

Airlines: Upstart's Tactics Allow It to Fly In Friendly Skies Of a Big Rival

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ABSTRACT (ABSTRACT)

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In April, Frontier was ready to announce that it was adding flights to Portland, Ore., from its Denver International Airport hub -- also the fortress hub of United. Instead of announcing the new service right away, however, Frontier sat tight for several weeks until after United had loaded its summer schedule into its computer system. At that point, to counter Frontier's new service, United would have had to rearrange an already published schedule, a major undertaking.

FULL TEXT

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"It's vitally important to understand the mind of your opponent," says Sean Menke, a former United planning executive who has been Frontier's planning director since January. Frontier began flying to Portland June 14. So far, United, a unit of UAL Corp., has left its Denver-to-Portland schedule unchanged.

Almost five years ago, Frontier Airlines resurrected the name, but little else, of a defunct and liquidated carrier. Now it's the nation's only start-up carrier successfully competing head-to-head with a major carrier from the same hub airport. Earlier this month, Frontier posted its first profitable fiscal year. Meanwhile, its share price has rocketed, closing yesterday on the Nasdaq Stock Market at \$16.125 a share, compared with around \$3 a share a year ago. Passenger traffic is up 35%.

To avoid waging war with the dominant carrier at a hub airport, most start-ups select a secondary city – Des Moines, Iowa; Kansas City, Mo.; Trenton, N.J. – as an operations base. Even Southwest Airlines of Dallas, the nation's seventh-largest carrier, refuses to enter markets such as Minneapolis, Northwest Airlines' hub, and Atlanta, the hub of Delta Air Lines.

Big airlines, in fact, protect their hubs so fiercely that the Justice Department recently accused AMR Corp.'s American Airlines of predatory practices for slashing fares and rearranging planes to quash new entrants to its Dallas-Fort Worth hub. American denies it violated the law.

The Justice Department says it is investigating other carriers as well. For its part, United has been "aggressive but careful" in competing with upstarts like Frontier, United's chairman, Gerald Greenwald, said at the company's recent annual meeting.

Still, several years of all-out war in Denver claimed another young air carrier, Western Pacific Airlines, which went out of business in 1998. Frontier reasoned that if it was going to thrive, it would have to do so without inviting the wrath of its giant rival. Through trial and error, Frontier learned to understand and anticipate United's behavior. "You have to know what sets the other guy off," says Sam Addoms, Frontier's chief executive and president.

The skill is especially useful in the cat-and-mouse game of ticket pricing. In the past, when Frontier posted lower fares, United not only matched the prices but also unleashed a torrent of new capacity.

Frontier now avoids such draining battles. For about a year, Frontier has raised its ticket prices just enough to avoid provoking an aggressive response from United, while keeping them low enough to offer travelers savings and stimulate traffic. For example, instead of dropping leisure fares to \$79 each way, Frontier now charges, say, \$99 or \$129. United will probably match the fares, but the retaliation will usually stop there.

The real difference comes in business fares. For unrestricted fares, Frontier now charges a hefty \$1,164 for a round trip between Denver and New York-La Guardia and \$946 for a Denver-Los Angeles round trip. Those fares are high enough so that United won't retaliate by abandoning its higher fares. United's lowest unrestricted fares are \$1,736 for a Denver-New York round trip and \$1,380 for a Denver-Los Angeles circuit.

Scott Steenson of Dallas, a National Football League referee, usually travels first-class on American for his job. But on a recent trip to Las Vegas for personal business, he flew Frontier and paid half of American's unrestricted nonstop fare of \$1,176. "I wasn't even aware of Frontier," he says. "But I think they've got the right idea on fares."

Frontier has been building its corporate business too. In the past nine months, the number of companies in

Frontier's program has zoomed to 2,100 from 800. "Our bread and butter is the small entrepreneur whose air fare is coming out of his pocket," says Tom Allee, national sales director.

Peregrine Communications, a 40-employee Denver company, saves so much flying Frontier over United that it pays workers a \$300 bonus for every nine Frontier flights they accumulate. And even some of Denver's big corporations, who have "exclusive" deals with United, have inked side deals with Frontier. Despite confidential terms of the United contracts, Frontier has delicately been able to offer terms that don't violate the United pacts.

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