

AIRLINE BUSINESS CHALLENGE

BUSINESS EXPANSION

Finance

Cash to a maximum of \$25m can be raised on the Open Money Market at the current rate of 16% per annum. There is a brokerage cost of:

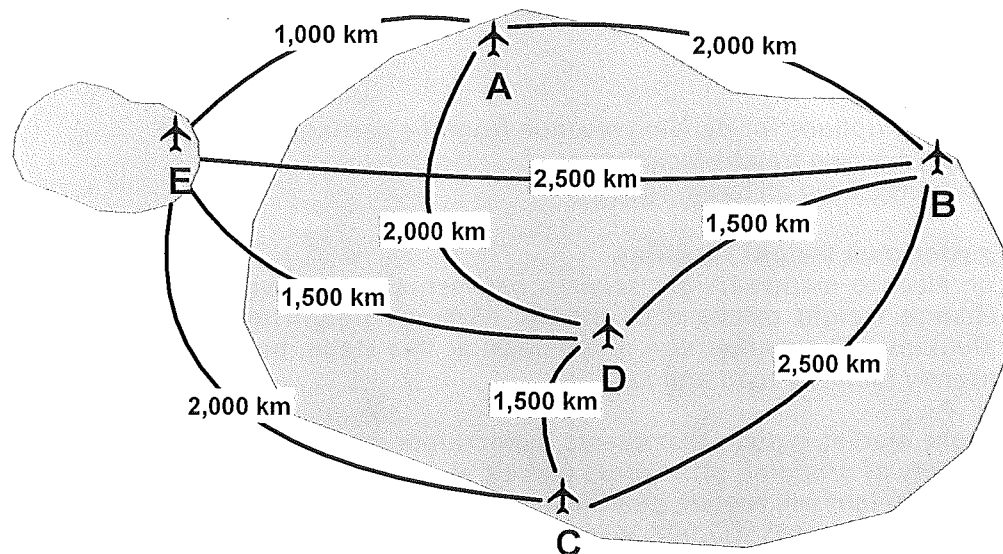
First 2,000,000	0.4%
+ 2,000,001 to 5,000,000	0.3%
+ 5,000,001 to 15,000,000	0.2%
+15,000,001 to 25,000,000	0.1%

Deficit financing of your airline is NOT PERMITTED. Should you overspend in any month (beyond nominated loan borrowings + available cash), you will be required to repay the amount outstanding PLUS a 15% penalty by:

- Increasing loan finance (if not using the maximum limit); or,
- The forced selling of assets at 90% of book value to regain liquidity.

Extension of Services to Engleflook

Engleflook (City E) being approximately the same size as cities A and D, is judged to have a similar potential. City E is an over-water route and is serviced by passenger ferries from City A. Travel time by ferry is 24 hours. Single ferry fare First Class is \$200, Economy \$100 (meals are extra). A non-recoverable cost of \$100,000 to set up airline facilities in Engleflook is payable the month the option is exercised.



Airline Business Challenge

From month 3 allowable services are:

CW	A/CW	HUB & SPOKE (show as)	SHUTTLE
BCDAB	BADCB	B to each of A, C, and D (ACD)	BAB
BCDEB	BEDCB	B to each of A, C, D, and E (ACDE)	BDB
BDEAB	BAEDB	B to each of A, D and E (ADE)	BCB
BCEAB	BAECB	B to each of A, C and E (ACE)	BEB
BCDEAB	BAEDCB	B to each of D, C and E (DCE)	

Fares

You can now influence market share and revenue by adjusting passenger and freight rates by a percentage in a range between + or -30%. Changes to fares or freight rates are made by indicating **the actual prices to be charged** for each class of cabin or freight within the following ranges:

- First Class: \$ 175 – \$ 325 /250
- Business Class: \$ 140 – \$ 260 /200
- Economy Class: \$ 84 – \$ 156 /120
- Freight: \$ 245 – \$ 455

Aircraft

The following aircraft are available: Dakota 100s for purchase or lease; Dakota 200s for lease only. A loan of \$22 million per aircraft is automatically generated for Dakota 100 purchases.

Aircraft Type	Max Y Pax	Max Frt (tonnes)	Cost	Lease rate per month	Fuel per 1,000 km	Cabin Crew*
Dakota100	115	8	\$22 m	\$320,000	\$2,100	3, 5 or 6
Dakota 200	180	15	N/A	\$520,000	\$3,200	5, 7 or 8

(*) Dependent on cabin configuration

Per aircraft - Dakota 200	All Economy	Two class - FY or JY	Three class
Flight crew and Cabin crew	\$113,500	\$130,100	\$138,400

Dakota 200 maintenance costs are \$400 per block hour plus \$500 per cycle
 Dakota 200 landing fees are \$500 per landing
 Dakota 200s have the same average flying speed as Dakota 100s (650 km/hour)

Freight

You have two options for deriving revenue from the carriage of freight:

1. Set up your own freight facilities; or,
2. Sub-contract out all cargo space

Set up your own freight facilities

You can elect to market freight services between all cities serviced and in so doing **you can also change freight prices each month**. Average freight revenue is currently \$350/tonne per 1,000kms. The market size is unknown at this stage, but significant freight movements are currently made by road and rail.

The freight market is such that clients expect door-to-door pick-up and delivery in addition to the facility of dropping off express parcels at downtown city terminals. Experience indicates that 75% of freight will require monthly credit facilities. The cost of setting up freight facilities is \$550,000 of which \$500,000 is in plant and equipment. The monthly operating figure is budgeted at \$250,000.

Sub-contracting cargo space

An operator is available to contract all cargo space. Minimum contract term is 12 months. If you select this option it cannot be revoked and **you cannot change freight prices or determine credit limits**. Best negotiated monthly contract rates are:

Number of Aircraft in Service				
	1	2	3	4
Dakota 100	\$70,000	\$140,000	\$200,000	\$250,000
Dakota 200	\$110,000	\$220,000	\$310,000	\$390,000

If you have a mixed fleet comprising, for example, 3 Dakota 100s and 1 Dakota 200, the revenue would be \$200,000 + \$110,000 i.e. \$310,000 per month.

Note there are **no dedicated freighter aircraft**. All freight available for uplift can be accommodated in the belly holds of the passenger aircraft.

Promotional

You can commission promotional campaigns for passenger and freight services. The cost is paid the month the decision is made. Benefits may be reduced if competitors counter with campaigns of their own.

	Passenger Only	Freight Only	Combined Pax/Freight
Basic Package includes Radio/Newsaper/Mailing Costs	\$200,000	\$100,000	\$290,000
Planned Market Share gained	3%	2%	3% each
High Profile Package includes Basic Package plus TV	\$600,000	\$300,000	\$850,000
Planned Market Share gained	6%	6%	6% each

Special Holiday Packages

There is opportunity to promote discount holiday packages in conjunction with hotel groups. The hotel group will provide discount accommodation and make a contribution to promotional costs. Your airline will be the carrier and can expect to attract (new) passenger business to and from the cities involved. The following 'deals' can be arranged on a monthly contract basis:

	City Hotel Group Hotels located in Cities B and C only	Holiday Hotel Group Hotels located in Cities A,D and E
Accommodation Rebate on published prices	35%	25%
Air Fare Rebate on published prices for the extra passengers	30%	20%
Airline share of promotional costs	\$55,000	\$55,000
Expected passenger increase to and from cities involved	10%	10%

Your share of Promotional Costs is incurred each month selected, payable the month the decision is made.

You may take neither, either one or both packages.

