

# spirit

LESS MONEY. MORE GO.

Vivian Wu

Sam Chi

Steven Salvatore

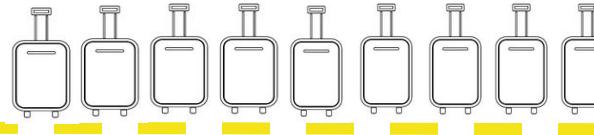
Josh Levine

Tyler Moran

LM Consulting



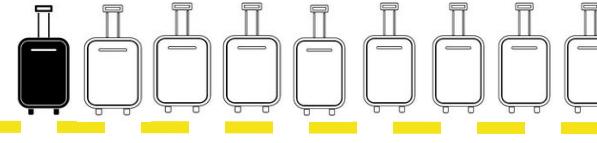
# Agenda



- » Firm History
- » Firm Analyses
- » Industry Analyses
- » Competitors Analysis
- » Competitive Advantage
- » Problem Identification
- » Recommendations
- » Implementation
- » Financials



# Firm History



Spirit Airlines was founded in 1964 originally as a **truckling company** known as Clippert Trucking Company.

👉 In 1983, the company began providing **charter tours** on the ground and was known as Charter One with destinations to spotlight destinations (Atlantic City & Las Vegas).

✈️ In 1992, Charter One became known as **Spirit Airlines** where a **fleet of airplanes** was added to the company.



In 2004-2005, Oaktree gained control of Spirit through investments and developed Spirit Airlines into a **low-cost passenger transporter** focusing on expanding into the Caribbean and Latin America.



In 2006, Indigo Partners LLC. a private equity and venture capitalist firm that specializes in making investments in acquisitions and capital growth **took over as a majority stakeholder** of Spirit Airlines.



At this point in time Spirit began implementing its **Ultra Low Cost Carrier (ULCC)** business model and continuing its expansion in the Caribbean and Latin America.

# SWOT Analysis



## Internal Factors

## External Factors

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>- Affordable pricing gives cost advantage</li><li>- Well known brand in the regions it serves</li><li>- Offers a loyalty program for customer retention</li><li>- Operates in Mexico, Latin America, and the Caribbean</li></ul> | <ul style="list-style-type: none"><li>- No in-flight entertainment or catering services</li><li>- Operational across limited destinations</li><li>- Extra fees (baggage, etc.)</li><li>- No internet service on-board</li></ul> |
| <ul style="list-style-type: none"><li>- Technical advancements could help provide in-flight entertainment</li><li>- Growing popularity of low fare airline travel</li></ul>  | <ul style="list-style-type: none"><li>- Fuel price increase is a threat to low-cost operations</li><li>- Outdated technology compared to competitors</li><li>- Service quality leading to loss of customers</li></ul>           |



# Firm Analysis

Spirit airfare on average costs only \$117 which makes it the second cheapest domestic carrier behind Allegiant Airline(via Hopper)



*Operates on belief that passengers only pay for the services they want*

Purchase of a Spirit ticket includes an economy seat and just one personal item



Spirit Airlines offers daily flights to 59 destinations

It ranks third among low-cost carriers for on-time arrival performance with 90% of its more than 12,000 monthly flights arriving on time or within 15 minutes of its scheduled arrival

*Add on options include: baggage, seat assignments, and/or onboard refreshments*



# **PESTEL**

PES  
TEL

## Political

- Passengers are favored over the airlines
- Regulations for operations
- Political stability and importance of Major Airlines sector in the country's economy
- Work week regulations in Major Airlines
- Mandatory employee benefits
- Industrial safety regulations in the Services sector

## Economic

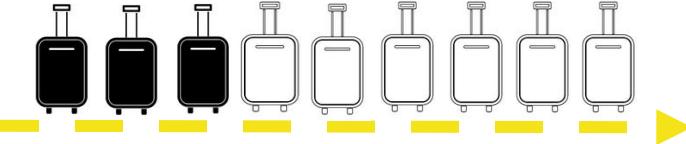
- The 9/11 attack left a major impact on the Airline industry's economic status
- Fluctuations in oil price can hinder the growth of the industry
- Competition from low priced airlines

- Operating and maintenance costs
- Unemployment rate
- Inflation rate
- Interest rates

## Social

- Demographics and skill level of the population
- Class structure, hierarchy and power structure in the society

- Education level and standard in the airline industry
- Culture (gender roles, social conventions etc.)



# **PESTEL**

PES  
TEL

## Technological

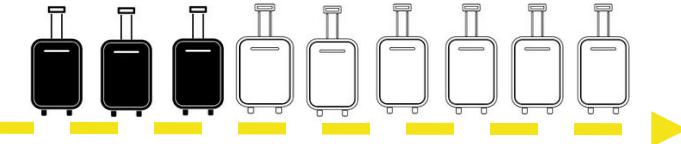
- Recent technological developments by Spirit Airlines, Inc. competitors
- Most recent technology can provide lower fuel consumption and cost of operations
- Impact on cost structure in Major Airlines industry
- Impact on value chain structure in Services sector

## Environmental

- Weather
- Climate change
- Laws regulating environment pollution
- Air and water pollution regulations in Major Airlines industry
- Recycling
- Waste management in Services sector
- Attitudes toward “green” or ecological products

## Legal

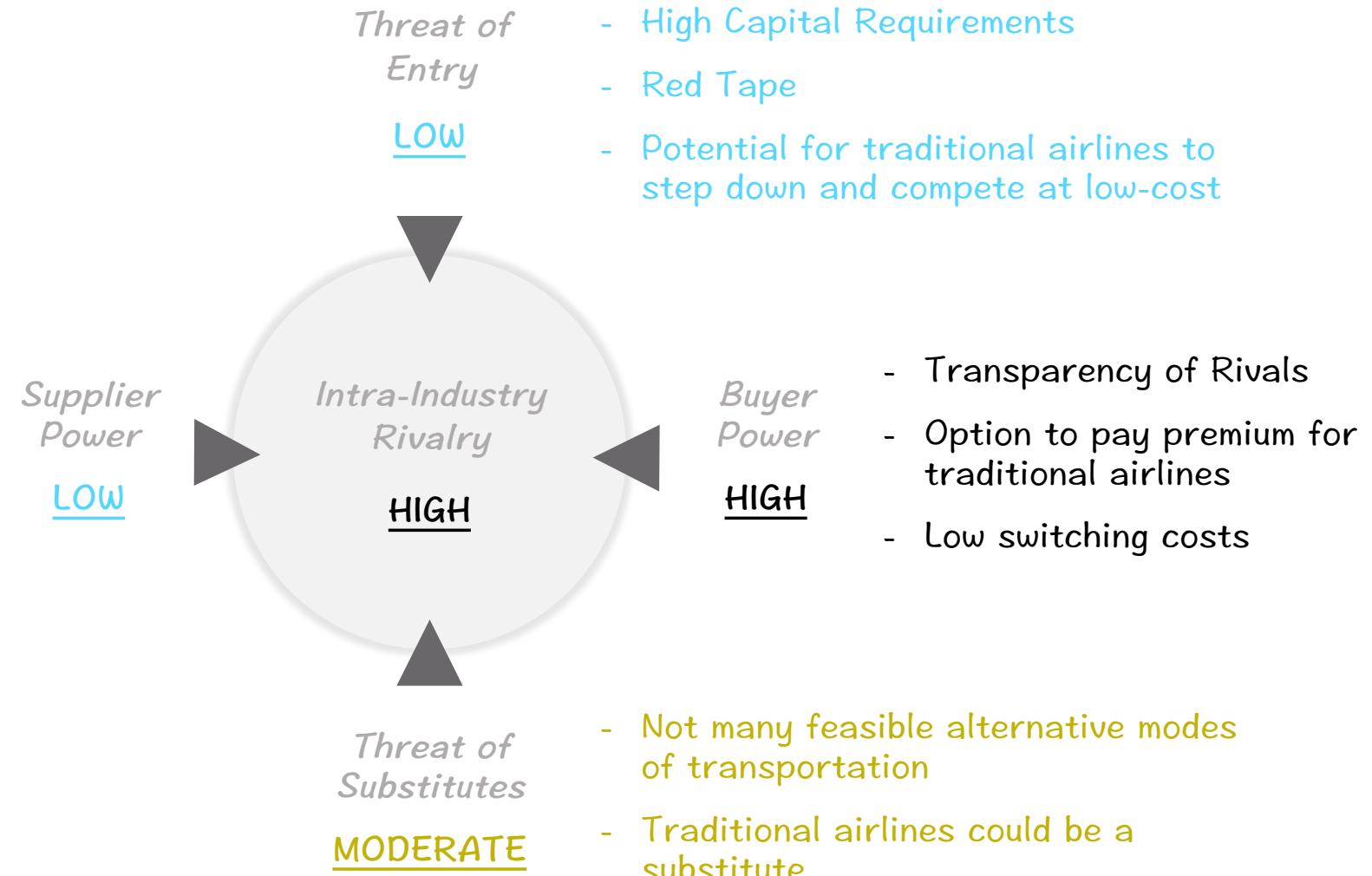
- Anti-trust law in major airlines industry and overall in the country
- Discrimination law
- Copyrights, patents, intellectual property
- Consumer protection and e-commerce
- Employment law
- Health and safety law
- Data protection
- National Transportation Safety Board (NTSB) and Federal Aviation Administration (FAA)



# Porter's 5 Forces



- Other qualified plane manufacturers besides Airbus and Boeing
- Fuel Prices are market driven

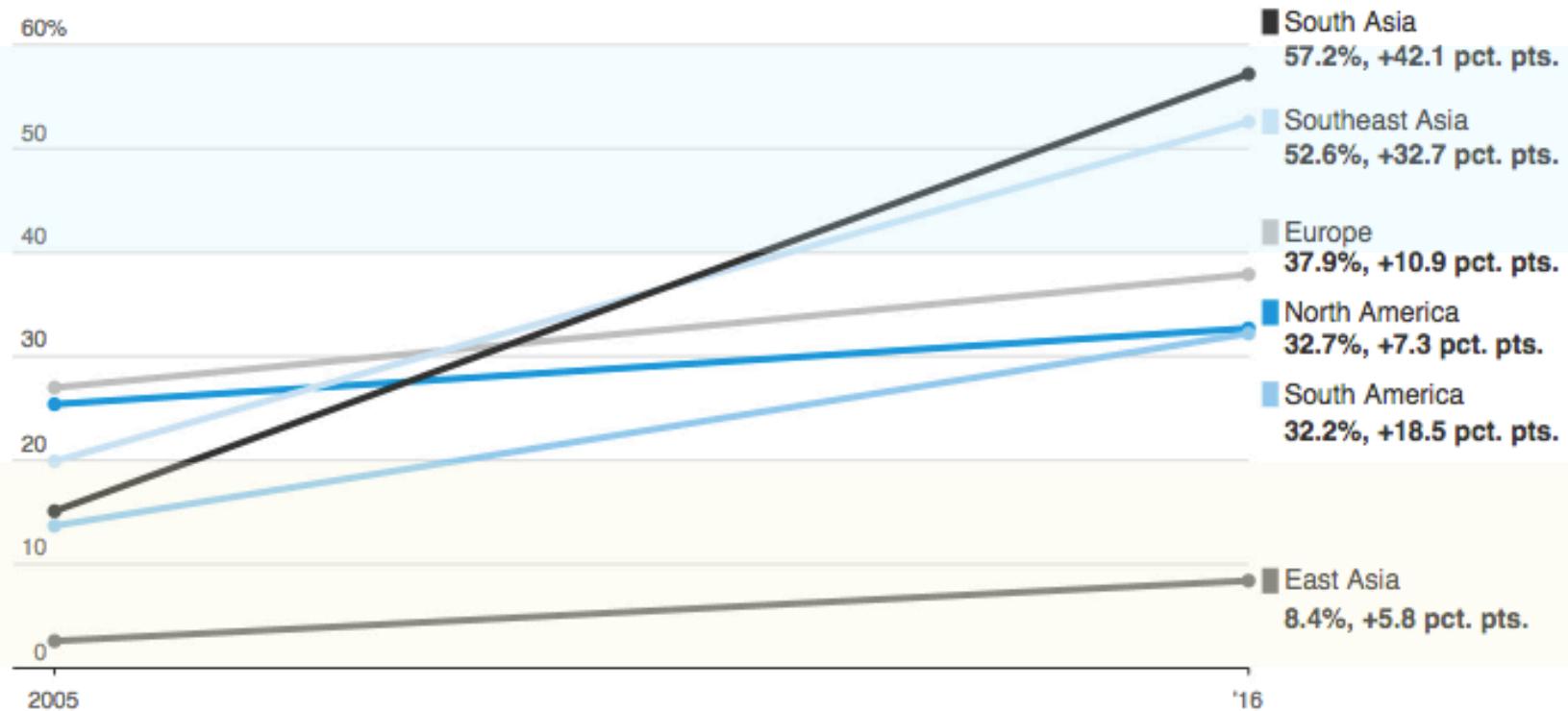


# Industry Trend



## Market Share of Low-Cost Carriers in the Airline Industry

Low-fare seats as percentage of total



Source: International Air Transport Association

# Competitors Analysis



*Spirit  
Airlines*



Competitive Advantage

Price Leader

Consumer Perception

#4 in Consumer Reports

Profit Margin

15.8%

Domestic Market Share

3.7%

*Frontier  
Airlines*

Price Leader

#3 in Consumer Reports

15.8-16.4%

2.7%



*JetBlue  
Airways*

Amenities & Customer Service

#2 in Consumer Reports

16.4%

5.5%

*Southwest  
Airlines*

Amenities & Customer Service

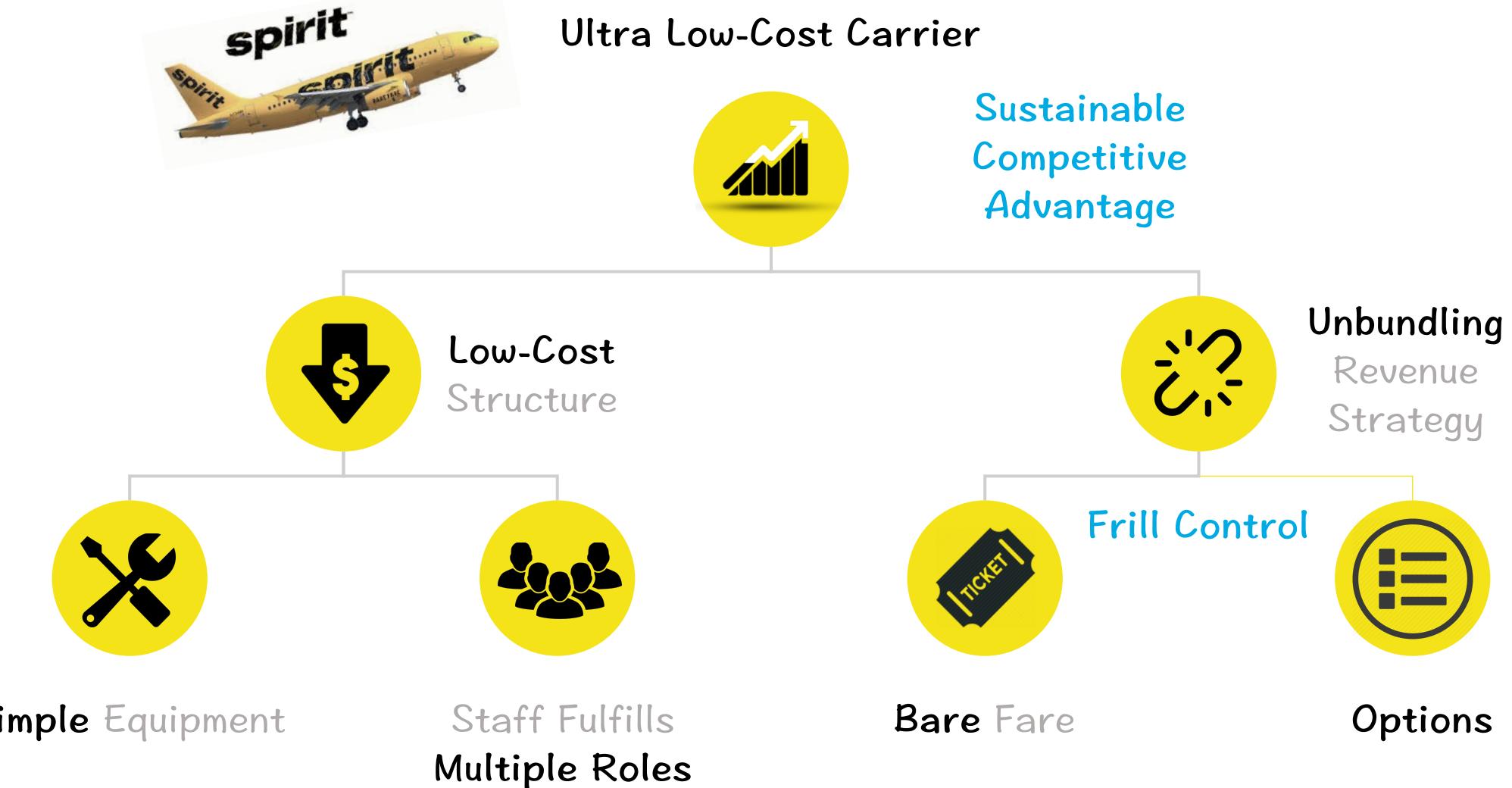
#1 in Consumer Reports

16.5%

17.9%

\*As of December 31, 2017

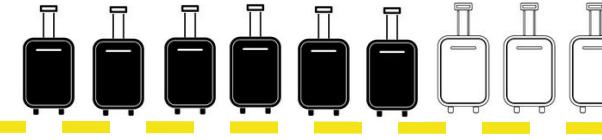
# Competitive Advantage



# Problem Identification



Customer rating  
from 2614 reviews



**Consumer  
Reports**

Worst trip I've ever had!

I'll never fly with  
Spirit again!



# **Problem Identification**



How can Spirit Airlines address the overwhelming amount of negative reviews, which stem primarily from its poor customer service and weak brand?

# **Recommendations**

- Streamline Pre-Flight Process
- Improve Customer Service
- Focus on Brand Awareness Marketing



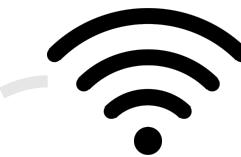
# Recommendations

- Streamline Pre-Flight Process
- Improve Customer Service
- Focus on Brand Awareness Marketing



## Electronic Check-In

- 
- Receive boarding pass by email or text
  - Easier for customer
  - Saves time



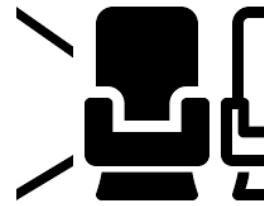
# Recommendations

- Streamline Pre-Flight Process
- Improve Customer Service
- Focus on Brand Awareness Marketing



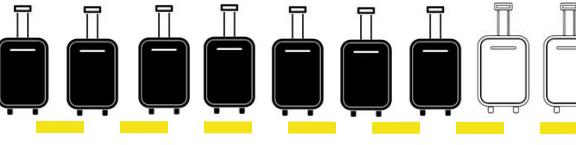
## Priority Family Boarding

- 
- Reduce parents' stress
  - Build better relationships with families



## Boarding Classes

- 
- Assign boarding classes by check-in time
  - No more random seat assignments
  - Increase customer choice



## Complimentary Water

- 
- Free water included in flight
  - Not bottled; tap water only
  - Minimizes customer complaints

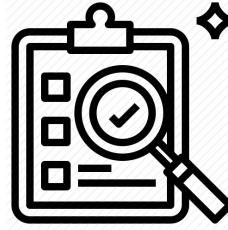
# Recommendations

- Streamline Pre-Flight Process
- Improve Customer Service
- Focus on Brand Awareness Marketing



## Better Inform Customers

- Communicate changes and consumer tradeoffs on website and social media
- Create pop-up notification before confirming ticket payment
- Restate clearly on ticket



## Create a Coherent Brand

- No more random & risqué ads; seems tacky & cheap
- Maintain educational and provocative approach; just not sexual
- Highlight competitive advantage and consumer benefits and values



## Cultivate a Positive Image

- Thank customers on review websites and social media for good reviews
- Apologize and respond for bad reviews

# **Implementation (25 Months)**



## Complementary Water

- Invest in a **tap water filter** for each plane

## Staff Rotational Plan

- Peer advising & training
- Rotate roles every month
- Roles: Front Desk, Flight Attendant, **Marketing Associate**

## Priority Family Boarding & Boarding Classes

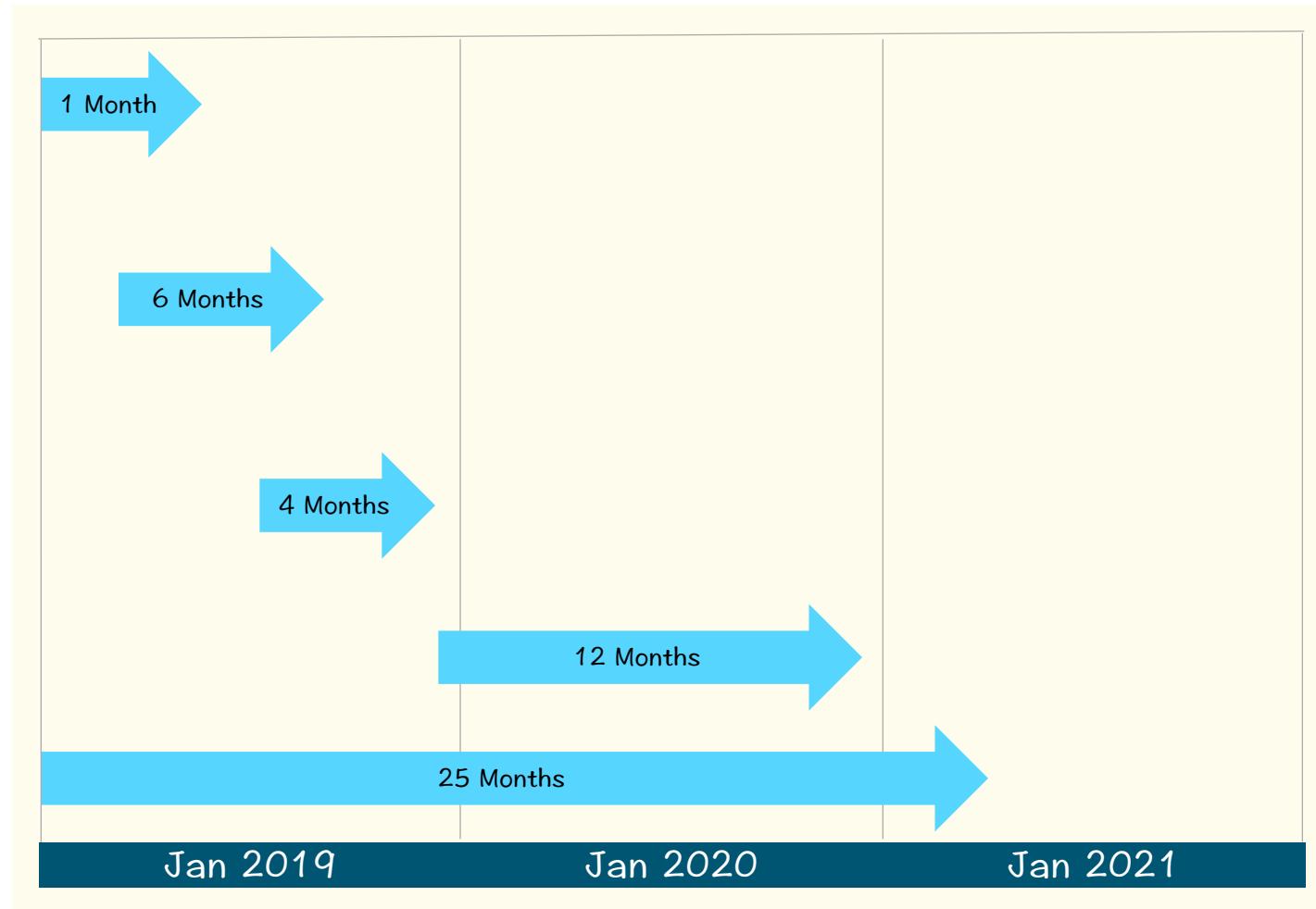
- Create **new seating system**

## Electronic Check-In

- Install **new software & hardware**

## Marketing

- Update website & social media
- Create **new ads**

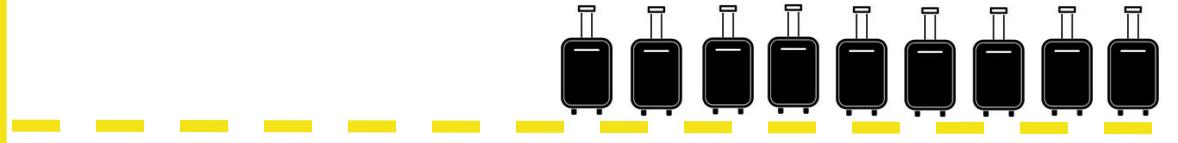




# Financials

	Year 0	Year 1	Year 2	Year 3	Year 4	Total
<b>Benefits</b>						
Rec: Electronic Check-In	\$ 102,455	\$ 102,455	\$ 102,455	\$ 102,455	\$ 102,455	\$ 102,455
Savings from Kiosk Maintenance						
Rec: Priority Family Boarding						
Rec: Boarding Classes						
Rec: Complementary Wa						
Rec: Marketing						
Returning Family Flights (2.5% Annual Growth Rate)	\$ 23,167,078	\$ 23,746,254	\$ 24,339,911	\$ 24,948,409		
Returning Single Flights (3.0% Annual Growth Rate)	\$ 19,857,495	\$ 20,453,220	\$ 21,066,816	\$ 21,698,821		
New Family Flights (2.5% Annual Growth Rate)	\$ 13,238,330	\$ 13,569,288	\$ 13,908,520	\$ 14,256,233		
New Single Flights (3.0% Annual Growth Rate)	\$ 9,928,748	\$ 10,226,610	\$ 10,533,408	\$ 10,849,410		
<b>Total Benefits</b>	<b>\$ 66,191,650</b>	<b>\$ 67,995,372</b>	<b>\$ 69,848,656</b>	<b>\$ 71,752,873</b>		<b>\$ 275,788,552</b>
<b>PV Total Benefits</b>	<b>\$ 60,168,210</b>	<b>\$ 56,164,178</b>	<b>\$ 52,456,341</b>	<b>\$ 49,007,213</b>		<b>\$ 217,795,941</b>
<b>Development Costs</b>						
Investment in Tap Water Filters on Planes	\$ (175,000)					
Staff Rotational Plan and Training Development	\$ (9,899,000)					
New Seating System Software	\$ (12,756,000)					
Electronic Check-In Software and Hardware	\$ (15,789,665)					
<b>Total Development Costs</b>	<b>\$ (28,545,665)</b>					
<b>Operating Costs</b>						
Maintenance of Water Filters	\$ (47,750)	\$ (47,750)	\$ (47,750)	\$ (47,750)	\$ (47,750)	
Staff Rotational Plan and Training	\$ (2,556,770)	\$ (2,556,770)	\$ (2,556,770)	\$ (2,556,770)	\$ (2,556,770)	
Maintenance of New Seating System	\$ (5,330,400)	\$ (5,330,400)	\$ (5,330,400)	\$ (5,330,400)	\$ (5,330,400)	
Maintenance of Electronic Check-In	\$ (7,736,590)	\$ (7,736,590)	\$ (7,736,590)	\$ (7,736,590)	\$ (7,736,590)	
Marketing	\$ (4,843,200)	\$ (4,843,200)	\$ (4,843,200)	\$ (4,843,200)	\$ (4,843,200)	
<b>Total Operating Costs</b>	<b>\$ (20,514,710)</b>	<b>\$ (20,514,710)</b>	<b>\$ (20,514,710)</b>	<b>\$ (20,514,710)</b>	<b>\$ (20,514,710)</b>	
<b>Total Annual Costs</b>	<b>\$ (28,545,665)</b>	<b>\$ (20,514,710)</b>	<b>\$ (20,514,710)</b>	<b>\$ (20,514,710)</b>	<b>\$ (20,514,710)</b>	
<b>Total Costs</b>	<b>\$ (110,604,505)</b>					
(Total Benefits - Total Costs)	\$ (28,545,665)	\$ 45,676,940	\$ 47,480,662	\$ 49,333,946	\$ 51,238,163	
Cumulative Net Cash Flow	\$ (28,545,665)	\$ 17,131,275	\$ 64,611,937	\$ 113,945,883	\$ 165,184,047	
<b>PV Total Costs</b>	<b>\$ (28,545,665)</b>	<b>\$ (18,647,871)</b>	<b>\$ (16,945,150)</b>	<b>\$ (15,406,547)</b>	<b>\$ (14,011,547)</b>	<b>\$ (93,556,781)</b>
<b>NPV</b>	<b>\$ 124,239,160</b>					





***Thank you!***  
-  
***Questions?***



# Exhibit 1

## Spirit Airlines, Inc. (SAVE) Income Statement

[Income Statement](#) [Balance Sheet](#) [Cash Flow](#) [Financial Ratios](#)

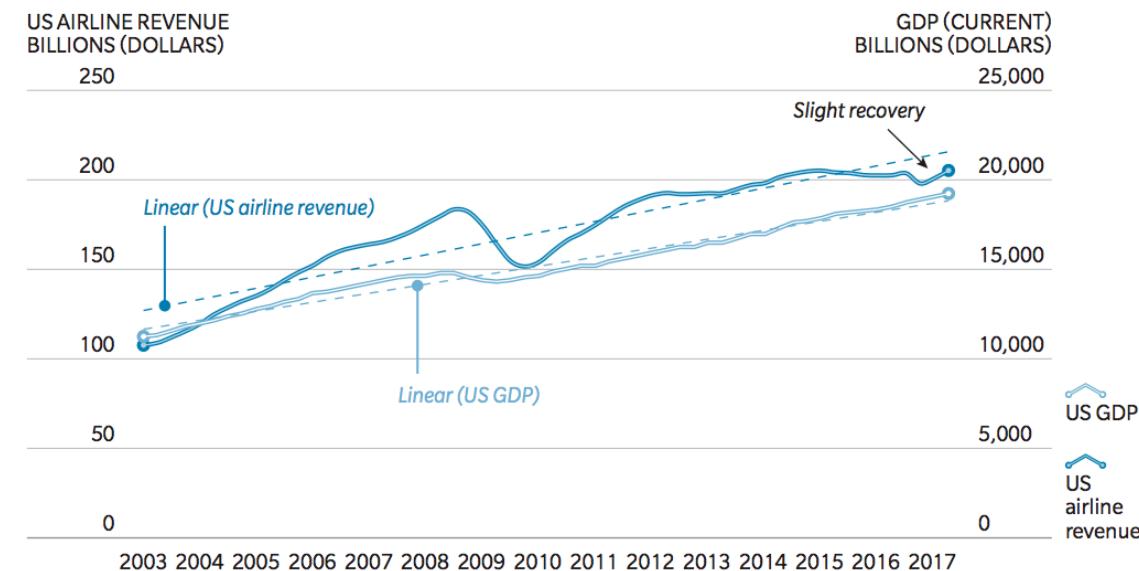
Annual Income Statement (values in 000's)					<a href="#">Get Quarterly Data</a>
Period Ending:	Trend	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Total Revenue		\$2,647,666	\$2,321,956	\$2,141,463	\$1,931,580
Cost of Revenue		\$1,112,527	\$899,494	\$884,503	\$987,807
Gross Profit		\$1,535,139	\$1,422,462	\$1,256,960	\$943,773
<strong>Operating Expenses</strong>					
Research and Development		\$0	\$0	\$0	\$0
Sales, General and Admin.		\$989,399	\$836,289	\$671,653	\$538,486
Non-Recurring Items		\$12,629	\$37,189	\$673	\$45
Other Operating Items		\$140,152	\$101,136	\$73,908	\$46,971
Operating Income		\$388,791	\$443,661	\$509,122	\$355,263
Add'l income/expense items		\$4,202	\$561	\$506	(\$5,277)
Earnings Before Interest and Tax		\$397,161	\$448,409	\$511,232	\$352,994
Interest Expense		\$43,509	\$28,949	\$8,829	\$0
Earnings Before Tax		\$353,652	\$419,460	\$502,403	\$352,994
Income Tax		(\$66,954)	\$154,581	\$185,183	\$127,530
Minority Interest		\$0	\$0	\$0	\$0
Equity Earnings/Loss Unconsolidated Subsidiary		\$0	\$0	\$0	\$0
Net Income-Cont. Operations		\$420,606	\$264,879	\$317,220	\$225,464
Net Income		\$420,606	\$264,879	\$317,220	\$225,464
Net Income Applicable to Common Shareholders		\$420,606	\$264,879	\$317,220	\$225,464

Source: NASDAQ



# Exhibit 2

**U.S Airline Revenue and GDP, Q1 2003-Q2 2017**



Beginning in mid-2014, airline revenue growth slowed to a mere 0.6 percent per year, including the slight uptick during the first half of 2017. During the same period, current GDP (not adjusted for inflation) grew 3.6 percent per year.

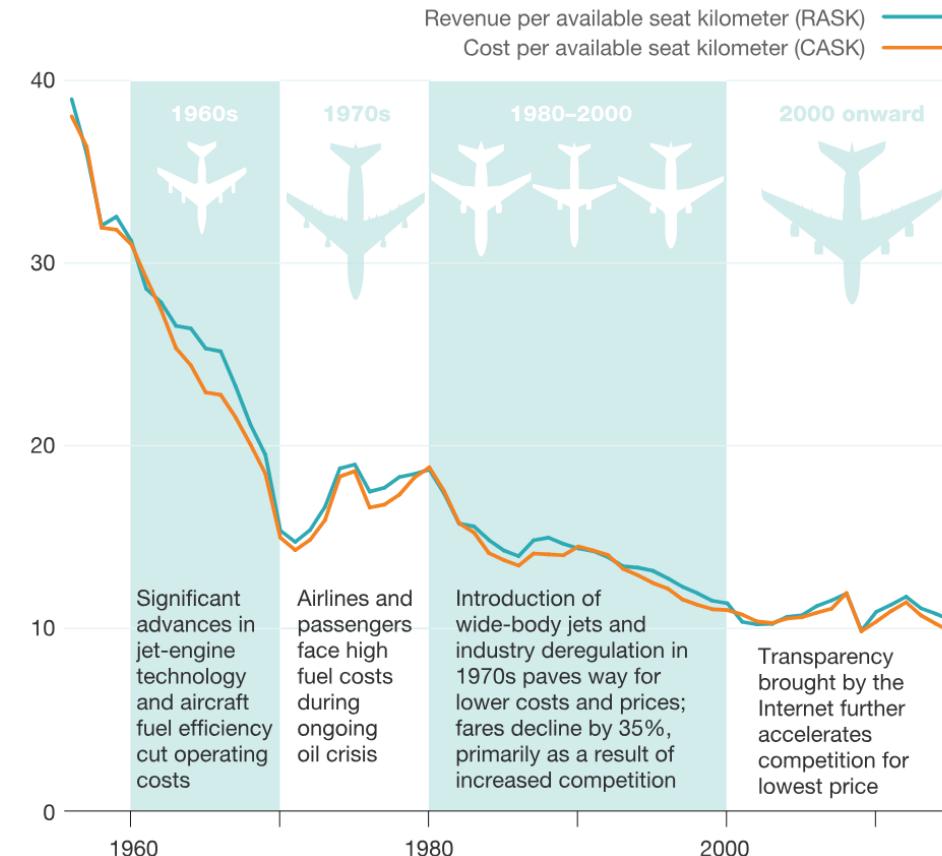
Source: PlaneStats.com, Oliver Wyman analysis



# Exhibit 3



## History of the Airline Industry's Revenues and Costs, 2015 U.S. Cents



Source: IATA; ICAO; Moody's; McKinsey analysis



# Exhibit 4

## Network Carrier Domestic Revenue Increase – Price and Volume Drivers, Q2 2016/Q2 2017

REVENUE DRIVERS	IMPACT RANK	MILLIONS (DOLLARS)
Yield	#1	Yield up 0.6¢ 
Capacity	#2	ASMs up 2.4% 
Load factor	#3	Percent of seats filled-up 0.5 point 
Fees/Other	#4	Baggage/Reservation & cancel fees increase 
Cargo	#5	Domestic cargo increases 22.0% YoY 
<b>Revenue change Q2 2016/Q2 2017</b>		<b>↑ 1,153</b>

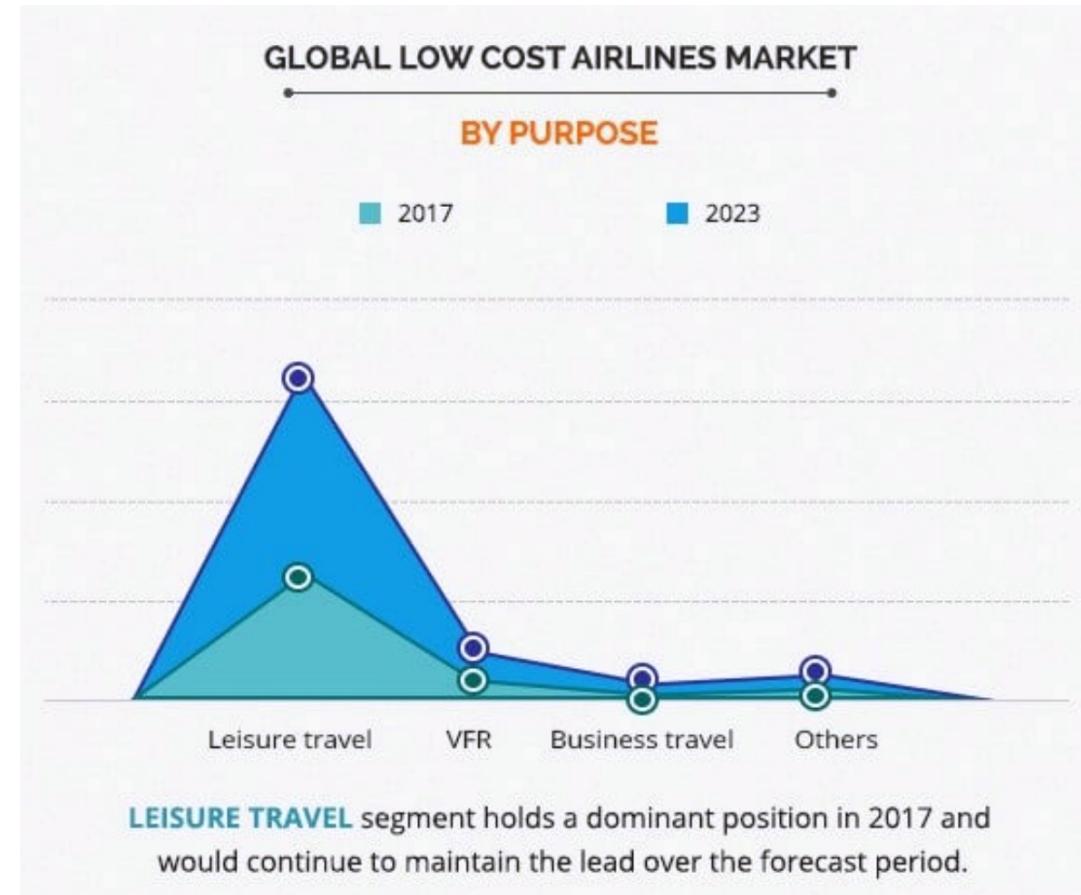
Source: PlaneStats.com, Oliver Wyman analysis



# Exhibit 5

---

## Consumer Incentives to Travel in Low-Cost Carriers in the Global Airline Market



Source: Allied Market Research