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A Stingy Spirit Lifts Airline's Profit

By JACK NICAS

MIRAMAR, Fla.—Spirit Airlines Inc. has scrimped its way to become, pound for pound, the most profitable airline in the U.S., helping reshape budget air travel by charging for everything from boarding passes to drinking water.

In five years, Spirit has gone from the cusp of bankruptcy to leadership of ultra-low-cost carriers, the airline industry's fastest-growing niche.

While full-service airlines chase big-spending business travelers, Spirit is profiting from fliers who seek to reach their destinations as cheaply as possible. But unlike other U.S. budget carriers, its cut-rate fares include little more than a seat, with nearly everything else sold a la carte. The 40-jet airline counts the bus company Greyhound Lines Inc. as a competitor.

"If a corporation is buying your ticket, you're not going to fly with us. We're OK with that," said Spirit Chief Executive Ben Baldanza, who vacuums and takes out trash at Spirit's low-slung headquarters in this Miami suburb. "More people eat at McDonald's than at Morton's."

Other U.S. carriers have dispensed with the frills of flying—notably budget pioneer Southwest Airlines Co. But Mr. Baldanza takes the nickel-and-dime approach to new extremes.

Fees to Fly

Spirit Airlines offers cheap tickets and sells the frills of flying à la carte. **Drag the fees to the pictures to guess how much some items cost.**

Flying Spirit Airlines

Chip Litherland for The Wall Street Journal

A Spirit plane from Chicago was guided into a gate in Fort Lauderdale, Fla.

More photos and interactive graphics

Want a boarding pass? That will be $5, please. Thirsty? Water is $3, though Mr. Baldanza said it was safe to drink from the bathroom tap. A third option is to order ice—the only complimentary item in the cabin—and wait for it to melt.

In 2007, Spirit was the first U.S. airline in decades to charge for all checked luggage—a fee later copied by most other major U.S. carriers. It was also the first to charge for carry-ons in the overhead bin: $30 to $45 a pop, with plans announced last week to push the fees to as high as $100 later this year.

Spirit brings in nearly a third of its revenue for baggage and other services, compared with the industry average of 6%. But its thrift comes at a price. It has one of the industry's worst on-time performances, the least legroom and customers who swear off the airline after one flight.

"I don't like them," said Lauren Piatek, a Chicago hair stylist. She refused to change her travel plans after her boyfriend broke his leg because she didn't want to pay Spirit's $230 fee to change two reservations.

"Yeah, it was a cheaper flight," she said, "but I had to pay for bags, water, everything. You might as well go on a normal airline."

Complaints aside, Spirit has found a market. From 2008 through the first quarter of this year—while larger carriers have posted billions of dollars in losses through bankruptcies—Spirit earned $289 million. Only two U.S. airlines have earned more in the period: Southwest at $1 billion with nearly 700 planes, and Alaska Air Group Inc. at $522 million with 165 planes.

Last year, Spirit earned 40% more per airplane than any other U.S. airline, and at about $1.63 billion, Spirit has nearly the same market value as US Airways Group Inc., which carries nine times as much traffic.

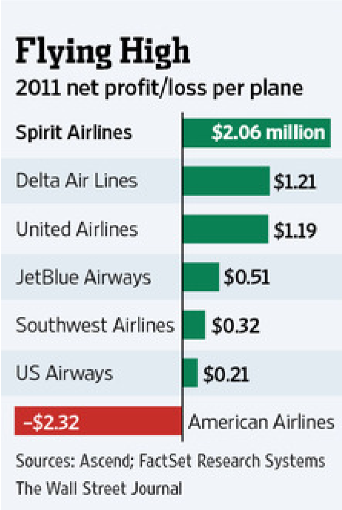
In a recent note, Maxim Group airline analyst Ray Neidl wrote that Spirit "flies for one reason only, to make money."

The ultra-low-cost model—pioneered in Europe by Irish carrier Ryanair Ltd.—requires airlines to strip all expendable costs. It means packing more seats onto planes, flying more hours a day and keeping seat prices separate from all related goods and services. Industry analysts say Spirit is the first in the U.S. to master the model, pioneering a route to consistent profits for smaller carriers.

The model isn't for everyone. Many major U.S. airlines focus on luring business travelers and boosting market share, even when it means losing money on some routes. After a decade of consolidation and cost-cutting, most major U.S. carriers are now cruising along profitably.

But Spirit's success pressures other small airlines that compete for budget travelers. Its aggressive pay-for-service practices also may make it easier for the rest of the industry to follow.

Last month, ultra-low-cost carrier Allegiant Travel Co. became the second U.S. airline to charge for



carry-on luggage. Frontier Airlines, a loss-making unit of Republic Airways Holdings Inc., is dabbling with the ultra-low-cost model in the back of its planes, where it is considering packing in more seats and charging for carry-ons. Frontier also recently replaced its free cookies with animal crackers sold for $1. "We think there's a lot to learn from" Spirit, Frontier CEO David Siegel said.

Even Delta Air Lines Inc., the world's second-largest carrier by traffic, recently introduced so-called basic economy fares on some routes in competition with Spirit. These discounted seats can't be chosen, refunded or changed.

With flights averaging 85% to 90% full, Spirit and Allegiant fly the fullest planes in the industry.

"We fly Spirit whenever we can. We just pack as little as humanly possible," said Kristin Flood, a hair stylist with her belongings stuffed beneath the seat on a recent flight—the only place bags fly free on Spirit.

Walking off the same flight, retired boilermaker Michael Mooney proudly flashed a $77 receipt for his round trip between Chicago and Fort Lauderdale. "There's no way they're making money off me," he said.

Spirit's flight path isn't without risk. It faces higher airport expenses and more congestion as it flies into larger markets. Spirit will also have to keep its union workforce happy—it endured flight-attendant picket lines in March and a rare pilot strike that grounded flights for five days in 2010 in a dispute over hours and compensation.

Spirit is still small—carrying just 1% of the nation's fliers—and one public-relations fiasco, such as a plane crash or lengthy labor strike, could damage its profitability and growth, according to industry analysts.

There are also some famously unhappy customers. This month, Jerry Meekins, a 76-year-old Vietnam veteran with terminal cancer, started a campaign reported on national TV to boycott Spirit after the airline denied his request for a refund when doctors told him he had only months to live and couldn't fly.

"It was time for someone to stand up to them because they're ripping us off and taking our money," said Mr. Meekins, who led a group of fellow veterans picketing Spirit's gates at Tampa International Airport.

Mr. Baldanza first refused to budge. "Nonrefundable's nonrefundable and that's it," he said. In one week, 30,000 people joined a Facebook page to boycott Spirit.

Last week, Mr. Baldanza reversed course and apologized. He promised to personally refund Mr. Meekins. Spirit also will donate $5,000 to a charity in his name. "I did not demonstrate the respect or the compassion that I should have, given his medical condition and his service to our country," he said in a statement.

Mr. Baldanza, 50, is better armed with jokes and a belly laugh. ("Want a water? That's $3," he told a Journal reporter at his office.) Short enough to fit in an overhead bin for one wacky Spirit promotion, Mr. Baldanza often lunches with a pair of colleagues to write the company's racy promos, which are emailed to customers. The company has an ad budget of $2.5 million, about 1% of Southwest's.

The carrier recently caught flak for a sale on flights to Colombia that poked fun at the U.S. Secret Service prostitution scandal there. ("More bang for your buck," the ad said.)

Spirit largely credits Southwest with paving the way to budget flying. In 1978, when government deregulation gave airlines power to set fares, Southwest lured a new flock of price-minded passengers. Most other airlines offered free meals and higher-priced tickets; Southwest gave out peanuts and sodas.

Over the past decade, bigger carriers also have cut costs, eroding the price advantage of budget carriers. Fares are now largely even across the industry, opening the door for the ultra-low-cost ticket.

Spirit's strategy came out of desperation. Founded in 1964 as Clipper Trucking Co., it moved to the skies two decades later and evolved into a tiny commercial airline. By the middle of last decade, its business ferrying passengers between Florida and the Midwest was near failure.

That's when Bill Franke, an aviation executive, pounced. An early investor in ultra-low-cost airline Ryanair, Mr. Franke cut costs as chief executive of America West Airlines in the 1990s. Later, he started a private-equity firm to invest in discount carriers. Searching for a U.S. airline to out-budget Southwest, Mr. Franke bought Spirit in 2006 and promoted Mr. Baldanza, an industry journeyman, to CEO.

Then the penny pinching began. Mr. Baldanza's team jettisoned in-flight magazines to cut weight and save on fuel. They sold advertising on overhead bins, tray tables and flight attendants' aprons. And they stocked food and drinks once a day, often leaving late-night flights bare.

On Spirit's Airbus A320 aircraft, they removed the reclining mechanisms to fit 178 seats—as many as 40 seats more than its competitor's A320s.

On some routes, Spirit leaves just 30 minutes between landing and takeoff, allowing planes to fly 12.7 hours a day—15% more than Southwest, which revolutionized the quick turnaround. Packing the day with so much flying requires some trips at inconvenient times, and can lead to more tardy flights.

There is no receptionist at Spirit's one-story headquarters. Some lights lack bulbs. "We buy pens when we have to," Mr. Baldanza said. "But if you go to a conference and they give you a pen and a pad, absolutely bring that pen and pad back."

In 2010, Mr. Baldanza pushed for carry-on charges. Even Mr. Franke squirmed. "I had friends at other airlines who bet me it was going to be a gigantic failure," said Mr. Franke, Spirit's chairman. He won the bets.

Spirit went public a year ago, and its shares have nearly doubled, closing Friday up 26 cents to $22.61. It added 13 cities since 2011, including Dallas, Denver and San Salvador. Spirit plans to increase its capacity by 25% this year and has airplane orders to roughly triple its size by 2021.

On a dozen of its major routes, Spirit fares are on average 30% cheaper than competitors, according to airfare consultant Harrell Associates.

From Atlanta to Dallas, Delta and AMR Corp.'s American Airlines sell one-way tickets for $109; Spirit charges $51. Even with fees, Spirit is often cheaper. With carry-on luggage and one checked bag, the American and Delta flights would be $134, compared with a Spirit flight as low as $109.

But Mr. Baldanza warned it wasn't always the case: "If you're going to bring a lot of bags, fly Southwest."

The carry-on charges prompt passengers to pack less, he said, making the plane lighter and saving on fuel. Charging for boarding passes prompts more fliers to print them at home, eventually allowing the airline to employ fewer gate agents.

Spirit charges $100 for a pet, or a child flying alone. Customers pay a $17 "passenger-usage fee" each way to book tickets online and another $10 to book by phone. On board, a bag of nuts is $4 and a beer is $6.

Now, Mr. Baldanza said, he is thinking about charging for armrests and tray tables.

Write to Jack Nicas at jack.nicas@wsj.com

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