

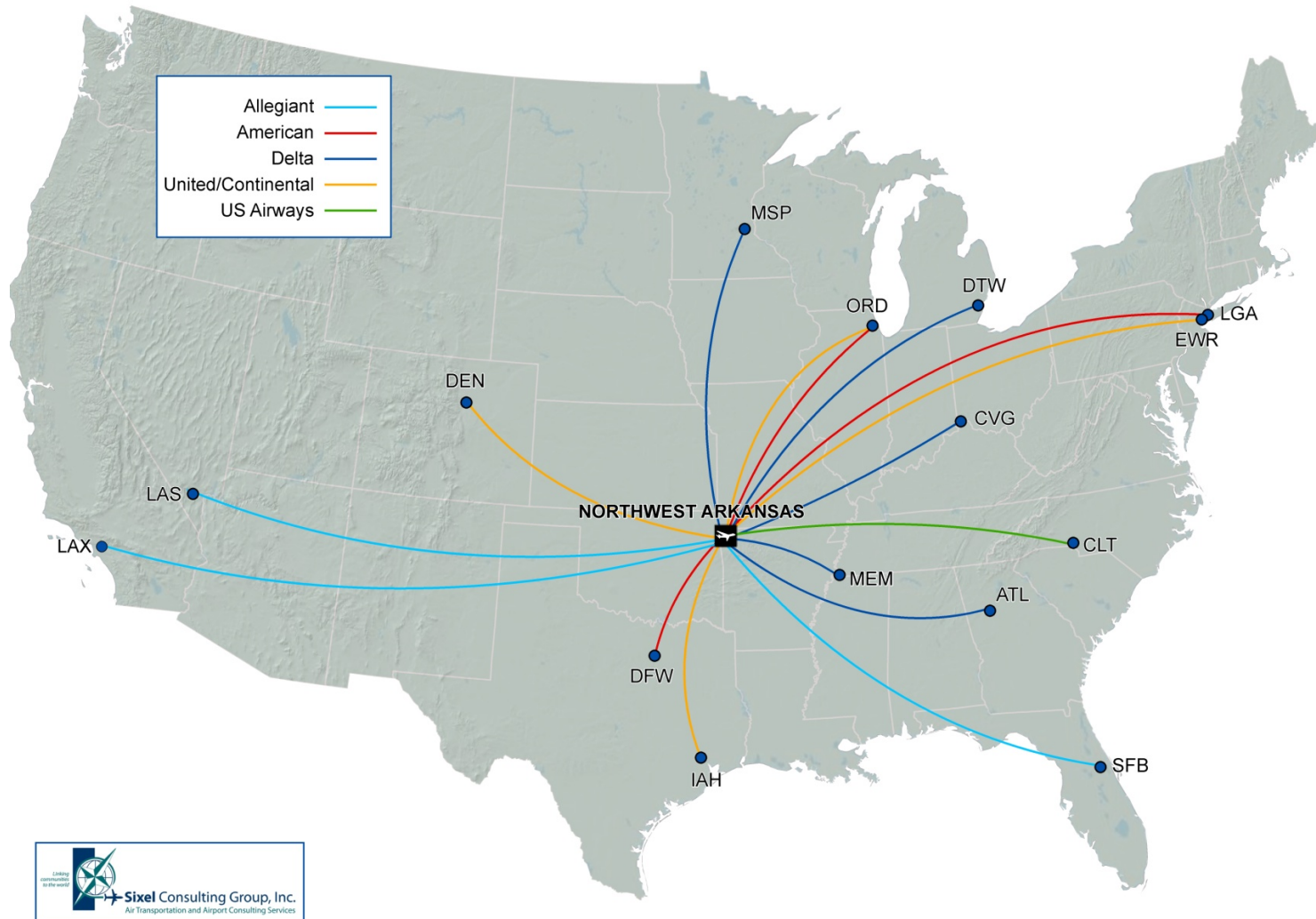
# The Great Pursuit of a Low-Cost Carrier



Northwest Arkansas Council

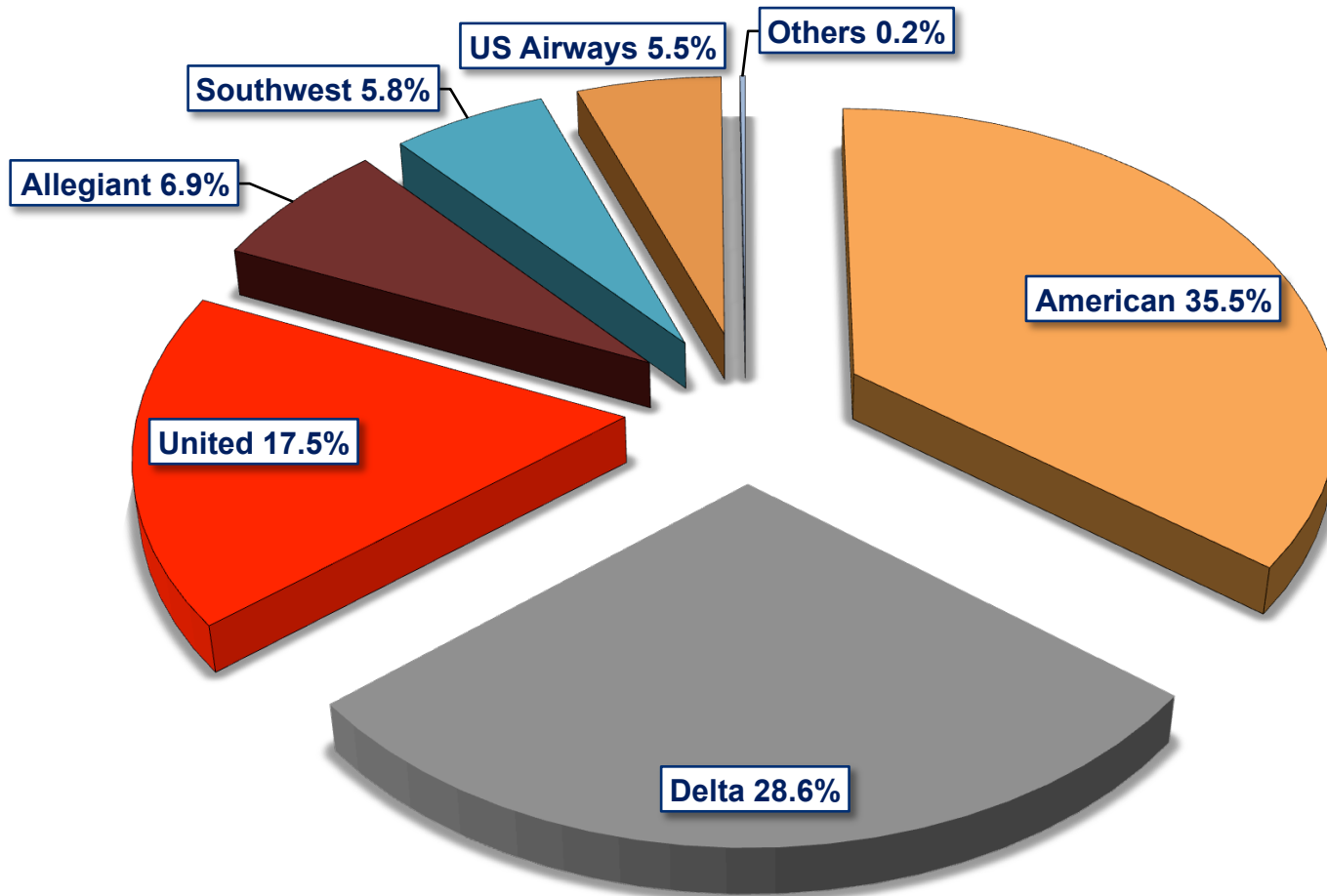
April 3, 2013

# Northwest Arkansas Has Relatively Good Air Service to 15 Destinations on Four Network Carriers and Allegiant



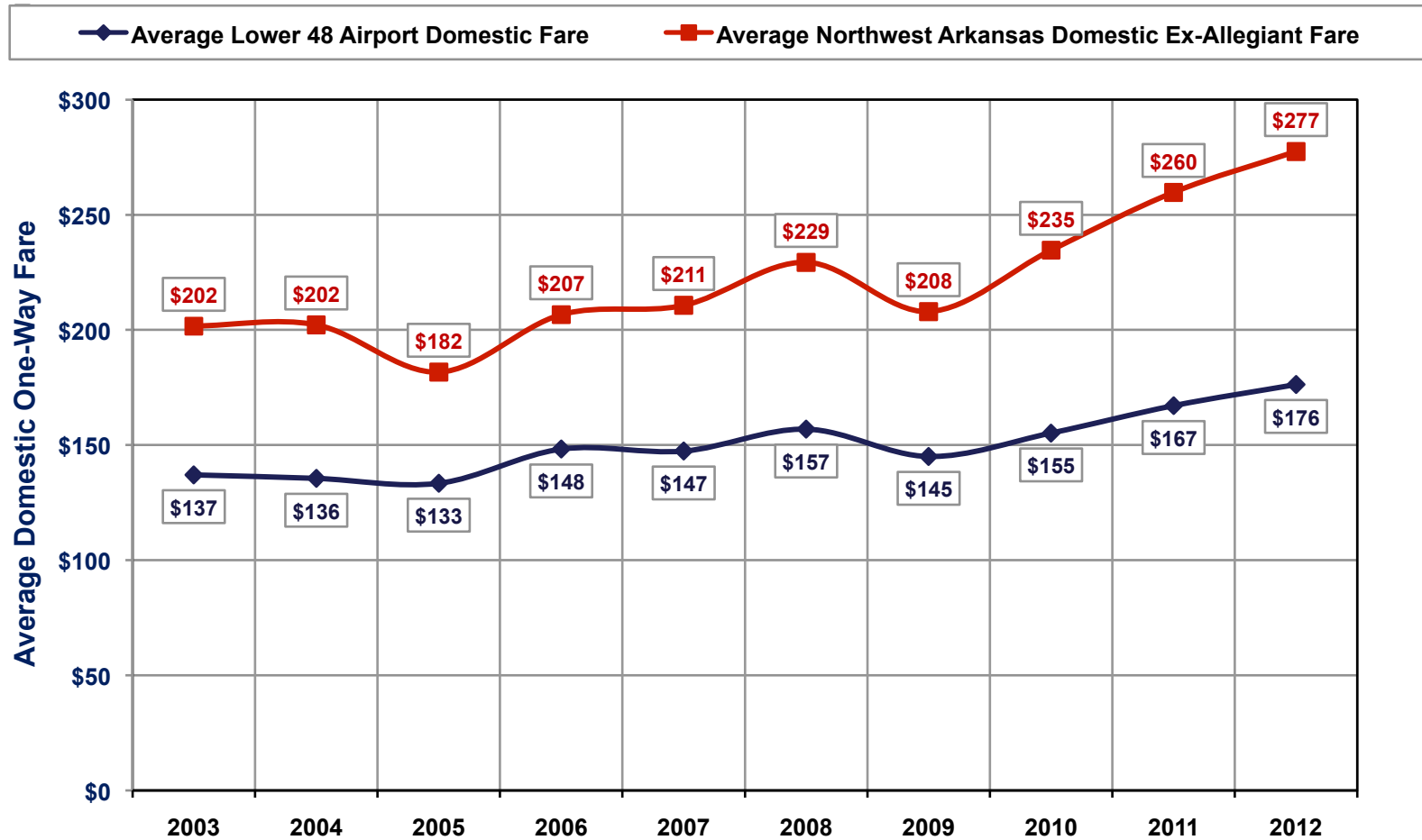
# American Captured 35.5% of the Traffic Originating in the Catchment Area of Northwest Arkansas Regional Airport; Delta Captured 28.6%

**Market Share by Carrier of Northwest Arkansas Regional Airport Catchment Area Traffic**  
Year-End Fourth Quarter 2010



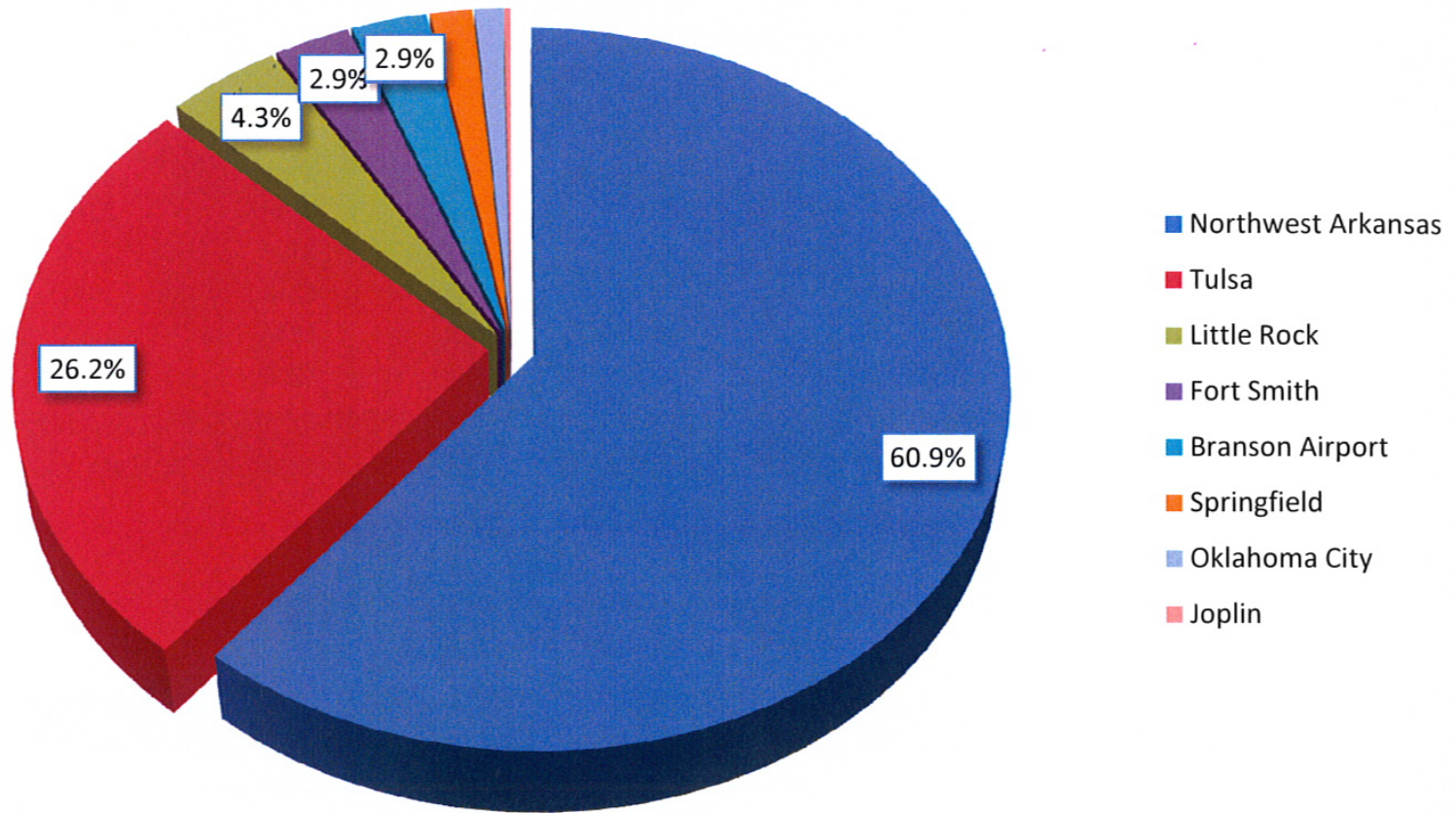
# In the YE 3Q 2012, the Average Northwest Arkansas Domestic Fare of \$277 Was 57.4% Higher than the Fare at the Average Lower 48 Airport

**Average Domestic One-Way Fares – All Lower 48 Airports Versus Northwest Arkansas**  
Year-End Third Quarter (Excludes Allegiant Data)



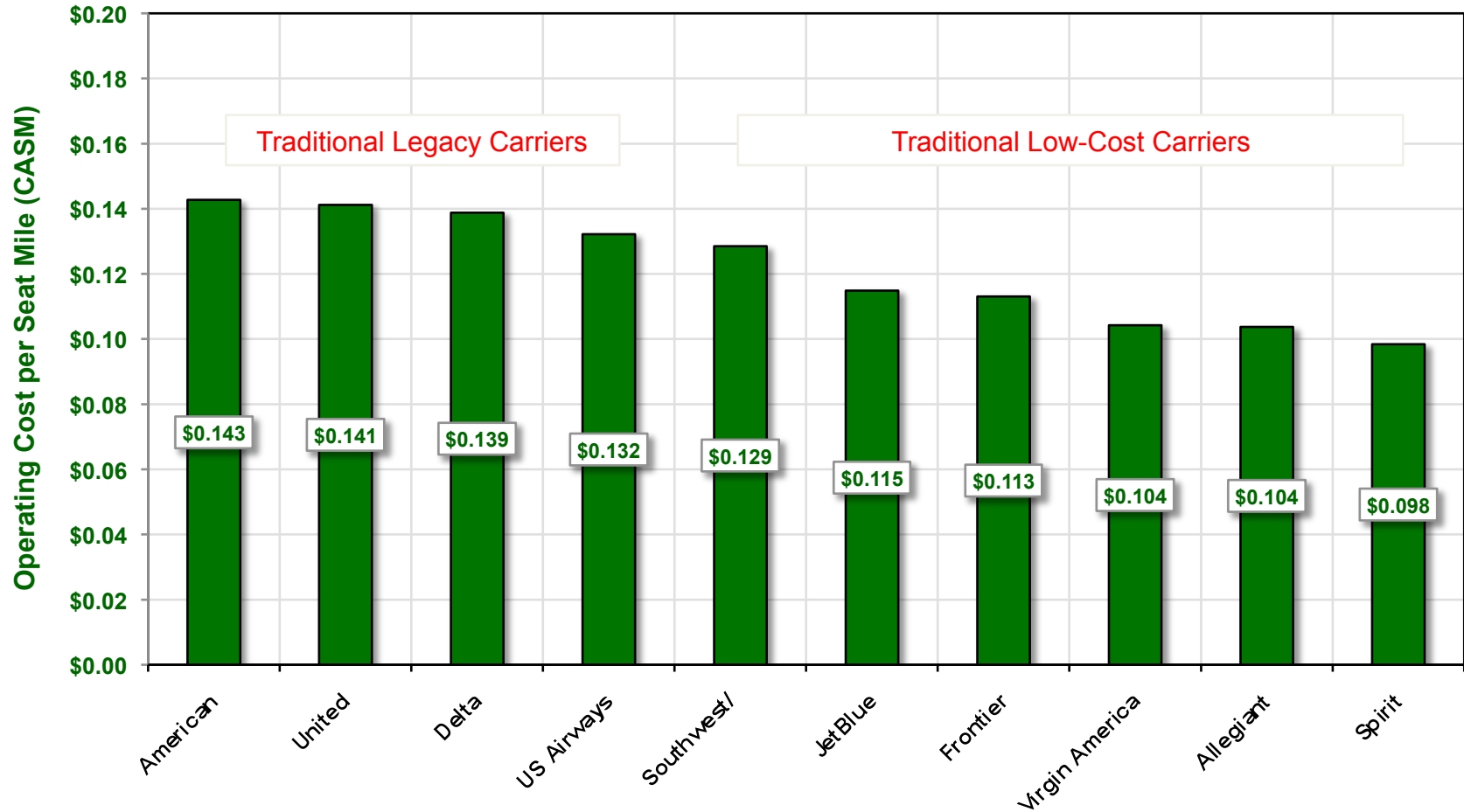
# Originating Airport for Northwest Arkansas Area Passengers

True Market with LCC Adjustment - TOTAL



# Cost per Seat Mile Can Be Used to Measure Differences in Airline Costs and Distinguish Higher Cost Carriers from Lower Cost Carriers

Operating Cost per Seat Mile for the Largest U.S. Airlines  
Twelve Months Ended December 2012\*



\* Nine Months Ended September 2012 for Frontier, Virgin America and Spirit

# Southwest's Only Incentive Agreement



# Southwest's Only Incentive Agreement

- ✈ Total Revenue Guarantee: \$26 Million
  - ✈ \$14 Million Year One
  - ✈ \$12 Million Year Two
- ✈ Included Undisclosed Marketing Support
  - ✈ Thought to be > \$1 Million Per Year
- ✈ All Airport Fees Waived for Two Years
  - ✈ Thought to be \$250K Per Year
- ✈ Total Package:
  - ✈ \$28.5 Million Over Two Years



Panama City



# Other Examples

- ✈ Continuing Revenue Guarantee from State
- ✈ “Kansas Affordable Airfares”
- ✈ Guarantee Goes to AirTran (now Southwest)
  - ✈ \$6.5 Million Per Year
  - ✈ Three Year Approvals
    - ✈ \$19.5 Million Per Term

Wichita



# Other Examples

- ✈ Less-than-Daily Service on Frontier to Denver
- ✈ \$1.2 Million Revenue Guarantee
  - ✈ Four Flights Per Week



# Average fares

- XNA passengers in the first nine months of 2012 paid \$529 per roundtrip
- The average national fare was \$375 (\$154 more at XNA)
- XNA had 541,000 paying passengers last year



$$\begin{aligned} \$154 \times 541,000 &= \\ \mathbf{\$83,314,000} \end{aligned}$$

That's how much EXTRA our passengers pay!!

# Saves \$10.8 million

Reducing the average fare by \$20 per roundtrip ticket would save XNA passengers about \$10.82 million.

**Savings could be three to five times that much.**

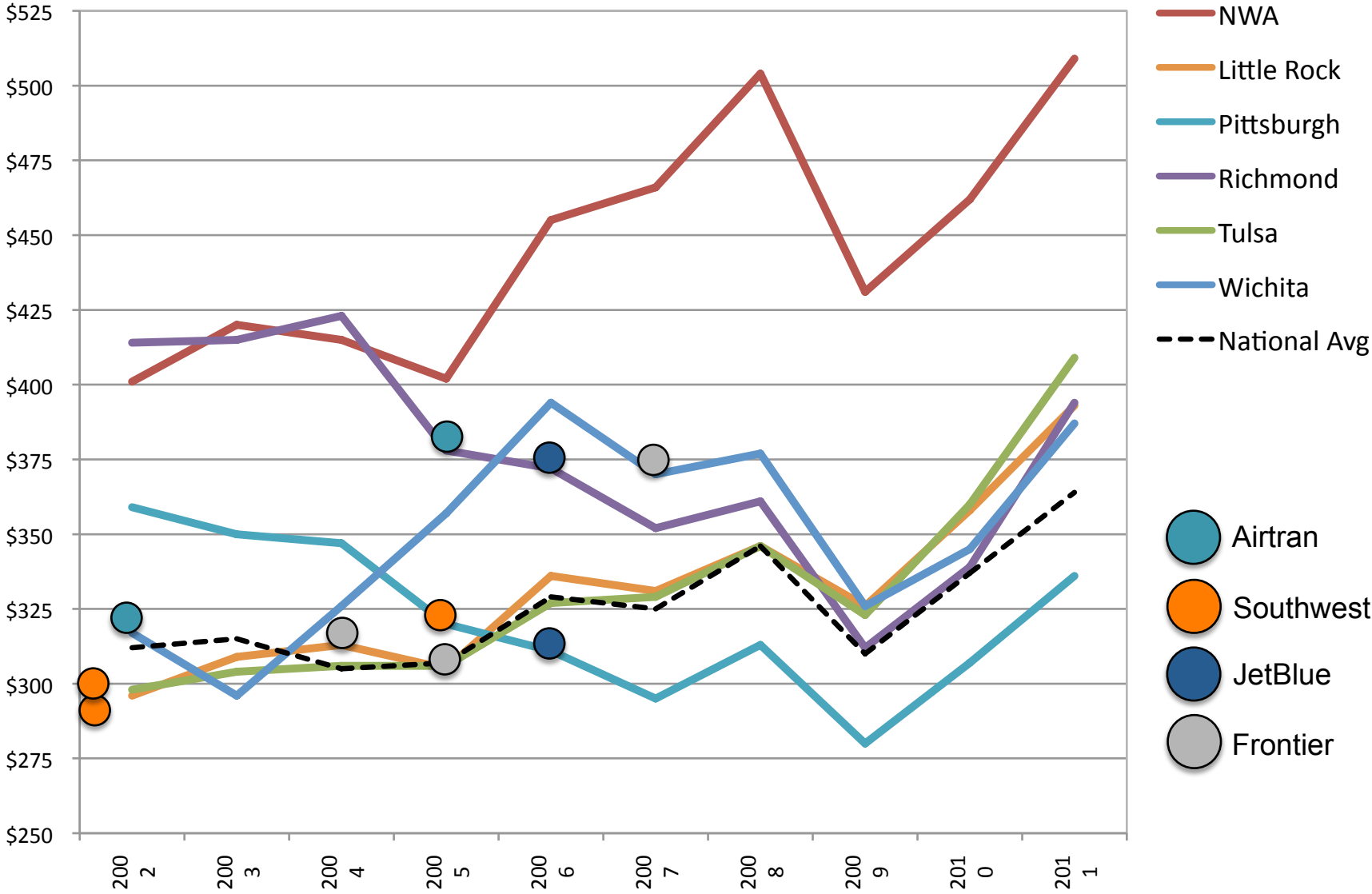


# Creates competition

- Low-cost carriers in Richmond, Pittsburgh, Wichita and Panama City caused the average fare to decrease.
- Fare decreases in Richmond, Pittsburgh and Wichita ranged from **\$40 to \$100** depending on how you compare them.
- Panama City (Southwest Airlines) went from \$583 in 2009 to \$393 in first 9 months of 2012  
**(Decrease of \$190)**



XNA's fares are far higher than airports where daily low-cost carriers create competition. The chart below shows how other airports' fares compared to XNA between 2002 and 2011. The chart shows when daily low-cost service started at the airports.



# Low-cost carriers increase business

- Airports see more passengers when low-cost carriers arrive (due to lower fares, new options). Panama City passengers tripled between 2009 and 2012.
- More passengers increases the overall revenue for airport restaurants, rental car companies, parking operations, shuttle car services, etc.
- Businesses hire more people to keep up with demand.

# Business survey

- The Council asked some of our region's largest employers to tell us about their travel needs.
  - They represented 63,000 trips from XNA in 2012.
  - They represented 11.7 percent of all paying passengers.
  - All were businesses that flew at least 50 times annually from XNA.
  - They are frustrated.





# Survey findings

- Employee training site went elsewhere because XNA fares are high.
- NWA-based company put travel-heavy jobs in Texas due to high fares here
- 75 percent of the surveyed companies are “leaking” passengers to Tulsa or other airports.
- Most surveyed businesses are willing to move some passengers to new low-cost carrier.
- No. 1 priority: Competition to ORD, ATL, DFW and NYC.

