THE AIRLINE STRATEGY AWARDS
AIRLINE BUSINESS

LOW-COST LEADERSHIP

BEN BALDANZA

Judy Watson Tracy

"A lot of markets can benefit from our services... High growth doesn't suggest margin pressure"

BEN BALDANZA
Chief executive, Spirit Airlines

Asked what he had learnt at Spirit Airlines that he could not have learnt at the legacy carriers he has worked for, Spirit chief executive Ben Baldanza once said with a hearty laugh: "How to be profitable!"

And profitable Spirit has been, raking in $1.6 billion in revenues in 2013, up 26% from the year before. The Miramar, Florida-based carrier posted a 2013 operating profit of $282 million and a 17.1% operating margin.

"Spirit is just a great story," said one judge. "The stock price has gone through the roof because of what they've achieved and it's been recognised. They're a real standout."

An airline veteran who has worked with US Airways, Taca and American Airlines, Baldanza joined Spirit in 2005 as president and was appointed chief executive a year later.

Since taking the helm at Spirit, Baldanza has overseen the carrier's transformation from the "old" Spirit, which was weighed down by legacy costs. Under Baldanza's leadership, Spirit is recognised as the first US ultra-low-cost carrier to offer a completely unbundled product. From a bottle of water to seat assignments – chances are if Spirit can charge for it, they will.

More than 40% of Spirit's 2013 revenue was contributed by ancillary fees, and Baldanza has said the carrier plans to "keep pushing it". The airline will likely grow ancillary revenue from selling non-airfare products such as hotel rooms and car rentals, which Baldanza says are relatively new areas for the airline.

Spirit's ancillary revenue strategy has not gone without notice in the US airline industry. For example, Spirit was the first carrier to introduce carry-on bag fees for bags that go into overhead cabins. Other airlines including Allegiant Air and Frontier Airlines have since followed suit.

Besides unbundling fares, Spirit keeps costs low by doing most of its distribution through its website, spending little on advertising and even doing away with its toll-free customer service phone line.

The airline's cost-saving ways are not without their detractors in the form of angry customers. Baldanza acknowledges these complaints, but is unwavering in his focus on what the airline's business model should be.

"Non-refundable means non-refundable. We tend to be more strict on that than most airlines. Consumers who fly multiple airlines are conditioned that if you scream and yell, you will get what you want. At Spirit, that doesn't happen – and that bothers people," he says.

Five years after becoming chief executive, Baldanza led the airline through its initial public offering in 2011, which raised $187 million. The airline's market capitalisation now stands at $4.29 billion. Spirit shows no signs of stopping, and plans to grow capacity by as much as 30% in 2015, when it takes 15 new aircraft to end 2015 with a fleet of 80 Airbus A320s.

Asked if the airline's high growth could erode its operating margin, Baldanza says the airline is still in an "early" phase of expansion and makes it clear Spirit has space to stretch its wings. "There are a lot of markets that can benefit from our service… High growth rate doesn't suggest margin pressure," he says.

GHIM-LAY YEO

Airbus

Spirit will soon have 80 A320s

PAST WINNERS*

2013 Carolyn McCall, EasyJet | **2012** Lance Gokongwei, Cebu Pacific | **2011** Aditya Ghosh, Indigo | **2010** Michael O'Leary, Ryanair **2009** Maurice Gallagher, Allegiant | **2008** Alan Joyce, Jetstar | **2007** Joe Leonard, AirTran Airways | **2006** Constantino de Oliveira Jr, Gol | **2005** Tony Fernandes, AirAsia | **2004** Phil Trenary, Pinnacle Airlines | **2003** Jim Ream, ExpressJet | **2002** Jerry Atkin, Skywest Airlines *Up until 2008, the Low-cost Leadership and Regional Leadership awards were combined