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Allegiant Airlines: Finding a new customer segment[[1]](#endnote-1)

Arpita Agnihotri and Saurabh Bhattacharya wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Allegiant Airlines (Allegiant) was founded in 1997[[2]](#endnote-2) with a vision to provide ultra-low-cost travel services for leisure travellers. Adopting unique business practices, such as using old aircraft, paying labour with hourly wages rather than salaries, and unbundling airline fees, it grew from just one aircraft in 1998 to 84 aircraft by the end of 2016,[[3]](#endnote-3) targeting primarily 19 tourist destinations and 92 under-served cities[[4]](#endnote-4) (see Exhibits 1 and2). Furthermore, the base fares of Allegiant were not only the lowest in the industry but also half the price of the round-trip fares provided by any other low-cost domestic airline in the United States.[[5]](#endnote-5) In addition, Allegiant offered the convenience of nonstop flights to vacation destinations across the United States. Further, it created value for leisure travellers by providing complete travel solutions at affordable prices: it partnered directly with hotels and car rentals to provide complete low-cost vacation packages to consumers. Consequently, for 53 consecutive quarters, until March 31, 2016, Allegiant reported no losses.[[6]](#endnote-6)

Allegiant also received various awards. In 2010, it was recognized as the best low-cost airline by *Aviation Week*.[[7]](#endnote-7) Furthermore, *Forbes* named Allegiant one of America’s best small companies for four consecutive years, from 2009 to 2012.[[8]](#endnote-8) However, by 2014 customer complaints were also highest for Allegiant among all budget airlines.[[9]](#endnote-9) In 2015, it was one of the lowest scorers on the customer satisfaction index among all major U.S. airlines (see Exhibit 3).[[10]](#endnote-10) After September 2015, other problems arose with Allegiant, such as delayed and cancelled flights, several emergency landings, labour issues, and pilot strikes. Even though Allegiant started taking corrective actions by July 2016—for example, raising pay for pilots and buying new aircraft—the company’s fast pace of profitable growth and low customer satisfaction continued to puzzle the entire U.S. airline industry. What was so unique about Allegiant’s strategies that it could offer the lowest possible airfares and also become a profitable airline, while competitors were struggling to earn good margins? How did Allegiant remain so profitable despite such poor customer satisfaction scores? Further, would it be able to sustain its profitability in the long run?

**COMPANY BACKGROUND**

Allegiant was founded in 1997 by Mitch Allee, Jim Patterson, and Captain David Beadle.[[11]](#endnote-11) However, Maurice J. Gallagher, Jr., who was previously associated with ValuJet Airlines (ValuJet) and West Air Co., Ltd. and was also one of the largest creditors and the chief executive officer (CEO) of Allegiant, gained control of the airline in December 2000 immediately after Allegiant filed for bankruptcy.[[12]](#endnote-12) Immediately after taking control, he looked for low-cost strategies to build Allegiant’s revenue.[[13]](#endnote-13) Gallagher decided to “. . . go where they ain’t,”[[14]](#endnote-14) and therefore targeted markets like leisure travellers, who were not served by larger commercial carriers. Allegiant therefore launched its services in smaller towns or cities such as Colorado Springs, Colorado; Casper, Wyoming; and Appleton, Wisconsin, as these cities did not have the population base to support regular airline service. In March 2002, the airline acquired its first MD-80 aircraft; these aircraft were old, used, and less fuel-efficient.[[15]](#endnote-15) Allegiant took on new destinations cautiously, typically starting with a few flights per week, and it did not sign any long-term agreements with airports. When Allegiant had enough travellers in a set timeframe, it invested more in that destination; otherwise, it left the market easily.[[16]](#endnote-16)

By 2004, with this approach of cautious growth, Allegiant was flying from 13 small cities to Las Vegas, its major hub. In 2006, it became a public limited company and was registered as Allegiant Travel Company. This company name signalled Allegiant’s intention to provide not only low-cost air travel but also overall economic vacation deals through partnerships with hotels, car rentals, and entertainment service providers. While other small airlines were selling their MD-80s to buy Boeing and Airbus aircraft, Allegiant maintained its strategy of using old, less fuel-efficient (but cheaper) MD-80s. In 2011, to further support its growth to additional cities, it purchased 13 MD-80s from Scandinavian Airlines.[[17]](#endnote-17) By 2015, Allegiant had a fleet of 80 aircraft—of which 51 were MD-80s—and was flying to 88 destinations in the United States (see Exhibits 1 and 2). Allegiant’s unique initiatives resulted in high profitability, profit margins, and earnings per share, all of which grew tremendously in 2011–2015 (see Exhibit 4).

UNIQUE ELEMENTS OF ALLEGIANT’S STRATEGY

Focusing on Untapped Consumer Segments

Allegiant Airways did not focus on high-fare-paying business travellers, the segment that was the emphasis of traditional commercial and some low-cost airlines.[[18]](#endnote-18) Allegiant was more interested in offering low-cost travel services to passengers who would have their Disney ticket in their back pocket and a sunscreen tube and bikini in their carry-on bag.[[19]](#endnote-19) It thus focused on cost-conscious leisure travellers residing in smaller cities, with populations less than 900,000, who wanted to fly to vacation destinations such as Las Vegas, Los Angeles, Phoenix, Orlando, or Honolulu (see Exhibit 5).Allegiant connected these travellers, who would otherwise not fly, to leisure destinations at costs as low as $200[[20]](#endnote-20) for a round-trip journey.[[21]](#endnote-21)

**Competitive Advantage**

According to Andrew Levy, former president of Allegiant, one advantage at Allegiant was that it was clear about its target passengers: “We’re not trying to be everything to everybody, which is what the rest of the industry has always tried to do.”[[22]](#endnote-22) Further elaborating on Allegiant’s strategy, Levy noted, “We’re not taking share [from other airlines]. We’re stimulating new demand.”[[23]](#endnote-23) Before Allegiant, these cost-conscious leisure travellers were not flying at all because traditional airlines considered smaller cities’ airports to be unprofitable.

Consequently, by June 2014, Allegiant had a monopoly over 90 per cent of the routes it was flying; only 10 per cent of its routes overlapped with other ultra-low-cost carriers and full-service carriers in the U.S. aviation industry.[[24]](#endnote-24) Furthermore, its route economics were different from those for ultra-low-cost carriers because the company focused on leisure travel. For example, Allegiant flew mainly during weekends and did not require quick turnaround time.[[25]](#endnote-25) Other ultra-low-cost airlines, such as Spirit Airlines (Spirit) and Frontier Airlines (Frontier), had to focus on quick turnaround and flight frequency as they targeted both leisure and business travellers. However, given that Allegiant primarily catered to smaller cities, it had a low market share in the U.S. airline industry (see Exhibit 6).

In 2014, when Allegiant explored launching international flights to vacation destinations in Mexico, Canada, and the Caribbean, it clearly indicated that it would grow only to the extent it could manage operations profitably. According to Allegiant, the firm could afford slow and manageable growth as it perceived no competition[[26]](#endnote-26) from other airlines given their non-overlapping airline routes.

**Unique Low-Cost Initiatives**

Fleet and Frequency Management

To lower costs, Allegiant did not purchase new aircraft. It purchased a fleet of MD-80s, which in the airline industry were called the “jalopy of the skies.”[[27]](#endnote-27) These were typically old aircraft that were dumped by commercial airlines due to rising fuel prices. Although MD-80s were less fuel-efficient than other aircraft, Allegiant still saw potential for cost saving: old MD-80s were available for $3 million, whereas a new aircraft would have cost $1 billion. Further analysis by Allegiant indicated that MD-80s had plenty of reliable life, as they were on average used for 34,000 cycles,[[28]](#endnote-28) whereas the Federal Aviation Administration (FAA) permittedup to 60,000 cycles.[[29]](#endnote-29)

Additionally, Allegiant did not offer frequent flight services on a daily basis but rather offered more flights on weekends; it could follow this model because of its emphasis on tourism. Instead of offering three flights per day, it served consumers just three days a week.[[30]](#endnote-30) Furthermore, flight frequency even depended on the season, since tourism was a seasonal business. For example, in March 2013, the average aircraft utility was seven hours per day, while in September, it was four hours per day.[[31]](#endnote-31) Allegiant aircraft also did not require quick turnaround time due to the low frequency of use.[[32]](#endnote-32) With these measures in place, even though MD-80s were older and less fuel-efficient aircraft, they remained a good fit with Allegiant’s business model. Consequently, the company’s return on investment and assets was one of the best in the industry (see Exhibit 6).

Allegiant also had other cost-saving measures in place, such as using airports in smaller cities. These airports charged lower landing fees, and their security was relatively cheaper. For example, in 2015, surcharges for the St. Pete-Clearwater International Airport in Florida amounted to $1.60 per passenger, whereas it was $5.50 per passenger for the larger Tampa International Airport, Florida.[[33]](#endnote-33) In larger cities, Allegiant used secondary airports, and rather than maintaining permanent kiosks for tickets and other services, it rented counters.

Human Resource Management

The biggest overhead cost in the airline business after fuel costs was labour.[[34]](#endnote-34) To minimize this cost, Allegiant relied more on variable pay proportionate to number of hours worked, with some minimum basic pay.[[35]](#endnote-35) Furthermore, Allegiant avoided the cost of overnight stays by staffing crews for full-day round trips. Consequently, by 2015, Allegiant had one of the highest revenue per employee ratios in the industry due to labour productivity initiatives (see Exhibit 6).

Allegiant’s low-cost philosophy was also reflected in its organizational culture. Even the CEO, Gallagher, did not have a private office or special parking space. He worked in the open with other employees. Conference meeting rooms were small. Top executives eschewed luxury cars; they did not wear expensive watches and shoes but opted instead for casual clothing. As one of the executives commented, they believed in spending money on things that were important, not for show.[[36]](#endnote-36)

Frugal In-Flight Service

Allegiant was also frugal with its in-flight services. Seat reclining options were removed in order to save weight and fuel expenses. Similarly, seat pockets were removed to make the task of cleanup easier. Since serving hot beverages consumed more fuel and required maintenance, such services were not offered, even on a paid basis. It further saved costs by not providing amenities such as Wi-Fi.[[37]](#endnote-37)

Revenue Strategy

Allegiant did not consider itself an airline company only but rather a provider of complete travel solutions. As former president Levy commented, “We do not view our business as [just] the transportation of people from point A to point B.” He further added, “We view that as an important part of a broader relationship with our customers.”[[38]](#endnote-38) Since its target consumers were leisure travellers, it partnered with several hotels, car rental companies, and entertainment event sponsors to make these services available at a lower cost. These agreements were essential to its business model: unlike other airlines, Allegiant did not consider vacation packages to be secondary services, but viewed selling these packages as important as selling air seats.[[39]](#endnote-39) Allegiant did not rely on third parties and had direct contact with more than 400 hotels; the hotel module was built into its reservation system. Allegiant promoted these hotels and third-party services heavily on its website.[[40]](#endnote-40) Revenue from non-fare services was $5.87 per passenger in 2009, and it increased to $41.20 in 2012.[[41]](#endnote-41) In 2014, Allegiant booked 595,000 hotel nights and 844,000 car rentals across various tourist destinations. Since 2011, earnings from such services represented one-third or more of the company’s total revenues (see Exhibit 4).

Allegiant’s strategy also relied on reducing its base airfare. To do this, the company unbundled all amenities that a full-service carrier or even a low-cost carrier would offer with charges included in the ticket price, such as free carry-on baggage. Apart from the typical low-cost model, Allegiant also charged fees on other elements of service. For example, if a consumer purchased airline tickets with a credit card, a processing fee of $8 was charged. Similarly, if tickets were booked through call centres, a $15 fee was charged. Even carry-on baggage was not free of cost.[[42]](#endnote-42)

Focus on Customer Value Creation

In 2013, in collaboration with the consulting firm Heart+Mind Strategies, Allegiant conducted a study to explore important factors consumers considered while availing vacation travel. The majority of the participants indicated that low fares and value for money were the most important factors. Further, nine out of 10 travellers were willing to drive a little farther to secondary airports to use ultra-low-cost airlines. They further indicated their desire to give up basic amenities in return for lower base fares.[[43]](#endnote-43)

Allegiant believed that it empowered their customers to choose the amenities they wanted and pay accordingly. Thus, by lowering base fares and eliminating free amenities, Allegiant believed it provided consumers with increased flexibility.[[44]](#endnote-44) Levy mentioned that customers trusted Allegiant for its outstanding value on flights. However, as a travel company and not just an airline, Allegiant wanted to provide customers with value in all aspects of travel. In 2010, Allegiant therefore updated its logo and debuted a new tag line, “Travel is Our Deal,” to reflect the exceptional travel deals that it provided. Allegiant promised that it had the lowest prices on air and hotel vacation packages, and it further offered customers free round-trip tickets if they found a better deal somewhere else.[[45]](#endnote-45) Apart from low fares, Allegiant also provided leisure travellers the convenience of nonstop flights. Thus, a passenger could cover the distance between Peoria and Las Vegas in fewer than four hours[[46]](#endnote-46) at a price of $130, instead of the seven hours including layovers provided by other traditional airlines at a price of $320.

Focusing on customer service, Allegiant offered paperless mobile boarding pass capability to travellers in 2014. Allegiant specifically worked with small to mid-sized airports to introduce the technology. The self-service technology helped Allegiant further lower costs and pass on the benefits to consumers.[[47]](#endnote-47) In September 2016, Allegiant launched a co-branded Bank of America MasterCard. This was again unique because, unlike business travellers, leisure travellers travelled just once or twice a year. Thus, frequent flyer reward points would not have been valuable to them. Those who used the co-branded card for an annual fee of $59 were given three points for spending on Allegiant, two points for dining, and one for other purchases on the card. One air ticket was made complimentary if the cardholder chose a four-day hotel package or car rental through Allegiant.[[48]](#endnote-48) All these value-adding initiatives resulted in more passengers using Allegiant, thereby resulting in a high load factor (see Exhibit 7).

**Marketing and Promotion**

In 2010, Allegiant started focusing on social media and improved its website’s appearance. It launched a social media advertisement featuring employees who highlighted Allegiant’s commitment to offering the best travel deals for consumers.[[49]](#endnote-49)

**As Allegiant was expanding, it also decided to improve its media presence dramatically. In August 2013, Allegiant launched its first national television advertising campaign. Since Allegiant was known for its ultra-low fares and exceptional value deals, its first advertisement was called “Here Is the Deal with Free Sodas,”**[[50]](#endnote-50) **which educated consumers about Allegiant’s approach to saving money for consumers. The advertisement explained how the** free soda offered on other airlines was already included in a passenger’s ticket price, but on Allegiant, there were no such charges. The advertisement clearly conveyed the message, “[Y]ou only pay for and get what you want.”[[51]](#endnote-51) As Allegiant continued its growth, it launched a second set of national advertisements in 2015 with the slogan, “Listen to Your Wallet.”[[52]](#endnote-52) In this campaign, the objective was to differentiate Allegiant from other low-cost carriers and tell consumers that affordable travel was possible with Allegiant.[[53]](#endnote-53) **Allegiant simultaneously released ads on social media sites such as YouTube, Facebook, and Twitter, receiving positive comments from fans and followers.**[[54]](#endnote-54)Additionally, Allegiant’s popularity in small cities soared primarily through word of mouth.[[55]](#endnote-55) Whenever Allegiant added a new route or a new service, it aimed to attract free publicity in local newspapers by sending Las Vegas showgirls to pose with airport directors. According to the company, such stunts created sufficient buzz among potential travellers.[[56]](#endnote-56)

Allegiant also promoted live shows, which involved passenger participation and were held on their planes. In 2014, shows like “Game Plane” and “Antiques Roadshow” were shot entirely on their planes, with cash prizes and trivia contests to entertain customers.[[57]](#endnote-57) According to Allegiant, shooting game shows on the plane was appealing to passengers on board for vacations.[[58]](#endnote-58)

**In June 2013, Allegiant launched the “Dodge High Fares!” campaign,**[[59]](#endnote-59) **which ran through July and August during the dodge ball season in the United States. The advertisements were broadcast on television, radio, and social media across 29 cities where dodge ball tournaments were held. As part of this campaign, Allegiant also announced free round trips to contest winners.**[[60]](#endnote-60)

Allegiant realized that a potential set of Allegiant customers were also sports enthusiasts. Consequently, in 2016, it partnered with the National Association for Stock Car Auto Racing (NASCAR) and announced that it would be the official passenger airline of NASCAR. Allegiant also reported its sponsorship of NASCAR for the next three years, thus enhancing affordability and convenience of air service for NASCAR fans.[[61]](#endnote-61)

Allegiant also engaged in community outreach as it expanded its business. In May 2012, Allegiant partnered with the Make-A-Wish Foundation in the United States, providing $250,000 worth of donated travel wish destinations. In addition, Allegiant made cash donations of $150,000. The relationship with the charity was depicted on its aircraft: newly acquired aircraft were painted with the name of the charity. Allegiant also contributed one dollar from every in-flight snack purchase to the charity.[[62]](#endnote-62) Similarly, Allegiant worked with the Boys’ and Girls’ Club of Broward County, surprising 100 students with free airfare as a reward for running fitness programs.[[63]](#endnote-63) In 2016, Allegiant launched promotional offers during the summer, refunding $140,000 worth of fares to randomly selected passengers.[[64]](#endnote-64)

**ISSUES FACING ALLEGIANT**

**Human Resource Issues**

Gradually, several difficulties emerged at Allegiant. First, it experienced staffing issues. Though Allegiant was a profitable airline, pilots felt that they were underpaid. After three years of negotiation, pilots decided to strike concerning this issue in 2011; however, Allegiant managed to get a court ruling prohibiting them from striking.[[65]](#endnote-65) Nevertheless, the issue reflected poorly on Allegiant’s performance, and its stock price went down by 16 per cent.[[66]](#endnote-66) In the midst of this chaos, many pilots also decided to resign. Between 2011 and 2014, their resignation rate increased by 600 per cent.[[67]](#endnote-67)

**Customer Service Issues**

Staffing issues caused problems on the customer end as well. Customers often complained that flights were delayed and airline employees provided them with little information. As one customer stated, “It was pretty apparent most of the staff is very inexperienced, and they just don’t really know what they're doing.”[[68]](#endnote-68) Allegiant had on-time performance for only 76 per cent of its flights on its most busy 20 routes in the United States. At times, passengers were also told that flights had to be cancelled, either because pilots were overworked or because other crew were not available.[[69]](#endnote-69) A consumer watchdog forum commented that Allegiant’s tagline should have been, “Travel is our deal but not on time.”[[70]](#endnote-70)

Allegiant did offer some customer support by providing hotel accommodation when flights were significantly delayed. However, this arrangement was available only to those who were staying farther than 50 miles from the airport of departure.[[71]](#endnote-71) Although consumers found value in flying with Allegiant, the long flight delays bothered them. As one consumer noted, “I had no problems with Allegiant. . . . Even after purchasing two checked bags, I saved over $400 on my flight going back home. However, I dislike having to worry about whether my flight will be delayed.”[[72]](#endnote-72)

In fact, these customer service issues have reflected poorly on Allegiant.[[73]](#endnote-73) Between January 2013 and July 2014, out of 15 carriers that served Cincinnati (one of the major hubs for Allegiant), Allegiant recorded the maximum number of customer complaints per 100,000 customers (see Exhibit 8).[[74]](#endnote-74) Apart from being the most profitable airline, it was also dubbed the most hated airline.[[75]](#endnote-75)

**Growth Issues**

In March 2016, Allegiant announced that it was adding three new cities and connecting them to 22 routes. Allegiant had already grown from 195 routes in 2012 to 296 routes in 2015 (see Exhibit 2). Allegiant’s goal was to expand 10–15 per cent each year to maintain pace with operational issues.[[76]](#endnote-76) However, critics believed that Allegiant was showing signs of stress due to its uncontrollable growth. They drew parallels between Allegiant and ValuJet, an upstart airline in the 1990s that Gallagher, current CEO of Allegiant, had helped co-found. Like Allegiant, it grew quickly and faced similar problems of not having adequate personnel.[[77]](#endnote-77) Along with the decreasing life of Allegiant’s aircraft and its continued expansion, Allegiant was also dealing with flight safety issues.

**Safety Issues**

Between September 2015 and January 2016, Allegiant experienced several emergency landings and delays caused mainly by mechanical issues. The Aviation Mechanics Coalition specifically documented 98 instances of maintenance issues during this five-month period, 35 of which were related to engine function failures.[[78]](#endnote-78) What is known as catastrophic engine failure in the aviation industry was also reported twice in this time period. Instances of cabin pressurization and smoke problems were also reported.[[79]](#endnote-79) Pilots believed that Allegiant’s approach to maintenance was not up to industry standards and was dangerous.[[80]](#endnote-80) Allegiant was highly cost-conscious; consequently, rather than employ its own maintenance crew, it outsourced maintenance to third-party contractors, who Allegiant pilots claimed were inexperienced in working on the aging MD-80s. Even Allegiant’s own mechanics mentioned that the culture at the firm was to “just move the metal” and push the aircraft to the next station.[[81]](#endnote-81)

**THE ROAD AHEAD**

Despite all these issues, in an industry where other airlines struggled to at least recover costs, Allegiant’s earnings kept soaring (see Exhibit 4). By March 31, 2016, it had reported profits for 53 consecutive quarters. In 2015, Allegiant’s profit increased by 154 per cent, reaching a value of $220.4 million. Overall, its profit margin was 15 per cent higher than that of traditional airlines. Allegiant’s profit sustainability index was found to be 8.8, mainly owing to labour productivity.[[82]](#endnote-82) In mid-2016, Allegiant was in the process of hiring new pilots, raising their salaries, and buying new aircraft. Nevertheless, Spirit, among others, was competing closely with Allegiant by offering low base fares and flying some overlapping routes. For example, in 2016, Spirit added to its portfolio new routes over which Allegiant previously had a monopoly, such as routes from Akron, Ohio, to Fort Lauderdale, Florida, and from Akron, Ohio, to Myrtle Beach, South Carolina.[[83]](#endnote-83) Expansion by another ultra-low-cost airline, Frontier, also resulted in route overlap with Allegiant, such as from Cincinnati, Ohio, to Tampa, Florida.[[84]](#endnote-84) Furthermore, compared to Allegiant, both Frontier and Spirit had more frequent flights on their overlapping routes.[[85]](#endnote-85)

Allegiant might have had a cost advantage due to lower fuel prices (see Exhibit 9); however, with rising wage and aircraft costs due to salary hikes and new aircraft purchases, poor customer satisfaction scores, and increasing competition, how long would Allegiant be able to maintain its profitability?[[86]](#endnote-86)

Exhibit 1: Total In-Service Aircraft and Average Age

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Aircraft Type** | **December 31, 2013** | **December 31, 2014** | **December 31, 2015** | **Expected in Service by the End of 2016** | **Average Age of Aircraft (December 31, 2015)** |
| **MD-80** | 52 | 53 | 51 | 46 | 26 |
| **Boeing 757-200** | 6 | 6 | 5 | 5 | 22.8 |
| **Airbus A319** | 3 | 4 | 10 | 17 | 11 |
| **Airbus A320** | 5 | 7 | 14 | 16 | 15.9 |
| **Total** | 66 | 70 | 80 | 84 |  |

Source: Developed by the authors based on information in Allegiant Travel Company, *Annual Report 2015*, May 2016, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>.

Exhibit 2: Leisure Destinations and Cities Served

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Item** | **December 31, 2011** | **December 31, 2012** | **December 31, 2013** | **December 31, 2014** | **December 31, 2015** | **December 31, 2016 (Expected)** |
| **Leisure Destinations** | 11 | 13 | 14 | 13 | 17 | 19 |
| **Under-Served Cities** | 65 | 74 | 86 | 83 | 88 | 92 |
| **Total Routes** | 171 | 195 | 226 | 233 | 296 | 322 |

Source: Developed by the authors based on information in Allegiant Travel Company, *Annual Report 2015*, May 2016, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>; Allegiant Company, *2014 Annual Report,* May 2015, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>; Allegiant Travel Company, *2013 Annual Report*, May 2014, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>.

Exhibit 3: Customer Satisfaction Index

|  |  |  |
| --- | --- | --- |
| **Airline** | **2015** | **2016** |
| JetBlue | 81 | 80 |
| Southwest | 78 | 80 |
| Alaska | 75 | 77 |
| American | 73 | 74 |
| Delta | 71 | 71 |
| United | 60 | 68 |
| Frontier | 58 | 66 |
| Allegiant | 65 | 65 |
| Spirit | 54 | 62 |
| All Others | 66 | 72 |

Source: Developed by the authors based on information in Kathryn Vasel, “Spirit Airlines Scores Dead Last in Customer Satisfaction,” CNN Money, April 26, 2016, accessed August 24, 2016, <http://money.cnn.com/2016/04/26/pf/best-and-worst-airlines-customer-satisfaction/>; “Benchmark by Industry: Airlines,” American Customer Satisfaction Index, accessed September 29, 2016, http://theacsi.org/index.php?option=com\_content&view=article&id=147&catid=&Itemid=212&i=Airlines.

Exhibit 4: Financial Data (as of December 31, 2015)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Item** | **2015** | **2014** | **2013** | **2012** | **2011** |
| **Total Operating Revenue** | 1,262,188 | 1,137,046 | 996,150 | 908,719 | 779,117 |
| **Total Ancillary Revenue as a Percentage of Total Revenue (%)** | 37.59 | 32.39 | 32.61 | 29.88 | 26.95 |
| **Total Operating Expenses** | 890,486 | 979,701 | 841,413 | 776,415 | 693,673 |
| **Net Income (Allegiant Travel Company)** | 220,374 | 86,689 | 92,273 | 78,597 | 49,398 |
| **Earnings Per Share (Basic)** | $12.97 | $4.87 | $4.85 | $4.1 | $2.59 |
| **Total Asset** | 1,351,662 | 123,508 | 927,917 | 796,480 | 704,658 |
| **Operating Margin (%)** | 29.40 | 13.80 | 15.50 | 14.60 | 11.00 |

Note: All data in $000s except for Total Ancillary Revenue as Percentage of Total Revenue, Earnings Per Share, and Operating Margin.

Source: Developed by the authors based on information in Allegiant Travel Company, *Annual Report 2015*, May 2016, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>; Allegiant Travel Company, *2014 Annual Report*, May 2015, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>; Allegiant Travel Company, *2013 Annual Report*, May 2014, accessed October 4, 2016, http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual.

Exhibit 5: Catchment Area of Allegiant

Source: Developed by the authors based on information in “Allegiant: A Successful Niche Player with Wider Lessons for the World’s Airline Industry,” CAPA: Centre for Aviation, April 14, 2014, accessed September 26, 2016, <http://centreforaviation.com/analysis/allegiant-a-successful-niche-player-with-wider-lessons-for-the-worlds-airline-industry-162353>.

Exhibit 6: Financial comparison with competitors (as of September 30, 2016)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company Name** | **Revenue/Employee (in $)** | **ROA (%)** | **ROI (%)** | **Market Share (%)** |
| **Alaska Air Group Inc.** | 414,564 | 12.25 | 22.71 | 1.64 |
| **Allegiant Travel Co.** | 554,888 | 16.38 | 53.45 | 0.32 |
| **American Airlines Group Inc.** | N/A | N/A | N/A | 11.59 |
| **Delta Airlines, Inc.** | 503,838 | 9.04 | 16.68 | 11.21 |
| **Hawaiian Holdings** | 444,565 | 10.56 | 23.48 | 0.68 |
| **SkyWest Inc.** | 322,564 | 2.95 | 5.98 | 0.86 |
| **Southwest Airlines Co.** | 443,209 | 10.13 | 18.74 | 5.76 |
| **Spirit Airlines Inc.** | 536,490 | 10.16 | 18.59 | 0.62 |
| **United Continental Holdings, Inc.** | 435,000 | 6.64 | 14.97 | 11.16 |

Note: ROA = return on assets; ROI = return on investment.

Source: Developed by the authors based on information in “Allegiant Travel Company (ALGT),” Yahoo! Finance, accessed September 30, 2016, <https://uk.finance.yahoo.com/q/co?s=ALGT>; “Alaska Air Group, Inc. (ALK),” Yahoo! Finance, accessed September 30, 2016, <https://uk.finance.yahoo.com/q/co?s=ALK>; “SkyWest, Inc,” Yahoo! Finance, accessed September 30, 2016, https://uk.finance.yahoo.com/quote/SKYW/key-statistics?p=SKYW; “Spirit Airlines, Inc.” Yahoo! Finance, accessed September 30, 2016, https://uk.finance.yahoo.com/quote/SAVE/key-statistics?p=SAVE.

Exhibit 7: Operating Statistics of Allegiant

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Item** | **2015** | **2014** | **2013** | **2012** | **2011** |
| **Passengers** | 9,500,611 | 8,154,357 | 7,241,063 | 6,987,324 | 6,175,808 |
| **Revenue Passenger Miles\* (thousands)** | 8,944,952 | 7,825,962 | 7,129,416 | 6,514,056 | 5,640,577 |
| **Available Seat Miles\*\* (thousands)** | 10,526,610 | 8,945,616 | 8,146,135 | 7,487,276 | 6,364,243 |
| **Load Factor\*\*\* (%)** | 85.0 | 87.5 | 87.5 | 87.0 | 88.6 |

Note: \* Revenue Passenger Miles = represents the number of miles flown by revenue passengers; \*\* Available Seat Miles = represents the number of seats available for passengers multiplied by the number of miles the seats are flown; \*\*\*Load Factor = represents the percentage of aircraft seating capacity that is actually used (revenue passenger miles divided by available seat miles).

Source: Developed by the authors based on information in Allegiant Travel Company, *Annual Report 2015*, May 2016, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>; Allegiant Travel Company, *2014 Annual Report*, May 2015, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>; Allegiant Travel Company, *2013 Annual Report*, May 2014, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>.

Exhibit 8: Customer Complaint (Cincinnati Airport: January 2013 to JUly 2014)

|  |  |
| --- | --- |
| **Airline** | **Complaints Per 100,000 Customers** |
| Air Wisconsin | 0.6 |
| Allegiant | 5.7 |
| Chautauqua | 0.3 |
| Delta | 0.9 |
| Endeavor | 0.8 |
| Envoy | 2.0 |
| ExpressJet | 1.2 |
| Frontier | 3.5 |
| GoJet | 0.7 |
| PSA | 0.1 |
| Republic | 1.5 |
| Shuttle America | 0.8 |
| Skywest | 0.8 |
| Spirit | 8.5 |
| Trans States | 1.3 |

Source: Developed by the authors based on information in Jason Williams, “Investigation: Allegiant has Low Prices, High Complaints,” *IndyStar: Part of the USA Today Network*, November 12, 2014, accessed August 23, 2016, www.indystar.com/story/news/2014/11/12/investigation-allegiant-has-low-prices-high-complaints/18907051/.

Exhibit 9: Expenditure Analysis of Allegiant (as a percentage of total operating expense)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Item** | **2015** | **2014** | **2013** | **2012** | **2011** |
| **Aircraft Fuel** | 31.26 | 39.63 | 45.82 | 48.71 | 47.67 |
| **Salary and Benefits** | 25.81 | 19.74 | 18.85 | 17.17 | 17.28 |
| **Station Operations** | 11.49 | 8.64 | 9.30 | 10.09 | 9.62 |
| **Maintenance and Repairs** | 10.40 | 8.86 | 8.65 | 9.52 | 11.71 |
| **Sales and Marketing** | 2.40 | 2.91 | 2.58 | 2.48 | 2.87 |
| **Aircraft Lease Rentals** | 0.26 | 1.63 | 1.10 | N/A | 0.16 |
| **Depreciation and Amortization** | 11.02 | 8.51 | 8.23 | 7.41 | 6.05 |
| **Other Expenses** | 18.39 | 18.60 | 13.70 | 12.04 | 10.70 |

Source: Developed by the authors based on information in Allegiant Travel Company, *Annual Report 2015*, May 2016, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>; Allegiant Travel Company, *2014 Annual Report*, May 2015, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>; AllegiantTravel Company, *2013 Annual Report*, May 2014, accessed October 4, 2016, <http://ir.allegiantair.com/phoenix.zhtml?c=197578&p=irol-reportsannual>.

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