

Commercial Aviation Success Story - Allegiant Air

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Allegiant Air is a low-cost airline headquartered in Nevada. It operates scheduled and charter flights from Las Vegas McCarran International Airport, Orlando Sanford International Airport, St. Petersburg-Clearwater International Airport, Phoenix-Mesa Gateway Airport, Fort Lauderdale-Hollywood International Airport, Bellingham International Airport, and at Los Angeles International Airport. Allegiant was founded in 1997 and has been profitable for 28 consecutive quarters.

Here is an interview with Allegiant Air CEO Maurice Gallagher that was conducted by Ben Mutzabaugh from USA Today. Mr. Mutzabaugh asks some excellent questions and Mr. Gallagher gives revealing analysis about the struggles of the commercial aviation industry. It is good reading for any flight school training student and for the aviation school graduate who may be looking for employment.

Ben Mutzabaugh: Let's start by talking about your most-recent earnings. You were one of the few airlines to make a profit – both for the quarter and the full year. Obviously, you must be pleased by a profit in this in environment.

Maurice Gallagher: It's the 28th consecutive quarter of profitability, which is a great track record. I think even more so in this industry, which is so plagued with up-and-down volatility that has affected the business – particularly as fuel has been what it is over the past two years. So, yes, we're very pleased. [We have] a great group of people, a good business plan [that's] well-executed [and] excellent customers ... it all comes together nicely.

Mutzabaugh: Five years ago, if you would have said fast-forward to 2010, most people probably would have guessed Southwest would have continued to be the USA's the most consistently profitable airline. Now, it's Allegiant and AirTran. Does it surprise you at all how that's turned around?

Gallagher: Each of us has to take care of our own needs, and Southwest is facing some of the same problems everybody else is. They're a very mature company and I think they have some cost pressures that are facing most people in this industry. It comes with age, frankly.

We really have focused on doing what we're doing here and the results. So, it doesn't surprise me that we're industry leading. That's not to say we aspire to that as our main goal. It's just that we have internal goals that suggest if we're going to do it, let's do it properly. And properly means reasonable returns so that you can continue to grow, that you have capital to invest, [that] your stockholders that can be rewarded, and [that] employees and team members that can be rewarded. A rising tide lifts all boats. So, ultimately, we believe in that philosophy.

Mutzabaugh: Does that mean then that – eventually – you might run into some of the same challenges Southwest has started

to see ... whether that's five or 20 years down the road?

Gallagher: Well, Southwest ... we're not quite in that league yet by any means. They're 37 or 38 years down the road since the early 70s when they began. And I would love to have a run equivalent to theirs. They are the bellwether of how to do it properly in this industry. They've been kind of the "how to do it" manual in Europe and Asia. You're seeing Ryanair in Europe ... you're seeing Air Asia [in Asia]. [Those are] other low-cost models that are based on [Southwest's] approach. And low-cost is important. As I like to say, you can be low-fare in 10 minutes. All you have to do is change the fares in your computer. Low-cost is a culture, an approach. It's a product that's recognized and focused and is not trying to be everything to everybody. That definitely is what we are about.

Mutzabaugh: You mention that Southwest has been something of a "playbook" of sorts for low-cost carriers elsewhere. But could it be argued that now – as of the past few years – that Allegiant has become something of a role model for other airlines that are looking for ways to introduce a la carte pricing into their business models? Do you think some of those airlines have looked at what you've done in regards to a la carte fees and said, "Hey, this works for Allegiant so maybe we should give this a try?"

Gallagher: Absolutely. You can see it – just in a minimum – in the legacies. If you would have gone back to your five-years-ago analogy and suggested [that] airlines [would] be charging for bags, they would have told you: "No way. Couldn't do it. It's not allowed." Or whatever reason they'd use.

This industry is plagued by people that say, "Well the customer doesn't like it." You know, if you ask people if they like paying more for something, they're probably going to say "no." They won't like it. The issue is will they do it? And there's really a psychology out there that when you buy a car, you buy lots of features. And automakers and dealers, if you would ask them, make their money selling you electric windows and upgrades to this and that. They don't make a lot of money on the basic car.

It's the same thing in this industry. You don't make a lot of money just on the specific air service. But that is what we should sell. And, beyond that, you have products that you offer customers. And we find, psychologically, that it's a non-starter if the price is too high. But to try and get our combined airfare of ancillary and selling fare just in a selling fare, we know for a fact that it would be a non-starter.

So, we have this basic stimulative airfare that's very attractive. And, if that's what you want, you can get from A to B for that rate. But if you want other features because they're important to you – seat assignment, priority boarding, baggage check, whatever it is – you buy accordingly.

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