



Allegiant profits by catering to passengers in small areas

By [Charisse Jones](#), USA TODAY

What happens to an airline that ignores the big-spending business traveler, flies to towns many Americans will never visit and charges super-low fares? It becomes one of the most profitable airlines in the U.S.



*By Laura Rauch for USA TODAY
Allegiant Air employee Julie Bruender puts luggage on the conveyer belt at a ticket counter at McCarran International Airport in Las Vegas.*

In the midst of a deep travel downturn, when many of its peers are losing money and slashing flights to survive, Las Vegas-based Allegiant Air (ALGT) is growing. When the company gives its latest earnings report Monday, it is expected to announce yet another profitable quarter — its 27th in a row.

Allegiant's success is rooted in its unique niche: providing leisure travelers affordable non-stop flights from small communities such as Bozeman, Mont., or Allentown, Pa., to such vacation hubs as Las Vegas and Orlando. And if passengers want to see a show or visit a theme park once they arrive, Allegiant will sell them those tickets, too.

"We've basically taken a very focused approach in our business," says Andrew Levy, chief financial officer of Allegiant Air, who noted that many of the airline's customers would otherwise have to take connecting flights to reach their destinations. "It's a market that has truly been ignored."

The airline's parent company, Allegiant Travel, brought in \$148 million in revenue in the second quarter and a \$23.9 million profit, up from a \$2.6 million profit during the same period last year.

While most airlines are cutting flights, Allegiant is adding them. It began flying to Los Angeles from 13 cities in May. By year's end, Allegiant will serve 136 routes between 69 cities, including tourist destinations Myrtle Beach, S.C., and Palm Springs, Calif.

The airline has come on strong in a relatively short period of time. Founded in 1997, Allegiant Air filed for bankruptcy protection three years later. It emerged from bankruptcy in 2002 and went public in December 2006.

"We have built the airline with the specific goal to be profitable," says Allegiant CEO Maurice Gallagher Jr. "We're still young, and we have the ability to do this for the foreseeable future, it appears."

The differences

Allegiant differs from most other carriers in a variety of ways. It's small, with 1,700 employees. It has competition on only five of its routes. And sales of car rentals, vacation packages and other services and products are nearly as important to its business as ferrying passengers back and forth.

"That's why we call ourselves Allegiant Travel Co., because we don't see ourselves as limited to flying people from Point A to Point B," says Levy, noting that the company also offers some chartered flights. "We've ... taken a focused approach on selling something more than air travel."

Allegiant was among the first carriers to ask fliers to pay for services they were used to getting for free. Charges for everything from an in-flight soft drink to a vacation tour package brought in an extra \$32 per passenger in the second quarter, Levy says.

"The secret to their success has been that they spend very little money on aircraft. ... They have flown with fairly high load factors, and fuel prices were pretty low," says Mark Roberts, director of research for Off Wall Street Consulting Group in Cambridge, Mass.

Allegiant flies used MD-80s and owns most of its fleet, which keeps down costs. The airline pays about \$4 million per plane vs. the \$30 million to \$40 million shelled out by many other carriers. And Allegiant's scheduled trips are generally less frequent than its peers: flying a few times a week between cities rather than a few times a day.

That has helped Allegiant consistently fly planes that are about 90% full, among the highest levels of any carrier.

But Roberts says that Allegiant's customers may not always be interested in return trips to vacations spots such as Las Vegas, so the airline's profit momentum could slow.

"There's a limited market for them," he says. "It's a little niche thing they've got going. They've been growing, much to their credit, but (Allegiant's) clearly vulnerable. ... Should high fuel prices or high aircraft maintenance overwhelm them, they're going to have a problem." MD-80s are not as fuel-efficient as some newer planes.

Allegiant, however, sees a future filled with opportunity. The airline expects over the next five years to grow at least 15% annually in departures and available seats as it continues to add to its network.

Allegiant has identified an additional 300 potential routes, and it is focusing on selling more hotel reservations, car rentals and other services to drive up revenue.

"We're continuing to be smart about managing our supply of seats and aggressive in terms of selling vacation products. ... That's what ultimately enables us to continue to grow," Levy says.

Some problems

Everything hasn't been rosy for the airline. Last year, the Department of Transportation said it violated department rules by not including a convenience fee, imposed on some ticket purchases, in initial price quotes on its website.

The airline has also come up in a controversy surrounding Sen. John Ensign, R-Nev. News reports have raised questions about whether the lawmaker improperly helped a former aide who was lobbying on behalf of the carrier.

And earlier this year, an engine shut down on three separate Allegiant flights. No one was injured, and the airline says it has intensified engine inspections.

Some analysts predict the airline will continue to prosper. "A 30% profit margin is not sustainable, but I think double-digit margins are," says Helene Becker, an airline analyst at Jesup & Lamont Securities in New York. The airline just needs to "stick to this business plan ... serving small and midsize cities that don't really have any competition."

Fliers say the convenience factor is huge. Cynthia Roberts, 44, relished flying Allegiant non-stop from her home in Appleton, Wis., to visit her in-laws in Orlando in December. Normally in the winter she worries about missing a connecting flight. But not this trip. "My favorite part was getting on the plane, and it was winter," she says, "and getting off the plane, and it was summer."

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