



ULTRA-LOW-COST CARRIERS - INNOVATIVE AIRLINES ARE MAKING NEW CONNECTIONS IN FLORIDA AND BEYOND

Since airline deregulation in 1978, two distinct airline business models have emerged: network carriers and low-cost carriers (LCCs). The LCC business model has seen tremendous growth over the past two decades. Southwest Airlines and JetBlue Airways in the U.S. and Ryanair in Europe are pioneers of this model. The LCC model focuses on cost saving operational practices, such as operating at secondary airports in close proximity to larger markets (for example, flying to Sanford, FL, which is approximately 24 miles from Orlando International Airport), operating single aircraft type, high aircraft utilization rates, direct sales, single class offering, and low labor costs. LCCs have on average 20 to 40 percent lower unit cost versus other carriers, which results in lower fares, subsequently stimulating traffic. As they have grown, LCCs have been diversifying their product offerings to suit varying passenger tastes. Over the past decade or so, a subset of LCCs has emerged: ultra-low-cost carriers (ULCCs), which includes carriers such as Spirit Airlines, Allegiant Air, and Frontier Airlines, all of which offer extensive service at Florida airports. ULCCs employ cost-saving measures similar to LCCs, but they differentiate themselves by focusing on potentially underserved airports and that have previously been ignored by traditional airlines. Instead of focusing on larger destinations with established demand, ULCCs bet that their ultra-low fares will stimulate new demand and create new passengers at smaller destinations. ULCCs frequently offer seasonal or less-than-daily service as a cost saving measure and as a way to stay adaptable, allowing the airlines to quickly change routes and serve new destinations.



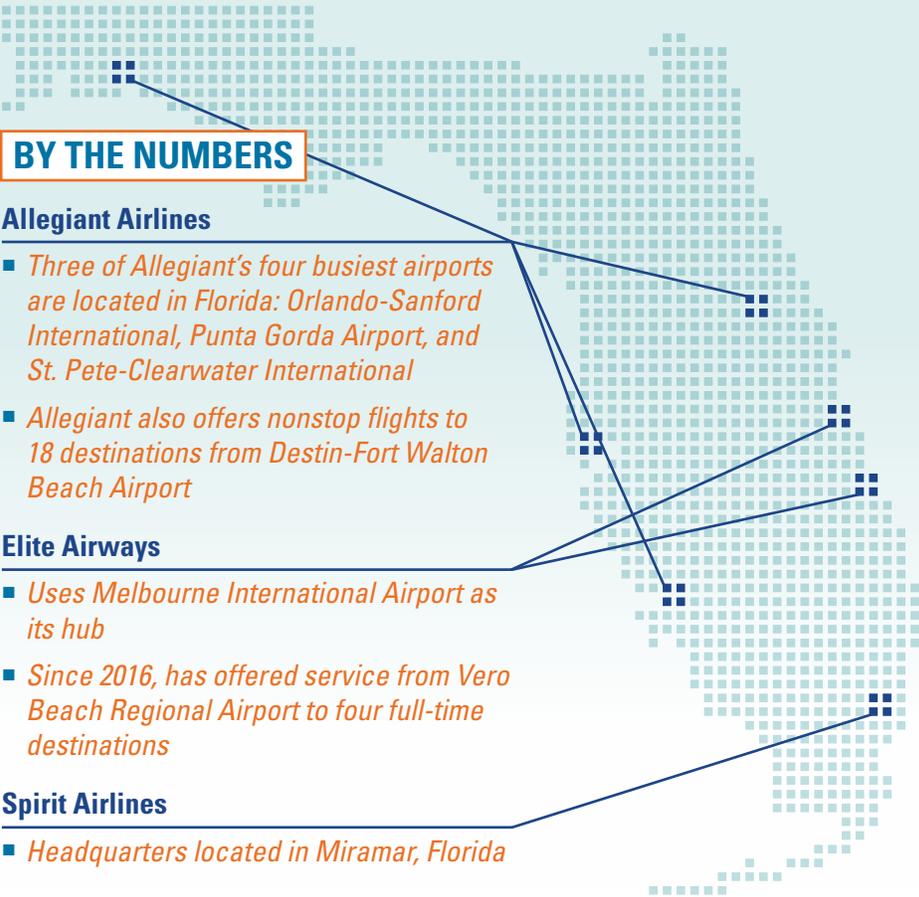
ULCCs in Florida - An Expanding Industry

ULCCs play an important role in Florida's overall commercial aviation landscape. Miramar, FL-based Spirit Airlines operates at five Florida airports and three of Allegiant's four busiest airports are in Florida: Orlando-Sanford International, Punta Gorda, and St. Pete-Clearwater International. In fact, Allegiant has more passengers and scheduled departures from Orlando-Sanford and St. Pete-Clearwater each than from their headquarters airport in Las Vegas. Statewide, ULCCs have helped shape and develop commercial airports that otherwise might not have passenger service. In 2016, Elite Airways, a ULCC that uses Melbourne International Airport as its hub, started service from Vero Beach Regional Airport to four full-time destinations and one seasonal destination.



ULCCs and the Tourism Industry Help Florida Grow

In addition to providing Florida’s residents with benefits, ULCCs also serve a key role in one of Florida’s major economic drivers: out-of-state tourism. In 2017, Florida welcomed a record 116.5 million out-of-state visitors. Approximately 50% of all of Florida’s out-of-state visitors come by air and ULCCs’ extensive out of state route networks are vital for continuing to bring people to our state. ULCCs offer a cost-effective way to vacation in Florida and these visiting tourists have economic benefits far outside the airport fence. Despite the fact that Florida’s dynamic airport system plays such a significant role in bringing in out-of-state visitors, people aren’t coming here for our airports – they’re coming for the beaches, amusement parks, business connections, winter homes, ecotourism opportunities... the list goes on and on. VISIT FLORIDA estimates that Florida’s out-of-state visitors spent \$112 billion at Florida-based businesses in 2016, resulting in direct support of 875,722 jobs with \$27.9 billion in payroll.



Overview

Over the past few years, ULCCs have demonstrated profit margins at the top of the aviation industry, validating their business model and showing signs that they are here to stay. Not only are ULCCs experiencing higher profit margins than their network carrier counterparts, ULCCs are helping to reshape fares in some markets. As noted in a 2017 article in The New York Times, the entrance of a ULCC to a market results in a notable decrease in fares on similar routes (Maidenberg, 2017). The prominence of ULCCs in Florida is most likely having positive impacts far beyond just the ULCCs’ customers as more competition from lower-fared airlines helps to keep rising ticket prices in check throughout the state.