

ASSIGNMENT 2

ISTANBUL – VANCOUVER ROUTE EVALUATION

Turkish Airlines is considering the Istanbul-Vancouver-Istanbul route for introduction of a single daily non-stop flight, as part of its Star Alliance relationship with Air Canada. In this question, you will explore the potential profitability of THY providing non-stop service on this route, using a B777-300ER aircraft.

The worksheet ([ISTYVR.XLS](#)) presents a complete profit evaluation of the proposed IST-YVR service for THY showing an annual operating margin of 1.7%. This baseline evaluation makes use of the concepts of fully allocated segment profitability, based on the following information:

- Demand forecasts and average PRORATED fare estimates for Business, Premium Economy, and Economy demand, both local and connecting, for THY on this route;
- An assumed 70% market share of the local IST-YVR traffic, given that THY would be operating the only non-stop flight in this O-D market, in competition only with connecting services on other carriers;
- Flight operating information, including block hours and mileage for the route;
- Detailed direct operating cost estimates for the B777-300ER aircraft, in a 28 Business Class, 63 Premium Economy, and 246 Economy Class seat configuration (337 seats total); and
- Estimates of indirect operating costs for passenger servicing, aircraft and traffic servicing, promotion and sales, and administration overhead.

(A) The spreadsheet provided to you is based on a relatively optimistic assumption about THY's market share of IST-YVR local O-D traffic. Use this profitability spreadsheet to determine the deviation from the given value (70%) that will cause the service to become unprofitable, holding all else constant.

(B) Revise the baseline spreadsheet (market share = 70%) to include Network Contribution in the profit calculations, by adding the following estimates of additional network contribution for carrying the connecting passengers on this new flight:

Business Class: \$420 Premium Economy: \$230 Economy Class: \$160

Describe what is meant by "network contribution" and discuss the impacts on the estimated route profits. Then, use the spreadsheet to find the deviation from the 70% assumed market share of local demand that will cause the service to become unprofitable. Do these network contribution estimates seem reasonable to you? What factors would determine the *actual* network contributions on this new flight?

(C) Evaluate the sensitivity of the Network Contribution values you added above in Part (B). What effect does a 10% increase or decrease in Business Class, Premium Economy, and Economy Class network contribution per passenger have on the profitability of this route? Note: perform the network contribution sensitivity analysis for all three classes simultaneously.

(D) Considering the IST-YVR route's profitability estimates and the sensitivity analyses you performed above, provide a detailed recommendation to the Network Planning department as to whether THY should actively pursue this route opportunity. As a result of your sensitivity analysis, do you think that Turkish Airlines should include network contribution when evaluating route profitability, or rely on a fully allocated segment profitability approach without network contribution?