

Taking Lower Fares to a Deeper Level

An Interview with **B. Ben Baldanza**,
President and Chief Executive Officer, Spirit Airlines, Inc.



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EDITORS' NOTE Ben Baldanza assumed his current position in May 2006, after serving as President and Chief Operating Officer of Spirit Airlines since January 2005. Baldanza previously served as Senior Vice President of Marketing and Planning at US Airways and as Managing Director and Chief Operating Officer of Grupo Taca. He also held positions at Continental Airlines, Northwest Airlines, and American Airlines. Baldanza holds a BA in economics from Syracuse University and a master's degree in public affairs, specializing in transportation and economics, from Princeton University.

COMPANY BRIEF Spirit Airlines, Inc. (www.spiritair.com), is an ultra low-cost commercial airline, serving the United States, Latin America, and the Caribbean. Its all-Airbus fleet, the youngest in the Americas, flies more than 200 daily flights to 39 destinations. Founded in 1980 in Eastpoint, Michigan, the company is based in Miramar, Florida, and employs 2,300 people.

What is your outlook for the growth of Spirit Airlines in the year to come?

Our business has grown much stronger over the past year and a half, and we are optimistic about what we have put together. Spirit is unique in the market, in that we have the lowest costs possible for where we operate. We offer a significantly lower price point for the end consumer, and we sell our product on an "à la carte" basis, meaning there is one price for a

flight with extra fees for other things like checking bags or in-flight food and beverage. That concept has been accepted incredibly well by our customers. So we believe there's significant growth potential for the company as a result.

Do people ever mistake that à la carte offering to mean lower levels of service? How do you demonstrate that lower costs don't necessarily lead to a lower-quality product?

A number of years ago in the airline business, lower cost meant a simple, bare-bones kind of product. At Spirit, we've tried to take lower fares to a deeper level. We typically offer lower fares than Southwest or Jet Blue, and, in some cases, we even offer single-digit fares. We have offered \$9 and \$5 fares, and we even ran a sale through which we paid people to fly with a negative \$2 fare. With those kinds of prices, people understand that they won't get the same product they'd get if they paid thousands of dollars to fly on American, Delta, or Continental, but they still expect a safe, on-time flight, and they expect to be treated with respect. We focus on making sure Spirit can deliver those things.

We liken our à la carte approach to a consumer's experience at the movie theater. First, you buy a ticket to see a movie, and then you have the option to buy popcorn, soda, candy, and everything else that can make your movie experience better. Our fares include everything that's necessary for a safe, reliable, on-time, and friendly flight, including taxes and government fees. We then treat our planes like retail stores, where consumers can buy food, pillows, blankets, aspirin, magazines, and so on. Our planes are like mini airport stores in that sense, and our goal is to turn them into profit centers.

Are you pleased with your current travel routes and destinations?

Spirit is the largest carrier at Fort Lauderdale/Hollywood International Airport, and we're the largest low-fare carrier serving the United States to the Caribbean and Latin America. That has been our growth vehicle over the past few years, and it will continue to be. In 2008, we're adding service to about 10 new cities, the majority of those being international points. We look for air routes that traditionally have had only a high-fare, full-service option, and we offer that market a lower-fare option. Our presence tends to grow a market significantly. People who didn't used to fly there now will or those who might have traveled there once every few years will

now travel there more frequently. So there are growth opportunities for Spirit in markets that haven't yet had a low-fare option.

One might think of a low-fare air travel market as being a zero-sum game. How can you increase the overall market's growth potential?

That question actually has two answers. First, the low-fare air travel market is not as small today as it once was. The domestic low-cost carriers now carry about 25 percent of the country's air travel business. In international markets, it's a much smaller percentage. So, if you believe that the international markets could support as high a percentage as the U.S. market carries, there's enormous potential for growth. You don't even have to believe it could support that much to see good potential for growth. Second, unlike traditional carriers, low-fare carriers like Spirit are much better at creating their own demand. About two years ago, we started flying between Fort Lauderdale and the island of St. Thomas. Before we did that, the only nonstop service between south Florida and St. Thomas was on American Airlines from Miami, carrying about 70 people a day. We cut the traditional fare in half, and now 250 people a day fly between south Florida and St. Thomas. Where did those people come from? Many of them are flying to St. Thomas more frequently than they did before, and some are new travelers to the area. Our low-fare option has given them the ability to fly there. So we create the market; we make the pie larger and fill our own airplanes, versus stealing other airlines' passengers. We don't offer a club in the airport or a business-class product, but we do offer a significantly lower fare. When asked "do you want something for free," most people will answer yes, but not everyone thinks that American's product is worth their fare either. Both Nordstrom and Wal-Mart have successful businesses, even though they serve different – though sometimes common – demographics. That same situation is true in the airline business.

You've worked for many traditional carriers. Why did the opportunity to work for Spirit appeal to you?

It is clear to us that there will be two types of winners in the airline space – those that compete on product, and those that compete on price. It's exciting to work for an airline that is bringing the low fares to new parts of the world. Plus, I look better in Tommy Bahama than in a suit. ●