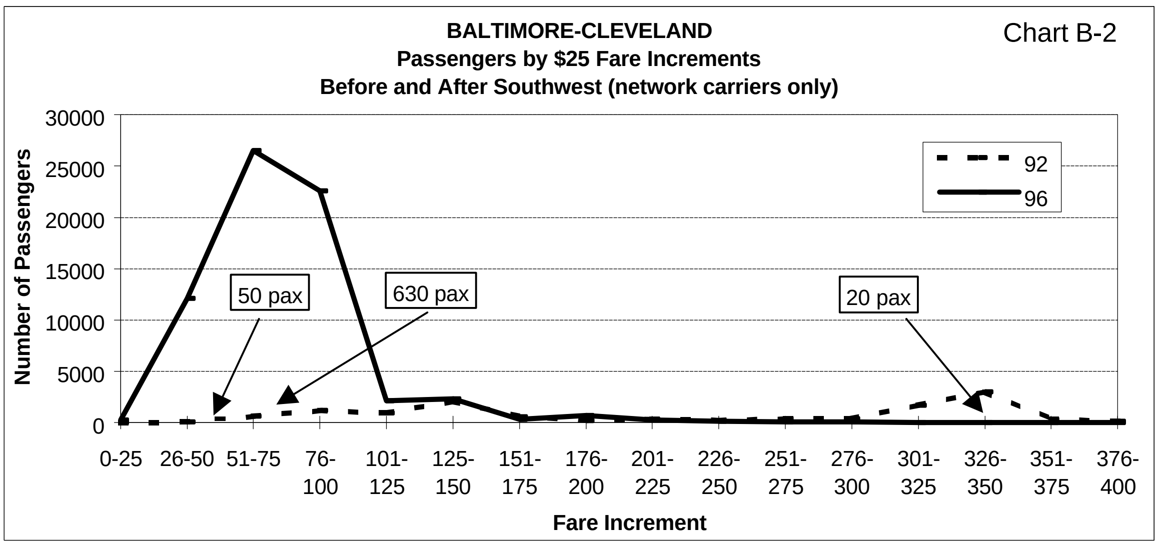


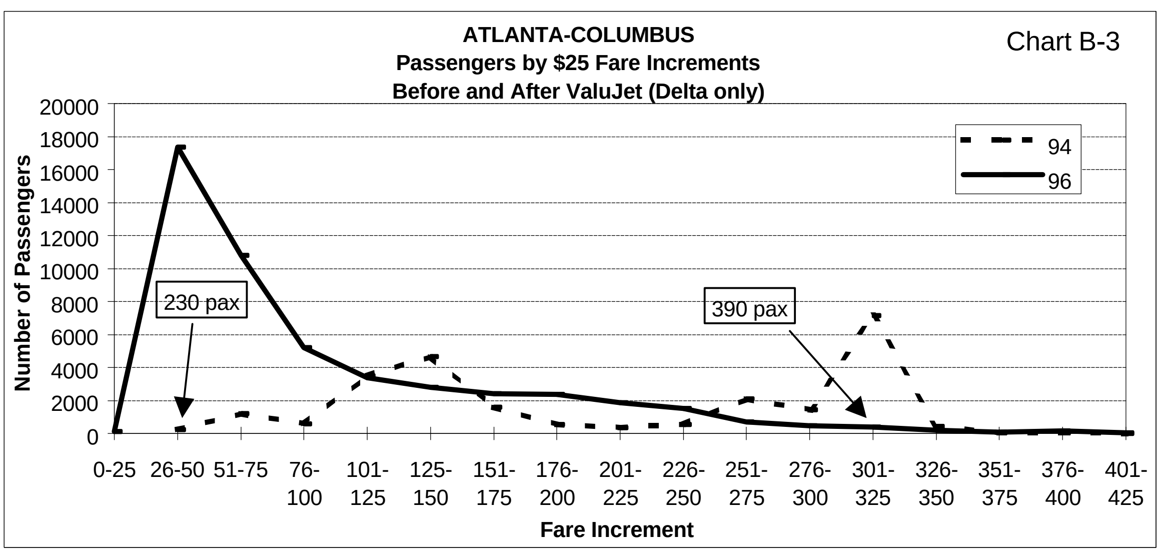
Passengers:	
96	68,100
94	35,960
Increase:	
Amt.	32,140
%	89
Avg. Fare:	
96	$107
94	$165
Decrease:	
Amt.	$58
%	35

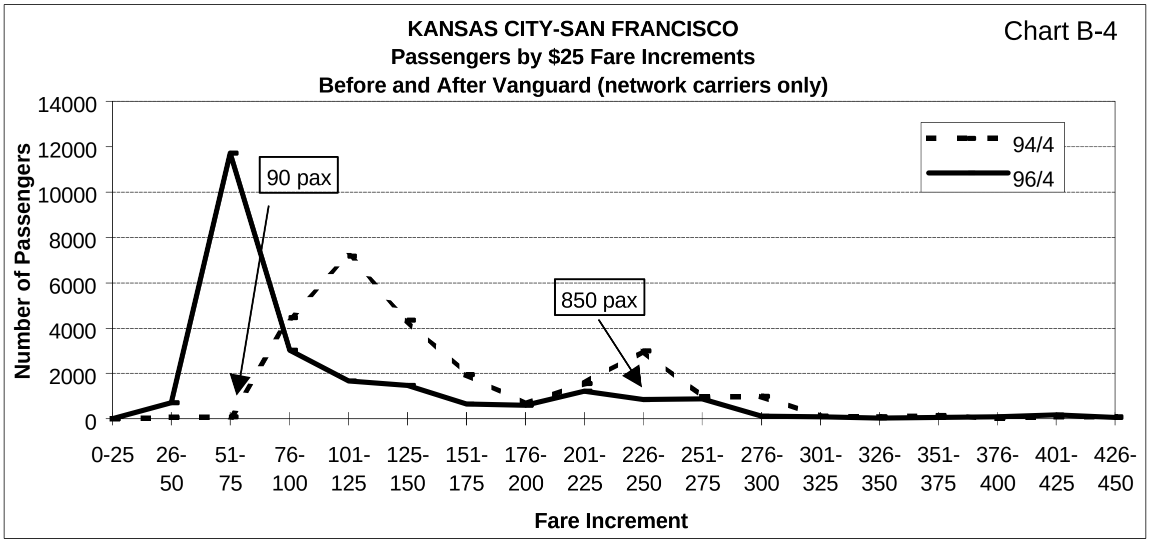


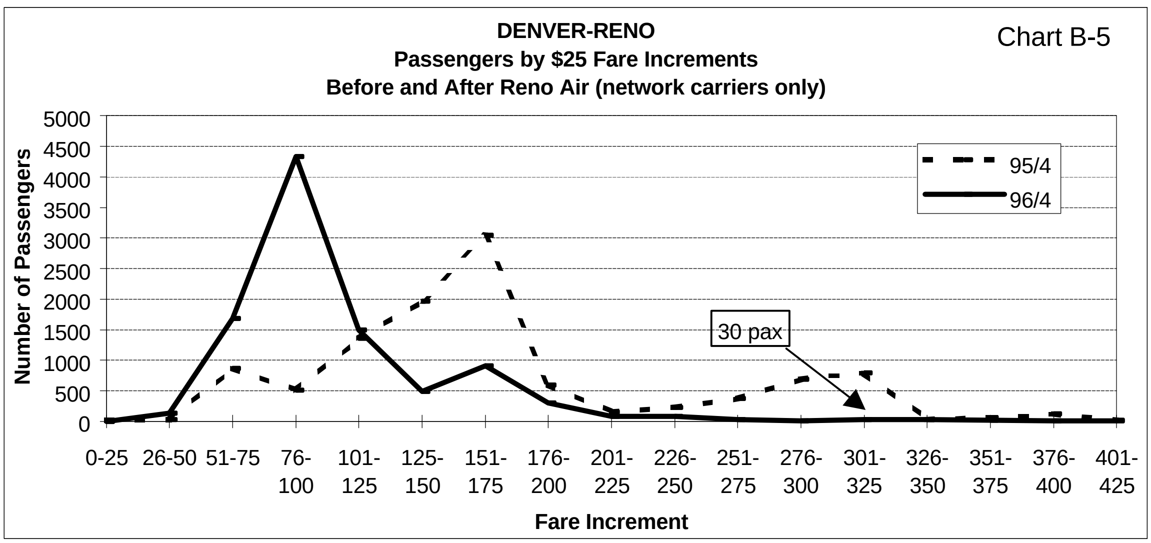
Passengers:	
96	23,640
94	11,620
Increase:	
Amt.	12,020
%	103
Avg. Fare:	
96	$107
94	$178
Decrease:	
Amt.	$71
%	40

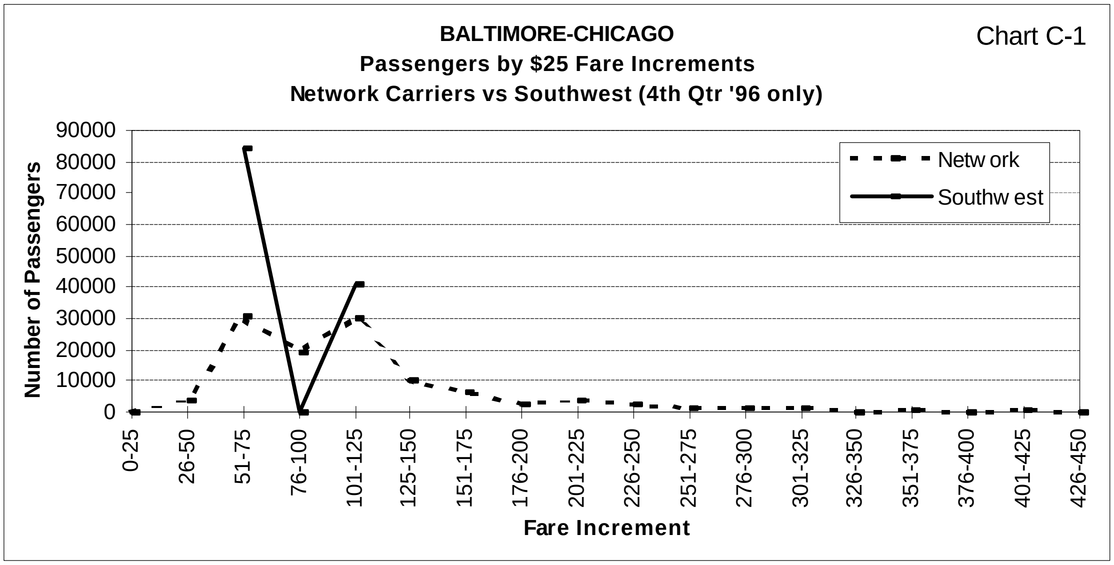

BALTIMORE-CHICAGO
Passengers by $25 Fare Increments
Before and After Southwest (network carriers only)
Chart B-1
Number of Passengers
35000
30000
25000
20000
15000
10000
5000
0
92/4
96/4
3,980 pax
1,180 pax
0-25
26-50
51-75
76-100
101-125
125-150
151-175
176-200
201-225
226-250
251-275
276-300
301-325
326-350
Fare Increment

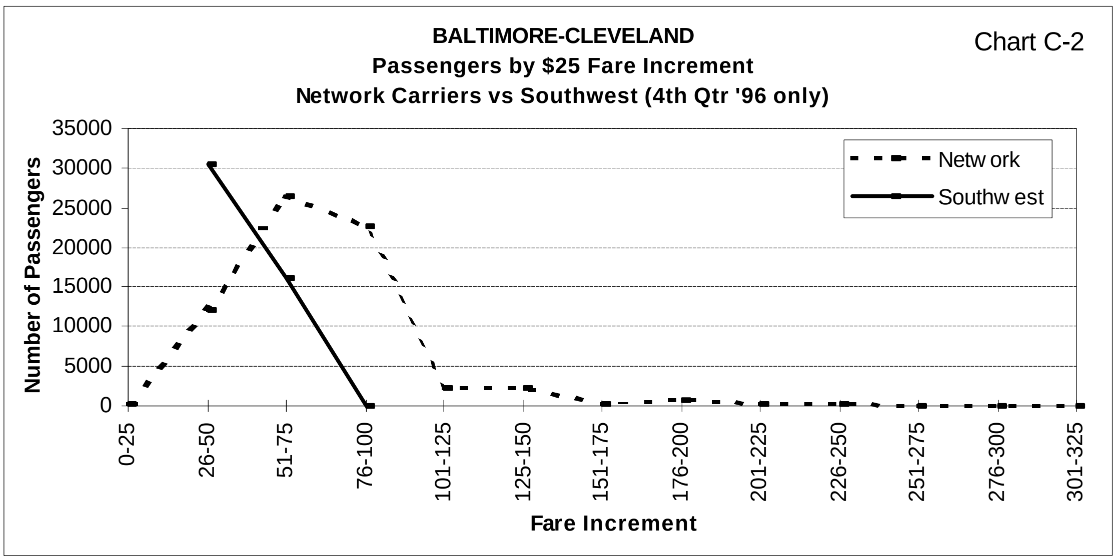

BALTIMORE-CLEVELAND
Passengers by $25 Fare Increments
Before and After Southwest (network carriers only)
Chart B-2
Number of Passengers
30000
25000
20000
15000
10000
5000
0
92
96
50 pax
630 pax
20 pax
0-25
26-50
51-75
76-100
101-125
125-150
151-175
176-200
201-225
226-250
251-275
276-300
301-325
326-350
351-375
376-400
Fare Increment

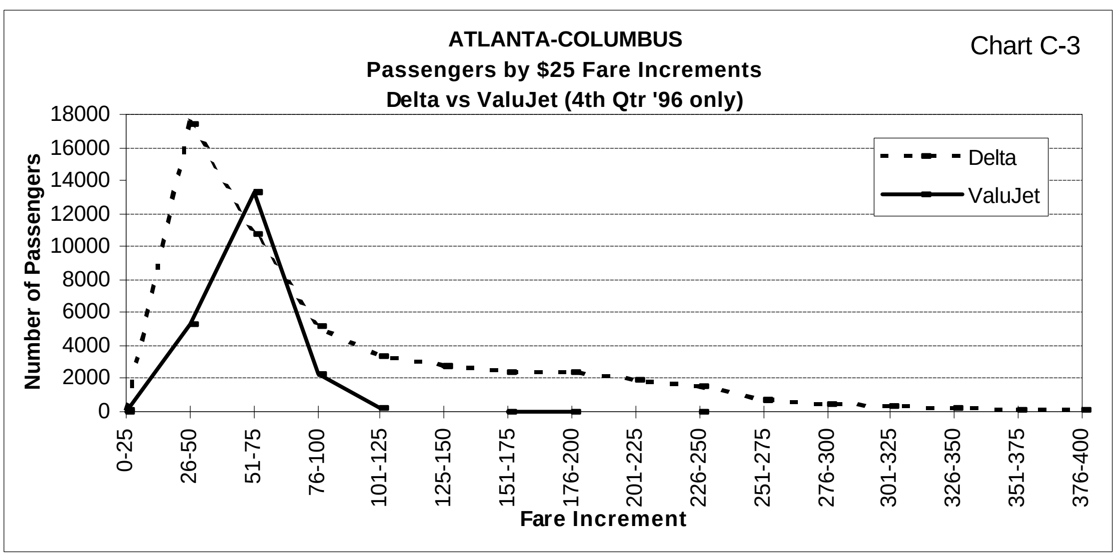

ATLANTA-COLUMBUS
Passengers by $25 Fare Increments
Before and After ValuJet (Delta only)
Chart B-3
Number of Passengers
20000
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
94
96
230 pax
390 pax
0-25
26-50
51-75
76-100
101-125
125-150
151-175
176-200
201-225
226-250
251-275
276-300
301-325
326-350
351-375
376-400
401-425
Fare Increment

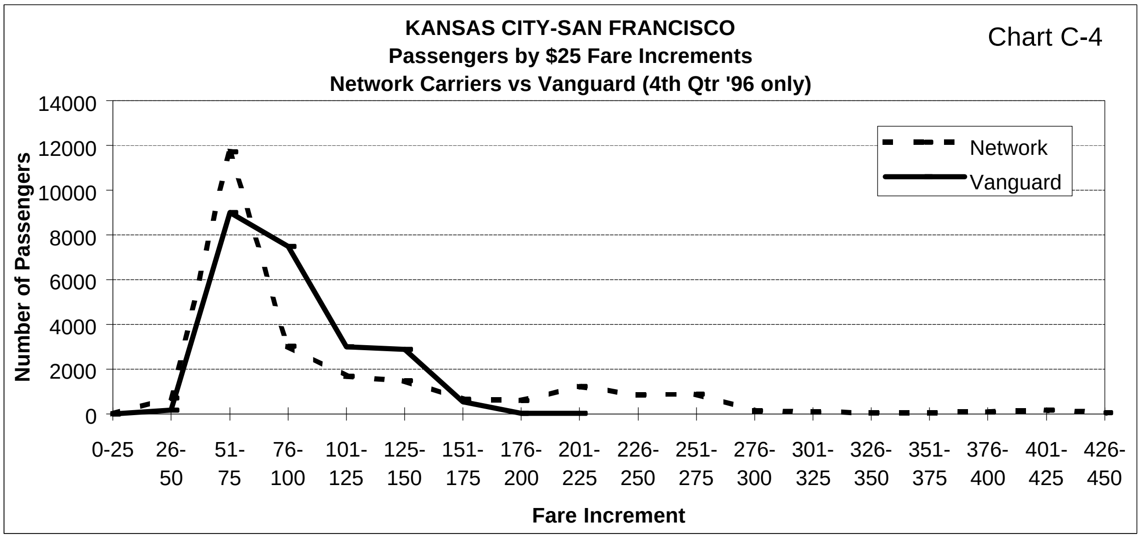

KANSAS CITY-SAN FRANCISCO
Passengers by $25 Fare Increments
Before and After Vanguard (network carriers only)
Chart B-4
Number of Passengers
14000
12000
10000
8000
6000
4000
2000
0
94/4
96/4
90 pax
850 pax
0-25
26-50
51-75
76-100
101-125
125-150
151-175
176-200
201-225
226-250
251-275
276-300
301-325
326-350
351-375
376-400
401-425
426-450
Fare Increment


DENVER-RENO
Passengers by $25 Fare Increments
Before and After Reno Air (network carriers only)
Chart B-5
Number of Passengers
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
0
95/4
96/4
30 pax
0-25
26-50
51-75
76-100
101-125
125-150
151-175
176-200
201-225
226-250
251-275
276-300
301-325
326-350
351-375
376-400
401-425
Fare Increment


BALTIMORE-CHICAGO
Passengers by $25 Fare Increments
Network Carriers vs Southwest (4th Qtr '96 only)
Chart C-1
Number of Passengers
90000
80000
70000
60000
50000
40000
30000
20000
10000
0
Netw ork
Southw est
0-25
26-50
51-75
76-100
101-125
125-150
151-175
176-200
201-225
226-250
251-275
276-300
301-325
326-350
351-375
376-400
401-425
426-450
Fare Increment


BALTIMORE-CLEVELAND
Passengers by $25 Fare Increment
Network Carriers vs Southwest (4th Qtr '96 only)
Chart C-2
Number of Passengers
35000
30000
25000
20000
15000
10000
5000
0
Netw ork
Southw est
0-25
26-50
51-75
76-100
101-125
125-150
151-175
176-200
201-225
226-250
251-275
276-300
301-325
Fare Increment


ATLANTA-COLUMBUS
Passengers by $25 Fare Increments
Delta vs ValuJet (4th Qtr '96 only)
Chart C-3
Number of Passengers
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
Delta
ValuJet
0-25
26-50
51-75
76-100
101-125
125-150
151-175
176-200
201-225
226-250
251-275
276-300
301-325
326-350
351-375
376-400
Fare Increment


KANSAS CITY-SAN FRANCISCO
Passengers by $25 Fare Increments
Network Carriers vs Vanguard (4th Qtr '96 only)
Chart C-4
Network
Vanguard
Number of Passengers
0
2000
4000
6000
8000
10000
12000
14000
0-25
26-50
51-75
76-100
101-125
125-150
151-175
176-200
201-225
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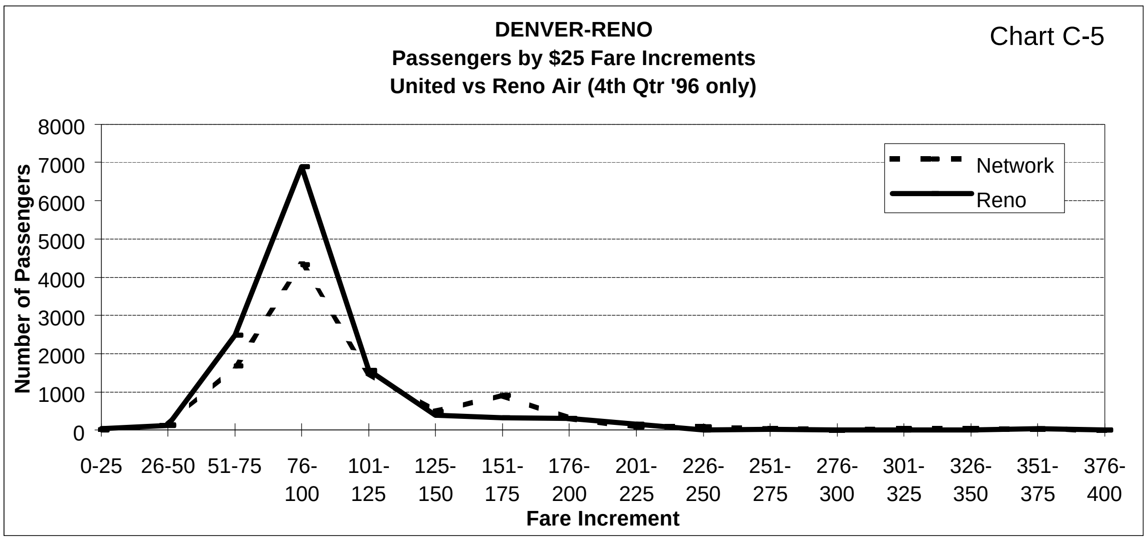
251-275
276-300
301-325
326-350
351-375
376-400
401-425
426-450
Fare Increment


DENVER-RENO
Passengers by $25 Fare Increments
United vs Reno Air (4th Qtr '96 only)
Chart C-5
Network
Reno
Number of Passengers
0
1000
2000
3000
4000
5000
6000
7000
8000
0-25
26-50
51-75
76-100
101-125
125-150
151-175
176-200
201-225
226-250
251-275
276-300
301-325
326-350
351-375
376-400
Fare Increment