Project 2

For this assignment, please produce a one page document that is written using formal grammar and format in regards to complete sentences and subject verb agreement.  Please apply the terms and concepts that are covered in chapter's lecture to the paper you write for your case.

**Case Connection**

**A Wild Frontier**

In 2001, U.S. airlines spent about 10 percent of their budget on fuel. In 2011, they had to spend 35% of their budget on fuel. Airlines, of course, can’t do one bit of business without jet fuel. So when the most important line item in a company’s budget more than triples, the consequence is a tremendous amount of financial pressure. And with nearly all experts agreeing that the price of fuel will only increase, airlines have the unenviable task of buying the fuel they need while not breaking their budget.

Industry-wide, there seem to be two main approaches to mitigating the effects of rising fuel prices—reducing overall expenses and increasing revenue.

Companies focusing on reducing overall expenses related to fuel have been taking innovative approaches:

* Some have tried to reduce their dependence on traditional jet fuels by looking for alternatives. Virgin Atlantic was the first airline in the world to operate a commercial jet with a biofuel, which was made from coconut oil and babassu nuts. Recently, United Continental announced a major agreement to purchase algae-derived fuel from Solazyme.
* Delta Airlines, meanwhile, hopes that vertical integration can provide some budget relief. When it learned that an oil refinery in Pennsylvania was going to be shut down, it purchased the facility so that it could make some of its own fuel. Delta executives estimate that it will provide a savings of $300 million over five years.
* Some airlines are turning to high-tech solutions to reduce fuel use and reduce fuel-related expenses. A number of airlines are using GPS navigation, rather than radar, to reduce the flight times of an airplane. Some are adding small winglets, vertical facing tips to the ends of wings, which reduce fuel use by 5%. And many are looking to new or remodeled aircraft, such as the Boeing 787 or the Airbus A320neo, which use 15% to 20% less fuel than older models.

Reducing expenses, however, will not balance out the sharp uptick in fuel costs. Companies, therefore, have also focused on generating revenue from all aspects of their organization. Nearly all airlines have taken steps to increase revenue through fees that cover almost everything. There are fees for checked bags, fees for booking a ticket over the phone, fees for picking a certain seat, fees for a wider seat, fees for pillows and blankets, fees for carry-on bags, fees for drinks and snacks, and more. Overall, the focus on fees has been successful:

* In 2011, U.S. airlines collected over $3 billion in fees exclusively just by charging for checked baggage.
* From January 2012 to January 2013, 28 new baggage-related fees were levied on air travelers. Overall, 50 new fees were introduced by U.S. airlines in 2012.
* In the first six months of 2012, the airlines collected $1.3 billion in cancellation and reservation change fees.

Yet, while airlines may have many options for responding to rising fuel costs, not all have done so successfully. Take for example, Frontier Airlines, a low-cost carried based in Denver. Due to rising costs and $1 billion in debt, it was forced to declare bankruptcy in 2009. The first two years after emerging from bankruptcy, it lost another $148 million. Even adding extra fees, as nearly all other airlines, hasn’t helped., and Frontier had to eliminate service to cities like Colorado Springs, Dayton, and Philadelphia, while looking for less competitive places to operate.

**You Decide:**

* In your opinion, should Frontier Airlines focus on managerial accounting or financial accounting as it works to get its finances back on firm footing

* In this environment, would you recommend that Frontier Airlines use a bottom-up or top-down approach to budgeting? Why

* Many U.S. airlines have solved their financial woes by merging with complementary competitors or by making cuts and becoming much smaller airlines. Do you believe that these are the only two options open to Frontier Airlines? What else could you propose?