

SAFEFLIGHT

SAFEFLIGHT is a small private short-range airline company, which has obtained the concession of three routes:

- Florence-Ancona,
- Florence-Olbia,
- Florence-Lamezia Terme.

SAFEFLIGHT guarantees four daily flights (two one-way and two return) on all three routes served, for a total of 12 daily flights per 300 effective days, on average, per year.

On each route operates a 50-seat aircraft specifically destined for it and whose annual depreciation is on average 200,000 euros. The average saturation rate of each aircraft for each flight is:

- 80% for the Florence-Ancona route
- 80% for the Florence-Olbia route
- 40% for the Florence-Lamezia Terme route.

The one-way flight fare is:

- 150 euros for the Florence-Ancona route,
- 140 euros for the Florence-Olbia route
- 160 euros for the Florence-Lamezia Terme route.

The cost of the "round-trip" flight is twice the one-way fare.

Each passenger is served refreshments with an average unit cost of 8 euros.

On each plane there is a crew (pilot, second pilot, flight personnel) whose overall cost is, on average, 250,000 euros per year.

Ground operations are managed by personnel specifically dedicated to each route, with an average annual cost of:

- € 120,000 for the Florence-Ancona route
- € 120,000 for the Florence-Olbia route
- € 110,000 for the Florence-Lamezia Terme route.

The following costs are also incurred on average for each flight performed:

- "touched" cost (take-off, landing and airport services): € 2,000;
- Fuel cost: € 400 on the Florence-Ancona route, € 450 on the Florence-Lamezia Terme route and € 350 on the Florence-Olbia route;
- Maintenance cost: 300 euros.

For staff working at company headquarter and not uniquely dedicated to any of the routes served, SAFEFLIGHT has, on average, a total annual cost of € 500,000. On an annual basis, it has advertising and promotion costs of € 400,000 and overhead and administrative costs of € 200,000.

The SAFEFLIGHT management, considering the low number of passengers on the Florence-Lamezia Terme route, is planning to eliminate this route and to use the plane dedicated to it, with its crew, to double the number of flights on the Florence-Olbia route. This operation would reduce the saturation rate of each flight on the Florence-Olbia route to 68%, but would allow the growth of demand in this sector to be met without incurring new investments. The ground staff dedicated to the Florence-Lamezia Terme route would be fired.

QUESTIONS

- 1) Calculate the first contribution margin and the second contribution margin for the Florence-Lamezia Terme route. Is this route profitable?
- 2) Calculate the average Break-Even saturation rate of each flight for the Florence-Lamezia Terme line.
- 3) It is convenient for SAFEFLIGHT to eliminate the Florence-Lamezia Terme route and to double the number of flights on the Florence-Olbia route ? Why ?