SPECIAL FEATURE

Illustrations of new entry effects on price and traffic

(See Charts on pages 1-4 following.)

As we indicated in our initial report, one of our goals is to respond to consumer input. In this regard, there has been considerable interest in markets that experienced large increases or decreases in average fares. In most instances, large changes in average fares are directly attributable to entry or exit by a low-cost carrier. In our second report, we included several examples of how new entry resulted in large decreases in average fares. In this report we are providing additional details on how low fare exit affects average fares.

The charts in the second report show that the fares that many low-cost 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 in this report suggest that the low fares and market expansion resulting from low cost entry quickly disappear when the low-cost airlines exit a market.

The charts on pages 1 through 4 (Charts A1-D2) illustrate the effects on traffic, average fares, and competitors in four city-pair markets—Detroit-Philadelphia, where Spirit Airlines exited; Kansas City-Minneapolis, where Vanguard Airlines exited; and Atlanta-Pittsburgh, and Atlanta-Detroit, where ValuJet exited. In each chart, the data show the number of passengers broken down by the fare paid in $25 fare increments. As with the charts in our second report, these charts show data for periods before and after low-cost new entry. In addition, the charts in this report show data after the exit of the low-cost airline, for the most current period. In some cases the departure of the low-cost carriers is so recent that the full effects of its exit may not yet be reflected in the data.

Charts A1, B1, C1, and D1 at the tops of pages 1 through 4 all provide traffic by fare increment for the total market for periods before, during and after low-cost carrier entry. The data shown to the right of each chart show the total passengers, average fares, and total revenue for each period reflected in the chart. These charts show how the entry of low-cost carrier service changes the structure of fares in the market and increases traffic volume.

In each instance after low-cost carrier entry, 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-cost carrier entry paid lower fares after such entry.

Conversely, when the low-cost carriers exited, the traffic volumes dramatically shrank to the pre-low fare carrier level and average fares increased. In fact, in three of the four examples, average fares rose to levels substantially greater than before new entry.

Charts A2, B2, C2, and D2 all provide traffic by fare increment for the total market before and after new entry only. This is the same information as graphed in charts A1, B1, C1, and D1, respectively, but is shown without the during-new-entry information so that the difference in price distribution can be more easily seen. The number of low fare passengers during the period when low-cost carriers operated was so great that it compressed the traffic for other periods to the point that changes were not readily apparent.

To illustrate, Chart A1 for Detroit-Philadelphia shows that after Spirit entered the number of passengers who paid fares between $51 and $75 surged to about 80,000 passengers whereas the number of passengers who paid between $351 and $375 precipitously declined. Before Spirit's entry only 4,500 passengers paid fares in the $51 to $75 range while 13,000 paid fares in the $351-$375 range. For the first quarter of 1997, after Spirit exited, only 1,200 passengers paid fares in the $51-$75 range while almost 17,000 passengers paid fares between $375 and $400, which resulted in an almost threefold increase in average fare. The message for consumers in this instance is that while some low fares continue to be available, they are quite limited. Price conscious consumers should carefully follow the advice laid out in the *Getting the Best Air Fare* fact sheet to give themselves the best chance of securing one of the limited number of low fare seats made available.

Chart A2 more clearly shows the after-Spirit consequence of fewer low fare sales and, at the same time, an increase in fares for non-discretionary travelers who pay more for unrestricted fares.

Chart B1, for the Kansas City-Minneapolis market is interesting because Vanguard has entered the market a second time. The market experience for its initial entry and exit is similar to that in the Detroit-Philadelphia market for Spirit, where entry produced a very large traffic gain and reduction in average fare, followed by traffic declines and an increase in average fare upon the low-cost carrier's exit. Upon Vanguard's reentry into the Kansas City-Minneapolis market, still more passengers traveled at still lower fares than when Vanguard first entered the market.

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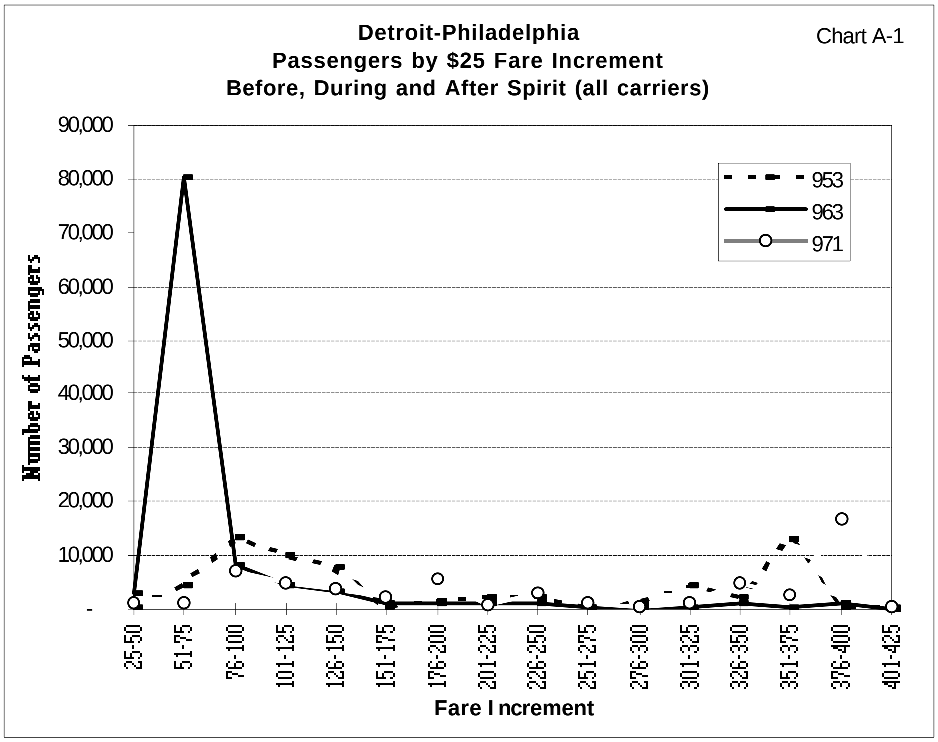
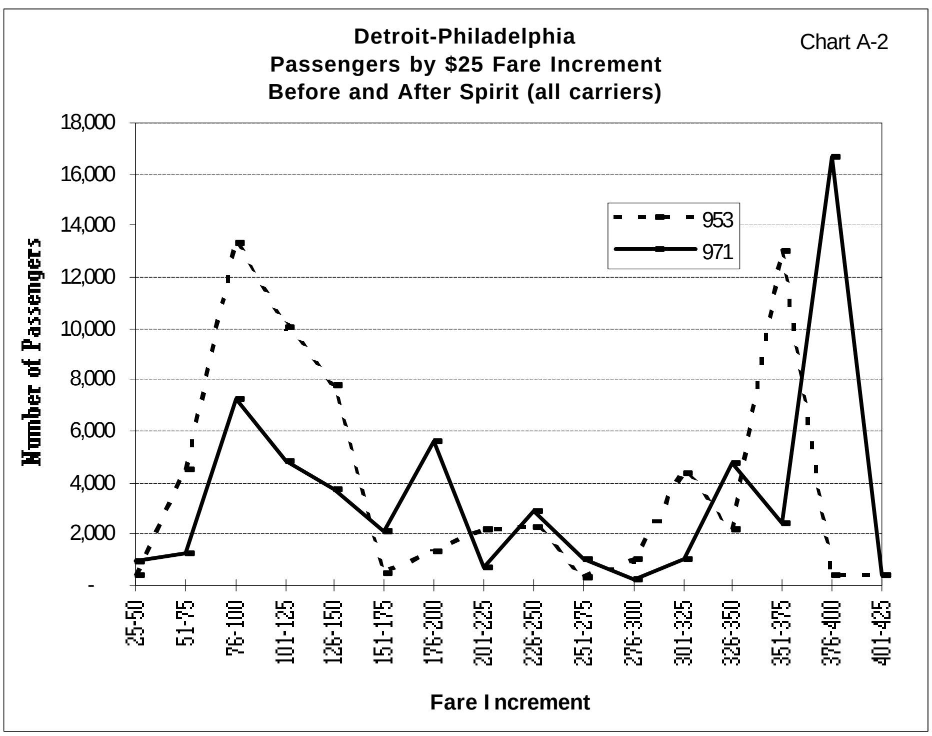
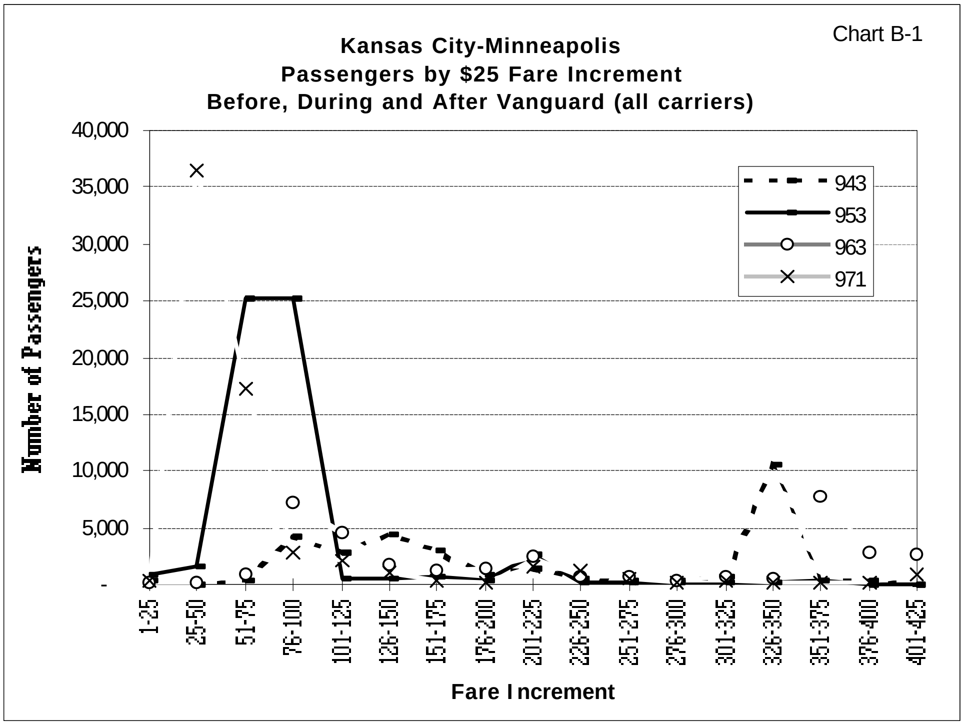
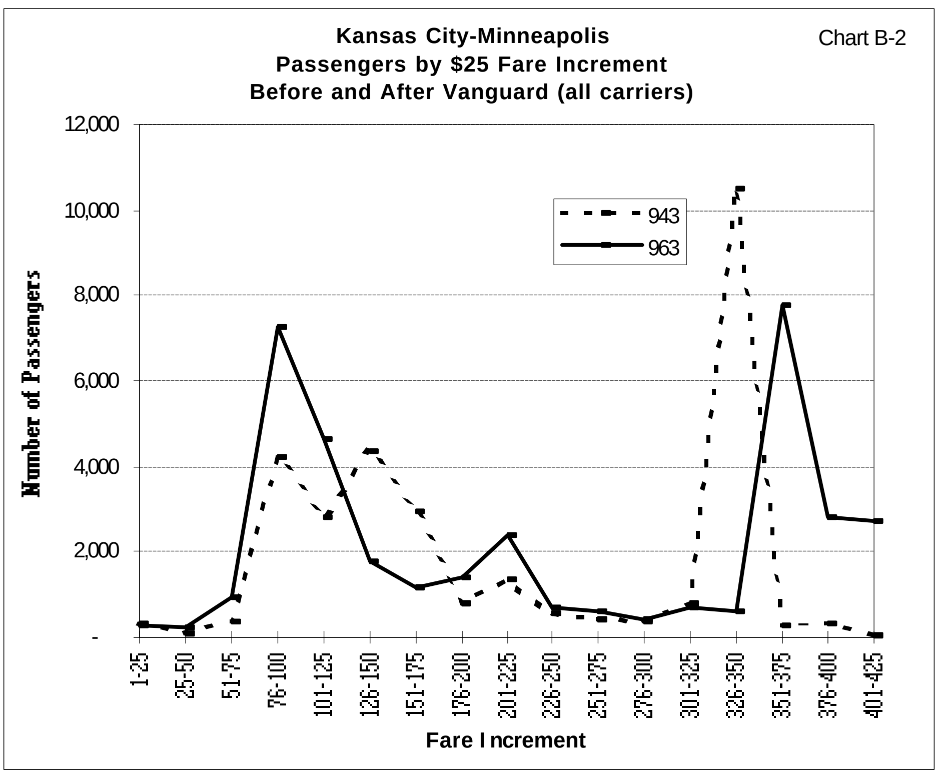


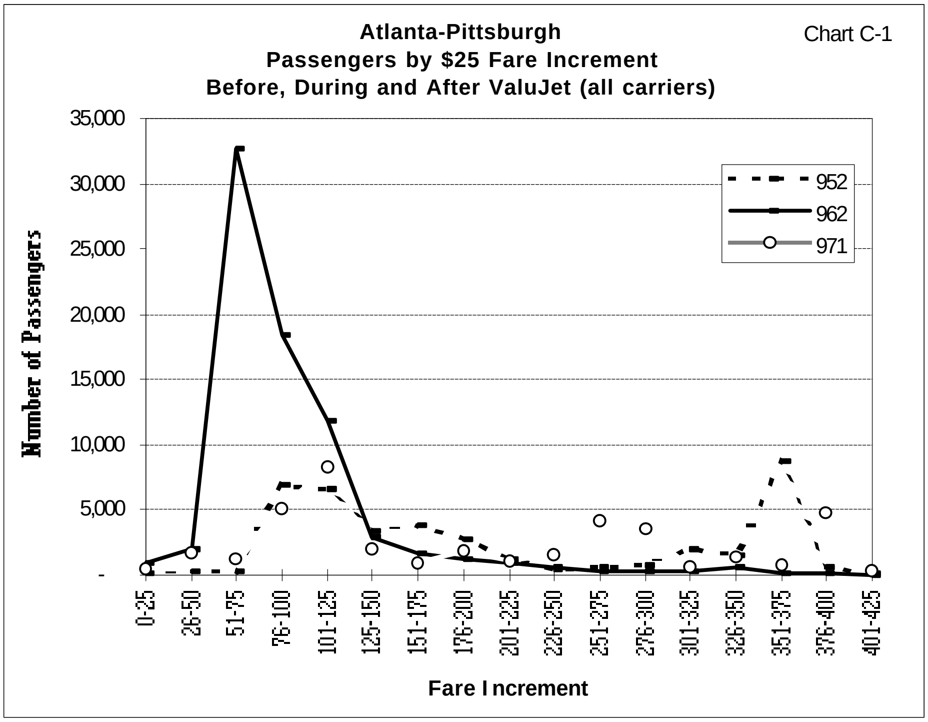


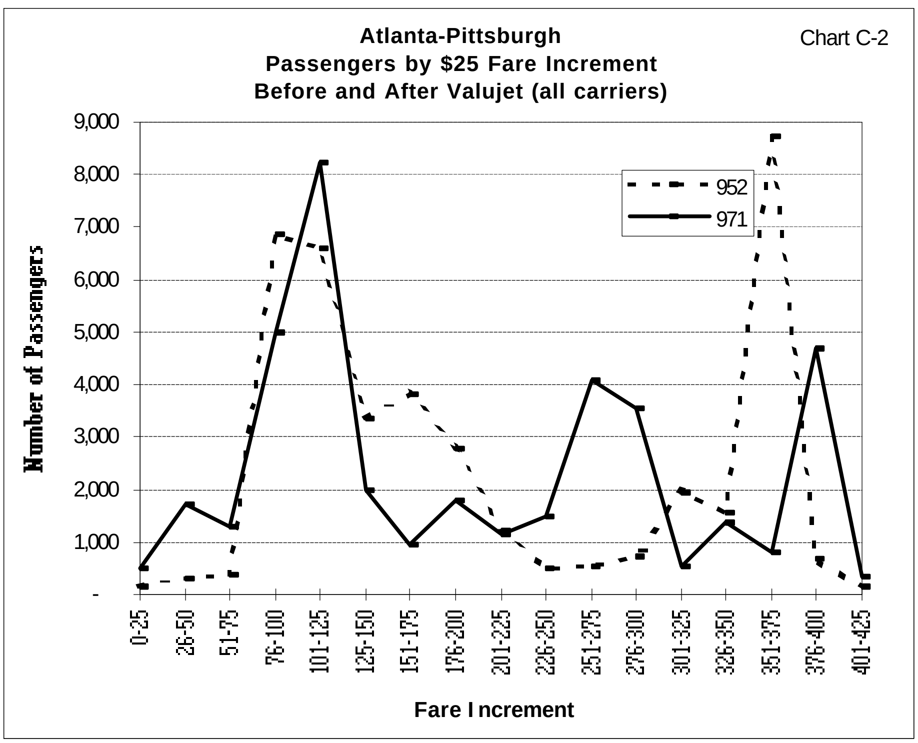
Passengers:		Avg. Fare:		Revenue (000's):	
Qtr 95/3	64,500	Qtr 95/3	197	Qtr 95/3	12,678
Qtr 96/3	108,290	Qtr 96/3	88	Qtr 96/3	9,491
Qtr 97/1	57,070	Qtr 97/1	252	Qtr 97/1	14,397



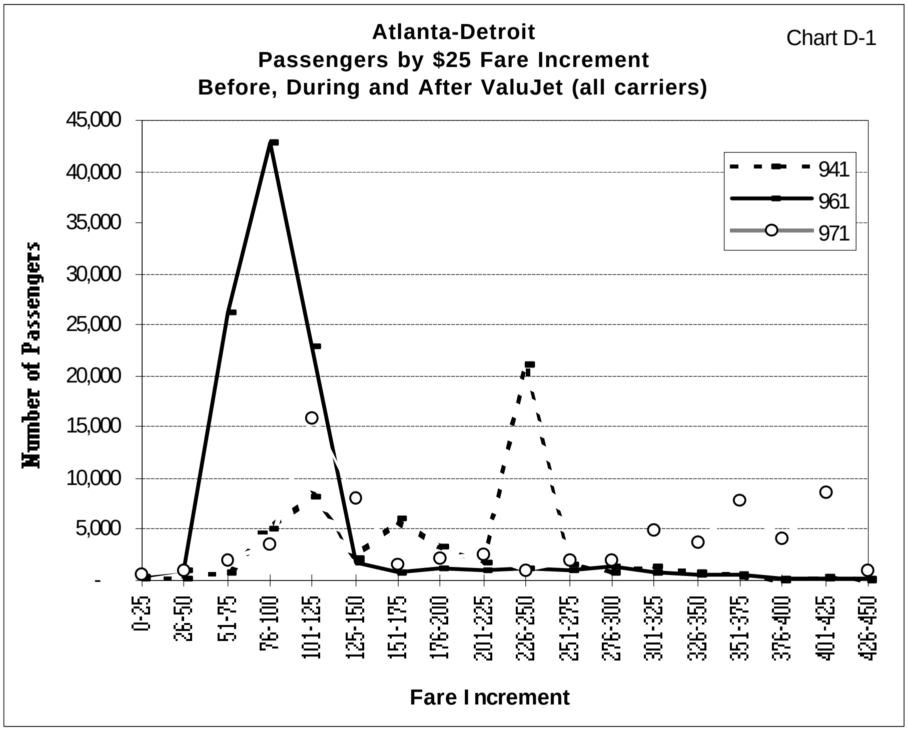


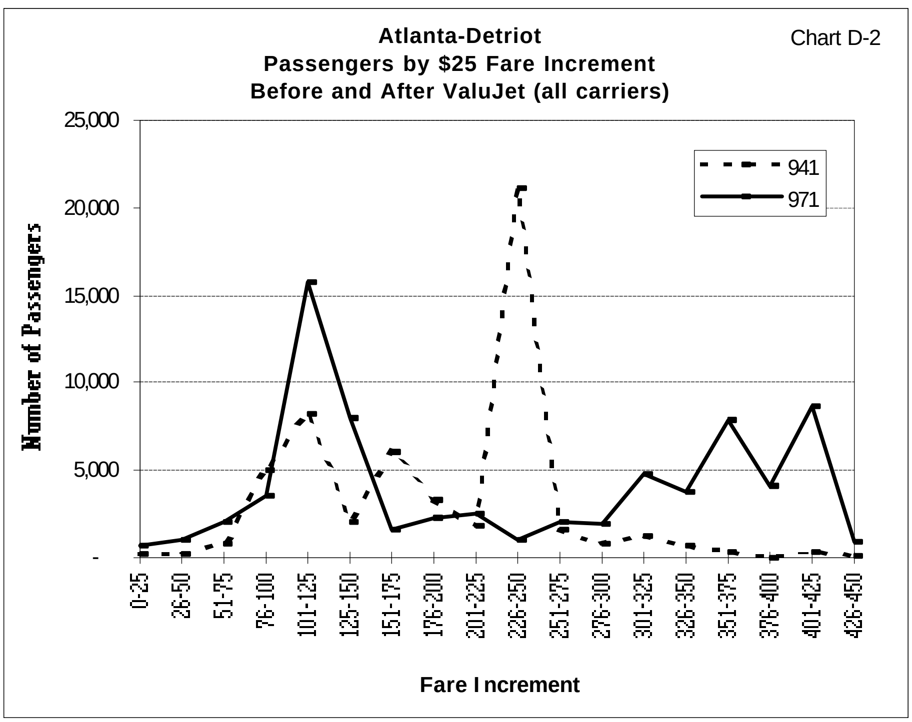
	Passengers:	Avg. Fare:	Revenue (000's):
Qtr 94/3	30,740	220	6,761
Qtr 95/3	58,670	85	4,991
Qtr 96/3	36,900	232	8,552
Qtr 97/1	66,030	72	4,734





	Passengers:	Avg. Fare:	Revenue (000's):
Qtr 95/2	41,240	215	8,864
Qtr 96/2	75,630	94	7,117
Qtr 97/1	40,410	207	8,360





	Passengers:	Avg. Fare:	Revenue (000's):
Qtr 94/1	54,740	206	11,258
Qtr 96/1	122,470	109	13,336
Qtr 97/1	74,350	246	18,269