

Low-cost airlines battling for travelers

By Justin Bachman, Bloomberg Businessweek

The low-fares, high-fees business model is expanding across the airline industry, and now a third ultralow-cost carrier appears ready to enter the battle between Spirit Airlines and Allegiant Travel for America's cheapest travelers.

Frontier Airlines, the Denver airline known for the majestic wild animals painted on its jets' tails, may soon become a legitimate down-market competitor.

William Franke, Spirit's chairman and managing partner of Indigo Partners, a private equity firm that focuses on airlines, is negotiating to acquire Frontier Airlines from Republic Airways and turn it into the same type of operation he pioneered at Spirit, Dow Jones reported this past week. Indigo will sell its 16 percent stake in Spirit, and Franke and another Indigo partner, John Wilson, will resign from Spirit's board next month.

Republic, which flies regional jets on behalf of the major airlines, acquired Frontier in August 2009 as a way to diversify its revenue beyond the contracts it signs with the large hub-and-spoke airlines. But that experiment largely failed, and Republic has been trying to sell the airline for more than a year. Last week Republic told investors it had signed a nonbinding agreement with a buyer to negotiate Frontier's sale.

Frontier could present Phoenix's Indigo an opportunity to expand the leisure-travel model in the U.S. that has enjoyed immense popularity worldwide, with players such as Ryanair, easyJet, Wizz Air and Volaris. Such airlines offer low fares but then assess fees for nearly every aspect of a flight, from

water to carrying aboard a bag.

Frontier also has an attractive asset in its early orders for new versions of Airbus' A320neo and A319neo models. Two years ago, Republic placed 40 firm orders and 40 options for the new planes, giving it a lucrative placement in the order queue for a hot-selling airplane, Cowen & Co. aviation analyst Helene Becker says.

Franke, a former chief executive of America West Airlines, has compiled "a really good track record" in the industry, Becker says, calling Frontier "definitely a turnaround story" that could eventually be sold to a larger carrier or taken public in three to five years if any revamp is successful.