



16.71 J The Airline Industry – Fall 2010

# VIRIDIS AIR ENTRY

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# Agenda



- ◆ OPERATIONS
  - ◆ Route Network & Fleet Composition
  - ◆ Frequency & Schedules
  - ◆ Maintenance
  
- ◆ FINANCES
  - ◆ Pricing
  - ◆ Operating Revenues and Costs
  - ◆ Operating Profit
  
- ◆ BUSINESS STRATEGY
  - ◆ Marketing
  - ◆ Human Resources
  - ◆ Safety & Security

# Route Network



# OD Markets

## Strong Demand on All Three Routes

	ATL-DAL	DAL-CHI	CHI-ATL
<b>OD Market Rank</b>	55	39	28
<b>Frequency</b> each way	28.3	23	40.5
<b>Passengers/Day</b> each way; existing	1,226	1,390	1,514
<b>Nonstop Mileage</b>	734	805	595

# Hub Challenge

- ◆ Facing big, powerful competitors on all three routes: AA, Delta and AirTran (Southwest)
- ◆ Market shares exceed S-curve expectations for the big players
- ◆ Potential competitive response lash-back for new entrant entails:
  - ◆ Good differentiation based on price AND service from the beginning is required for new entrant's survival

# Competitive Landscape

## Market Division Prior to Viridis' Entry

Route	Main Competitors	Frequency Share	Market Share
ATL-DAL	Delta	36.3%	41.2%
	AA	30.6%	39.2%
	Air Tran	21.3%	18.2%
DAL-CHI	AA	56.3%	67.9%
	United	15.0%	17.0%
CHI-ATL	Am Eagle	14.2%	13.0%
	Delta	17.9%	48.5%
	Air Tran	15.8%	21.8%



# Competitive Mitigation

- ◆ Facing different main competitor on the three routes, although AA & Delta are omnipresent.
- ◆ Operating at MDW airport in Chicago mitigates the wrath of competitive lash-back from AA, who only services the ORD airport.
- ◆ There is no current service from DFW to MDW, only DFW-ORD, so we can have first mover advantage in this market.
- ◆ MDW is twice as close to downtown Chicago (8 miles) compared to ORD (17 miles), so we can entice busy business travelers with this fact.

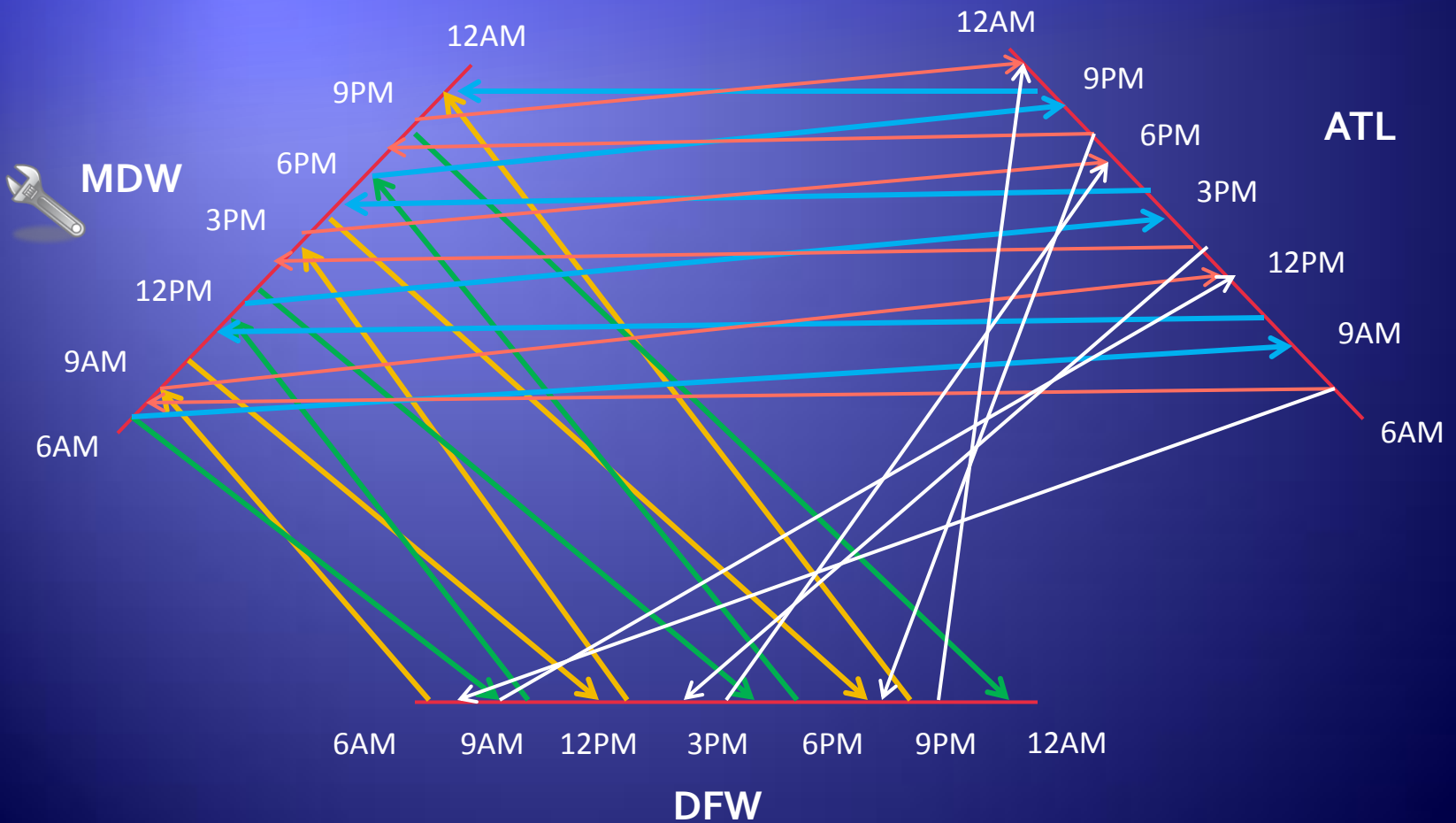
# Schedules & Frequencies

Origin	Dest.	Departure Time	Arrival Time
DFW	ATL	9:00am	12:00pm
(3)		3:00pm	6:00pm
		9:00pm	12:00am
ATL	DFW	7:00am	8:00am
(3)		1:00pm	2:00pm
		7:00pm	8:00pm
MDW	DFW	6:30am	9:00am
(5)		10:00am	12:30pm
		1:30pm	4:00pm
		5:00pm	7:30pm
		8:30pm	11:00pm
DFW	MDW	6:30am	9:00am
(5)		10:00am	12:30pm
		1:30pm	4:00pm
		5:00pm	7:30pm
		8:30pm	11:00pm

Origin	Dest.	Departure Time	Arrival Time
MDW	ATL	6:30am	9:30am
(6)		9:00am	12:00pm
		12:30pm	3:30pm
		3:00pm	6:00pm
		6:30pm	9:30pm
		9:00pm	12:00am
ATL	MDW	7:00am	8:00am
(6)		10:30am	11:30am
		1:00pm	2:00pm
		4:30pm	5:30pm
		7:00pm	8:00pm
		10:30pm	11:30pm



# Schedule Map



# Maintenance

- ◆ MDW – Maintenance Hub
  - ◆ Contract Out Maintenance
  - ◆ Planes rotate routes to allow overnights in MDW
- ◆ ATL, DFW – Emergency Maintenance Only
  - ◆ Contract Out

# Aircraft Utilization

- ◆ Dallas – Chicago Route (DFW – MDW)  
Airplanes 1 & 2: **12.5 blk hrs/day**
- ◆ Chicago - Atlanta Route (MDW-ATL)  
Airplanes 3 & 4: **12 blk hrs/day**
- ◆ Dallas – Atlanta Route (DFW-ATL)  
Airplane 5: **12 blk hrs/day**
- ◆ **1 hr turnaround times**
  - ◆ Buffer space

# Passengers' Demand

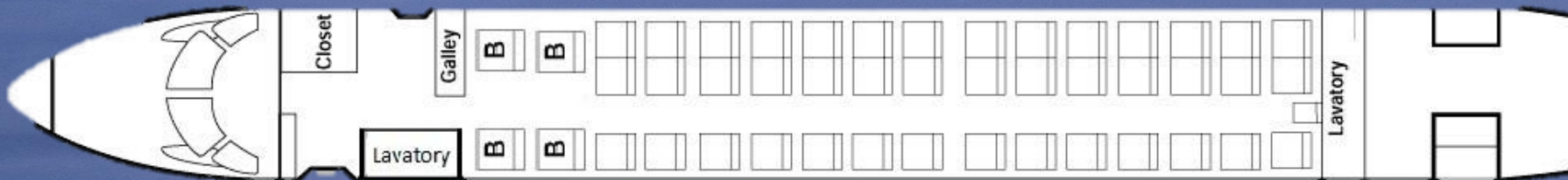
	ATL-DAL	DAL-CHI	CHI-ATL
<b>Baseline PDBW</b>	2,453	2,780	3,029
<b>Price Elasticity</b>	-1.2	-1.2	-1.2
<b>Projected Demand</b>	3,185	3,619	3,933
<b>Existing Flights</b> each way	28.3	23.0	40.5
<b>Our Flights</b> each way	3	5	6
<b>Frequency Share</b>	10.60%	21.74%	14.81%
<b>Expected Market Share</b>	7.02%	10.97%	13.86%
<b>Pax Per Day</b> total	224	397	545

# Fleet Comparison

	ERJ135	ERJ145	CRJ700	A318
# Seats	37	46	70	120
Total Operating Cost	\$149,844	\$141,201	\$163,869	\$220,188
Load Factor	87.14%	86.29%	59.78%	34.69%
Unit Cost per ASM	\$0.2067	\$0.1567	\$0.1195	\$.0936
Revenue	\$115,895	\$142,756	\$149,070	\$149,070
Operating Profit	\$(33,948)	\$1,554	\$(14,798)	\$(71,118)
Operating Margin	(29.93)%	1.09%	(10)%	(48)%

# ERJ145

- ◆ 4 business seats
- ◆ 42 economy seats





# ERJ145 Considerations

- ◆ Generally unpopular aircraft
  - ◆ Able to lower ownership costs/work-out an advantageous lease contract
- ◆ American Eagle operates them on the ATL-CHI route
- ◆ Smaller size means faster loading/deplaning



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- ◆ FINANCES

- ◆ Pricing
- ◆ Operating Revenues and Costs
- ◆ Operating Profit



- ◆ BUSINESS STRATEGY

- ◆ Marketing
- ◆ Human Resources
- ◆ Safety & Security

# Pricing

- ◆ Set fare prices 20% below current average

	ATL-DAL	DAL-CHI	CHI-ATL
<b>Current Average Fare (2Q10)</b>	\$152	\$191	\$139
<b>Proposed Average Fare</b>	\$122	\$153	\$112

- ◆ Offer business class seats at higher fare
- ◆ Simple fare product restrictions

# Sample Fare Structure

- ◆ DAL-CHI fare structure
  - ◆ Average Fare - \$153
  - ◆ No minimum stay restrictions

Fare Class	Price	Adv. Purchase	Change Fee	Non-Refundable
F	\$495.00			
Y	\$310.00			
B	\$275.00	7 day	Yes	
M	\$145.00	14 day	Yes	Yes
Q	\$110.00	21 day	Yes	Yes

- ◆ Achieve projected average fare using booking limits

# Fare Comparison

NLCs have complex fare structures

Airline	Viridis Air			American Airlines		
Route	DFW-MDW			DFW-ORD		
Adv. Purchase	21 days			21 days		
	Fare Class	Price	Refun?	Fare Class	Price	Refun?
	F-First	\$495	Y	First Flexible	\$1447	Y
	Y	\$310	Y	Instant Upgrade	\$926	Y
	B	\$275	Y	Economy Flexible	\$1001	Y
	M	\$145	N	Super Saver	\$338	Y
	Q	\$110	N	Economy Super Saver	\$169	N

# Bag Fees

- ◆ First Bag \$25
  - ◆ Estimate 15% of passengers will have one checked-in bag – conservative since we target mainly business travelers
- ◆ Second Bag \$30
  - ◆ Estimate 3% of passengers will have a second checked-in bag

# Route Analysis

	ATL-DAL	DAL-CHI	CHI-ATL
<b>Projected Demand both ways</b>	3,185	3,916	3,933
<b>Competitor Flights both ways</b>	56.6	46.0	81
<b>Our Flights both ways</b>	6	10	12
<b>Market Share</b>	7.02%	10.97%	13.89%
<b>Projected Daily Pax both ways</b>	224	391	497
<b>Load Factor</b>	84.05%	85.00%	90.00%

# Cost Estimates

	Our Estimate	LCC Estimates	NLC Estimates
<b>Crew</b> per block hour	\$275	\$271	\$281
<b>Fuel</b> per block hour	\$875	\$36	\$784
<b>Aircraft Cost</b> per block hour	\$31 Source: William Swelbar	\$53	\$191
<b>Aircraft Servicing</b> per departure	\$750	\$600	\$1,300
<b>Traffic Servicing</b> per enplanement	\$10	\$9	\$22
<b>Pax Service</b> per RPM	\$0.010 for WiFi	\$0.0075	\$0.012
<b>Promotion and Sales</b> per pax	\$12	\$7.50	\$16



# Route Analysis Revenue

	ATL-DAL	DAL-CHI	CHI-ATL
Operating Cost	\$30,431	\$54,791	\$55,979
Our Avg Fare	\$122	\$153	\$112
Fare Revenue	\$27,291	\$59,823	\$55,642
Bag Fees	\$1,040	\$1,818	\$2,310
Profit	\$(2,100)	\$6,850	\$1,972
Margin	(7.69)%	11.45%	3.54%

# Operating Profit

	ATL-DAL	DAL-CHI	CHI-ATL	Total
<b>Daily Profit</b>	\$(2,100)	\$6,850	\$1,972	<b>\$6,723</b>
<b>Margin</b>	(7.69)%	11.45%	3.54%	<b>4.54%</b>
<b>Quarterly Profit</b>	\$(191,081)	\$623,362	\$179,490	<b>\$662,951</b>

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- ◆ **BUSINESS STRATEGY**
  - ◆ Marketing
  - ◆ Human Resources
  - ◆ Safety & Security



# Marketing

- ◆ Business-oriented service quality
  - ◆ Free Wi-Fi and power outlets
  - ◆ Fees for check-in bags, pillows, snacks
- ◆ Quiet Flights – get work done or take a nap in peace
  - ◆ Except for emergencies or FAA mandated announcements, have quiet cabin operations: no annoying messages over the intercom about what we are flying over, and at what altitude or what snacks are on sale
- ◆ Loyalty program
- ◆ Assigned seats
- ◆ Distribution

# Distribution

- ◆ Offering on GDS and Travel Aggregators
  - ◆ GDS initially
- ◆ Incentive people to book on our website
  - ◆ Free specialty drink – cocktail, wine, spirits

# Human Resources & Labor Relations

- ◆ Non-unionized (*JetBlue, Delta*)
  - ◆ Prioritize employee needs into business decisions and gain strong employee loyalty
- ◆ Management (*Southwest, JetBlue, AA*)
  - ◆ Develop a culture where employees trust that their management team is doing everything in their power for the greater benefit of the overall company and doing its best to protect and take care of their employees in the short and long term
  - ◆ Demonstrate honesty and transparency through frequent and timely, two-way communication
  - ◆ Regular cross-functional team meetings during which lessons learned and issues are discussed, problem-solving is encouraged, and shared/aligned goals are fostered
  - ◆ Foster “relational coordination” and alignment with company values
  - ◆ Results in increased employee productivity, more collaborative corporate culture, and a greater willingness from employees to make concessions during tough times

# Human Resources & Labor Relations

- ◆ Hiring (*JetBlue*)
  - ◆ Seek out candidates that
    - ◆ Fit within our corporate culture
    - ◆ Demonstrate tendency to go above and beyond their basic call of duty
    - ◆ Have team-oriented work experience
  - ◆ Conduct group-setting interviews
  - ◆ Assess training required for each new hire
- ◆ Retention (*Southwest, JetBlue*)
  - ◆ Align employee incentives through a two-part bonus compensation system (personal and company performance based, with customer satisfaction embedded)
  - ◆ Maintain respectful relationships in tough times to strengthen employee productivity and loyalty
  - ◆ Provide means for employees to actively voice their opinions
  - ◆ Create flexible job boundaries to lower costs, better handle peak demand periods, and encourage career growth and employee satisfaction

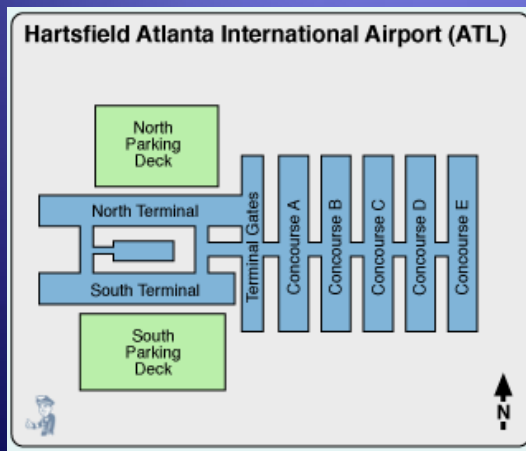


# Safety and Security

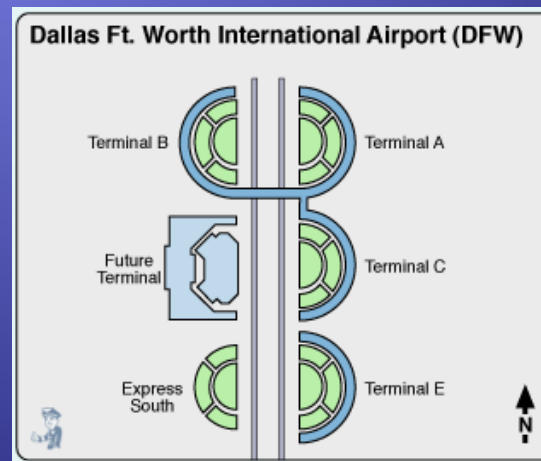
- ◆ Implement Positive Passenger Bag Match for all flights
  - ◆ Develop efficient, reliable operations from the get go
  - ◆ Do not market or advertise about PPBM initially

# Airport Operations

- ◆ All three airports can handle large capacity and are relatively efficient
- ◆ No major slot constraints
- ◆ Prepared for air traffic congestion that may occur due to hub operations



4 Parallel Runways



7 Runways



2 Pair Intersecting Runways

# Airport Operations

- ◆ *ATL - Prepare for relatively high heavy traffic congestion*
  - ◆ Centralized passenger processing, midfield linear satellite concept
  - ◆ 2 pairs of close parallel runways – 2 for arrivals, 2 for departures
  - ◆ World's busiest passenger airport with the world's largest terminal complex
- ◆ *MDW - Prepare for weather-related delays*
  - ◆ Centralized passenger processing, finger/pier concept
  - ◆ Weather-related delays relatively higher due to Chicago weather
  - ◆ Southwest and AirTran (now merging) are the dominant carriers
  - ◆ AirTran flies internationally from MDW to Mexican cities
- ◆ *DFW - Prepare for Southwest operations entry in 2014*
  - ◆ Decentralized passenger processing (Skylink mitigates inefficiency), linear concept
  - ◆ Major hub for AA and serves 20 other airlines

# Future Strategic Considerations

- ◆ Prevent competitive retaliation by positioning ourselves as not directly competing with any one airline and code share with other airlines
- ◆ Add DCA to our network (fits with our operations as far as stage length and business operations)
- ◆ Open to international operations to capture growth from Latin America