

## The Secret Behind High Profits at Low-Fare Airlines

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A majority fly the Boeing 737 exclusively

It's no secret that the travel industry has been struggling lately. But one segment continues to do well - the low-fare airlines such as Southwest Airlines in the United States, Ryanair and easyJet in Europe, WestJet in Canada, GOL Airlines in Brazil and Virgin Blue in Australia.

What's their secret?

One major contributor to their success is that they fly only one airplane model in their fleets. Thus, pilots and mechanics need to be trained on only one kind of airplane. Having a single airplane model in a fleet also lowers inventory, record keeping and maintenance costs, and it minimizes the number of technical manuals, tools and spare parts. Also, fleet management is greatly simplified.

The Boeing 737 makes up more than 90 percent of the combined fleets of the low-fare carriers around the world. Shown here are four of the many airlines whose profitability is closely tied to the cost savings derived by using only this airplane in their fleets: clockwise from top right, WestJet, Ryanair, GOL, and Virgin Blue, representing the major markets across the globe - North America, Europe, Latin America and Asia/Pacific.

"What happens if you have mechanical irregularities?" said Herb Kelleher, chairman of the board of Southwest Airlines. "With only one model airplane in your fleet, you can substitute one for the other."

The first airline to adopt this one-model-fleet tactic was Southwest Airlines, the fourth largest carrier in the United States, which just completed its 29th year of profitability.

"Southwest Airlines has built its reputation on low fares and quality service throughout the United States, and we continue to see a bright future by utilizing an all-737 fleet," said Southwest President and Chief Operating Officer Colleen Barrett.

Knowing a good thing when they see it, other airlines have modeled themselves in Southwest's image. Ryanair, founded in 1985, was the first European airline to convert to the low-fare model after its chief executive, Michael O'Leary, visited Southwest Airlines in 1991. Since then, the airline has grown to become Europe's most profitable airline and the largest low-fare airline in Europe. The airline is growing at a managed growth rate of 25 percent per annum and will carry over 12 million passengers this year.

"We're simply applying in Europe for the first time in a very disciplined fashion the model Southwest Chairman Herb Kelleher already has established in the United States," O'Leary recently told The Wall Street Journal.

Virgin Blue, founded in 2000 by Sir Richard Branson as a low-fare airline for flights within Australia, had predicted a loss for its first three years, but instead came in with a profit of \$500,000 in its first seven months.

In 2000, WestJet, which began operations in 1996, became the second most profitable airline in North America behind Southwest, and just celebrated its 21st quarter of profitability with its 2002 First Quarter results. GOL Airlines of Brazil carried 2.2 million passengers in 2001, its first year of operation.

Even more remarkable than the fact that these airlines fly just one model is that they all fly the same model - the Boeing 737. In fact, the 737 makes up more than 90 percent of the combined fleets of the low-fare carriers around the world.

Why the 737?

**Cost**, for one. Low-fare carriers must tightly manage operating costs or they cannot offer the low fares for which they are famous. The new model 737s are designed to have the lowest operating costs in their class. In fact, on a typical route 737 cash operating costs are nearly 4 percent less than its closest competitor, the A320 series, in part due to its superior structural efficiency.

"The newly redesigned 737s weigh less than the A320 and therefore require lower engine thrust," said Carolyn Corvi, Boeing 737 and 757 programs vice president. "This means the 737s use less fuel, and have lower engine maintenance costs and lower navigation and landing fees."

The 737 maintenance costs are up to 35 percent lower than the A320 series as reported by the U.S. Department of Transportation Form 41, an FAA- required form on which airlines report their costs.

The 737 is not only less expensive to maintain, but easier too. Its simple design and low stance on the ramp make the airplane easy to maintain and load. Most equipment can be serviced at ground level, including the engines. Newer 737s have fewer parts than older models, which improves reliability and maintainability.

Baggage can be loaded from the ground, allowing for last-minute bag additions. All of this contributes to the quick turnarounds that allow carriers to make maximum use of their airplanes - in other words, keeping them in the air earning revenue rather than sitting idle on the ground.

"Our airplanes spend about 25 minutes at the gate between flights, versus an industry norm of about 45 minutes to an hour," said Laura Wright, vice president and treasurer at Southwest Airlines.

**Reliability** is another major reason airlines prefer the 737.

One of the reasons the Boeing 737 is so popular with low-fare airlines is its ease of maintenance. As shown here, the airplane sits low to the ground, allowing maintenance crews to easily perform routine maintenance on the engines.

"The 737 is well known as the workhorse of the aviation industry," said Brett Godfrey, chief executive officer of Virgin Blue. "It's reliable and cost-efficient, two vital characteristics for a true low-fare airline."

The 737 is the industry leader in reliability. Because the airplane can be turned around at the gate so quickly, airlines can get back on schedule if they fall behind for any myriad of reasons. This allows airlines to deliver passenger satisfaction as defined by the customers themselves: getting them where they want to go, when they want to go, at a good value.

"The 737's reliability also means operators can use an airline for more flights on any given day, giving passengers more departure time choices and airlines the opportunities for more revenue," said Toby Bright, executive vice president of Sales, Boeing Commercial Airplanes.

**Flexibility** is another attractive feature of the 737 for these types of carriers.

"We wouldn't be saddled with an airplane that we could use only on long-haul, or that we could use only on short-haul," said Sandy Campbell, chief financial officer and senior vice president of WestJet.

Besides this range flexibility, the 737 comes in four different sizes in the 100- to 200-seat market. The interiors are flexible, too. Operators can choose optional flex seating, in which they can change a row of seats from five-abreast business-class seating to six-abreast tourist-class seating in less than one minute. A moveable cabin divider also allows configuration changes between flights.

The 737's dominance as the airplane of choice for successful low-fare airlines was recently reinforced when Ryanair placed the largest single order in the Next-Generation 737's history. The Dublin, Ireland-headquartered airline ordered 100 737-800s, with an option for 50 more, which will begin delivery in 2002 and continue until 2010.

"This is a validation of the 737 as the airplane of choice for low-fare airlines," Bright observed on the day the order was signed.

But Bright also is quick to point out that an all-737 fleet is not every airline's route to success.

"The world is a big place, with a large number of airlines flying millions of passengers on countless routes around the globe. There always will be room for airplanes of every size, from large twin-aisles to small regional jets," he said.

No one would claim that the Boeing 737 is the only reason these airlines are a success, either. These low-fare airlines all offer many unique services that keep their customers coming back. But as the evidence shows, an all-737 fleet is a major contributing factor and a key element in their business plans.

"It's difficult for me to visualize Southwest Airlines without the 737," Kelleher said. "It's beautifully designed and manufactured, and I think one of the best decisions we ever made ... was to buy the Boeing 737."

For more information on the 737, visit the Web site.

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