For Ideal Airline Competition, Look a Mile High

By Scott McCartney

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*Denver*

Savvy airline traveler quiz: Which airline carries the most local passengers in Denver, home to both a United Airlines hub and a large, loyal following for scrappy Frontier Airlines?

Answer: None of the above.

It's [Southwest Airlines](http://quotes.wsj.com/LUV), [LUV +2.65%](http://quotes.wsj.com/LUV) [**LUV**](http://quotes.wsj.com/LUV) **in** Your Value Your Change Short position which, as recently as 2005 was a carrier without a single flight to Denver International Airport. With Southwest's rapid growth and dramatic changes at Frontier, which is trying to turn itself into an ultra-low-cost carrier with fees for carry-on bags and soda, Denver has become a fascinating microcosm of the U.S. airline industry.

There are three kinds of airlines now: full-service, international network airlines like United, [Delta Air Lines](http://quotes.wsj.com/DAL) [**DAL**](http://quotes.wsj.com/DAL) **in** Your Value Your Change Short position and American Airlines; lower-fare, lower-fee value carriers like Southwest, [JetBlue Airways](http://quotes.wsj.com/JBLU) [JBLU +5.70%](http://quotes.wsj.com/JBLU) [**JBLU**](http://quotes.wsj.com/JBLU) **in** Your Value Your Change Short position and Virgin America, and ultra-low-cost, high-fee carriers like [Spirit Airlines](http://quotes.wsj.com/SAVE), [SAVE +3.88%](http://quotes.wsj.com/SAVE) [**SAVE**](http://quotes.wsj.com/SAVE) **in** Your Value Your Change Short position Allegiant Air and Frontier. Nowhere do all three types compete head-to-head as they do in Denver. What happens in the battle for Denver may well foreshadow what kind of airline service wins out in the long run around the country.

Southwest, which began flights at Denver International just seven years ago, passed United last summer as the biggest carrier of local passengers there (not counting connecting passengers). United's total passenger count fell by 1.2 million passengers last year and Frontier suffered a decline of 124,000 passengers, while Southwest was up more than 1 million. Southwest carries more local customers to Los Angeles and Chicago than United, and is catching up in Boston, too. Denver is already the fifth-biggest city for Southwest in flights, making Denver busier for Southwest than longtime strongholds Houston and Dallas.

"Denver is the fastest-growing city in our history," said Robert E. Jordan, Southwest's chief commercial officer. He said he expected growth, but "I'm surprised at how quickly it's occurred."

Denver travelers should benefit if United, Frontier and Southwest can coexist. "I think there's room for all three," said Randy Beene, who works for a company that makes sports timing equipment and travels every week for business from Denver. He says he's loyal to Frontier for its service. But he says service there has declined some over the past year. No more fresh-baked cookies on board. No more free TV for higher fare-level passengers. And Mr. Beene said he's flying Southwest more.

So is Rick Kerr, who works in property management and holds elite status on United and Frontier but recently flew Southwest from Denver to Chicago for a business trip. "One thing you can always count on is getting where you're going on time," he said of Southwest. United has cut a lot of flights he used to use, so he's backed off on his bookings with United.

For decades Southwest avoided Denver, largely because United and Frontier were so entrenched in the local community. Southwest flew to old Stapleton International Airport for a few years, but pulled out in 1985, citing frequent flight delays. Southwest acquired Morris Air in 1993 but soon pulled Morris out just before Denver opened its new international airport. The reason: The airport was going to charge more than $16 per passenger to pay for the giant, fancy, new facility.

By 2005, United cut flights in bankruptcy reorganization and fares increased in the Denver market. At the same time, the airport reduced its costs to airlines to around $12 a passenger, and Southwest got more interested. Southwest launched flights at Denver International in January 2006, in part using planes it had available after Hurricane Katrina wiped out a lot of service to New Orleans.

The airport had courted Southwest for years, and still is working to accommodate the Dallas-based carrier. When Southwest wanted more than its 17 gates, the airport developed a plan to add five gates to the end of a concourse, and keep costs low by building the structure on stilts rather than finishing out the ground-level area not used by passengers, said Kim Day, Denver's manager of aviation.

"They are our No. 1 carrier in 14 of our top 25 markets, including four of the top five," Ms. Day said.

Southwest blitzed the local community with sponsorships for charities and sports teams and courted Denver businesses. Southwest signs have appeared at a downtown skating rink and at the Pepsi Center, home of basketball's Denver Nuggets.

"They have carpet-bombed Denver with ads since they've been here. They've done a great job buying loyalty," said Robert Polk, chief executive of Polk Corporate Travel Management. In the past six months, he said, Southwest sales at his company have picked up as more corporate travelers shift away from Frontier and United.

"To have three is a godsend. It keeps fares low and keeps the other two honest," Mr. Polk said. "If something happens to one, there's no question fares will go up. And I suspect over time, it's hard to believe all three will still be here."

United shrank from 60% of all Denver traffic, including connecting passengers, in 2006 to 40% and remains the Mile High City's largest airline overall. It says it is returning to growth mode in Denver and plans to add 4% capacity this year, including starting Denver's first nonstop flights to Asia with [Boeing](http://quotes.wsj.com/BA) [BA +0.76%](http://quotes.wsj.com/BA) [**BA**](http://quotes.wsj.com/BA) **in** Your Value Your Change Short position 787 service to Tokyo's Narita Airport. United also has been expanding flights to cities in North Dakota and Canada around the Bakken Shale oil fields, as Denver has become a gateway for oil-business traffic.

"I don't think Southwest has affected much of what we do," said Brian Znotins, United's vice president in charge of network strategy. "We've competed with Southwest for years in Houston and Chicago and other places. It's a bit of old hat for us."

Frontier says it has worked to find ways to avoid competing directly with Southwest. The carrier courted more connecting passengers as Southwest has grabbed many local Denver customers, who typically are more profitable since connecting customers take two flights each way, often at cheaper fares.

Frontier, which had its own bankruptcy reorganization in 2008 and 2009 and was purchased by Indiana-based [Republic Airways Holdings](http://quotes.wsj.com/RJET) Inc., [RJET +4.95%](http://quotes.wsj.com/RJET) [**RJET**](http://quotes.wsj.com/RJET) **in** Your Value Your Change Short position has also embarked on a strategy of flying only a few times a week to smaller cities where Southwest doesn't fly, like Knoxville, Tenn.; Fresno and Santa Barbara, Calif.; Bismarck, N.D., and Sioux Falls, S.D.

"We've had to react," said Frontier Senior Vice President Daniel Shurz. "We've shrunk a bit. We've focused on what we can make work. There's no point in trying to be another Southwest."

When control of Frontier moved to Indianapolis, local loyalty waned, airport officials and local travel agents say. Frontier acknowledges the decline, and last year moved its chief executive back to Denver. Mr. Shurz thinks much loyalty remains. Customers are also getting used to the ultra-low-cost fee structure because they like low fares, he said.

Southwest's Mr. Jordan takes an opposite view. He believes Southwest's move to let all customers check two bags at no cost and avoid ticket-change fees, which can now start at $200 at United and others, drove the rapid growth in Denver.

"That played a big part," he said. And now that competitors United and Frontier are raising fees even higher, "that gives us huge opportunity."

**Corrections & Amplifications**

Southwest Airlines sponsored the Denver Nuggets after its move into Denver. A previous version of this story incorrectly stated that the company had placed an advertisement on the outfield wall of Coors Field, home of the Colorado Rockies. Frontier Airlines advertises there.

http://online.wsj.com/news/articles/SB10001424127887324299104578527301162186278