

MORE FROM FORBES

Nov 23, 2022, 11:10am EST

Divided Government And The Way Forward For The Markets

Apr 06, 2022, 11:50am EDT

How Negativity Bias Leads To Mistakes In Portfolios

ADVERTISEMENT

MONEY > MARKETS

What Has AirTran Done For Southwest Airlines?



By **Trefis Team**, Contributor.  Building a platform to do the jo...
for **Great Speculations**

[Follow Author](#)

Published Dec 11, 2014, 01:42pm EST, Updated Apr 19, 2021, 12:17pm EDT

 [Share](#)  [Save](#) This article is more than 10 years old.

As [Southwest](#) comes close to completing the integration of AirTran, we assess what AirTran has done for Southwest. In our view, AirTran's most notable contribution has been accelerating Southwest's entry in to international markets. Geographically, AirTran added 21 cities to Southwest's network and 7 of these cities lie in the international market. This international presence has positioned Southwest to expand to Central America and northern parts of South America – regions that are seeing fast growth in demand for air travel. In addition, the integration of AirTran has made Southwest the largest domestic airline, based on the number of passengers flown. Synergies from AirTran's acquisition have also played a key role in growing Southwest's profit from \$178 million in 2011, to \$421 million in 2012, and to \$754 million in 2013. In the current year, these synergies, totaling \$400 million for the entire year, have helped Southwest's profit rise by 75% per year to \$946 million in the first three quarters. All in all, AirTran has accelerated Southwest's expansion in the

We currently have a [price estimate of \\$41 for Southwest](#), marginally below its current market price. We estimate that Southwest will post earnings of \$1.95 per share in 2014, in line with its current consensus earnings estimate.

[See our complete analysis of Southwest here](#)

Southwest Has Dispelled Pre-Merger Fears

At the time of AirTran's acquisition by Southwest in 2011, there were many fears that the deal could go wrong for Southwest. Some of the major concerns were that Southwest operates a predominantly point-to-point network, while AirTran had a significant concentration of flights in Atlanta, and that Southwest flies only one aircraft type, Boeing 737s (to keep its operating costs low), while AirTran's fleet also consisted on Boeing 717s. There were additional worries that AirTran's integration could raise Southwest's operating costs, putting at stake the core of its business model. But over the past 2-3 years, Southwest has done a commendable job integrating AirTran. Southwest smoothly absorbed AirTran's Atlanta operations, making them similar to the rest of its focus cities, rather than remaining a hub. The carrier also leased out AirTran's 717s to [Delta](#), preserving the cost advantage that comes with operating a single aircraft type. Southwest will fly the last of AirTran's 717s until December 28, and thereafter transition the last batch of 717s to Delta. And most importantly, three years after the acquisition, Southwest's operating costs are still well below those of other major airlines including [JetBlue](#). So, the pre-merger fears haven't played out. On the contrary, AirTran's acquisition and integration has given Southwest the scale to compete more effectively with larger network carriers such as [American](#), [United](#) and Delta in the domestic market.

Link to This Model

Embed This Chart

- [How do we get the historical numbers for this chart?](#)
Trefis has a team of in-house Analysts who gather historical data from company filings and other verifiable sources. The data and sources

The graph above shows how after acquiring AirTran, Southwest's domestic market share, based on capacity, jumped to 17.7% in 2011 from 14.6% in 2010. At the time of the acquisition in May 2011, AirTran added \$2.6 billion in annual revenue to Southwest's top line. Through AirTran, Southwest gained entry in Atlanta and Washington Reagan – both high value markets that likely helped raise Southwest's average fare and yield over the past three years. Today, Southwest has a strong presence at Atlanta and 44 daily departures at Washington Reagan. The expansion at

[Subscribe](#)

[Sign In](#)

Department. In terms of capacity, AirTran expanded Southwest's network by about 25%, making Southwest the largest domestic carrier based on the number of passengers flown. We figure this scale in the domestic market will catalyze Southwest's international growth, as domestic traffic feeds in to the international network. Overall, the AirTran integration has played a crucial part in taking Southwest's stock to its current lifetime high.

Southwest Will Accelerate Capacity Expansion In 2015

Looking ahead, we figure that as Southwest completes the integration of AirTran by the end of 2014, the airline will return to higher rates of capacity addition in 2015. Over the past few years, Southwest was forced to expand its capacity at relatively low rates of around 1-2% per year as it was occupied with integrating AirTran. Converting AirTran's

active service, refurbished with Southwest livery, the carrier plans to expand its capacity by 6% per year in 2015. We figure this aggressive capacity expansion in 2015 will help retain Southwest's growth, which over the past 2-3 years years was driven in part by the AirTran acquisition and synergies. ([Southwest Is Set To Retain Its Growth Momentum In 2015](#))