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AIR NEW ENGLAND (1970-1974)
A Case Study of a Commuter Air Carrier

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OF
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Cambridge, Mass. 02139

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Acknowledgement

This study was sponsored by the Department of Transportation. The authors would like to acknowledge the helpful assistance of Mr. James J. Gansle of the Industry Analysis Division, Department of Transportation.

1. INDUSTRY BACKGROUND

Commuter air carriers operate under Part 298 of the Civil Aeronautics Board's Economic Regulations as a sub-classification of air taxi operators. Commuters perform at least five round trips per week between two or more points pursuant to published flight schedules, or transport mail under contract with the U.S. Postal Service. They are currently allowed to operate aircraft with a maximum passenger capacity of 30 seats and a maximum payload capacity of up to 7,500 pounds. Apart from these aircraft capacity limitations, the CAB imposes almost no regulatory controls over commuter carriers: there is complete freedom of entry and exit from markets, and no rate or route control. Part 298 regulations, however, do require that commuter carriers register with the CAB, report certain operating and traffic statistics, carry a specified level of liability insurance and waive liability limits under the Warsaw Convention. The commuters are also subject to varying degrees of safety and operational regulations of the Federal Aviation Administration, depending on the type of equipment that they operate.

In addition to the limited regulation at the federal level, in recent years some states have exercised varying degrees of regulation of the commuter air carriers which operate within their jurisdiction. State regulation has tended to be far more extensive than federal regulation and has often included entry and exit controls, and rate/reporting regulations. In some more heavily regulated states, state regulation has sometimes included specification of a minimum number of flights; specification on aircraft size which differs from that allowed by Part 298; route certificates; carrier justification for

beginning or suspending service in a market, denied boarding regulations and a number of other provisions. The following of the 48 contiguous states have enacted some degree of commuter regulation: Alabama, Arizona, Arkansas, California, Colorado, Florida, Idaho, Illinois, Montana, Nebraska, Nevada, North Dakota, Pennsylvania, Tennessee, Texas, Utah, Vermont, Virginia, Washington, and Wyoming.*

Commuter air carriers are an increasingly important component of the national air transportation sytem. This is evident form the growth in commuter route networks form 1966 to 1974, shown in Figures I-1 and I-2, to the point where it is possible to cross the country using commuters.

Commuter air carrier traffic has grown rapidly since 1964 with traffic more than doubling in the successive years 1968 and 1969. The number of commuter type operators, however, has fluctuated during the period. This is shown in Table I-1. In addition to the variation over time within the industry, the current size of commuters varies from those which carried fewer than 5,000 passengers in 1973 to those which carried more than 200,000 passengers, or about 800 passengers a day.**

In addition to the generally favorable climate at the CAB the late sixties saw the development of two lightweight twin-engine turbine powered aircraft that were almost ideally suited for larger commuter operations: the DeHavilland of Canada DHC-6 Twin Otter and the Beech Aircraft B-99. This was a case of technology practically creating a market: in the quarter ended December 31, 1973, 171 of these aircraft were in service out of a total of 210

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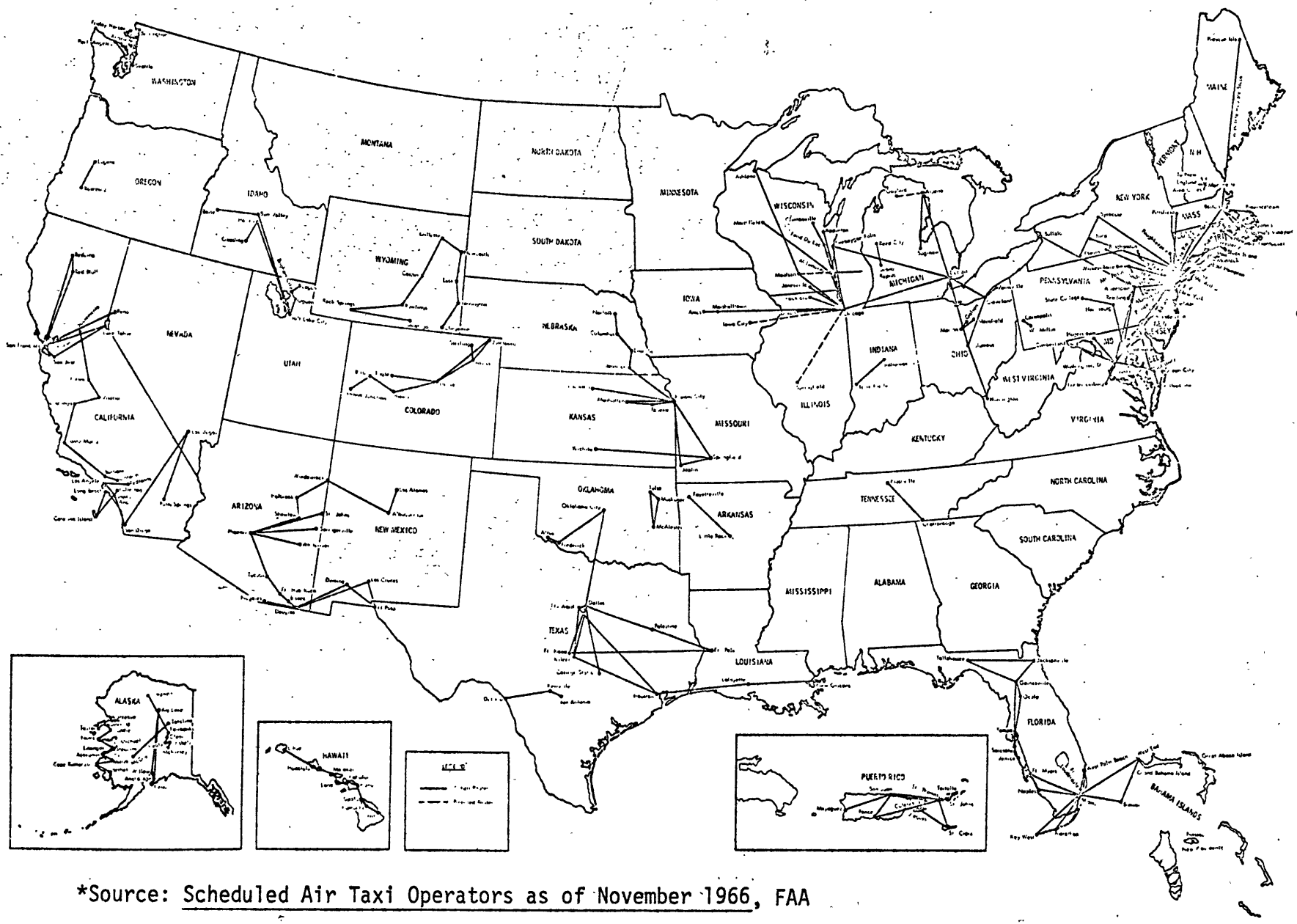
* National Air Transportation Conferences, 1971

** NATA Commuter Airline Assocation, The Commuter Airline Industry, Annual Report 1973 (Washington, D.C., 1974).

FIGURE I - 1

SCHEDULED AIR TAXI ROUTES *

NOVEMBER 1966



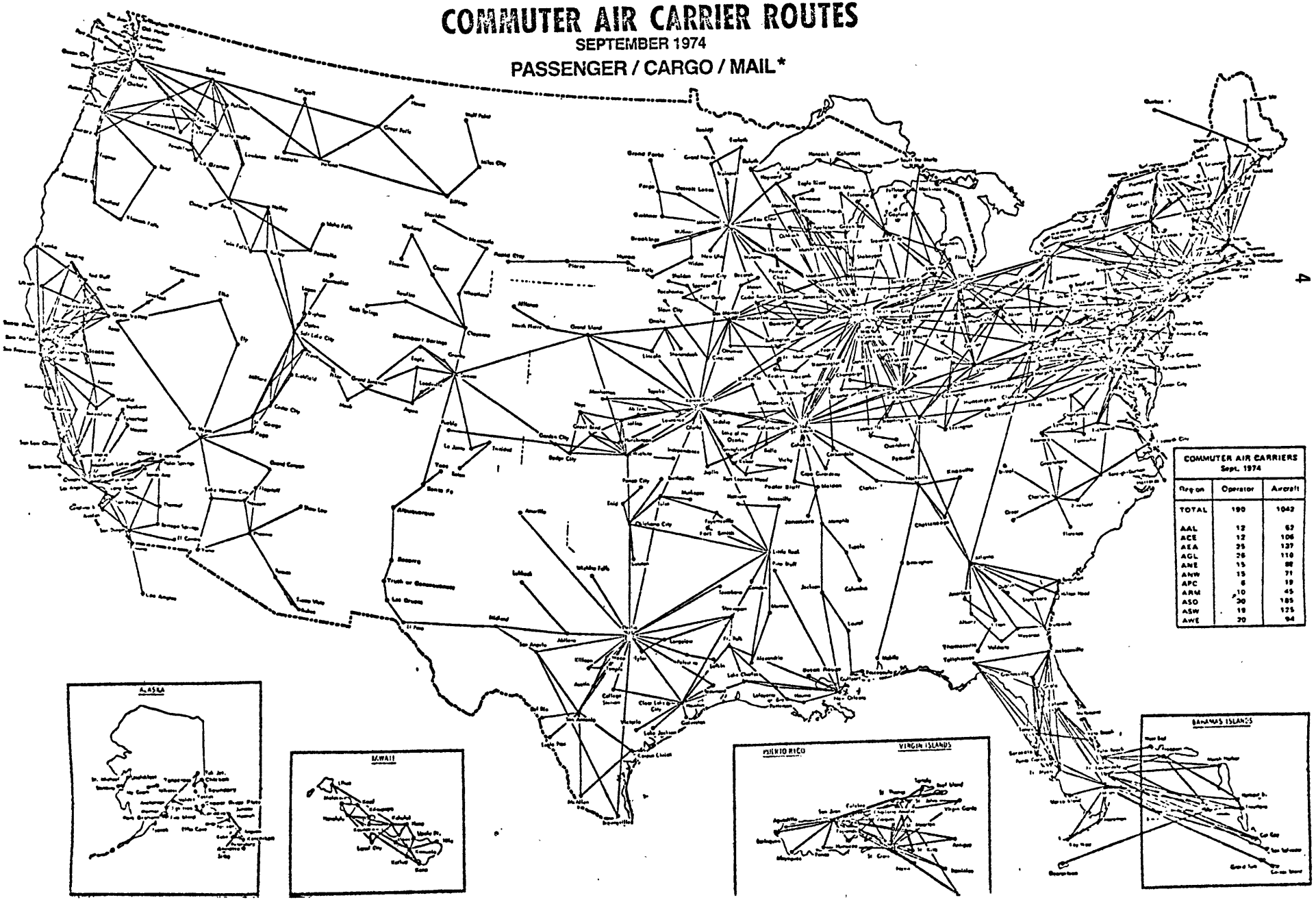
*Source: Scheduled Air Taxi Operators as of November 1966, FAA

FIGURE I-2

COMMUTER AIR CARRIER ROUTES

SEPTEMBER 1974

PASSENGER / CARGO / MAIL*



COMMUTER AIR CARRIERS Sept. 1974		
Region	Operator	Aircraft
TOTAL	190	1042
AAL	12	62
ACE	12	106
AEA	25	137
AGL	26	110
ANE	15	88
ANW	15	71
APC	6	19
ARM	10	45
ASO	30	185
ASW	19	125
AWE	20	94

turbine powered aircraft operated by the commuters. Table I-2 shows the pattern of growth of the commuter air carrier industry fleet from 1965. It can be seen that the growth of traffic has been met by an expansion of the larger aircraft classes, rather than an overall increase in number of aircraft.

Table I-3 presents various statistics which show the current role of the commuter airline industry in the air transportation system of the United States. An average trip length of 100 miles indicates the short-haul character of commuter service. Although commuters basically connect passengers to other certificated carrier flights, origin and destination-type passengers also exist. Commuters now constitute over 3% of the total U.S. domestic passenger market, while providing passenger service at about half the airports that receive scheduled service. Furthermore, commuters offer the only scheduled passenger flights at about half the cities they serve; these exclusive points tend to be small, low density communities at which commuters can provide the only economical air service.

An analysis of 1974 data shows that there were over 665 airports in the 50 states served by 30 certificated carriers and 131 commuter carriers. Of these, 256 or 38.5 percent were served solely by the certificated carriers, 210 or 31.6 percent were served jointly by both groups of carriers. The analysis further shows that in serving the 409 airports, the commuters provided service in over 1,700 city-pairs by connecting with certificated carriers.* Table I-4 shows the distribution of service by the number of carriers in the 665 airports served by the commuters.

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*NATA Commuter Airline Association, Commuter Airlines, Report Number 3, July 1975.

Replacement began on July 17, 1967, when Apache, a scheduled air taxi, was authorized by the CAB to provide substitute service for American Airlines at Douglas, Arizona.* Thereafter suspension of certificated carrier operations at marginal points in favor of commuter carriers became a part of CAB policy. As of January 1975, replacement service was in effect at forty-nine points, forty seven for local service carriers and two for trunkline carriers.

In many cases applications for suspension/substitution have involved a service agreement between the commuter and the certificated carrier. The nature of the agreements has varied, but the most comprehensive have been those contracted under the "Allegheny Commuter" program.** Subject to CAB approval, Allegheny has selected its commuters, awarded them ten-year contracts, and guaranteed a breakeven financial result during the first two years through subsidy. Carriers so chosen go by the name "Allegheny Commuter," painting their aircraft in Allegheny colors and offering joint fares. Allegheny provides its computerized reservation service, interline ticketing and baggage handling, and includes the complete schedules of the commuters in its own timetable. In return Allegheny requires that the commuter carry the same level of liability insurance as it does itself, that flights have a uniformed captain and first officer, and operations have a 95% completion factor. (An interesting sidelight to Allegheny Commuter traffic statistics is

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*CAB Report to Congress, Fiscal 1968, p.119.

**CAB Bureau of Operating Rights Staff Study, Service to Small Communities: Part 2 (March, 1972), p. 35-38.

that because the tickets are written on Allegheny stock, this commuter traffic appears in the CAB O-D statistics as Allegheny traffic).

Closely related to the issue of substitution of commuters for certificated service is the issue of subsidy. Some of the routes where commuters replaced certificated carriers had been served on a subsidy basis. The need for air service to isolated communities and the difficulties in providing that service gave rise to both the CAB's Competitive Bid Proposal and to the Flow-Through Subsidy alternative. Although the former remained a proposal the latter was implemented in 1974 by allowing Air Midwest to receive flow-through subsidy as a replacement for service by Frontier Airlines. Air Midwest received $132,000 annually in flow-through subsidy until the U.S. Appeals Court said the Board could not subsidize an air carrier which is not certificated. To insure service to communities for which it had received subsidy, Air Midwest has requested the CAB for a temporary certificate.* Cochise Airlines is expected to follow suit.**

At the time that Air New England began operations in late 1970, the commuter air carrier industry was relatively stable; the technology of small aircraft had advanced to the point where the appropriately sized aircraft (B-99, Twin Otter which had proven acceptable to the travelling public) existed to serve markets of medium size; and the regulatory environment was such as to allow competition to take place in the commuter markets.

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* Aviation Daily, Vol. 221, No.3, (Sept. 4, 1975), p.171.

**Aviation Daily, Vol. 221, No. 7, (Sept. 10, 1975), p.52.

Table I-1

Commuter Industry Traffic Growth*

Year	Number of Passengers	Number of Operators
1964	199,000	32
1965	223,000	82
1966	328,000	116
1967	553,000	165
1968	725,000	240
1969	1,800,000	153
1970	4,300,000	183
1971	4,700,000	161
1972	5,200,000	184
1973	5,700,000	216
1974	6,800,000	213

*Source: CAB Statistics ; National Air Taxi Conference prior to 1970

TABLE I-2

COMMUTER AIR CARRIER FLEET MIX

(by Aircraft Type)*

Aircraft Type	Year 1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Fixed Wing										
Jet	--	1	2	4	--	--	--	7	17	45
Turboprop	1	4	22	118	200	187	175	171	191	216
Single-engine Piston	105	150	200	318	141	124	103	94	125	169
Multi-engine Piston	249	348	452	814	515	424	459	455	504	550
Helicopters	6	7	9	18	8	6	6	23	8	2
TOTAL	361	570	685	1272	864	741	743	751	845	982

Sources: (1) Commuter Air Carrier Operators as of Sept.,1969, FAA
(2) Commuter Air Carrier Operators as of Sept.,1972, FAA
(3) Commuter Air Carrier Traffic Statistics, Year Ended June 30, 1973, CAB
(4) Commuter Air Carrier Traffic Statistics, Year Ended June 30, 1974, CAB

Table I-3

Comparison of Domestic Trunk Airlines, Local Service Airlines and Commuter Air Carriers* (Year ended December 31, 1973)

	Passengers (000)	Revenue Pas. Miles (000)	Departures (000)	Ave. Passenger Trip Length (m)	Number of Carriers	Airports Served
Domestic Trunk Airlines	144,800	115,400,000	3,020	797	10	204
Local Service Airlines	32,450	9,827,000	1,527	303	8	412
Commuter Air Carriers	5,690	576,000	925	101	216	550

*Source: CAB statistics

Table I-4

Distribution of Service By Number of Commuter Air Carriers*

Number of Commuters	Number of Airports	Percent of Airports
1	365	54.9
2	131	19.7
3	61	9.2
4	27	4.1
5	11	1.6
6	21	3.2
7	4	0.6
8	11	1.6
9	4	0.6
10 or more	30	4.5
	665	100.0%

*Source: NATA Commuter Airline Association, Commuter Airlines, Report Number 3, July 1975, p.34.

2. CHRONOLOGICAL HISTORY OF AIR NEW ENGLAND

Summer 1970 - Policy disagreements at Executive Airlines between Walter Beinecke, majority stockholder, and Joe Whitney, President since 1962 (when the airline began operations), lead to departure of Whitney and others at Executive. During 1970 Executive grosses $8 million and has deficit of $4 million.

Fall 1970 - Whitney and some associates join forces with George Parmenter (formerly founder & president of bankrupt Cape & Island Airlines) to form Air New England and begin operations on the Cape and Island routes.

December 31, 1970 - New England Service Investigation (Docket 22973) begins.

December 10, 1971 - Executive Airlines files for bankruptcy under Chapter 11 of the Bankruptcy Act, reorganizing its New England operations and totally dropping its Florida operations.

February 9, 1972 - Beinecke relinquishes control of Executive Airlines to group headed by Henry Harding.

July, 1972 - Associated New England Airlines, a loose conglomerate of six commuters (Air New England, Aroostook Airways, Bar Harbor Airways, Command Airways, Downeast Airlines, and Winnipesaukee Aviation) files a plan with the CAB to receive subsidy eligible certificates for specific points. Air New England proposes service on the following routes with a fleet of 5 DC-3's, 5 F-27's and 5 DHC-6's: (1) Boston-Hyannis-Martha's Vineyard-Nantucket; (2) New York-New Bedford-Martha's Vineyard-Nantucket-Hyannis; (3) Boston-Lebanon-Montpelier-Burlington; (4) New York-Lebanon-Montpelier-Burlington-Portland; (5) Boston-Augusta-Waterville; and (6)

New York-Portland-Augusta. For this operation, Air New England forecasts revenues of $8.29 million in 1973 with an operating loss of $233,548. The company anticipates it will require $679,798 in subsidy during the year to undertake the proposed operations.

Executive Airlines also files for subsidy eligible certification for a somewhat larger route structure, using six CV-580's and five DHC-6's. Total subsidy need is estimated at $721,000 annually.

August, 1972- Northeast Airlines is merged into Delta Air Lines.

November 1, 1972 - Executive Airlines emerges from bankruptcy following a stringent cost reduction program and layoff of about 75% of personnel.

December 4, 1972 - CAB's Bureau of Operating Rights opposes certification of any commuters in New England.

December 5, 1972 - Executive Airlines asks CAB to prohibit commuters from starting new services at markets in question in New England until the New England Service Investigation is completed. Following announcement of plans by Air New England, Executive said: "The schedules and fares proposed by Air New England constitute a flagrant case of predatory and destructive competitive practices designed to drive Executive out of business..."

December 20, 1972 - Air New England adds Burlington, Vt., Barre/Montpelier, Vt. and Lebanon, N.H. to its route system.

July 9, 1973- In the initial decision in the New England Service Investigation, CAB Administrative Law Judge Murphy says that commuters can provide adequate service in New England without certification.

December 19,- 1973 - Executive Airlines goes out of business effective December 21. Air New England purchases some of its assets and says it will try to fill any service void created by Executive's departure.

July 17, 1974 - The Civil Aeronautics Board, in a unanimous decision in the New England Service Investigation, certificates Air New England effective October 15, 1974. Joe Whitney tells Aviation Daily: "We anticipate our subsidy need to be zero. We are having a very successful year and should be extremely profitable. We see no reason to drastically change that just because of the CAB order. We have been looking at fleet improvements mainly under Part 298(small aircraft) requirements. Now, of course, we will be reviewing our fleet as a local service carrier. We don't intend to go out and buy airplanes because we are eligible for subsidy. We would rather stay in the profit column." Whitney says Air New England expects 110% revenue growth to about $9 million, compared to 1973 revenues of $4.6 million.

July 19, 1974 - Quoted in Aviation Daily, Sen. Norris Cotton (R-N.H.), views the CAB decision "as a personal victory in a very long, arduous and difficult struggle." Cotton says the Board's decision is not far removed from what he had realistically hoped for. Cotton, perhaps one of most vocal critics of CAB, compliments the Board for its show of backbone by disagreeing with portions of the law judge's decision, the position taken by the Bureau of Operating Rights "and much to my own self-gratification, the position of the Department of Transportation."

Cotton expressed his pleasure with the CAB decision during senate aviation subcommittee confirmation hearings yesterday for CAB Member Richard J.O'Melia and credited O'Melia with

playing a large part in the Board's decision. When O'Melia was first appointed to the Board, he personally "traveled through the northern New England region receiving first-hand knowledge of our air service problem. This I am sure, was helpful to the Board in reaching its decision...," Cotton said.

October 11, 1974 - CAB agrees to an Air New England petition delaying certification to January 1, 1975.

November 12, 1974 - Air New England announces plans to buy all six FH-227's of Delta Air Lines.

December 2, 1974 - Air New England petitions to keep operating as a Part 298 carrier until it is qualified for FAA licencing as a certificated airline. On December 20, the CAB agrees.

December 23, 1974 - Air New England orders six SD 3-30's for delivery in February 1976. Aircraft are valued at $1.25 million each.

January 21, 1975 - Delta Air Lines and Air New England ask CAB to approve a loan of $1.5 million from Delta to Air New England.

January 24, 1975 - Air New England certificate of public convenience and necessity takes effect.

3. EVOLUTION OF ROUTE STRUCTURE, FARE POLICY AND COMPETITIVE POSITION

The growth of Air New England's route structure, fare structure, and competitive position was analyzed for the four year period of its existence as a commuter, December 1970 - December 1974. The analysis is based upon data derived from the Official Airline Guide (OAG).

The analysis is split into nine periods, the Decembers and Junes corresponding to the low and peak periods of traffic in the Northeast. For each period, Air New England's route structure, fare structure, and competitive position is discussed. A tenth section summarizes the key events and strategies in Air New England's history as a commuter air carrier.

1. December 1970

Air New England began operations serving eight cities on a sparsely connected network stretching from New York to Waterville, Maine (Figure 3-1). The network was composed of two markets, one in the Islands* and the other in the North .** The Northern market was more highly connected, but the Islands received greater frequencies of service, so that overall the two markets were given equal attention.

There was considerable competition in New England at the time (Table 3-1). Executive Airlines, the dominant commuter carrier, had extensive routes throughout the area, and competed with Air New England on nearly every route the new carrier flew. Northeast Airlines, a regional carrier, flew routes in and out of New York, and between Boston and Portland, Maine. Small

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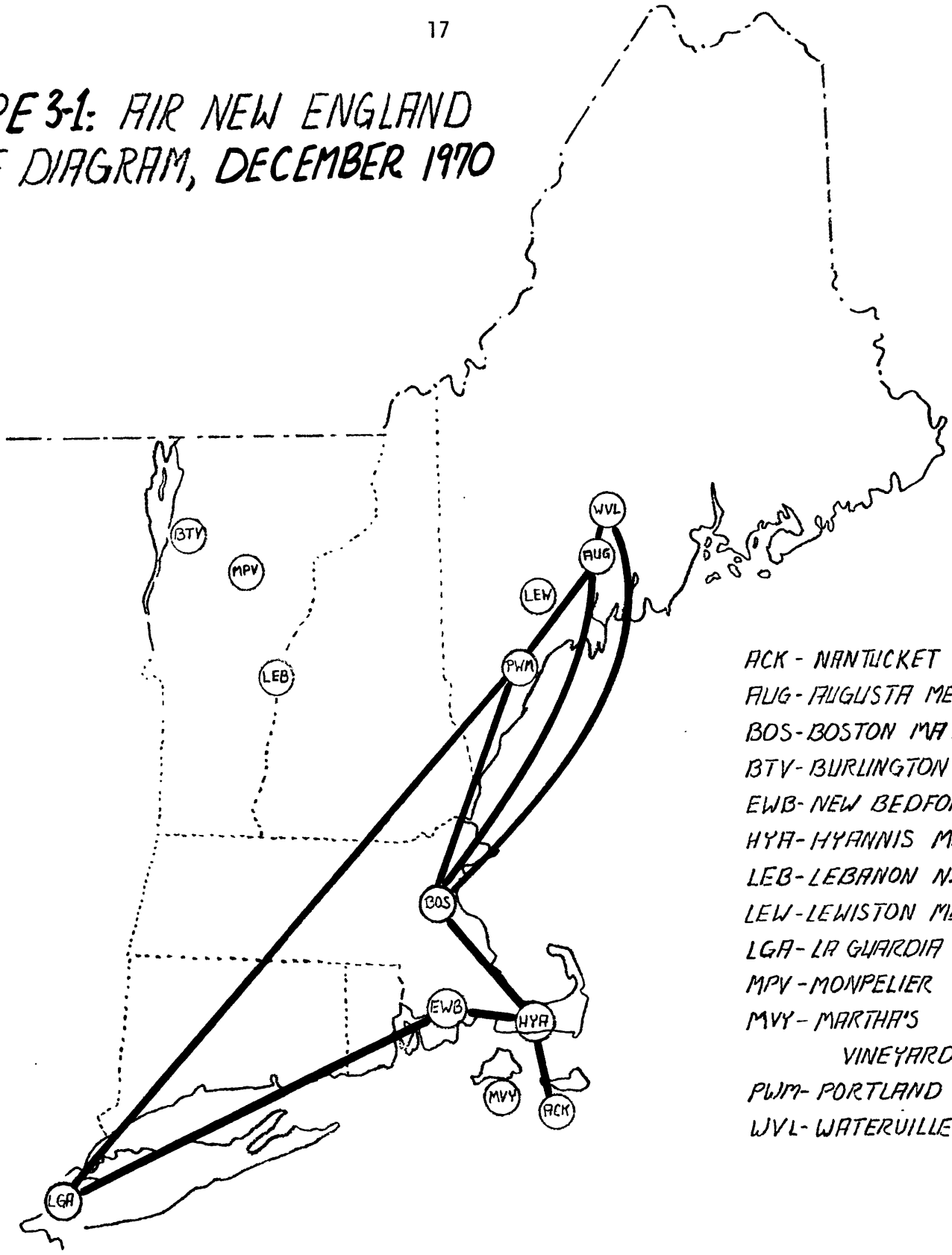
*Nantucket, Martha's Vineyard, Hyannis and New Bedford.

**Destinations in Vermont, New Hampshire and Maine.

'GURE 3-1: AIR NEW ENGLAND
)UTE DIAGRAM, DECEMBER 1970



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WVL - WATERVILLE ME.

commuter competitors included Downeast Airlines, Aroostook Airways, and Massachusetts Air Industries, each serving a single market.

Air New England originally set its fares equal to Executive's and matched or underpriced its competitors in other markets.* An exception was New York, where Air New England priced above Northeast's fares. This exception remained true throughout the study period. The intense competition, therefore, was between Air New England and Executive for the small city-pairs. The New York routes went to Northeast by default.**

2. June 1971

Air New England ended service to Waterville but initiated service to Martha's Vineyard (Figure 3-2). This change concentrated Air New England's network around the Islands, to take advantage of the heavy summer tourist traffic.

Competition in the Islands became intense with Air New England, Executive, and Northeast all offering greatly expanded services, and Massachusetts Air and North American Airlines also fighting for traffic (Table 3-2). For Air New England, control of the Islands was essential since it was concentrating nearly all of its effort there, whereas both Executive and Northeast had substantial networks elsewhere.

That summer Executive raised most of its fares while Air New England held all of its fares constant. This change gave Air New England a competitive advantage, particularly in the Islands where Executive made most of its fare changes. Meanwhile Northeast charged the lowest fares on city pairs to New

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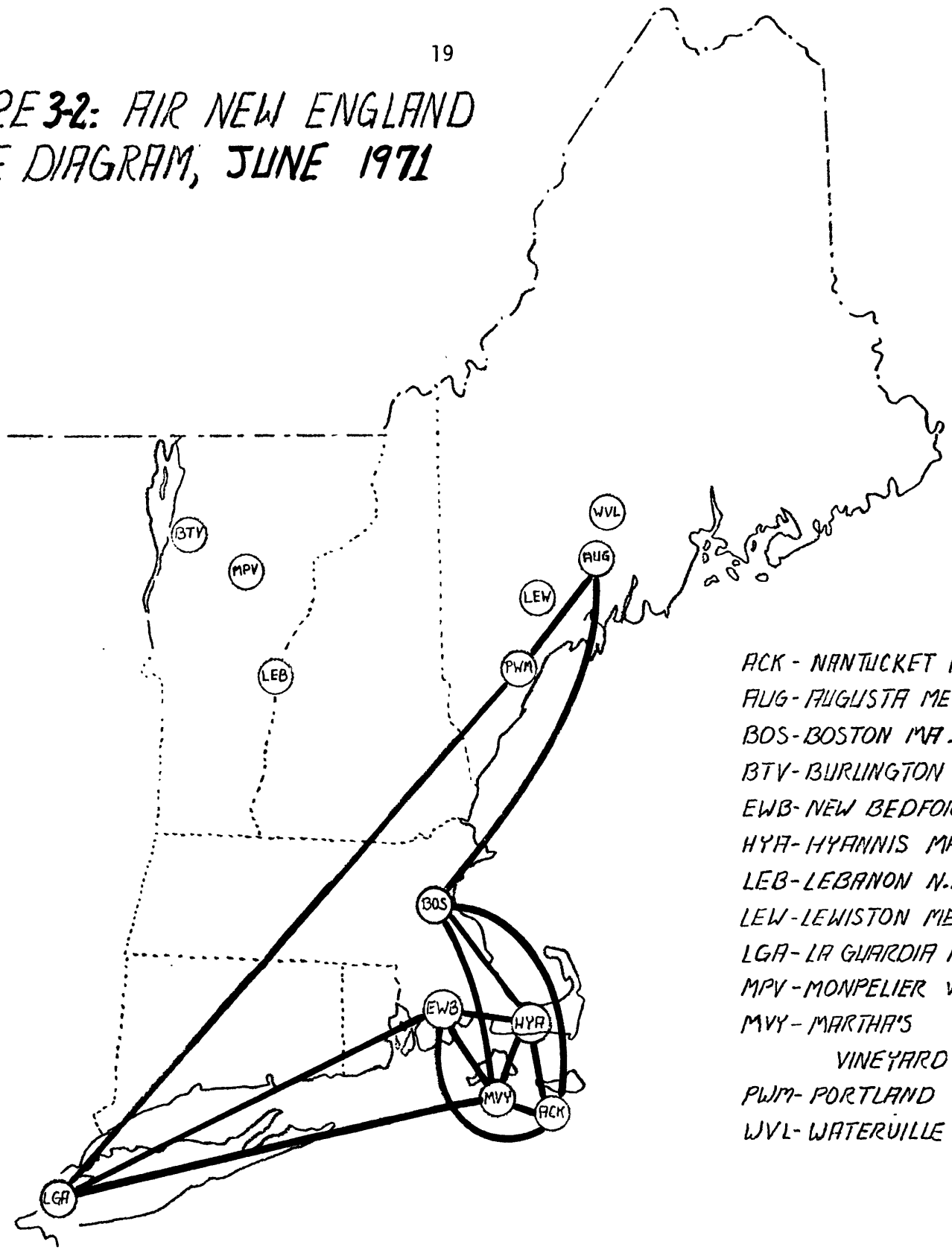
*Table 10 lists Air New England's fares for every city-pair served over the nine periods.

** It is assumed that Air New England did not seriously compete on a route unless it priced at or below its main competitor.

FIGURE 3-2: AIR NEW ENGLAND ROUTE DIAGRAM, JUNE 1971



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York and generally charged the highest fares elsewhere. The result was that Air New England had equal or lower fares than its main competitors on all markets except those into New York.

3. December 1971

Air New England thinned its network by deleting several city-pair connections. Other than this seasonal shrinkage, its route structure was unchanged (Figure 3-3).

Competition in the islands between Air New England and Executive continued at an aggressive pace, with both carriers offering near summer-level frequencies (Table 3-3). Meanwhile, Northeast pulled out of the Islands for the winter, and Massachusetts Air and North American disappeared forever.

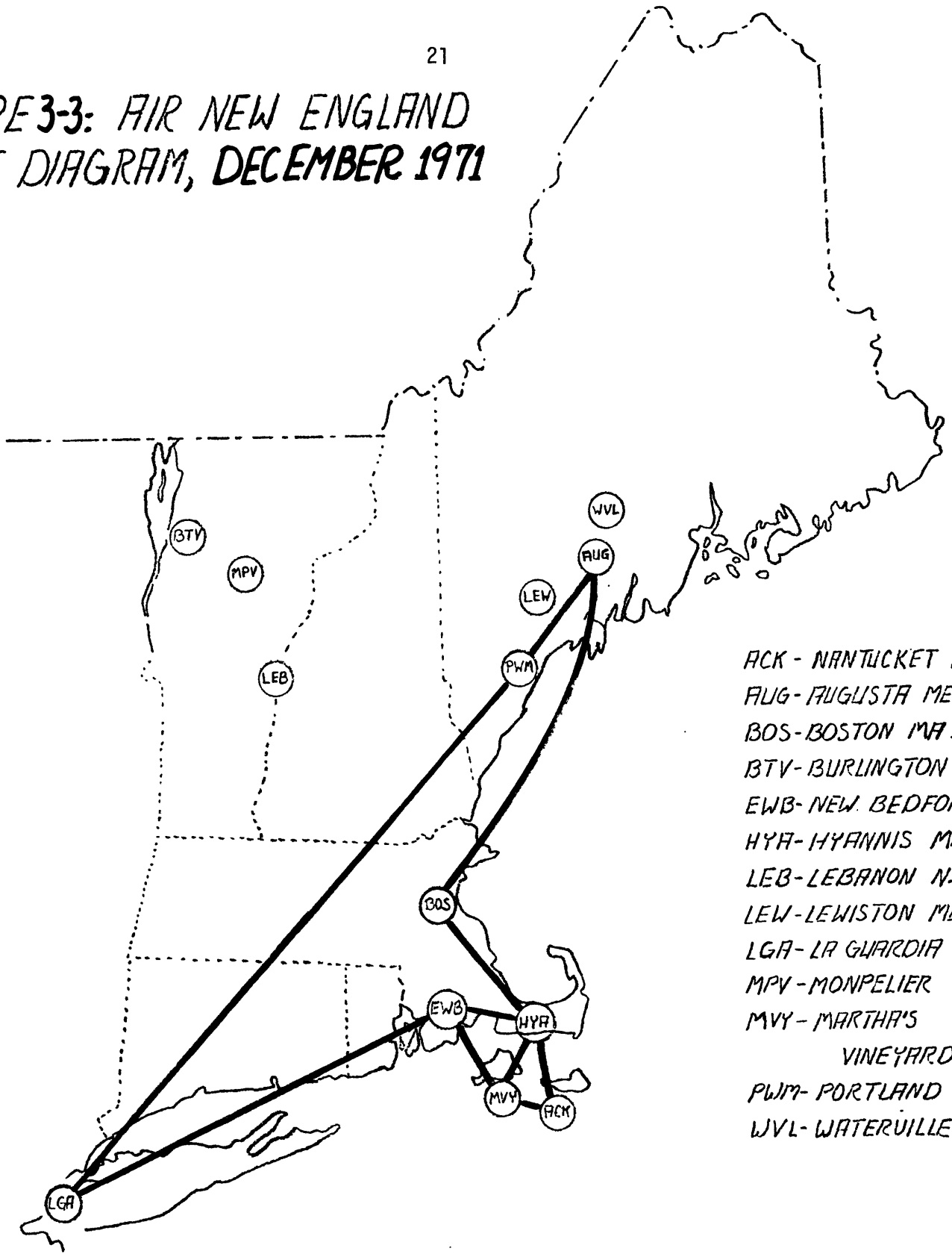
As events later showed, the winter of 1971-72 was Executive's last attempt to retain a prominent position in the islands. It lowered many of its fares to match Air New England's and even undercut Air New England on the New Bedford-Boston run. The intent of the fare cuts was to lessen Air New England's competitive advantage; but as will be seen later, it was to no avail.

4. June 1972

Service was reinstated to Waterville by Air New England, where it flew four times daily from Augusta, in competition with Executive. In the Islands, Air New England's activity increased to the previous summer's level (Figure 3-4).

Executive Airlines conceded the islands, flying but a single loop: Boston-Nantucket-Martha's Vineyard-Boston (Table 3-4). The two airlines

IGURE 3-3: AIR NEW ENGLAND OUTE DIAGRAM, DECEMBER 1971



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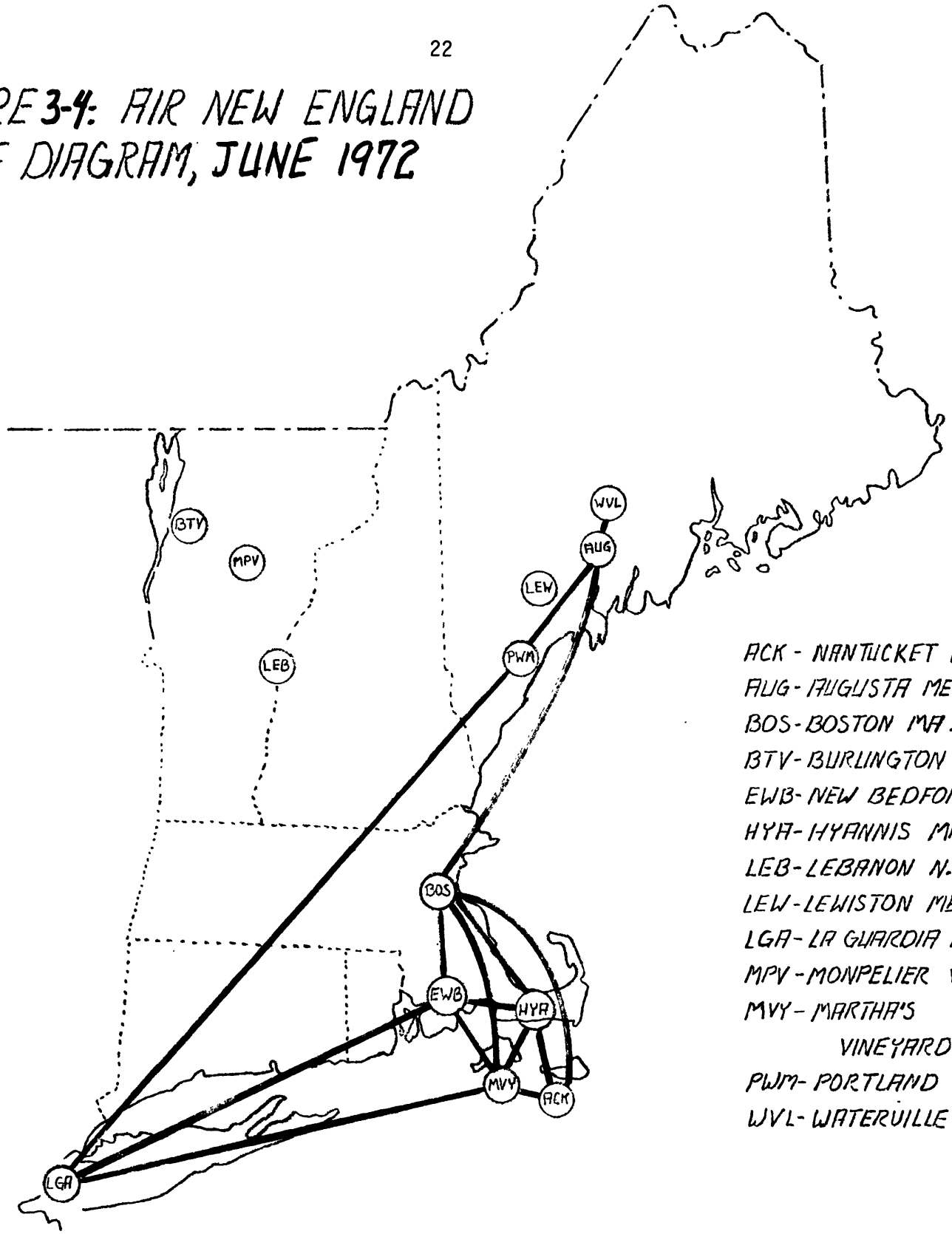
'GURE 3-4: AIR NEW ENGLAND
)UTE DIAGRAM, JUNE 1972



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flew roughly equal frequencies on competitive routes in the North, but Executive flew to ten cities while Air NewEngland flew to only three (Boston not included). Meanwhile, Northeast re-entered the Islands, again concentrating on routes in and out of New York. Pilgrim Airlines initiated flights between New York (JFK) and Boston at $23 one way, the lowest coach fare available.

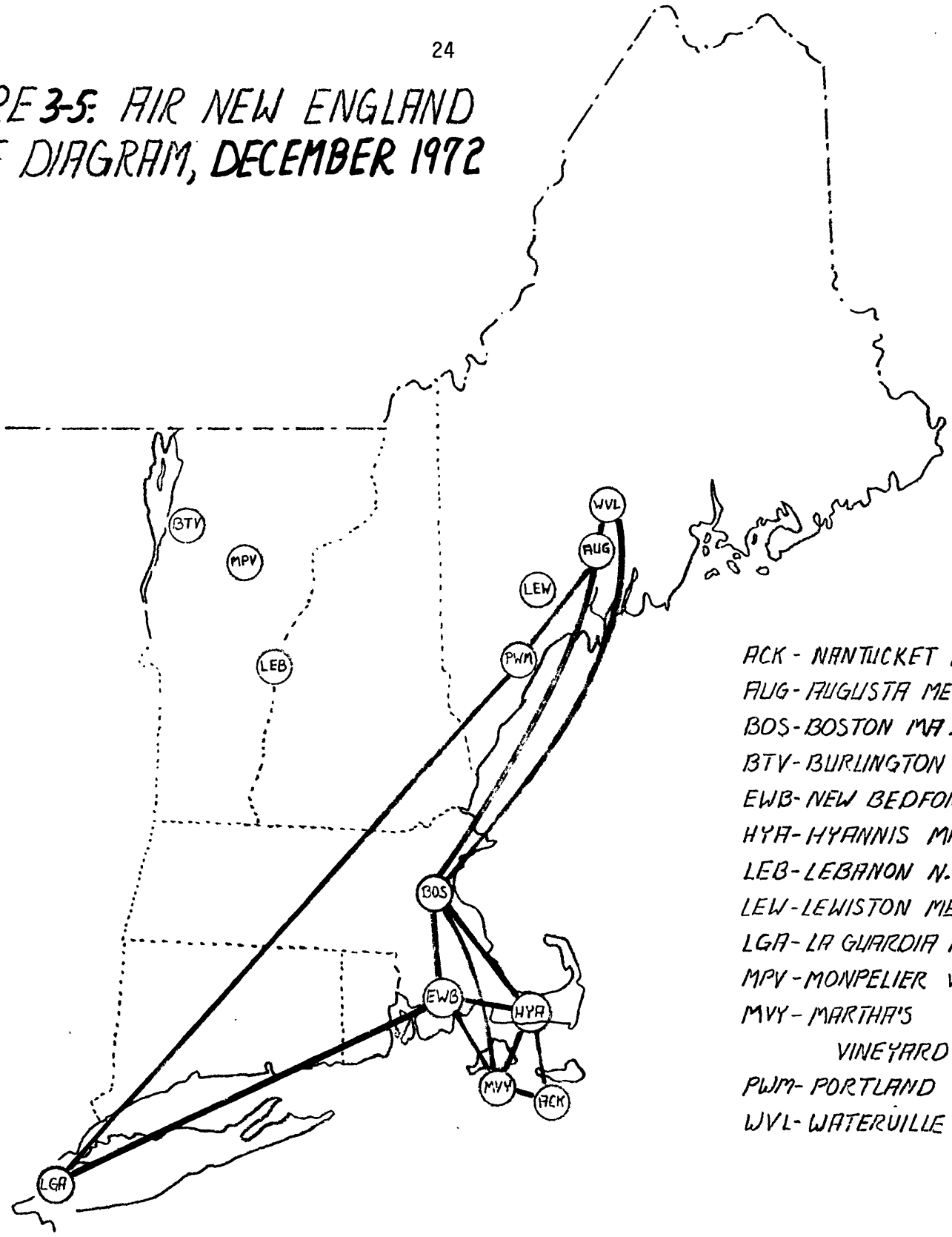
Air New England held all of its fares constant except on the Boston-Augusta flight where an increase coincided with an Executive increase, retaining a relative price advantage. This advantage was network wide, a result of Executive's fare increases a year earlier. Air New England continued to price above Northeast Airlines on routes to New York and underprice Northeast elsewhere. Table 3-10 shows this phenomenon to be true in every market where the two airlines competed.

5. December 1972

As the Islands experienced their seasonal decline in traffic, Delta (which had absorbed Northeast) and Executive pulled out completely and Air New England trimmed its schedule (Figure 3-5). Up North, however, Air New England added a Boston-Waterville non-stop and held its frequencies at summer levels.

Air New England had captured sole control of the Islands; it now looked to the North where Executive dominated. It strengthened its existing network in the North, a harbinger of things to come. Executive flew higher frequencies on most routes, but it also charged a higher fare than Air New England (Table 3-5).

IGURE 3-5: AIR NEW ENGLAND OUTE DIAGRAM, DECEMBER 1972



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At last, Air New England started to raise fares, but only in the Islands where its competition had just ended. In every market where it faced competition, it held its fare constant (Table 3-10).

6. June 1973

Air New England had doubled its Northern network adding Lebanon, Montpelier, Burlington, and a non-stop between Hyannis and Augusta (Figure 3-6). Meanwhile, the Islands were maturing into a stable market, with only seasonal changes occurring throughout the remainder of the study period.

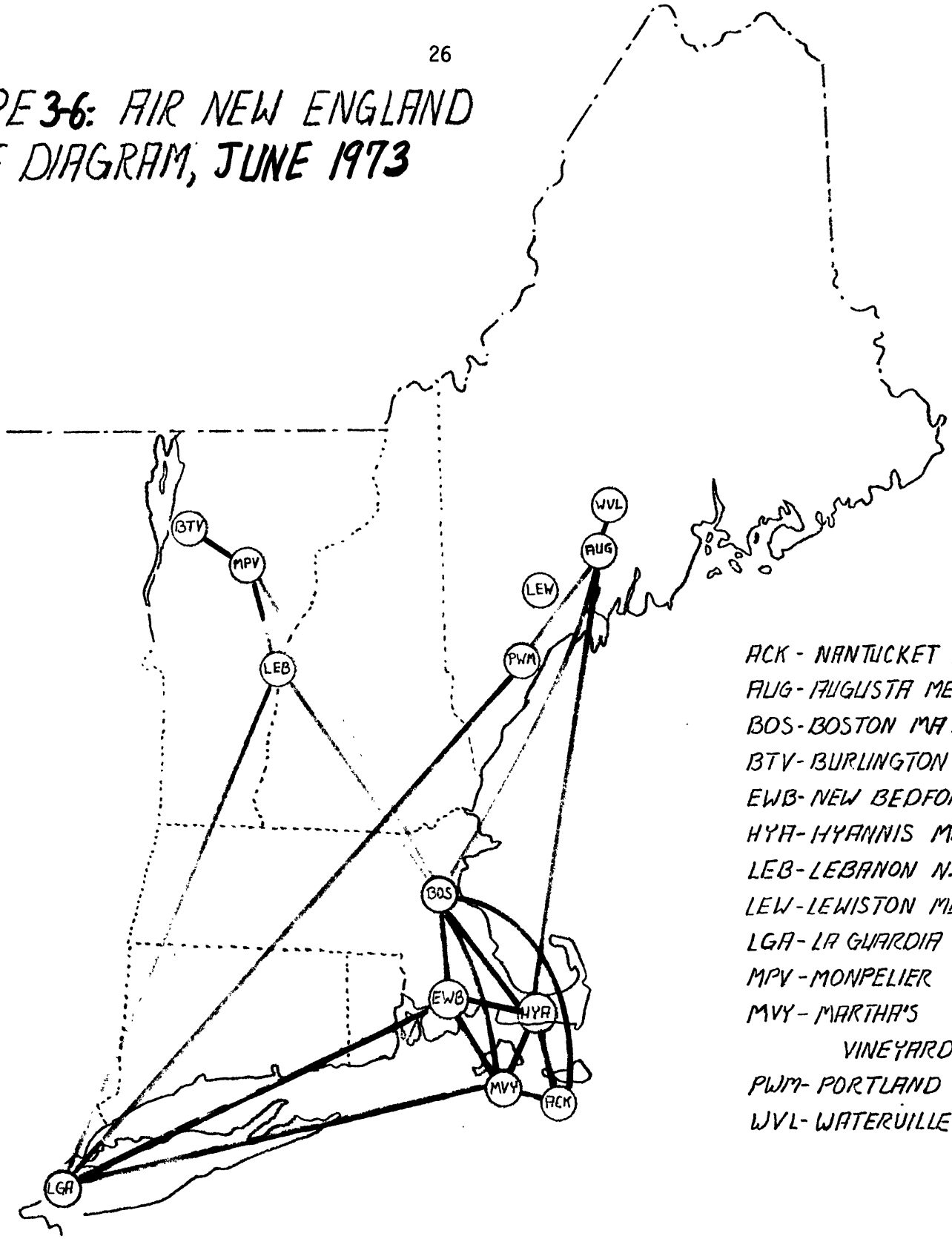
The competitive battlefield shifted to the North where Air New England was mounting a full scale assault. It flew to every city served by Executive, except Lewiston and severely undercut Executive's fares on many of the routes , as shown below. Executive responded by flying higher

Fares During June, 1973

City Pair	Air New England	Executive	$\frac{ANE}{EX}$ %
AUG - PWM	8.50	16.00	53
- WVL	8.00	13.00	62
BTV - MPV	8.00	14.00	57
LEB - BTV	15.00	18.00	83
- MPV	8.00	15.00	53

frequencies than Air New England on most routes (Table 3-6). Meanwhile in the Islands, Delta was flying from New York and Executive flew Boston-Hyannis-

IGURE 3-6: AIR NEW ENGLAND OUTE DIAGRAM, JUNE 1973



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PWM - PORTLAND ME.
WVL - WATERVILLE ME.

Nantucket.

7. December 1973

Air New England's network thinned slightly, but no cities were added or deleted (Figure 3-7).

Executive made the next move.* It reduced fares in the Northern market and raised fares on flights from Boston so that all of its fares were $1-2 above Air New England's (Table 3-7). This gave Air New England a system wide edge with fares ,but Executive continued running higher frequencies.

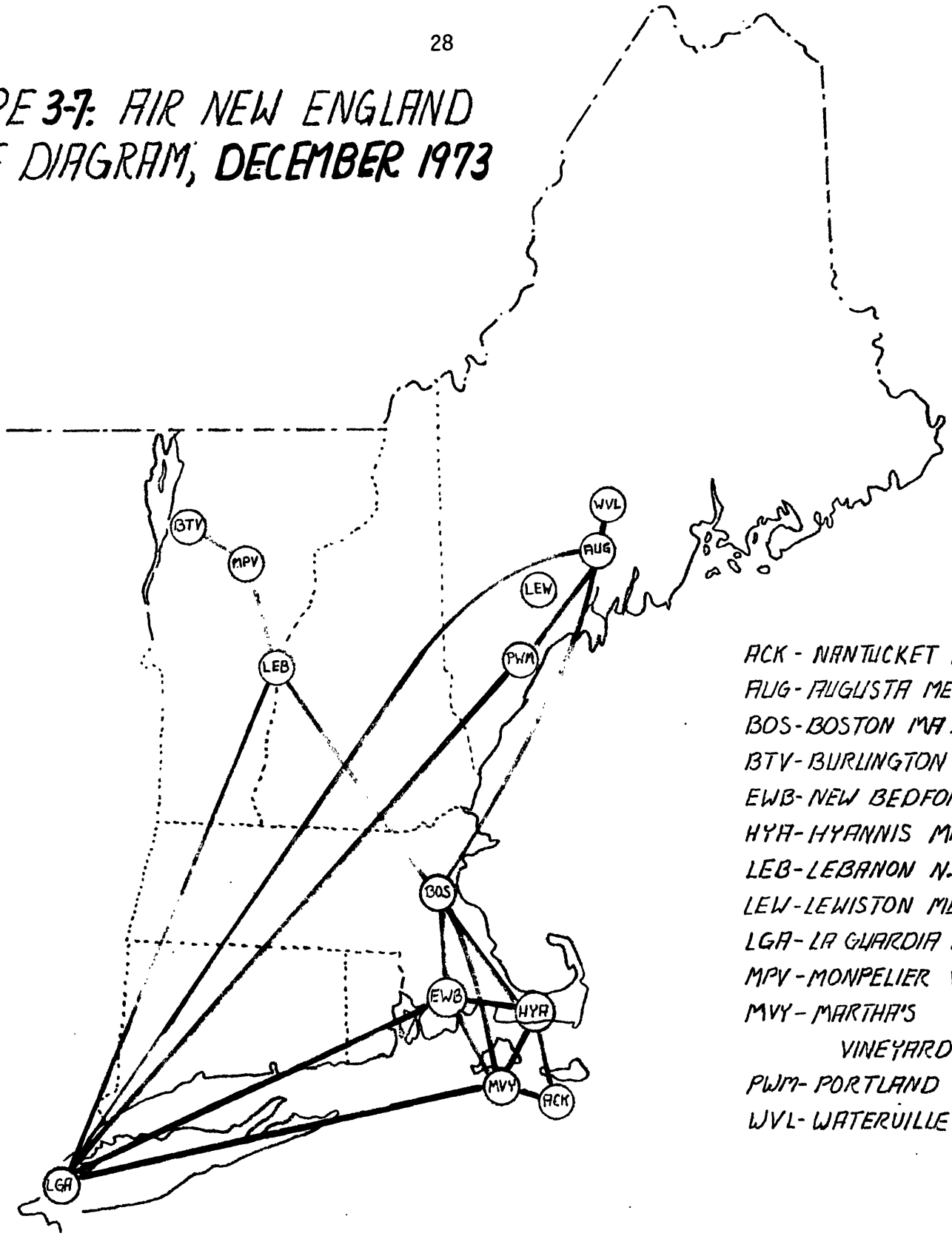
Illustrative Fare Changes Made by Executive

	June 1973		December 1973	
City Pair	Air NE	EX	Air NE	EX
AUG- BOS	26.00	26.00	26.00	27.00
- PWM	8.50	16.00	8.50	10.00
- WVL	8.00	13.00	8.00	9.00
BOS - BTV	28.00	28.00	28.00	29.00
- LEB	21.00	21.00	21.00	22.00
- MPV	24.00	24.00	24.00	25.00

Delta flew routes out of New York and Boston, with Air New England over-pricing the New York flights and underpricing the Boston flights. Air New England was the lone carrier in the Islands.

*In fact, Executive sold its assets to Air New England on December 19, 1973. The above was Executive's scheduled plan as recorded by the December 1973 OAG.

'GURE 3-7: AIR NEW ENGLAND
)UTE DIAGRAM, DECEMBER 1973



ACK - NANTUCKET MA.
AUG - AUGUSTA ME.
BOS - BOSTON MA.
BTV - BURLINGTON VT.
EWB - NEW BEDFORD MA
HYA - HYANNIS MA.
LEB - LEBANON N.H.
LEW - LEWISTON ME.
LGA - LA GUARDIA N.Y.
MPV - MONPELIER VT.
MVY - MARTHA'S VINEYARD MA.
PWM - PORTLAND ME.
WVL - WATERVILLE ME.

8. June 1974

Lewiston, Maine was added to Air New England's itinerary. This, with numerous additional links in its system, gave its network excellent coverage over the New England region (Figure 3-8).

Executive Airlines went out of business in December 1973, leaving Air New England and Delta as the two major carriers in the region. Delta entered the Islands again and flew from Boston to Burlington and Portland (Table 3-8). Air New England priced over Delta on New York and Boston flights and priced under Delta elsewhere. Also, Bar Harbor Airlines began flights between Boston and Portland and Pilgrim continued serving New York-Boston.

Now Air New England raised all of its fares to a level as high or higher than Executive had been charging in December of 1973.

9. December 1974

No changes occurred: Delta made its seasonal withdrawal from the Islands and Air New England reduced most of its frequencies.

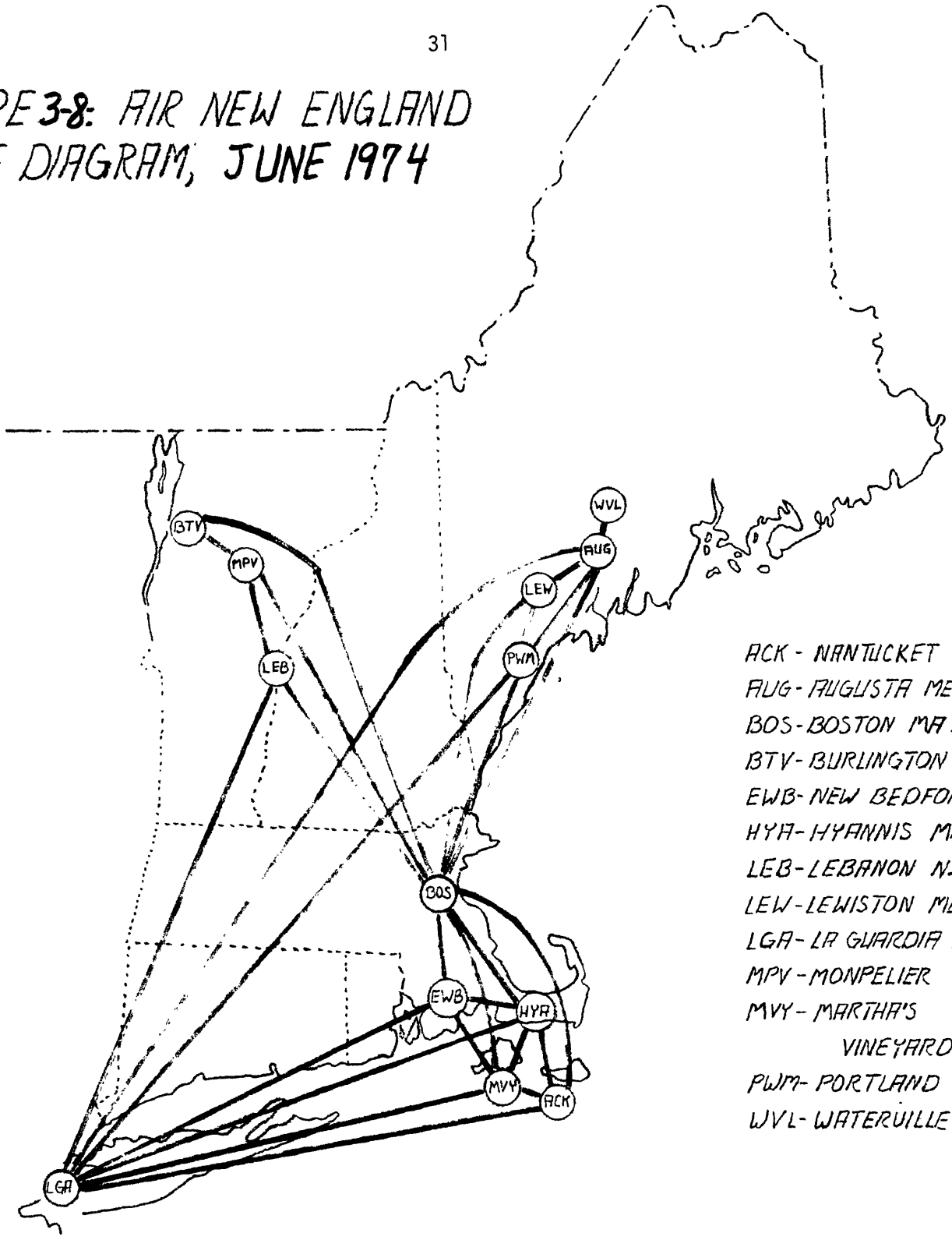
10. Summary

Air New England captured the Northeast regional market by out-performing Executive Airlines. It began by splitting the region into two markets, the Islands and the North, then entering the Island market, the stronger of the two, at fares and frequencies equal to Executive's. Executive responded by raising its fares slightly. When Air New England appeared to be gaining control, Executive lowered its fares to match Air New England's - but lost its hold on the Island market despite this. Then Air New England expanded into the Northern market at fares far below and frequencies slightly below

Executive's. Executive responded by adjusting its fares to a level just above Air New England's. Soon Executive went bankrupt, due in part to Air New England's aggressive competition.

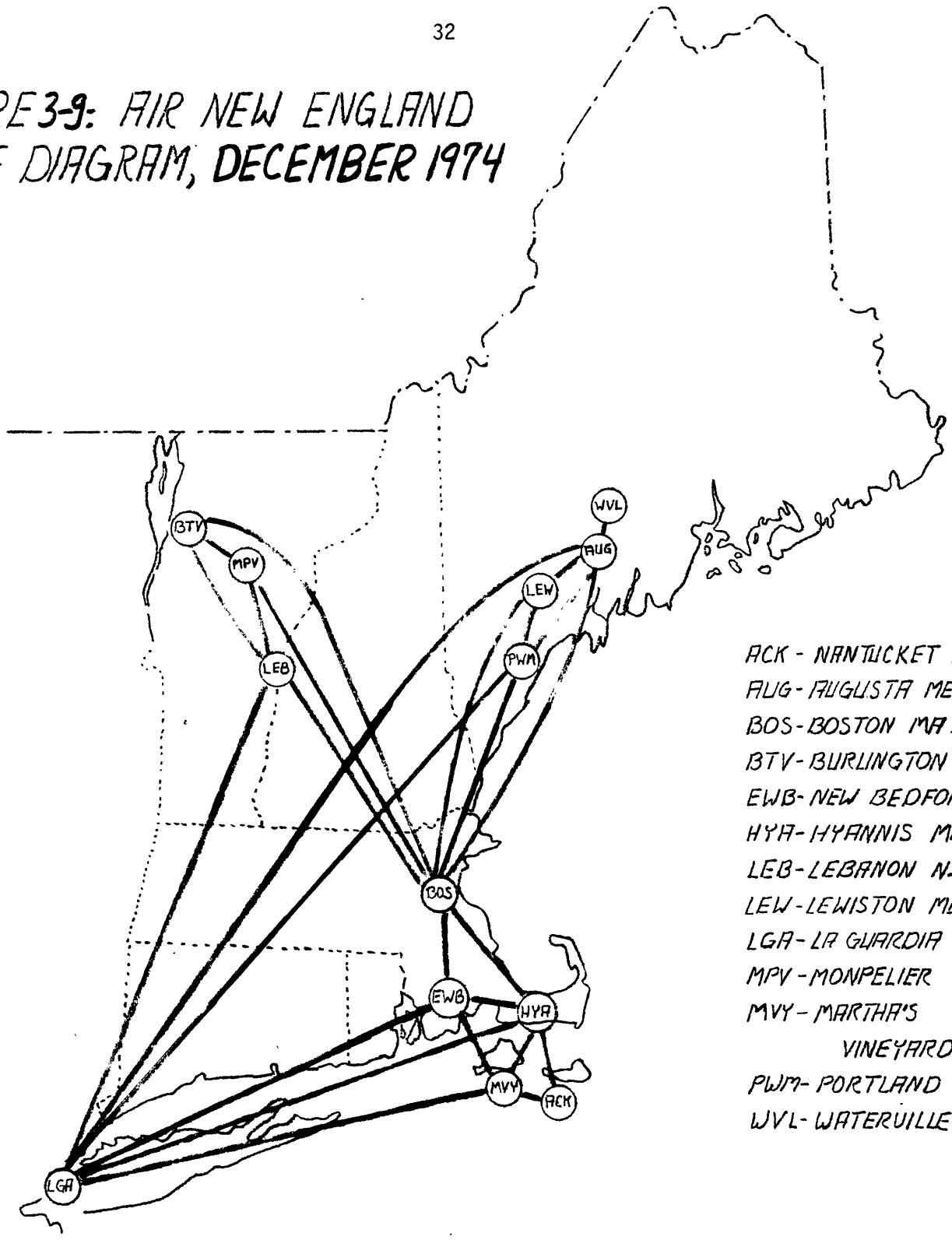
Air New England used several successful strategies. First, it entered one market at a time, but entered the market completely. This was demonstrated when it entered the Islands first and only later went into the North. It also held its fares constant, while Executive's levels continually changed. Only when it drove Executive out of a market did Air New England raise its fares. It also offered a continuous, year round service, rather than entering during the summer and leaving during the winter. This continuity gave Air New England a greater identity with the market.

FIGURE 3-8: AIR NEW ENGLAND ROUTE DIAGRAM, JUNE 1974



ACK - NANTUCKET MA.
AUG - AUGUSTA ME.
BOS - BOSTON MA.
BTV - BURLINGTON VT.
EWB - NEW BEDFORD MA.
HYA - HYANNIS MA.
LEB - LEBANON N.H.
LEW - LEWISTON ME.
LGA - LA GUARDIA N.Y.
MPV - MONPELIER VT.
MVY - MARTHA'S VINEYARD MA.
PWM - PORTLAND ME.
WVL - WATERVILLE ME.

FIGURE 3-9: AIR NEW ENGLAND ROUTE DIAGRAM, DECEMBER 1974



ACK - NANTUCKET MA.
AUG - AUGUSTA ME.
BOS - BOSTON MA.
BTV - BURLINGTON VT.
EWB - NEW BEDFORD MA
HYA - HYANNIS MA.
LEB - LEBANON N.H.
LEW - LEWISTON ME.
LGA - LA GUARDIA N.Y.
MPV - MONPELIER VT.
MVY - MARTHA'S VINEYARD MA.
PWM - PORTLAND ME.
WVL - WATERVILLE ME.

TABLE 3-1 : AIR NEW ENGLAND
CITY-PAIR COMPETITION, DECEMBER 1970

	AIR NEW ENGLAND			COMPETITION		
TO -	FROM	FREQ[1]	FARE	COMP[2]	FREQ[1]	FARE
AUG -	BOS	4-1/2	22.74	EX	6-1/2	22.74
				XY	3	23.00
-	PWM	2	8.50	QK	2	15.44
BOS -	AUG	4	22.74	EX	7	22.74
				XY	3	23.00
-	HYA	5	15.50	EX	4	15.50
-	ACK	2	18.50	EX	2-1/2	18.50
				IM	1/2	17.28
-	PWM	1	16.00	EX	8	16.00
				NE	7	17.00
-	WVL	2	25.00	EX	4-1/2	25.00
HYA -	BOS	5	15.50	EX	4	15.00
-	ACK	9	11.00	EX	3	11.00
ACK -	BOS	2	18.50	EX	1	18.50
				IM	1	17.28
-	HYA	8	11.00	EX	2	11.00
-	EWB	1/2	12.00	IM	1-1/2	14.04
EWB -	ACK	1/2	12.00	IM	2	14.04
-	LGA	3	28.00	NE	2	21.00
LGA -	EWB	3	28.00	NE	2	21.00
-	PWM	3	39.00	NE	1-1/2	31.00
PWM -	AUG	2	8.50	EX	1/2	8.50
-	LGA	3	39.00	NE	1	31.00
WVL -	BOS	2-1/2	25.00	EX	5	25.00

1) The FREQ for a city-pair equals the sum of the values assigned to every flight serving that city-pair. The value of a flight depends upon the number of stops made between the two cities:
non-stops = 1 two stops = 1/4
one-stops = 1/2 ≥ three stops = 0

2) EX - Executive QK - Aroostook
IM - Mass. Air Ind. XY - Downeast
NE - Northeast DL - Delta

3) Airport Codes:

ACK - Nantucket
AUG - Augusta
BOS - Boston
BTV - Burlington
EWB - New Bedford
HYA - Hyannis
MVY - Martha's Vineyard
LEB - Lebannon
LEW - Lewiston
LGA - La Guardia
MPV - Montpelier
PWM - Portland
WVL - Waterville
(NY - New York, same as LGA)

4) Only city pairs where Air New England faced competition are shown; monopoly routes are <u>not</u> included.

TABLE 3-2 : AIR NEW ENGLAND
CITY-PAIR COMPETITION, JUNE 1971

	AIR NEW ENGLAND			COMPETITION		
TO -	FROM:	FREQ	FARE	COMP	FREQ	FARE
AUG -	BOS	1	22.74	EX	7	25.00
-	PWM	3	8.50	EX	1/2	16.00
				QK	2	15.44
BOS -	AUG	1	22.74	EX	6	25.00
-	HYA	7-1/2	15.50	EX	5	17.00
-	MVY	3-1/2	18.50	EX	4	20.00
-	ACK	5	18.50	EX	6	20.00
-	LGA	0	35.00	EX	0	34.00
HYA -	BOS	7	15.50	EX	8	17.00
-	MUY	3-1/2	11.00	EX	2	13.00
-	ACK	8-1/2	11.00	EX	4	14.00
-	LGA	1	32.00	NE	3	28.00
MUY -	BOX	4	18.50	EX	4-1/2	20.00
-	HYA	4	11.00	EX	3	13.00
-	ACK	5	11.00	EX	9	14.00
				IM	3	11.88
-	EWB	3	11.00	EX	2	13.00
				IM	3	11.88
-	LGA	2-1/2	32.00	EX	1/2	32.00
				NE	3	28.00
ACK -	BOS	3-1/2	18.50	EX	6	20.00
-	HYA	7-1/2	11.00	EX	6-1/2	14.00
				NE	2	16.00
-	MUY	8	11.00	EX	8	14.00
				NE	1	16.00
				IM	3	11.88
				ON	3	16.00
-	EWB	3	12.00	EX	1	16.00
				IM	1-1/2	15.39
-	LGA	2	32.00	EX	0	35.00
				NE	2-1/2	28.00
EWB -	MUY	2	11.00	EX	2	13.00
				NE	1	16.00
				IM	3	11.88
-	ACK	1-1/2	12.00	EX	1	16.00
				IM	1-1/2	15.39
-	LGA	5	28.00	EX	2	28.00
				NE	1	23.00
LGA -	BOS	0	35.00	EX	1/2	34.00
-	HYA	2	32.00	NE	2-1/2	28.00
-	MUY	2	32.00	EX	1/2	32.00
				NE	2	28.00
-	ACK	1	32.00	EX	0	35.00
				NE	3	28.00
-	EWB	5	28.00	EX	2	28.00
				NE	1	23.00
-	PWM	3	39.00	NE	3	33.00
PWM -	AUG	3	8.50	EX	1	16.00
				QK	2	15.44
-	LGA	3	39.00	NE	3	33.00

TABLE 3-3 : AIR NEW ENGLAND
CITY-PAIR COMPETITION, DECEMBER 1971

	AIR NEW ENGLAND			COMPETITION		
TO	FROM	FREQ	FARE	COMP	FREQ	FARE
AUG	- BOS	1	22.74	EX	4	25.00
	- PWM	3	8.50	QK	2	15.44
BOS	- AUG	1	22.74	EX	4	25.00
	- HYA	5	15.50	EX	5	17.00
	- MUY	1-1/2	18.50	EX	2	20.00
	- ACK	1-1/2	18.50	EX	2	20.00
	- EWB	0	15.50	EX	0	15.00
	- LGA	0	35.00	EX	1	34.00
HYA	- BOX	7	15.50	EX	5	17.00
	- MUY	5-1/2	11.00	EX	5-1/2	13.00
	- ACK	5-1/2	11.00	EX	5-1/2	14.00
	- EWB	3	11.00	EX	2	11.00
	- LGA	1	32.00	EX	1	30.00
MUY	- BOS	2	18.50	EX	2	20.00
	- HYA	5-1/2	11.00	EX	4-1/2	13.00
	- ACK	6	11.00	EX	3	11.00
	- EWB	2	11.00	EX	3	11.00
	- LGA	1	32.00	EX	0	32.00
ACK	- BOS	2	18.50	EX	2	20.00
	- HYA	5-1/2	11.00	EX	4-1/2	14.00
	- MUY	5	11.00	EX	5	11.00
	- EWB	1	12.00	EX	1-1/2	12.00
	- LGA	1/2	35.00	EX	0	32.00
EWB	- BOS	0	15.50	EX	1/2	15.50
	- HYA	3	11.00	EX	3	11.00
	- MUY	3-1/2	11.00	EX	1	11.00
	- ACK	1	12.00	EX	1/2	12.00
	- LGA	4	28.00	EX	2	28.00
LGA	- HYA	1	32.00	EX	1	30.00
	- MUY	1	32.00	EX	0	32.00
	- ACK	0	35.00	EX	0	32.00
	- EWB	3	28.00	EX	2	28.00
	- PWM	3	39.00	NE	1-1/2	33.00
PWM	- AUG	3	8.50	QK	2	15.44
	- LGA	3	39.00	NE	2	33.00

TABLE 3-4: AIR NEW ENGLAND
CITY-PAIR COMPETITION, JUNE 1972

	AIR NEW ENGLAND			COMPETITION		
TO -	FROM	FREQ	FARE	COMP	FREQ	FARE
AUG -	BOS	5	24.00	EX	4-1/2	26.00
-	PWM	3	8.50	EX	1	16.00
				QK	2	15.00
-	WVL	4	8.00	EX	4	13.00
BOS -	AUG	5	24.00	EX	4-1/2	26.00
-	MUY	4-1/2	18.50	EX	5	20.00
-	ACK	6	18.50	EX	4	20.00
-	NY	0	35.00	PM	1/2	23.00
-	WVL	2	26.00	EX	2	28.00
HYA -	MUY	5-1/2	11.00	NE	1/2	16.00
-	ACK	11-1/2	11.00	NE	4	16.00
-	NY	1	32.00	NE	2	28.00
MVY -	BOS	4	18.50	EX	4	20.00
-	HYA	7-1/2	11.00	NE	3	16.00
-	ACK	6	11.00	EX	4	11.00
				NE	1-1/2	16.00
-	NY	1	32.00	NE	3	28.00
ACK -	BOS	6	18.50	EX	5	20.00
-	MUY	7	11.00	EX	2	11.00
				NE	1	16.00
-	NY	1/2	35.00	NE	1	28.00
EWB -	BOS	1	15.50	NE	1	16.00
-	LGA	4	28.00	NE	1	23.00
NY -	HYA	1-1/2	32.00	NE	2-1/2	28.00
-	MUY	1-1/2	32.00	NE	3	28.00
-	ACK	1/2	35.00	NE	1	28.00
-	EWB	3	28.00	NE	1	23.00
-	PWM	3	39.00	NE	2-1/2	33.00
PWM -	AUG	3	8.50	EX	1	16.00
				QK	2	15.00
-	NY	3	39.00	NE	3	33.00
WVL -	AUG	4	8.00	EX	4	13.00
-	BOS	2	26.00	EX	2	28.00

TABLE 3-5 : AIR NEW ENGLAND
CITY-PAIR COMPETITION, DECEMBER 1972

	AIR NEW ENGLAND			COMPETITON		
TO -	FROM	FREQ.	FARE	COMP	FREQ.	FARE
AUG -	BOS	4	24.00	EX	8	26.00
-	PWM	3	8.50	EX	3-1/2	16.00
				QK	2	15.00
-	WVL	3	8.00	EX	7	13.00
BOS -	AUG	4	24.00	EX	6	26.00
-	EWB	1	15.50	DL	1	16.00
-	NY	0	35.00	PM	0	23.00
-	WVL	1-1/2	26.00	EX	2-1/2	28.00
EWB -	BOS	0	15.50	DL	1	16.00
-	LGA	3	28.00	DL	1	23.00
NY -	EWB	3	28.00	DL	1	23.00
-	PWM	3	39.00	DL	3	34.00
PWM -	AUG	3	8.50	EX	1-1/2	16.00
				QK	2	15.00
-	NY	3	39.00	DL	3-1/2	34.00
WVL -	AUG	3	8.00	EX	10	13.00
-	BOS	2-1/2	26.00	EX	3-1/2	28.00

TABLE 3-6 : AIR NEW ENGLAND
CITY-PAIR COMPETITION, JUNE 1973

	AIR NEW ENGLAND			COMPETITION		
TO	FROM	FREQ	FARE	COMP	FREQ	FARE
AUG -	BOS	4	26.00	EX	7	26.00
-	PWM	3	8.50	EX	4	16.00
-	WVL	3	8.00	EX	9	13.00
BOS -	AUG	5	26.00	EX	7	26.00
-	BTV	2	28.00	EX	3	28.00
				DL	2	26.00
-	HYA	14	16.00	EX	6	16.00
-	LEB	5	21.00	EX	6	21.00
-	MPV	4	24.00	EX	4-1/2	24.00
-	ACK	6	21.00	EX	3	20.00
-	EWB	2	15.50	DL	1	16.00
-	WVL	1-1/2	28.00	EX	4	28.00
BTV -	BOS	2	28.00	EX	2	28.00
				DL	2	26.00
-	MPV	3	8.00	EX	3	14.00
-	LEB	1/2	15.00	EX	2-1/2	18.00
HYA -	BOS	15	16.00	EX	5	16.00
	MUY	6-1/2	11.00	DL	2-1/2	16.00
-	ACK	10-1/2	12.51	EX	6	12.51
				DL	2	16.00
-	NY	2	32.00	DL	2	28.00
LEB -	BOS	4	21.00	EX	8	21.00
-	BTV	1/2	15.00	EX	2-1/2	18.00
-	MPV	5	8.00	EX	3	15.00
-	NY	3	30.00	DL	2	28.00
MVY -	HYA	6	11.00	DL	1	16.00
-	ACK	5	11.00	DL	1/2	16.00
-	NY	1-1/2	35.00	DL	3	28.00
MTP -	BOS	3-1/2	24.00	EX	2-1/2	24.00
-	BTV	4	8.00	EX	4	14.00
-	LEB	4	8.00	EX	5	15.00
ACK -	BOS	6	21.00	EX	2-1/2	20.00
-	HYA	11-1/2	12.51	EX	5	12.51
				DL	2	16.00
-	MUY	5	11.00	DL	2	16.00
-	NY	2-1/2	35.00	DL	2	28.00
EWB -	BOS	0	15.50	DL	1	16.00
-	LGA	7	28.00	DL	1	23.00
NY -	HYA	3	32.00	DL	2-1/2	28.00
-	LEB	3	30.00	DL	2-1/2	28.00
-	MUY	2-1/2	35.00	DL	2	28.00
-	ACK	1	35.00	DL	3	28.00
-	EWB	5	28.00	DL	1	23.00
-	PWM	3	39.00	DL	3-1/2	34.00
PWM -	AUG	3	8.50	EX	1-1/2	16.00
-	NY	3	39.00	DL	4	34.00
WVL -	AUG	4	8.00	EX	10	13.00
-	BOS	2	28.00	EX	4	28.00

TABLE 3-7: AIR NEW ENGLAND
CITY-PAIR COMPETITION, DECEMBER 1973

	AIR NEW ENGLAND			COMPETITION		
TO	FROM	FREQ	FARE	COMP	FREQ	FARE
AUG -	BOS	4	26.00	EX	5-1/2	22.00
-	PWM	3	8.50	EX	1	10.00
-	WVL	4	8.00	EX	6	9.00
BOS -	AUG	4	26.00	EX	5	27.00
-	BTV	1	28.00	EX	3	29.00
				DL	2	26.00
-	LEB	6	21.00	EX	6	22.00
-	MPV	3	24.00	EX	4	25.00
-	EWB	2	15.50	DL	1	16.00
-	NY	0	35.00	PM	1-1/2	23.00
-	WVL	2	28.00	EX	2-1/2	29.00
BTV -	BOS	1	28.00	EX	3	29.00
				DL	2	26.00
-	LEB	2	15.00	EX	2	11.00
-	MPV	4	8.00	EX	4	9.00
LEB -	BOS	5	21.00	EX	6	22.00
-	BTV	2-1/2	15.00	EX	2	11.00
-	LGA	3	30.00	DL	1-1/2	28.00
MPV -	BOS	2-1/2	24.00	EX	4	25.00
-	BTV	5	8.00	EX	4	9.00
EWB -	BOS	1	15.50	DL	1	16.00
-	LGA	5	28.00	DL	1	23.00
NY -	BOS	0	35.00	PM	1	23.00
-	LEB	3	30.00	DL	1-1/2	28.00
-	EWB	4	28.00	DL	1	23.00
-	PWM	2	39.00	DL	2-1/2	34.00
PWM -	AUG	2	8.50	EX	1/2	10.00
-	NY	3	39.00	DL	3	34.00
WVL -	AUG	4	8.00	EX	7	9.00
-	BOS	2	28.00	EX	2-1/2	29.00

TABLE 3-8 : AIR NEW ENGLAND
CITY-PAIR COMPETITION, JUNE 1974

	AIR NEW ENGLAND			COMPETITION		
TO	FROM	FREQ	FARE	COMP	FREQ	FARE
BOS -	BTV	4	31.00	DL	1	28.00
-	EWR	1	18.00	DL	1	17.00
-	NY	0	40.00	PM	1/2	23.00
-	PWM	5	21.00	DL	5	20.00
				QO	8	21.00
BTV -	BOS	4	31.00	DL	1	28.00
HYA -	MUY	7-1/2	13.00	DL	1-1/2	17.00
-	ACK	19-1/2	14.00	DL	2	17.00
-	LGA	3	36.00	DL	1	30.00
LEB -	LGA	3	34.00	DL	1-1/2	30.00
MUY -	HYA	9	13.00	DL	1	17.00
-	ACK	6-1/2	13.00	DL	1/2	17.00
-	LGA	5	39.00	DL	2	30.00
ACK -	HYA	13-1/2	14.00	DL	1	17.00
-	MUY	11	13.00	DL	1-1/2	17.00
-	LGA	4	39.00	DL	2	30.00
EWB -	BOS	1	18.00	DL	1	17.00
-	LGA	5	32.00	DL	1	24.00
NY -	BOS	0	40.00	PM	1	23.00
-	HYA	3	36.00	DL	2	30.00
-	LEB	2	34.00	DL	1-1/2	30.00
-	MUY	5	39.00	DL	1-1/2	30.00
-	ACK	4	39.00	DL	2	30.00
-	EWB	3	32.00	DL	1	24.00
-	PWM	2	44.00	DL	3	38.00
PWM -	BOS	4	21.00	DL	5	20.00
				QO	7	21.00
-	LGA	3	44.00	DL	2	38.00

TABLE 3-9 : AIR NEW ENGLAND
CITY-PAIR COMPETITION, DECEMBER 1974

	AIR NEW ENGLAND			COMPETITION		
TO	FROM	FREQ	FARE	COMP	FREQ	FARE
BOS -	BTV	4	31.00	DL	1	29.00
-	EWB	2-1/2	18.00	DL	1	18.00
-	NY	0	40.00	PM	1	25.00
-	PWM	4	21.00	DL	6	21.00
				QO	4	21.00
BTV -	BOS	4	31.00	DL	1	29.00
LEB -	LGA	3	34.00	DL	1-1/2	31.00
EWB -	BOS	3	18.00	DL	1	18.00
-	LGA	5	32.00	DL	1	25.00
NY -	BOS	0	40.00	PM	1	25.00
-	LEB	3	34.00	DL	1-1/2	31.00
-	EWB	5	32.00	DL	1	25.00
-	PWM	2	44.00	DL	2	40.00
PWM -	BOS	4	21.00	DL	5	21.00
				QO	7	21.00
-	LGA	3	44.00	DL	1	40.00

TABLE 3-10: AIR NEW ENGLAND FARES

R = Relationship of Air New England's Fares to its Competitor's fares.

L = Less than
E = Equal to
G = Greater than
N = No Competition

CM = Competitor; if more than one exists, only the competitor flying the highest FREQ is listed.

TO	FROM	DECEMBER 70 FARE	R	CM	JUNE 71 FARE	R	CM	DECEMBER 71 FARE	R	CM
AUG	- BOS	22.74	E	EX	22.74	L	EX	22.74	L	EX
	- HYA	30.59	N		30.50	N		30.50	N	
	- LEW									
	- MVY									
	- NY	42.00	N		42.00	N		42.00	N	
	- PWM	8.50	L	QK	8.50	L	QK	8.50	L	QK
	- WVL	6.50	N							
BOS	- BTV									
	- HYA	15.50	E	EX	15.50	L	EX	15.50	L	EX
	- LEB									
	- LEW									
	- MVY				18.50	L	EX	18.50	L	EX
	- MPV									
	- ACK	18.50	E	EX	18.50	L	EX	18.50	L	EX
	- EWB							15.50	G	EX
	- NY				35.00	G	EX	35.00	G	EX
	- PWM	16.00	E	EX						
	- WVL	25.00	E	EX						
BTV	- LEB									
	- MPV									
HYA	- LEB									
	- MVY				11.00	L	EX	11.00	L	EX
HYA	- MPV									
	- ACK	11.00	E	EX	11.00	L	EX	11.00	L	EX
	- EWB	11.00	N		11.00	N		11.00	L	EX
	- NY	32.00	N		32.00	G	NE	32.00	G	EX
	- WVL									
LEB	- MPV									
	- NY									
LEW	- PWM									
	- WVL									
MVY	- ACK				11.00	L	EX	11.00	E	EX
	- EWB				11.00	L	IM	11.00	E	EX
	- NY				32.00	E	NE	32.00	E	EX
	- WVL									
MPV	- NY									
ACK	- EWB	12.00	L	IM	12.00	L	IM	12.00	E	EX
	- NY	35.00	N		35.00	G	NE	35.00	G	EX
EWB	- NY	28.00	G	NE	28.00	E	EX	28.00	E	EX
NY	- PWM	39.00	G	NE	39.00	G	NE	39.00	G	NE

TO - FROM	JUNE 72 FARE	R	CM	DECEMBER 72 FARE	R	CM	JUNE 73 FARE	R	CM
AUG - BOS	24.00	L	EX	24.00	L	EX	26.00	E	EX
- HYA	30.50	N		30.50	N		30.50	N	
- LEW									
- MVY							32.00	N	
- NY	42.00	N		42.00	N		42.00	N	
- PWM	8.50	L	QK	8.50	L	EX	8.50	L	EX
- WVL	8.00	L	EX	8.00	L	EX	8.00	L	EX
BOS - BTV							28.00	E	EX
- HYA	15.50	N		15.50	N		16.00	E	EX
- LEB							21.00	E	EX
- LEW									
- MVY	18.50	L	EX	20.00	N		21.00	G	EX
- MPV							24.00	E	EX
- ACK	18.50	L	EX	20.00	N		21.00	N	
- EWB	15.00	N		15.50	L	OL	15.50	L	OL
- NY	35.00	G	PM	35.00	G	PM			
- PWM									
- WVL	26.00	L	EX	26.00	L	EX	28.00	E	EX
BTV - LEB							15.00	L	EX
- MPV							8.00	L	EX
HYA - LEB							28.00	N	
- MVY	11.00	L	NE	11.00	N		11.00	L	DL
HYA - MPV							32.00	N	
- ACK	11.00	L	NE	12.51	N		12.51	E	EX
- EWB	11.00	N		11.00	N		11.00	N	
- NY	32.00	G	NE	32.00	N		32.00	G	DL
- WVL				32.75	N		32.75	N	
LEB - MPV							8.00	L	EX
- NY							30.00	G	DL
LEW - PWM									
- WVL									
MVY - ACK	11.00	E	EX	11.00	N		11.00	L	DL
- EWB	11.00	N		12.00	N		12.00	N	
- NY	32.00	G	NE	35.00	N		35.00	G	DL
- WVL							34.25	N	
MPV - NY							36.00	N	
ACK - EWB	12.00	N		15.00	N		15.00	N	
- NY	35.00	G	NE	35.00	N		35.00	G	DL
EWB - NY	28.00	G	NE	28.00	G	DL	28.00	G	DL
NY - PWM	39.00	G	NE	39.00	G	DL	39.00	G	DL

TO - FROM	DECEMBER 73 FARE	R	CM	JUNE 74 FARE	R	CM	DECEMBER 74 FARE	R	CM
AUG - BOS	26.00	L	EX	29.00	N		29.00	N	
- HYA									
- LEW				9.00	N		9.00	N	
- MVY									
- NY	42.00	N		47.00	N		47.00	N	
- PWM	8.50	L	EX	10.00	N		10.00	N	
- WVL	8.00	L	EX	9.00	N		9.00	N	
BOS - BTV	28.00	L	EX	31.00	G	DL	31.00	G	DL
- HYA	16.00	N		18.00	N		18.00	N	
- LEB	21.00	L	EX	23.00	N		23.00	N	
- LEW				27.00	N		27.00	N	
- MVY	21.00	N		23.00	N		23.00	N	
- MPV	24.00	L	EX	27.00	N		27.00	N	
- ACK	21.00	N		23.00	N		23.00	N	
- EWB	15.50	L	DL	18.00	G	DL	18.00	E	DL
- NY	35.00	G	PM	40.00	G	PM	40.00	G	PM
- PWM				21.00	G	DL	21.00	E	DL
- WVL	28.00	L	EX	31.00	N		31.00	N	
BTV - LEB	11.00	L	EX	16.00	N		14.81	N	
- MPV	8.00	L	EX	9.00	N		7.00	N	
HYA - LEB									
- MVY	11.00	N		13.00	L	DL	13.00	N	
HYA - MPV									
- ACK	12.50	N		14.00	L	DL	14.00	N	
- EWB	11.00	N		14.00	N		14.00	N	
- NY	32.00	N		36.00	G	DL	36.00	N	
- WVL									
LEB - MPV	8.00	N		9.00	N		9.00	N	
- NY	30.00	G	DL	34.00	G	DL	34.00	G	DL
LEW - PWM				9.00	N		9.00	N	
- WVL				16.00	N		14.81	N	
MVY - ACK	11.00	N		13.00	L	DL	13.00	N	
- EWB	12.00	N		13.00	N		13.00	N	
- NY	35.00	N		39.00	G	DL	39.00	N	
- WVL									
MPV - NY	36.00	N		40.00	N		40.00	N	
ACK - EWB	15.00	N		17.00	N		17.00	N	
- NY	35.00	N		39.00	G	DL	39.00	N	
EWB - NY	28.00	G	DL	32.00	G	DL	32.00	G	
NY - PWM	39.00	G	DL	44.00	G	DL	44.00	G	DL
PWM - WVL				17.00	N	DL			

4. AIRCRAFT FLEET, TRAFFIC, AND FINANCIAL STATUS

Air New England began operations with a fleet of the larger of the commuter aircraft, three Twin Otters (DHC-6's) and one Beech 99, plus two C-45's and an Aero Commander. It used the Twin Otters and B-99 for scheduled passenger traffic. (Of these aircraft, only one of the used Twin Otters was purchased.) Although Air New England was a brand new airline competing against Executive Airlines, which at that time had a fleet over twice its size, it did not hesitate to open operations with comparable aircraft, rather than a mix of smaller aircraft such as Cessna 402's.

By the end of its first year of operations Air New England had innovated the use of old DC-3's, which it bought and refurbished extensively and used successfully in the Islands market. By March of 1972 Air New England was flying DC-3's, Twin Otters and B-99's exclusively in passenger service.

The success of Air New England in its competitive strategy against Executive during the first critical year, 1971, can best be shown by an examination of comparative statistics for 1971 of Air New England and Executive. Tables 4-1 and 4-2 show the total passengers enplaned and deplaned at the points served by both airlines and the city pair market shares. By concentrating on the Islands market, Air New England was able to capture almost 60% of this market in its first year of operation, although Executive was still carrying more overall passengers on its network.

Despite its substantial revenues, Executive's losses were mounting steadily. Table 4-3 shows the income statements for both companies. Although the percentages of expenses for flying operations and aircraft and traffic servicing were about the same for both airlines, the percentages are almost

perfectly reversed for maintenance and general and administrative, showing the relatively lean corporate overhead at Air New England. The overall loss as a percentage of total revenue is shown to be substantially higher for Executive.

Figure 4-4 shows that passenger yield for both airlines, on a system basis, was comparable during 1971, with both airlines displaying seasonality in their yield, rising in the summer passenger months when the higher yielding Islands market was peaking. However, Table 4-5 reveals that operating expenses per passenger flown on Executive were nearly double those of Air New England. Thus although Air New England's competitive strategy may have hastened the initial bankruptcy of Executive in December 1971, Executive's high operating expenses were the ultimate cause.

Although Executive remained as a commuter air carrier in New England following the voluntary bankruptcy, and continued carrying a substantial number of passengers, its corporate image was substantially damaged. Air New England had gained greater market acceptance as a responsible carrier for the rest of its competitive fight with Executive.

During the summer of 1972 Air New England (Tables 4-6 and 4-7) almost doubled its capacity by purchasing two additional DC-3's and two more used Twin Otters. Table 4-8, the balance sheet for Air New England (March 72), reveals that the financing for the purchases of the aircraft came basically from long term debt to banks. The initial financing for Air New England came basically from equity investments made by two major stockholders, Mssrs. Kanzler of Michigan and Dickinson of New Jersey, who continued to make equity investments in

Air New England throughout this entire period. However, aircraft purchases continued to be made through long term bank debt instruments through 1974. Air New England's fleet consisted of a mixture of both leased and purchased aircraft. Air New England purchased two used B-99's for service in the North markets in late 1972. During the remainder of its history as a commuter air carrier, it purchased two additional used Twin Otters in early 1973 getting ready for the summer season and made no further purchases of aircraft until the summer of 1974, at which time its total fleet consisted of 5 DC-3's, 9 Twin Otters, and 4 B-99's. (The Aero Commanders, which were leased, were used for charter work only.) Thus, additional lift capacity was added through acquisition of more of the same types of small aircraft, rather than switching to larger aircraft, which may have been possible under CAB exemption.

The purchase of the aircraft kept pace with the passenger traffic growth at Air New England, as seen below. The rapid growth in 1974 came after Executive went out of business.

Estimated Traffic Growth

Year	Revenue Passengers
1971	90,000
1972	150,000
1973	200,000
1974	320,000

The financial position of Air New England was steadily improving as well. The net loss experienced during the start-up year of 1971 ($448,000)

was in fact the highest experienced up to mid-1974. A comparison of the income statements for the eight months ended August 31 of each year, given below, indicates that Air New England was keeping its operating expenses under

	Income Statements (8 months)		
	1972	1973	1974
Revenues	2,020,034	3,088,151	5,977,300
Expenses	1,818,407	2,843,215	4,675,443
Net Profit (Loss)	50,973	(188,164)	771,164

control, and with the steadily expanding revenues, could be expected to become a substantially profitable operation after five years of operation as a commuter air carrier.

Table 4-1

Total Passengers Enplaned & Deplaned by Quarter in 1971

	First Quarter		Second Quarter	
Airport	ANE	EX	ANE	EX
Major Hub				
BOS	2,417	48,493	7,076	48,482
NY	4,008	4,848	8,637	9,847
Islands				
HYA	4,266	2,121	8,747	3,697
MVY	-	1,437	2,720	2,570
ACK	3,708	2,065	8,093	4,844
EWB	1,204		2,922	761
North				
AUG	731	5,381	1,194	6,562
BTV		13,477		6,099
LEB		4,898		5,542
LEW		2,278		2,649
MPV		3,891		4,493
PWM	890	5,711	989	5,868
WVL		3,146		3,899
TOTAL	17,224	97,746	40,378	105,316

Table 4-1 (cont.)

1971

Airport	Third Quarter ANE	Third Quarter EX	Fourth Quarter ANE	Fourth Quarter EX	1971 Total ANE	1971 Total EX
Major Hub						
BOS	18,079	62,233	7,909	30,515	35,481	189,723
NY	11,941	15,216	7,859	6,685	32,445	36,596
Islands						
HYA	16,690	15,216	8,318	1,789	38,021	17,162
MVY	8,250	12,799	2,859	807	13,829	17,613
ACK	15,194	18,230	9,410	1,694	36,405	26,833
EWB	4,585	1,740	3,022	504	11,733	3,005
North						
AUG	1,603	7,230	1,029	4,548	4,557	23,721
BTV		3,366		3,541		26,483
LEB		5,949		4,543		20,932
LEW		2,572		1,988		9,487
MPV		4,297		3,045		15,726
PWM	1,116	5,541	718	3,468	3,713	20,588
WVL		3,998		3,337		14,380
TOTAL	77,458	152,726	41,124	66,464	176,184	422,249

Table 4-2

Total Origin and Destination Traffic for 1971*

'Islands Market'

City Pair	ANE	% Market	EX	% Market
Boston - HYA	14,243	54.5	11,910	45.5
MUY	6,598	34.7	12,429	65.3
ACK	13,752	43.9	17,505	56.1
EWB	691	100		0
NY	2	100		0
HYA - AUG	3	100		0
MUY	723	81.1	168	18.9
ACK	15,090	79.9	3,778	20.1
EWB	198	57.5	146	42.5
NY	7,764	87.1	1,147	12.9
NY - MVY	5,201	65.1	2,783	34.9
- ACK	4,133	63.4	2,387	36.6
- EWB	7,657	84.3	1,427	15.7
MUY - ACK	775	26.9	2,105	73.1
- EWB	532	68.5	245	31.5
ACK - EWB	2,655	72.2	1,021	27.8
TOTAL	80,017	58.4%	57,051	41.6%

* Source: CAB Docket 22973

Table 4-3

Income Statement for 1971 ***

	ANE		EX	
Operating Revenues:		%		%
Passenger	1,693,364	91.9	6,353,636	85.7
Charter	84,453	4.6	311,468	4.2
Air Freight	41,848	2.3	404,321	5.5
Other	22,532	1.2	344,123	4.6
Total Revenue	1,842,197	100.0	7,413,548	100.0
Operating Expenses				
Flying Operations	1,012,030	46.5	5,565,587	44.4
Maintenance	487,916	22.4	1,618,504	15.8
Aircraft & Traffic Servicing	309,404	14.2	1,696,381	16.5
General & Administrative	367,104	16.9	2,395,741	23.3
Operating Expenses	2,176,454	100.0	10,276,213	100.0
Operating Profit (Loss)	(334,257)	18.1*	(2,862,665)	38.6*
Depreciation	86,228			
Interest Expense	29,904			
Other	(2,381)	25.4**	1,023,229	26.3**
Net Loss	(448,008)		(3,885,894)	

* % of Total Revenue

** % of Net Loss

*** Source: CAB Docket 22973

Table 4-4*

System Yield (c/RPM)

1971	ANE	EX
January	14.3	14.3
February	14.2	N.A
March	15.4	N.A.
April	14.8	14.4
May	15.3	N.A.
June	15.7	17.0
July	16.9	17.3
August	16.8	16.4
September	16.3	16.2
October	15.1	15.4
November	15.5	15.2
December	15.2	14.5

* Source: CAB Docket 22973

Table 4-5

Operating Expense per Passenger Flown, 1971*

	ANE	EX	% > ANE
Total number of passengers	88,092	[1]232,489	
Operating Expenses ($)			
Flying Operations	11.49	19.64	68.7%
Maintenance	5.54	6.96	25.6%
Aircraft & Traffic Servicing	3.51	7.30	108.0%
General Administrative	4.17	10.30	147.0%
Total Operating Expenses	24.71	44.20	

1) Includes traffic for Albany, Keene, Manchester, Monticello & Pittsfield.

* Source: CAB Docket 22973

Table 4-6

Air New England Aircraft In Use*

Quarter Ending	Aircraft	Total Passenger Seats Available
12/31/70	3 Twin Otter DHC 6-200	57
	1 Beech 99	15
	2 C 45 (Beech 18)	
	1 Aero Commander 500 B	
		72
3/31/71	same	
6/30/71	same	
9/30/71	2 DC-3	60
	3 DHC 6-200	57
	1 B-99	15
	2 C-45	
	2 AC 500 B	
		132
12/31/71	same	
3/31/72	2 DC-3	60
	2 DHC 6-200	38
	2 B-99	30
	2 AC 500 B	
		128
6/30/72	4 DC-3	120
	4 DHC 6-200	76
	2 B-99	30
	2 AC 500 B	
		226
9/30/72	same	
12/31/72	4 DC-3	120
	4 DHC 6-200	76
	3 B-99	45
	2 AC 500 B	
		241
3/31/73	4 DC-3	120
	6 DHC 6-200	114
	4 B-99	60
	2 AC 500 B	
		294
6/30/73	4 DC-3	120
	7 DHC 6-200	133
	4 B-99	60
	2 AC 500 B	
		313
9/30/73	same	

Table 4-6 (cont.)

Quarter Ending	Aircraft	Total Passenger Seats Available
12/31/73	same	
3/31/74	4 DC-3	120
	6 DHC 6-200	114
	4 B-99	60
	2 AC 500 B	
		294
6/30/74	5 DC-3	150
	8 DHC 6-200	152
	4 B-99	60
	2 AC 500 B	
		362

* Source: CAB Forms 298 C, Quarterly 1971-1974
(Aircraft shown are both owned and leased)

Table 4-7

Aircraft Purchases of Air New England *

Date	Type	Cost
11/70	DHC-6	$205,437
7/71	DC-3	112,369
7/71	DC-3	87,951
2/72	B-99	164,663
5/72	DC-3	77,519
5/72	DHC-6	154,154
6/72	DC-3	87,584
9/72	DHC-6	171,114
11/72	B-99	213,909
11/72	B-99	192,770
2/73	DHC-6	200,605
2/73	DHC-6	190,058
7/74	DHC-6	374,670
7/74	DHC-6	377,170

* Source: CAB Form 41, Schedule B-43, 3/31/75
(These aircraft were purchased prior to July 19, 1974 and owned as of 3/31/75. Cost shown excludes engines. The average price per engine for the B-99's and DHC-6's was $40,000; for the DC-3's, $15,000.)

Table 4-8

AIR NEW ENGLAND, INC.*

BALANCE SHEET

March, 1972

ASSETS

				March 1972
Current Assets:				
Cash				$81,804
Accounts Receivable:				
General Traffic		$53,812		
Interline		140,250		
Other		25,671	$219,733	201,032
Less Reserve for Uncollectable			18,701	125,000
Stock Subscriptions				53,046
Inventories				76,963
Prepaid Assets				
TOTAL CURRENT ASSETS				$ 537,845
Fixed Assets:				
	Cost	Depr	Net	
Aircraft	950,265	64,140	886,125	
Ground Property	39,958	3,962	35,996	
Buildings	78,654	5,550	73,104	
Leasehold Improvements	15,110	3,995	11,115	
Construction in Progress	224,297	-	224,297	
TOTAL FIXED ASSETS	1,308,284	77,647		$ 1,230,637
Other Assets:				
Long Term Security Deposits				$ 21,930
Pre Operating Costs				14,892
Corporate Organizational Expense				1,084
Aircraft Integration Costs				83,904
Building Integration Costs				5,037
TOTAL OTHER ASSETS				$126,847
TOTAL ASSETS				$1,895,329

Table 4-8 (continued)

LIABILITIES AND EQUITY

March, 1972

Current Liabilities	
Notes Payable - Current	$ 106,008
Accounts Payable:	
Trade	157,270
Interline	61,224
Other	536
Accrued Expenses:	
Payroll & Payroll Taxes	42,806
Other	51,540
Engine Overhaul	82,824
TOTAL CURRENT LIABILITIES	$ 502,208
Long Term Liabilities:	
Notes Payable:	
Norfolk County Trust	$ 232,803
Cape Cod Bank and Trust	115,903
New England Merchants	508,000
Other	
Convertible Debentures	100,000
TOTAL LONG TERM LIABILITIES	$ 956,706
TOTAL LIABILITIES	$ 1,458,914
Stockholder Equity:	
Common Stock - Authorized Issued and Outstanding	506,250
Paid in Capital	618,750
Accumulated Profit or (Loss)	(688,585)
TOTAL STOCKHOLDER EQUITY	$ 436,415
TOTAL LIABILITIES AND EQUITY	$ 1,895,329

5. SUMMARY

The success of Air New England from the beginning of its corporate life to the summer of 1974, when it was offered a certificate of public convenience and necessity by the CAB, can be attributed to a number of factors. The foremost was capable management. The management team at Air New England had previous experience operating commuter airlines in the New England area and was aware of the two major pitfalls that would undermine profitability, excess capacity and high corporate overhead, and was careful to avoid them. Further, the regulatory environment in which the commuters operated was such as to allow various comptetitive marketing strategies to be tried by management, such as modifying fare structures, flying different routings, and changing frequencies on routes. Additionally, the area chosen for initial market penetration, the Cape and Islands, was dense enough to support a number of airlines during the peak season, and allowed Air New England to minimize its start-up losses.

Air New England's management was, of course, aware of the financial situation at Executive, its major established competitor. Air New England realized that if it was able to control its own costs, the financial difficulties that had existed at Executive during previous years would eventually lead to the disappearance of that particular competitor. (Of course, the possibility always existed that new commuters could also appear.) Thus, the emergence of Air New England as the dominant commuter air carrier in New England was a combination of management skills in all areas of airline

operations combined with mismanagement on the part of their competitors. In the summer of 1974 Air New England's future was bright.