

POLICY BRIEF

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Discount Airlines Are Thriving And Creating True Competition

There is an oft-repeated myth that discount airlines are typically short-lived due to the overwhelming power and ruthless behavior of the major airlines these discounters face upon entering new markets. While there may have been an element of truth to that contention a few years ago, today is a different story. Currently we are witnessing a new group of discount airlines—AirTran, ATA, JetBlue and Spirit Airlines to name but several—that are well capitalized, well managed, tough competitors. America West and Alaska Airlines are now major airlines themselves—among the top ten carriers in the nation—having begun as discounters and graduated along with Southwest to the big leagues. These upstart airlines are showing that they can more than compete with the big boys. They are defeating them in their own backyards and causing a great deal of turmoil in the industry.

The Allegheny Institute has made the case that the only guarantee of lower prices in any market is sufficient competition. In the air travel industry that means the presence of at least two, and preferably more, airlines that compete on the basis of price. The US airline industry offers an array of choices, but the old-line airlines (American-TWA, Continental, Delta, Northwest, United and US Airways) do not offer competitive fares until they are forced to do so by low cost carriers.

Meanwhile, popular opinion appears to hold that discount airlines are having a tough time penetrating major markets in the face of predatory practices by old-line airlines. After all, that's what has been reported constantly in the mainstream news media. So, what's the truth? A review of data concerning this nation's largest airports reveals some surprising statistics.

According to the latest data in *Aviation Daily*, at America's top 20 markets (which include over half of the nation's largest airports), discount airlines have arrived. As the table below shows, 98 percent of the top 60 airports in the US have at least one discounter operating at present, and 75 percent have two or more. What's more:

- In 3 (15 percent) of the top markets, a discounter is the dominant airline;
- In 12 (60 percent) of the top markets, discount airlines have 10 percent or greater market share; and,
- In 10 (50 percent) of the top markets, there are three or more discounters with at least one percent of the market (considered a significant presence).

Only one of the top 20 markets in the US lacks a discount airline's service; and, more importantly, at 65 percent of our largest airports, a discounter is among the top three airlines. Why, then, the uproar about a supposed inability of discount airlines to gain access to major airports? Contrary to

the news media's perception, the table below shows that for all intents and purposes, the entry of discount airlines into major markets is well established.

DISCOUNT AIRLINE PENETRATION OF TOP AIRPORTS

Statistics on Discount Airline Operations at America's Top 60 Airports (March 2001)

Airports with No Discounters	1	01.7%
1 Discounter	14	23.3
2 Discounters	23	38.3
3 Discounters	14	23.3
4 or more Discounters	8	13.3
TOTAL	60	

What's more, discount and second-tier airlines have now captured more than 30 percent of passenger traffic. Southwest is the fourth largest airline in the US. America West is in eighth place having passed TWA in passenger count. Once American absorbs TWA, for the first time in history, four of the top ten US airlines will be discounters. Rather than facing the prospect, as some "experts" have claimed, of a re-monopolization of the airline industry by consolidated old-line carriers, the US is witnessing a rapid expansion of airlines started after "deregulation."

It is noteworthy that discount airlines have significant (10 percent or greater) market share at 12 (60 percent) of the top 20 air travel markets in the US. In three markets, Phoenix, Las Vegas and Seattle/Tacoma, discount airlines have more than 50 percent of the market; and in eight others, Chicago, Los Angeles, Washington, San Francisco, Houston, Denver, St. Louis and Orlando, discounters are approaching or in some cases, exceed 20 percent of the market. This is a significant finding, and should dispel once and for all the notion that discount airlines are having great difficulty penetrating major air travel markets.

Reinforcing the perception of a lack of success by discount airlines are vocal complaints from customers in small markets that the discounters largely ignore. Operators of Pennsylvania's smaller airports such as Harrisburg, Altoona and Erie lament the fact that passengers are driving away from these airports toward major facilities in Cleveland, Pittsburgh, Philadelphia and Baltimore where airfares are cheaper. The solution, they suggest, is to attract discounters.

Passengers from small or mid-sized markets pay more simply because there are not enough travelers to attract discounters. While markets such as New York and Chicago, where 45 million and 40 million enplanements, respectively, occurred in 2000 are attracting the attention of the Jet Blues and the Southwest Airlines of this world, there is little incentive for discounters to penetrate smaller markets. That's the reality, and it cannot be the basis for concluding that traditional airlines are working to keep discount airlines out of the smaller markets.

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