

Companies wave cash to lure airlines to their towns ; 'Travel banks' offer safety net

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Abstract:

** Pensacola. The airport lured AirTran last fall after 319 businesses raised \$2.1 million for two years' worth of prepaid travel. AirTran initially flew three flights daily to its Atlanta hub but has since added a fourth. Airport officials credit the 50% drop in airfares along AirTran's routes to its entry. More people also are flying out of the airport since AirTran relocated from Fort Walton Beach, about an hour away. In May, a record number of people - - nearly 65,000, 26% more than in May 2001 -- flew out of Pensacola.*

** Wichita. Nearly 400 businesses this year pledged \$7.2 million to lure AirTran and a second carrier. Since AirTran started three flights daily to Atlanta and two flights to Chicago's Midway airport in May, more people are flying out of Wichita, and fares have fallen as much as 70% to cities that AirTran serves from there. The airport had an 8% increase in passengers in May over the same month last year, vs. about an 8% decline for the industry. It's too soon to predict AirTran's success, airline consultants say. AirTran is asking Wichita to reimburse it for \$732,000 in losses for the first month, which included start-up costs. The city promised to cover up to \$3 million of AirTran's losses in its first year and \$1.5 million in its second.*

All aboard: Anjie Cason gets ready to board a flight to Atlanta from Pensacola Regional Airport. Since AirTran came, airfares have dropped dramatically, and record numbers of people are flying out of the airport. Fundraising: Frank Miller, left, is the Pensacola airport's director, and John Hutchinson is manager of corporate communications for Gulf Power. Over 300 businesses raised \$2.1 million for prepaid travel on AirTran.

Full Text:

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Business Travel: Every Tuesday

No longer leaving airline recruitment to City Hall, local companies from Pensacola, Fla., to Stockton, Calif., are making substantial financial commitments to pull new air service to their communities. In some cases, they are paying millions of dollars upfront for air travel a year or two in the future.

Smaller cities say the "travel bank" strategy gets them attention from AirTran, Continental, America West and other airlines that would otherwise ignore them.

Airlines say travel banks provide an important safety net during their most vulnerable period -- the first year or two of operating, when a carrier builds name recognition and competes with existing carriers for business travelers.

"What we're interested in doing is eliminating or reducing our risk going in," says AirTran CEO Joe Leonard.

Travel banks are not a new idea, but they're gaining popularity in the USA and Canada. Examples:

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* Stockton. In 2000, Stockton lured America West to provide flights to Phoenix by raising about \$800,000 for prepaid travel from companies and individuals who wanted local air service. Stockton had lacked commercial air service for about five years; residents had to drive at least an hour to another airport. America West initially flew three flights a day but dropped a flight after Sept. 11. Stockton had previously tried a similar arrangement to attract American Eagle but fell short of the carrier's financial requirement.

* Augusta, Ga. Last year, it formed a \$600,000 travel bank that persuaded Continental Express to provide non-stop service to Newark, N.J., says airport director Ken Kraemer. "They said put your money where your mouth is and show us with a pledge of support if your business community is serious," he says. Sept. 11 derailed the plan, but Kraemer says it's likely Continental will resume its plan and add service to Houston.

* Eugene, Ore. Eugene developed what's considered the model for travel banks in 1998 when it persuaded America West to come to town, joining United and United Express. The carrier started with three daily flights to Phoenix and later cut one to improve its schedule. But next month, with business recovering from Sept. 11, America West will restore the third flight. Eugene made a similar arrangement in 2000 with Alaska Airlines' subsidiary Horizon Air for service to Los Angeles, though that service is not doing as well. Eugene is trying to form a third travel bank to lure an unidentified major carrier.

* Fredericton, New Brunswick. It is trying to form a \$2 million travel bank to lure a U.S. carrier for direct service.

Other cities, from Santa Maria, Calif., to Twin Falls, Idaho, are studying the idea.

"Given today's environment, we're especially keen on reducing our risk to initiate new service," says Buddy Anslinger, Continental's managing director of planning. "If you have two identical markets side by side, and one does something out of the ordinary, that makes our decision that much easier."

How travel banks work

There are variations, but travel banks typically are formed by city, airport and business leaders. Once a carrier is targeted, they mount a fundraising campaign (like Wichita's "Fair Fares" drive). The money is deposited in a local bank account. When someone charges tickets to that account number, the cost is deducted from that account. Businesses usually have a set time to use up their dollars or forfeit what's left to the airline. The interest earned on the account pays for administration costs.

"We're not looking for a handout," AirTran's Leonard says. "We're looking for people to fly with us. What we really want to get is a trial. That way, people will like what they see, and they'll come back on their own with out any inducement."

Smaller cities often offer airlines a deal in which they cover losses by guaranteeing a certain amount of revenue, but airport consultant Mike Boggs, who helped create Eugene's travel banks, questions that strategy because it doesn't address whether there will be enough passenger demand to fill seats.

Athens, Ga., for instance, paid out \$90,000 in three months to subsidize Mesa Air Group subsidiary CCAir, a US Airways Express carrier, for service to Charlotte, but in the end, CCAir couldn't make money and pulled out in April, says CCAir President Carter Leake. That's the kind of public relations nightmare airlines like to avoid.

"Unlike a subsidy program, a travel bank addresses the real reason an airline might be forced to pull out of a community -- an inconsistent stream of business-fare passengers," Leake says.

But travel banks aren't always surefire successes:

* Springfield, Ill., businesses pledged \$1.6 million in 10 days to land Northwest Airlines' AirLink service to Memphis and ATA Connection service to Chicago-Midway. While traffic is up 46% over the same period last year, local Chamber of Commerce executive Brad Warren says getting people to fly Northwest and ATA is "still an uphill battle" partly due to high membership there in United's and American's frequent-flier clubs.

* Indianapolis is studying the travel bank concept but has concerns about administering one. It already had success this year luring Frontier Airlines and Sunworld International without one.

* Attempts to form travel banks for AirTran failed in Dayton and Toledo, Ohio, and AirTran eventually pulled out of Toledo due to a lack of business travelers. Valdosta, Ga., put its travel bank campaign to lure Northwest on hold after Sept. 11.

Aviation consultant Richard Golaszewski of GRA says that while smaller cities will try anything to attract new service, not all of them can be winners.

"There's a limit to how much can be done," he says. "You can't create demand out of thin air. There are only so many places that really have enough travel that they can guarantee."

[Illustration]

PHOTO, Color, Karena Cawthon, The Pensacola (Fla.) News Journal; PHOTO, Color, Bruce Graner, The Pensacola (Fla.) News Journal; GRAPHIC, Color, Keith Simmons, USA TODAY, Source: Pensacola Regional Airport (BAR GRAPH); Caption: All aboard: Anjie Cason gets ready to board a flight to Atlanta from Pensacola Regional Airport. Since AirTran came, airfares have dropped dramatically, and record numbers of people are flying out of the airport. Fundraising: Frank Miller, left, is the Pensacola airport's director, and John Hutchinson is manager of corporate communications for Gulf Power. Over 300 businesses raised \$2.1 million for prepaid travel on AirTran.

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