Spirit Airlines Performance Portfolio

Spirit Airlines is an American low-cost carrier whose headquarters are in Miramar, Florida. Spirit Airlines started as a Clipper trucking company in 1964 before the founding of the airline service in 1980 in Macomb County, Michigan. With the airline service, the company becomes a chartered tour operator (Charter One) that provided traveling packages to leisure destinations that included the Bahamas, Las Vegas, and Atlantic City. In the years that followed up to 2006, the company continued to transform including changing its name from Charter One to spirit airlines and entering into new markets where it continued to pride scheduled flights to different destinations. In a three-year period beginning the year 2007 through the year 2010, the company transitioned into an ultra-low-cost carrier with a bid to attract new clients by offering affordable and competitive prices (Elian and Cook, 2013). Since 2011, the company has continued to grow aggressively through constant expansion in the aviation market. Today, the company flies scheduled flights all over the US, the Caribbean, Mexico, Latin and South Americas. The carrier's two prominent hubs are Fort Lauderdale, Florida, and Detroit, Michigan ("Spirit Airlines - cheap tickets, cheap flights, discount airfare, cheap hotels, cheap car rentals, cheap travel", 2016). The aggressive expansion strategy has seen the company record a constant improvement in performance in the five years beginning the financial year 2012. The company has recorded year-over-year increments in revenues, gross margin, value and operating income. The positive performance can be attributed to constant traffic growth and development of the capacity to handle increasing traffic adequately.

Financial Performance

The company has been recording year on year financial performance improvement through positive increments in revenues, gross margin or gross profit, operating income, and net income. The overall value or capitalization has been improving at a constant rate from the year 2011.

Table 1. *Income Statement Summary for Years 2011-2015*

Income Statement Items	2015	2014	2013	2012	2011
Revenue	$2,141.463	$1,931.58	$1,654.385	$1,318.388	$1,071.186
Gross Profit	$1,256.96	$943.773	$789.155	$585.225	$478.308
Operating Income	$510.726	$358.271	$282.817	$174.946	$144.637
Net Income	$317.22	$225.464	$176.918	$108.46	$76.448

(Spirit tm, 2016).

Revenues

The company banks on ancillary service framework where charges are made separate for cargo, advance booking and selection of seats, plus other traveling connected upgrades. As evidenced in the above summary statement, the year on year company revenues has been increasing for the past five years. The growth in revenues can be attributed to continued growth in traffic and increase in frequencies. The growth in travel demand is attributed to lower fares, the creation of strong and expanded network, and overall improvement in the airline industry and the general economic improvement leading to production efficiency. Spirit airline being an ultra-low cost company is based on low prices charged to its clients. The fall in oil prices has helped the company to reduce the prices further. Low prices have enabled many potential clients to afford air tickets and use air travel services thereby improving the company sales. Additionally, aggressive marketing tactics have helped the company generate additional revenue by attracting potential clients to consume its attractive services that are afforded at competitively low prices. More so, the collaboration with third party companies offering a variety of vacation packages through the company’s website has helped increase the sales as Spirit Airlines becomes a carrier of choice for the clients of these third party firms.

Gross Profit and Operating Income

The company's gross margin and operating incomes have been on rising year-over-year for the last five years. The increments can be attributed to the reduction in the cost of production of revenues generated. The expenses on fuel have dropped significantly following the continued decline in fuel prices. Fuel consumption accounts for a significant portion of the cost of production for an airline service. Additionally, operational efficiency has helped manage the cost of production and expenses incurred in operationalizing the firm through efficient management of flight demand or traffic and congestion. Efficient management helps avoid extra costs resulting from delays, rescheduled or canceled flights.

Net Income and Company Value

As shown in the income statement summary, Spirit Airlines has been experiencing year on year increments in net income since the financial year ending December 2011. The company does not distribute all the earnings in the payment of dividends; rather the company has been reinvesting heavily in capacity expansion to accommodate traffic growth. The action has seen continued improvement in the value of the company which has made it attractive to investors and improving the potential of the company to raise capital when needed.

Recommended Course of Action to Remain Profitable

The company should continue pursuing the current strategy as it has proven to be of major benefit to the company as indicated by the continued year over year improvement for the last five years. To ensure the profitability in the foreseeable future, the company should put more emphasis on;

Expansion to New Routes

The company should continue with the strategy of expanding to more routes and hubs in the midsized markets to ensure constant growth in traffic, revenues and net incomes in future. The midsized markets present unique opportunities to the company since they have been abandoned and less considered by larger or legacy airlines, and therefore the company could establish itself in these markets as the leader. The absence of legacy airlines in these markets means that the company faces less stiff competition and is shielded against unfair price wars posed by the legacy carriers.

Increasing Presence in Major Hubs

The benefits being enjoyed by the company as a result of fall in fuel prices are not expected to last in the long-term. Therefore, proper planning is necessary to ensure the company can absorb cost shocks resulting from the upsurge in the future oil prices. Spirit Airlines, therefore, should continue to increase their presence in the major hubs such as Los Angeles and face legacy airlines head to head in a bid to control some market share. Increasing frequency in these hubs will ensure that the company's profitability is not greatly affected by future increases in fuel prices.

Improving Customer Service

Whereas other industry players recorded decreases in customer complaints Spirit Airlines recorded an increase in client complaints as a result of dissatisfaction form 8 complaints to more than 11 complaints per 100000 clients. The result is not a good indicator for a company that wants to be the major player in the airline industry. The company should provide additional training to its employees to help improve service delivery and overall performance (Bamber et al., 2013) Improving service delivery and avoiding delays and flight cancellation could help reduce customer dissatisfaction, improve company image and make Spirit Airlines an Airline of choice to potential clients (Luo, 2007).

Next Decade Projections

In the next decade, the company is expected to continue performing excellently from all fronts. Effects of capacity expansion and traffic growth are expected to have stabilized within the industrial range. The short-term profits and revenues shocks are also expected to stabilize to an average slightly higher than the market range. The expected performance is as indicated in the following table.

Table 2. *Projected Performance for the Next Ten Years*

Performance Indicator	Expected Addition Per Annum
Revenues	23%
Gross Profit	19%
Net Profit	15.5%
Aircraft Fleet	7
Routes	9

Note: The above estimations have been made after considering the current firm performance and financial standing (Spirit tm, 2016).

In addition to the estimations in Table 2, the company will aim to reduce the level of customer complaints to utmost 1.5 per 100000 clients in the next ten years through continued improvement in service delivery.

References

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