

## **Banking on AirTran Small cities entice carrier with financial guarantees**

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Businesses in Wichita, Kan., were so desperate for low-fare airline service that they were willing to open their checkbooks before they ever flew on AirTran Airways.

More than 380 businesses and organizations raised \$4.7 million and committed it to AirTran tickets over the next two years. The upfront money, dubbed a "travel bank," is part of a larger plan that reduces AirTran's risk when it starts Wichita service in May.

Small cities have long used marketing pitches to attract airline service, but Wichita is one of several that have recently courted AirTran with hefty financial incentives. The idea is to not just promise local support for the airline once it arrives but to guarantee it.

"You have to prove you have a market for ridership, and then the airline will come to you," said Steve Flesher, air service development director at Wichita Mid-Continent Airport, now served by Delta, American and United.

"The pledge drive was a way to represent our commitment to AirTran."

The travel bank is one element of the deal. Businesses contribute a percentage of their travel budgets to an account and withdraw from it only for travel on AirTran. If they don't use their contribution in two years, AirTran keeps the remainder and issues the equivalent value in travel vouchers good for 12 months.

In addition, the airline can also draw up to \$3 million in revenue guarantees in 2002 and \$1.5 million in 2003, if ticket sales fall below designated levels. Revenue guarantees are backed by the city.

As a further incentive, the community will spend up to \$600,000 over the next two years marketing AirTran's flights.

Such deals have become an important part of AirTran's growth. In addition to Wichita, it has revenue guarantee or travel bank pacts with Newport News, Va.; Tallahassee and Pensacola, Fla.; and Rochester, N.Y. Casinos on Grand Bahama island and in Gulfport/ Biloxi, Miss., promise a certain amount of revenue to the airline.

Most pacts give the communities the right to revise the revenue guarantees or travel bank policies if AirTran cuts back on flights.

Cities have long lured airlines with tax breaks for hangars, renovated gates and marketing agreements, but AirTran believes its low fares give it enough clout to ask suitors for more.

"We talk to about 100 cities a year, and everybody likes us because they like our fares," said Joe Leonard, chief executive officer of Orlando-based AirTran, which has its hub in Atlanta.

"We're trying to ensure that as we expand, we can go into a city and not look at big losses in our first year or two."

#### Small cities, big risks

Historically, smaller carriers have often faced an uphill battle when starting service to a midsize city. Major airlines quickly match a discounter's fares, and travelers, loyal to big carriers' frequent flier programs, get lower fares even if they don't fly the new airline.

In Tallahassee, where state government is the dominant employer, there isn't enough of a corporate base to pull a travel bank together. Instead, the city used money from the sale of a building for a \$1.5 million revenue guarantee to AirTran, plus \$600,000 for marketing and facilities. The carrier started flying to Tallahassee in November.

In March, AirTran requested the \$1.5 million revenue guarantee provided under the contract to make up for a \$2.4 million revenue shortfall from Nov. 15 through Jan. 31.

"After [Sept. 11], it was anticipated they would use it," said Philip Inglese, assistant airport director.

The deal sparked little debate within the community, he said. Tallahassee's city commission unanimously voted to fund the agreement.

AirTran doesn't base all expansion decisions on financial guarantees. This week it announced plans for several new routes from Milwaukee that won't be backed by such deals. "We're not going to fly someplace simply because someone is offering us money," said Kevin Healy, vice president of planning.

Still, AirTran executives say such deals are important, and the airline appears to be seeking them more aggressively than other carriers.

Frontier Airlines, a Denver-based discounter, doesn't have any travel bank deals in place, said spokeswoman Tracey Kelly. Southwest Airlines, the large Texas discounter, doesn't use them either. Both carriers base their destination selection on market demand.

"[Travel banks] wouldn't hurt, but it doesn't necessarily change our strategic process. The big determining factor is a sustainable traffic base," Kelly said.

#### Pensacola agreement

AirTran formed its first travel bank agreement with Pensacola in 2001.

The city's airport director, Frank Miller, learned of the concept at an airport conference and contacted AirTran's director of planning, who told him advertising supplements and other perks wouldn't be enough to get the carrier down there.

Miller rallied local businesses to commit \$2.1 million to a travel bank, and the airline started service in November. Fares are down 50 percent on some routes, and traffic is up, he said.

"I'm absolutely convinced that without the travel bank we would not have been able to convince

AirTran to come to Pensacola," Miller said.

Mike Boggs, an air service consultant, was among the first to use the travel bank idea to entice America West Airlines when he was director of the airport in Eugene, Ore. He thinks the concept is superior to revenue guarantees because it ensures people will actually ride the discount airline --- the first step to showing that it provides a desirable product.

"A lot of communities have tried to do a subsidy program, where they give the airline break-even guarantees," he said. "But that doesn't guarantee a market. What you really want is something that gets people on the planes."

Graphic

#### LOW-RISK EXPANSION

AirTran Airways has crafted deals with medium-sized cities that protect it from big losses in the first months of service.

How it works:

Some cities have revenue guarantees that kick in if ticket sales fall below a certain level. In Biloxi, Miss., and Grand Bahama, casinos provide revenue guarantees. Other cities have travel banks or pools of money pledged by businesses as a prepayment on AirTran travel.

Where it's done:

1. Wichita, Kan.
2. Gulfport/Biloxi, Miss.
3. Pensacola, Fla.
4. Tallahassee
5. Grand Bahama
6. Newport News, Va.
7. Rochester, N.Y.

Why it's done:

Cities want discount airfares and are willing to offset AirTran's risk of starting a route, only to have local fliers stick with other carriers that match its fares.

The latest deal:

Wichita businesses raised

\$4.7 million for a travel bank, and the airline also can draw up to \$3 million in revenue guarantees in 2002 and

\$1.5 million in 2003 if ticket sales fall below designated levels.

Service starts in May.