

Office of Aviation and International Affairs, Aviation Analysis
AirTran's Westward Expansion - Third Quarter 2003
Domestic Aviation Competition Issue Brief Number 23

We last focused on AirTran in the Special Feature accompaniment to the Domestic Air Fare Consumer Report for the third quarter of 2001.¹ Since then, the airline has continued to grow its Atlanta hub, both by adding frequencies in existing markets as well as by beginning service to new destinations. As of April 2004, AirTran offered nonstop service from Atlanta to 44 airports. AirTran has also increased its service in markets that do not involve Atlanta. In addition to offering nonstop service to Florida from a number of cities outside of its Atlanta hub, the carrier has, among other strategies, grown its focus city operation at Baltimore and increased the breadth of its nonstop network at Boston, Canton/Akron, Dallas/Ft. Worth, and Philadelphia. AirTran has completed its fleet renewal program, having retired its last DC-9 in January 2004.

In July 2003, AirTran placed a firm order for 50 Boeing 737s, in addition to options on another 50 737s. The airline's first 737 is scheduled for delivery in the summer of 2004. In addition to opening up new markets, the 737s will also allow AirTran to increase capacity on its existing routes, by replacing or supplementing service flown with its 117-seat 717s.

Last year, AirTran began service to four cities west of the Mississippi. The airline commenced nonstop service between its Atlanta hub and Denver in May, Los Angeles and Las Vegas in June, and San Francisco in November. (Service to the latter three cities is marketed by AirTran but operated under contract for the airline by Ryan International Airlines with A320 aircraft. As AirTran takes delivery of the 737s, it plans to use them to replace the Ryan International operated service.) This Special Feature examines the competitive impact of AirTran's recent westward expansion.² It also takes a look at the largest Atlanta city-pair markets west of the Mississippi that did not have AirTran service as of the third quarter of 2003.

Atlanta-Los Angeles

In the third quarter of 2002 (3Q02), Atlanta-Los Angeles was the 73rd largest domestic airport pair market by total traffic. In 3Q02, there were 119 airport pairs among the Top 1,000 largest domestic airport pairs that were in the 1,500 to 2,000 mile distance block. The Atlanta-Los Angeles market's average one-way fare of \$252 was the 12th highest among these 119 markets. This market was Delta's 18th largest domestic airport pair by total passenger volume but its second largest airport pair market by total revenue. In 3Q02, Delta was the only carrier offering nonstop service in this market and it had a 55% market share.

AirTran began service between Atlanta and Los Angeles on June 4, 2003, with two daily roundtrips. JetBlue had commenced service between Atlanta and Long Beach, outside of Los Angeles, on May 8, 2003, with three daily roundtrips.³ Delta responded to the low-fare carriers' entry by greatly

¹ This quarter's Air Fare Report Special Feature is simultaneously being issued as part of our Domestic Aviation Competition Series. This document, and all previous Special Features, are available on our website at <http://ostpxweb.dot.gov/aviation/> under Reports → Domestic → Studies, Reports, and Statements → Domestic Aviation Competition Series.

² Since AirTran did not begin service to San Francisco until the fourth quarter of 2003, this market was not analyzed for this Special Feature.

³ In September 2003, JetBlue reduced its Atlanta-Long Beach service to one daily round trip. JetBlue terminated all service at Atlanta in December 2003.

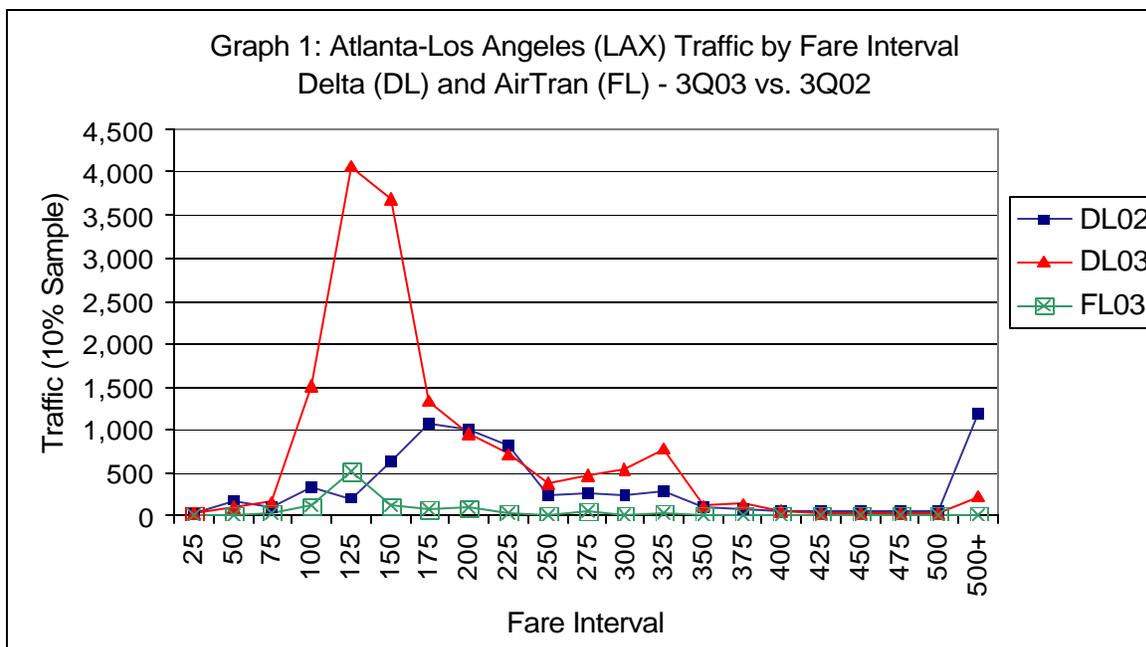
increasing capacity. According to DOT's T100 data, Delta's nonstop capacity in the market increased 44% between 3Q02 and the third quarter of 2003 (3Q03). Delta's departures increased 55%.

Table 1 below illustrates the dramatic effect that the entry of AirTran and JetBlue, and Delta's subsequent capacity and pricing responses, had on traffic, revenue, and average fares in the Atlanta-Los Angeles market.

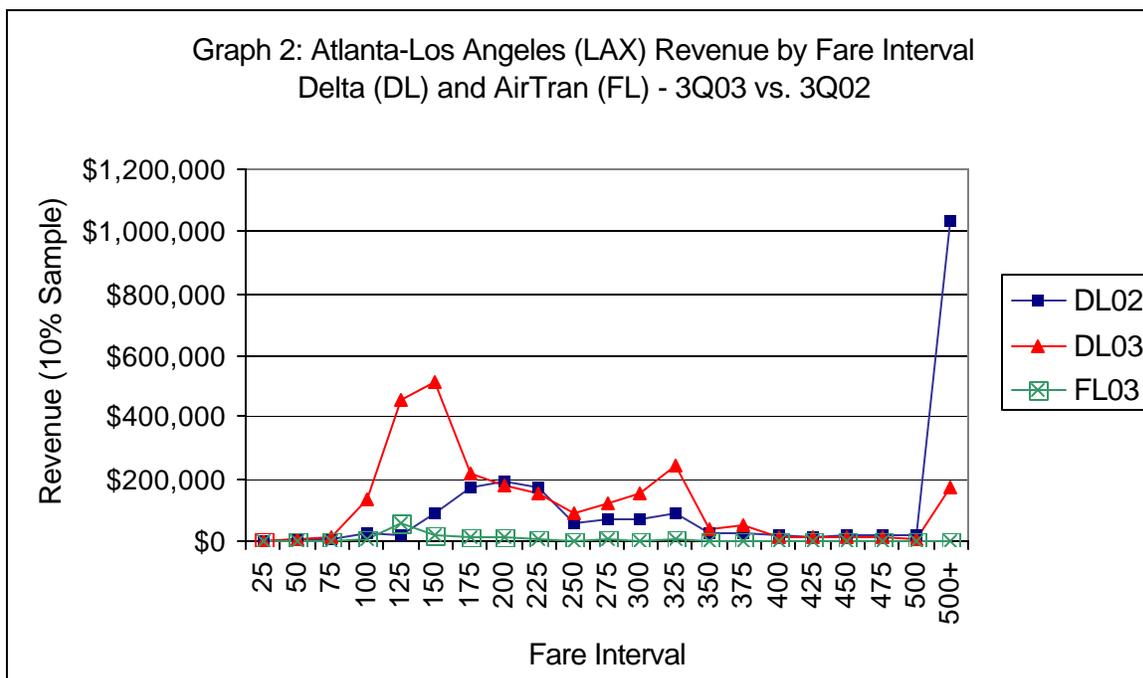
Table 1: Atlanta-Los Angeles/Long Beach Traffic, Revenue, and Average Fares 3Q03 vs. 3Q02									
Market (Carrier)	10% Sample FaredPax 3Q02	10% Sample FaredPax 3Q03	% Change FaredPax	10% Sample Rev 3Q02	10% Sample Rev 3Q03	% Change Rev	AvgFare 3Q02	AvgFare 3Q03	% Change AvgFare
ATL-LAX Overall	13,185	18,979	44%	\$3,319,152	\$3,165,288	-5%	\$252	\$167	-34%
ATL-LAX (Delta)	6,885	15,303	122%	\$2,141,575	\$2,567,654	20%	\$311	\$168	-46%
ATL-LAX (AirTran)		1,019			\$139,874			\$137	
ATL-LGB (JetBlue)		4,852			\$595,541			\$123	

The overall Atlanta-Los Angeles market grew 44% year-over-year. However, total market revenue fell 5%, as the average market fare declined 34%. Although Delta's Atlanta-Los Angeles traffic more than doubled, its revenue grew only 20%, as its average fare plummeted 46% from \$311 to \$168. AirTran carried about 1/15 of the amount of fared passengers that Delta did, at an average fare of \$137, 18% lower than Delta's average fare. In the Atlanta-Long Beach market, JetBlue's average fare of \$123 was even lower than AirTran's Atlanta-Los Angeles fare.

Graph 1 below illustrates how the distribution of Delta's traffic by fare interval changed year-over-year. AirTran's traffic by fare interval for the 3Q03 is provided as well. As typically occurs when a low-fare carrier enters a market dominated by the legacy carriers, the number of passengers paying fares at the high end of the fare structure fell dramatically. Meanwhile, the number of passengers paying much lower fares, which includes both those that would have traveled at higher prices but were now able to obtain a lower fare, as well as incremental traffic that was generated by the lower prices, grew substantially. Delta's traffic at fares above \$500 fell 82%, while its traffic at fares below \$500 increased 164%. Note the huge increase in Delta passengers traveling at fares between \$75 and \$150. Anecdotal evidence indicates that walk-up fares in the market have dropped from over \$1,500 before AirTran's entry to as low as under \$300 today.



Graph 2 illustrates how the distribution of Delta’s revenue by fare interval changed year-over-year. Before low-fare carrier entry, 48% of Delta’s total ATL-LAX revenue was generated by the 17% of Delta passengers that paid fares above \$500. After low-fare entry, passengers that paid fares above \$500 generated only 7% of Delta’s total revenue and only 1% of its total traffic.



Before the entry of low-fare competition into the Atlanta-Southern California market, about half of the Atlanta-Los Angeles origin and destination (O&D) market used connecting service because the nonstop fares were so high. During the 3Q03, the percentage of fared traffic that used connecting service fell to only 20%, as much lower fares became available on AirTran and Delta’s nonstop flights.

Since AirTran operates a hub at Atlanta, it is now able to offer connecting service from many points in the eastern half of the U.S. to Los Angeles via Atlanta. Table 2 below lists AirTran’s 15 largest Los Angeles O&D markets during 3Q03. Unsurprisingly, the Atlanta-Los Angeles (nonstop) market is AirTran’s largest Los Angeles O&D market. This market also had the largest percentage drop in market average fare among the markets on the list (-34%). In most of the other markets on the list, AirTran’s market share remains relatively small. However, despite its modest market shares, AirTran’s entry into Los Angeles appears to be having an effect on prices in some connecting markets. The Pensacola-Los Angeles market, in particular, had its average fare drop 24%, year over year, as AirTran achieved a 10% market share. Philadelphia, Boston, and Washington-Dulles were AirTran’s top three Los Angeles connecting O&D markets in 3Q03.

Rank	AirportPair	AirTran 10% Sample Fared Traffic 3Q03	AirTran Avg Fare 3Q03	MktFare 3Q02	MktFare 3Q03	% Change in Avg Fare	AirTran TotPax Mkt Share 3Q03
1	Atlanta (ATL)-Los Angeles (LAX)	1,019	\$137	\$252	\$167	-34%	5.4%
2	Los Angeles (LAX)-Philadelphia (PHL)	379	\$165	\$227	\$255	12%	2.9%
3	Boston (BOS)-Los Angeles (LAX)	370	\$177	\$276	\$286	4%	2.0%
4	Los Angeles (LAX)-Washington (IAD)	355	\$156	\$393	\$360	-8%	2.8%
5	Los Angeles (LAX)-New York (LGA)	339	\$165	\$220	\$240	10%	4.7%
6	Baltimore (BWI)-Los Angeles (LAX)	278	\$169	\$192	\$223	16%	2.5%
7	Buffalo (BUF)-Los Angeles (LAX)	173	\$156	\$175	\$153	-13%	4.8%
8	Los Angeles (LAX)-Newport News/Wmsburg (PHF)	143	\$171	\$194	\$195	1%	33.0%
9	Los Angeles (LAX)-Memphis (MEM)	132	\$192	\$272	\$248	-9%	5.6%
10	Los Angeles (LAX)-Orlando (MCO)	131	\$160	\$218	\$190	-13%	1.1%
11	Los Angeles (LAX)-Newark (EWR)	124	\$185	\$248	\$248	0%	0.5%
12	Ft. Lauderdale (FLL)-Los Angeles (LAX)	118	\$141	\$182	\$163	-10%	1.1%
13	Los Angeles (LAX)-Pensacola (PNS)	113	\$178	\$240	\$183	-24%	10.1%
14	Los Angeles (LAX)-New Orleans (MSY)	102	\$165	\$165	\$197	20%	1.8%
15	Flint (FNT)-Los Angeles (LAX)	92	\$149	\$196	\$176	-10%	16.2%

Atlanta-Las Vegas

AirTran initiated service between Atlanta and Las Vegas on June 11, 2003 with two daily roundtrips. As is the case with AirTran's Los Angeles service, these flights are marketed by AirTran but operated by Ryan International Airlines with A320 aircraft. At the time of AirTran's entry, both Delta and America West already served the market on a nonstop basis. T100 data indicates that Delta's capacity in the market increased 44% year-over-year and its departures increased 28%. America West's departures increased 2% but its capacity fell 15% as it downgauged to smaller equipment on the route.

Traffic in the Atlanta-Las Vegas market grew tremendously between 3Q02 and 3Q03. Total market fared traffic increased 73% on a decline in average fare of 22%. As it did in the Atlanta-Los Angeles market, Delta more than doubled its traffic, as its average fare declined 29%. Delta's revenue increased 46% on the growth in traffic. America West grew both its traffic and revenue by 11% on a slight decline in its average fare. AirTran offered the lowest fares, on average, among the three carriers (\$133). Table 3 below provides additional detail.

Market (Carrier)	10% Sample FaredPax 3Q02	10% Sample FaredPax 3Q03	% Change FaredPax	10% Sample Rev 3Q02	10% Sample Rev 3Q03	% Change Rev	AvgFare 3Q02	AvgFare 3Q03	% Change AvgFare
ATL-LAS Overall	7,744	13,412	73%	\$1,495,347	\$2,022,553	35%	\$193	\$151	-22%
ATL-LAS (AirTran)		1,179			\$156,755			\$133	
ATL-LAS (America West)	1,267	1,410	11%	\$179,561	\$198,525	11%	\$142	\$141	-1%
ATL-LAS (Delta)	4,877	10,090	107%	\$1,070,266	\$1,561,416	46%	\$219	\$155	-29%

Graph 3, on the next page, illustrates traffic by fare interval for each of the carriers with nonstops in the Atlanta-Las Vegas market for 3Q02 and 3Q03, as applicable. Due to the Las Vegas market's high preponderance of leisure travelers, the decline in traffic at the high end of the fare structure was not as dramatic as was the case in the more business travel oriented Los Angeles market. Note the increase in Delta's traffic at fares between \$100 and \$175 as the additional price competition introduced by AirTran stimulated demand.

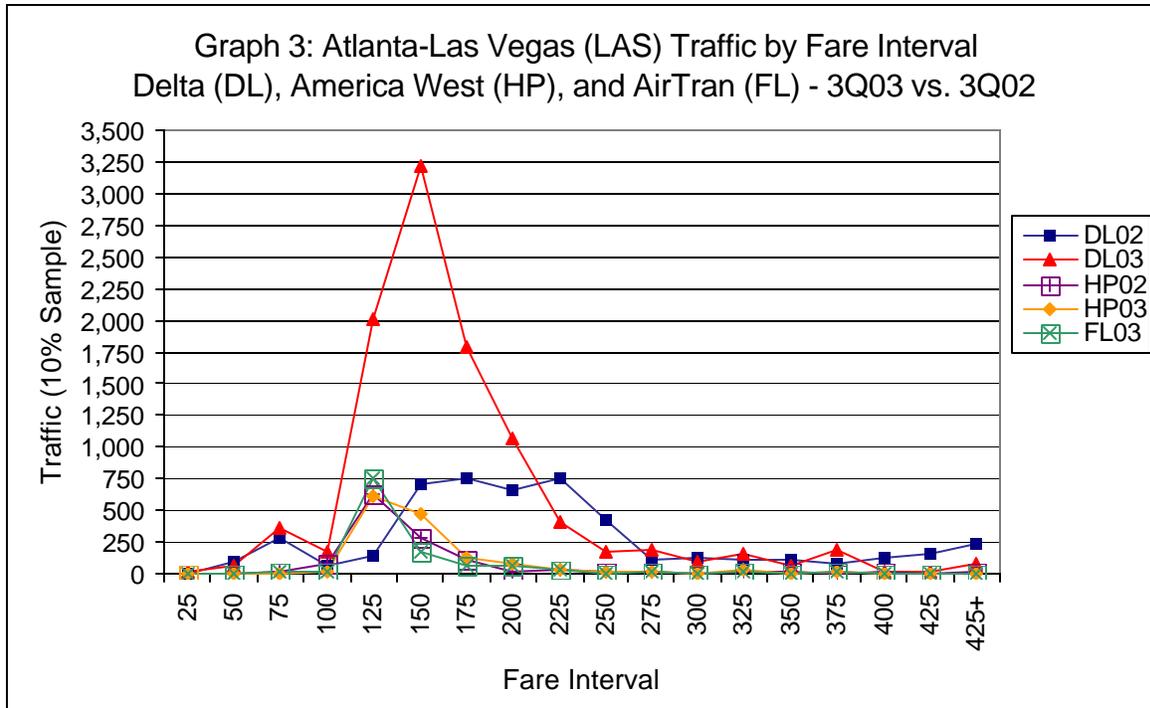


Table 4 presents the change in market average fare between 3Q02 and 3Q03, as well as AirTran's market share, in AirTran's 15 largest Las Vegas O&D markets.

Rank	AirportPair	AirTran 10% Sample Fared Traffic 3Q03	AirTran Avg Fare 3Q03	MktFare 3Q02	MktFare 3Q03	% Change in Avg Fare	AirTran TotPax Mkt Share 3Q03
1	Atlanta (ATL)-Las Vegas (LAS)	1,179	\$133	\$193	\$151	-22%	8.9%
2	Baltimore (BWI)-Las Vegas (LAS)	244	\$133	\$145	\$158	8%	1.8%
3	Las Vegas (LAS)-Washington (IAD)	207	\$188	\$210	\$263	25%	6.2%
4	Buffalo (BUF)-Las Vegas (LAS)	206	\$131	\$166	\$153	-8%	5.2%
5	Las Vegas (LAS)-Philadelphia (PHL)	174	\$172	\$148	\$186	25%	1.7%
6	Las Vegas (LAS)-Pittsburgh (PIT)	173	\$107	\$194	\$132	-32%	2.2%
7	Las Vegas (LAS)-New York (LGA)	149	\$154	\$162	\$164	1%	2.4%
8	Las Vegas (LAS)-Orlando (MCO)	140	\$148	\$147	\$154	5%	1.9%
9	Las Vegas (LAS)-Tampa (TPA)	133	\$129	\$140	\$145	4%	2.2%
10	Ft. Lauderdale (FLL)-Las Vegas (LAS)	117	\$138	\$142	\$158	11%	1.9%
	Las Vegas (LAS)-Newport News/Wmsburg (PHF)	108	\$185	\$235	\$179	-24%	27.1%
12	Boston (BOS)-Las Vegas (LAS)	101	\$191	\$150	\$192	28%	1.2%
13	Dayton (DAY)-Las Vegas (LAS)	77	\$149	\$147	\$146	-1%	4.1%
14	Flint (FNT)-Las Vegas (LAS)	76	\$155	\$159	\$155	-2%	12.6%
15	Las Vegas (LAS)-Rochester (ROC)	73	\$170	\$189	\$178	-6%	7.0%

Outside of the Atlanta-Las Vegas local market, Baltimore was AirTran's largest Las Vegas O&D market. The Pittsburgh and Newport News/Williamsburg markets exhibited the largest year-over-year decline in average fares among the group. Note that the markets with the largest increases in market average fares (Boston, Philadelphia, and Washington-Dulles) were served nonstop in 3Q02 by National Airlines, which ceased operations in November 2002.

Atlanta-Denver

AirTran began service between Atlanta and Denver on May 21, 2003, with two daily roundtrips. It added a third daily roundtrip on July 2, 2003. Unlike its Atlanta-Los Angeles and Atlanta-Las Vegas services, AirTran operates its own 717 equipment on its Atlanta-Denver flights. At the time of

AirTran’s entry, Delta, United, and Frontier already offered nonstop service in the market. Delta’s capacity in the market increased 1% year-over-year while its departures increased 11%. United increased both capacity and departures by 4%. Frontier grew its capacity 51% while increasing departures by 55%.

Table 5 illustrates the impact of AirTran’s entry on the Atlanta-Denver market as a whole, as well as on all of the incumbent nonstop carriers. The average market fare fell 21% from \$202 to \$160, causing traffic to increase by 37%. AirTran entered with an average fare of \$141. Frontier suffered the largest percentage decline in average fare (-32%) but also saw its traffic increase the most (62%) as it expanded its capacity by more than 50%. United and Delta saw their average fares drop 22% and 20% respectively. United’s traffic increased 42%, boosting its revenue by 10%. Delta’s revenue fell 4% despite a 19% increase in traffic.

Market (Carrier)	10% Sample FaredPax 3Q02	10% Sample FaredPax 3Q03	% Change FaredPax	10% Sample Rev 3Q02	10% Sample Rev 3Q03	% Change Rev	AvgFare 3Q02	AvgFare 3Q03	% Change AvgFare
ATL-DEN Overall	9,230	12,637	37%	\$1,868,163	\$2,015,677	8%	\$202	\$160	-21%
ATL-DEN (AirTran)		1,195			\$168,623			\$141	
ATL-DEN (Frontier)	1,004	1,628	62%	\$191,126	\$211,874	11%	\$190	\$130	-32%
ATL-DEN (United)	2,310	3,273	42%	\$502,170	\$553,379	10%	\$217	\$169	-22%
ATL-DEN (Delta)	4,946	5,901	19%	\$1,010,268	\$967,520	-4%	\$204	\$164	-20%

Table 6 provides data on AirTran’s 15 largest Denver O&D markets.

Rank	AirportPair	AirTran 10% Sample Fared Traffic 3Q03	AirTran Avg Fare 3Q03	MktFare 3Q02	MktFare 3Q03	% Change in Avg Fare	AirTran TotPax Mkt Share 3Q03
1	Atlanta (ATL)-Denver (DEN)	1,195	\$141	\$202	\$160	-21%	9.3%
2	Denver (DEN)-Orlando (MCO)	570	\$146	\$195	\$178	-9%	7.6%
3	Baltimore (BWI)-Denver (DEN)	345	\$153	\$200	\$228	14%	4.5%
4	Denver (DEN)-Washington (IAD)	334	\$156	\$275	\$295	7%	3.6%
5	Buffalo (BUF)-Denver (DEN)	280	\$157	\$179	\$164	-8%	14.7%
6	Denver (DEN)-Tampa (TPA)	263	\$150	\$178	\$176	-1%	5.6%
7	Denver (DEN)-New York (LGA)	259	\$146	\$215	\$229	7%	2.1%
8	Denver (DEN)-Philadelphia (PHL)	219	\$173	\$243	\$255	5%	2.8%
9	Boston (BOS)-Denver (DEN)	175	\$208	\$198	\$239	21%	1.6%
10	Denver (DEN)-Rochester (ROC)	142	\$197	\$201	\$180	-11%	8.7%
11	Akron/Canton (CAK)-Denver (DEN)	141	\$190	\$189	\$198	5%	37.8%
12	Denver (DEN)-Jacksonville (JAX)	127	\$207	\$209	\$185	-11%	7.6%
13	Denver (DEN)-Pittsburgh (PIT)	102	\$128	\$211	\$155	-27%	2.1%
14	Denver (DEN)-Ft. Lauderdale (FLL)	97	\$140	\$133	\$139	4%	1.5%
15	Denver (DEN)-Memphis (MEM)	85	\$181	\$232	\$196	-16%	6.1%

AirTran’s largest connecting Denver O&D market was Denver-Orlando. The Pittsburgh market exhibited the largest decline in average fare in the group. The Boston-Denver market, where the average fare increased 21%, was served nonstop by Frontier during 3Q02. Frontier exited the Boston market during the fourth quarter of 2002.

The Future

Subsequent to the period covered by this Special Feature, AirTran began service to another western destination, San Francisco. It also commenced flights between Atlanta and Washington Reagan National. As mentioned above, AirTran is also growing its presence in markets that do not involve Atlanta, including its “focus city” operations at Baltimore as well as expanding other point-to-point flying.

Its recent westward expansion notwithstanding, AirTran still has a limited presence west of the Mississippi, especially as compared to its east coast coverage. Table 7 lists the 25 largest Atlanta city-pair markets⁴ west of the Mississippi by revenue that did not have AirTran service as of 3Q03. It provides revenue, fared traffic, and average fare data at the market level and for Delta for the 3Q03.

Note the vast differences in the average fares between the markets in Table 7, which do not have competition from AirTran, and the average fares in the Atlanta-Los Angeles, Atlanta-Las Vegas, and Atlanta-Denver markets (\$167, \$151, and \$160, respectively), where AirTran now competes. While some of these markets could be served from Atlanta with the 717 today, others are beyond the 717's technical capabilities. However, with the 737, AirTran would be able to serve all of these markets.

Rank	City-Pair	Mkt Revenue 3Q03	Mkt Fared Traffic 3Q03	Mkt Avg Fare 3Q03	Delta Revenue 3Q03	Delta Fared Pax 3Q03	Delta Avg Fare 3Q03
1	Atlanta-San Francisco*	\$3,280,517	13,808	\$238	\$1,916,304	7,135	\$269
2	Atlanta-Seattle/Tacoma	\$1,785,747	7,292	\$245	\$1,224,527	4,836	\$253
3	Atlanta-Phoenix	\$1,263,043	5,220	\$242	\$645,559	2,432	\$265
4	Atlanta-St. Louis	\$1,061,757	4,945	\$215	\$552,490	2,394	\$231
5	Atlanta-San Diego	\$988,650	4,200	\$235	\$739,290	2,859	\$259
6	Atlanta-Salt Lake City	\$934,495	4,068	\$230	\$684,850	2,481	\$276
7	Atlanta-Portland, OR	\$906,735	3,882	\$234	\$609,498	2,572	\$237
8	Atlanta-San Antonio	\$738,694	3,107	\$238	\$583,282	2,342	\$249
9	Atlanta-Austin	\$645,278	2,873	\$225	\$461,947	1,958	\$236
10	Atlanta-Sacramento	\$616,713	2,786	\$221	\$349,597	1,559	\$224
11	Atlanta-Albuquerque	\$408,944	1,874	\$218	\$292,812	1,235	\$237
12	Atlanta-Oklahoma City	\$403,613	1,725	\$234	\$313,505	1,285	\$244
13	Atlanta-Omaha	\$377,390	1,785	\$211	\$243,604	1,064	\$229
14	Atlanta-Little Rock	\$321,045	1,341	\$239	\$283,877	1,161	\$245
15	Atlanta-Fayetteville, AR	\$312,720	995	\$314	\$270,966	822	\$330
16	Atlanta-Tulsa	\$278,225	1,206	\$231	\$207,755	859	\$242
17	Atlanta-Tucson	\$261,540	1,165	\$224	\$154,233	685	\$225
18	Atlanta-Colorado Springs	\$222,200	959	\$232	\$169,427	752	\$225
19	Atlanta-El Paso	\$210,955	870	\$242	\$107,979	392	\$275
20	Atlanta-Reno	\$199,378	920	\$217	\$64,017	247	\$259
21	Atlanta-Des Moines	\$195,733	999	\$196	\$146,937	690	\$213
22	Atlanta-Shreveport	\$157,183	625	\$251	\$144,510	557	\$259
23	Atlanta-Spokane	\$147,868	514	\$288	\$65,581	229	\$286
24	Atlanta-Boise	\$124,601	569	\$219	\$63,890	292	\$219
25	Atlanta-Jackson, WY	\$94,955	381	\$249	\$54,237	196	\$277
TOP 25 TOTAL		\$15,937,980	68,109	\$234	\$10,350,671	41,034	\$252

*AirTran commenced service in the Atlanta-San Francisco market subsequent to 3Q03.

⁴ Composite cities were used for this analysis. Los Angeles was defined as LAX, Burbank (BUR), Ontario (ONT), Long Beach (LGB), and Orange County (SNA). San Francisco was defined as SFO, Oakland (OAK), and San Jose (SJC).