Denver's Stapleton Airport: A good place to watch deregulation

Denver's airport has seen it all: overcrowding, fare wars, bankruptcies, consolidations, and it is not over yet. *By Dee Mosteller and Danna K. Henderson.*

Denver—The spirit of the wild west is truly alive and well at Stapleton International Airport in Denver, Colo., a city whose own colorful history is steeped in gold rushes, shoot-outs and claim disputes. "Sometimes I feel like the sheriff," George F. Doughty, director of aviation at Stapleton, said. "Other times I feel more like the guy in the black coat presiding over Boot Hill." Doughty refers to the fact that during his two and a half years in charge of Stapleton, at least four airlines—the latest being Frontier Airlines—have gone out of business, primarily because of the vicious price cutting that has caused Denver to be labeled the "fare wars capital of the world."

The fifth busiest airport in the U.S. and sixth in the world, Stapleton had nearly a half-million flight operations and handled just under 30 million passengers in 1985. Twenty-three airlines serve Stapleton. Analysts call it "one of the country's most important, and competitive, airline markets." Airlines call it "a place everyone *has* to go to, but no wants to be in."

Because of its central geographical location, making it a logical connecting point on both east/west and north/south routes, and its importance as a gateway to one of America's busiest resort areas, Denver has become a major component in the country's hub-and-spoke system.

Attractive airport

With the exception of Pan Am, every major domestic airline flies into Denver; it has become the second largest hub for United Airlines, which also maintains its Apollo reservations and flight training centers here; and it is Continental's largest hub. At last count United had 219 daily departures from Denver—12% of its total system—and Continental had 179. Until late August, when fierce competition among other problems, forced it into bankruptcy, Frontier also had its main base at Stapleton. The three carriers—United, Continental and Frontier—shared over 80% of the Denver market. And with local regional carriers, they had developed one of the most formidable and competitive feeder systems anywhere. Even with Frontier out of the picture, United and Continental are continuing the fare war and are waging a battle for Frontier's old market share.

In addition to its attractiveness as a market, Stapleton is also an excellent facility with a good safety record. The city/county-owned airfield more than pays its

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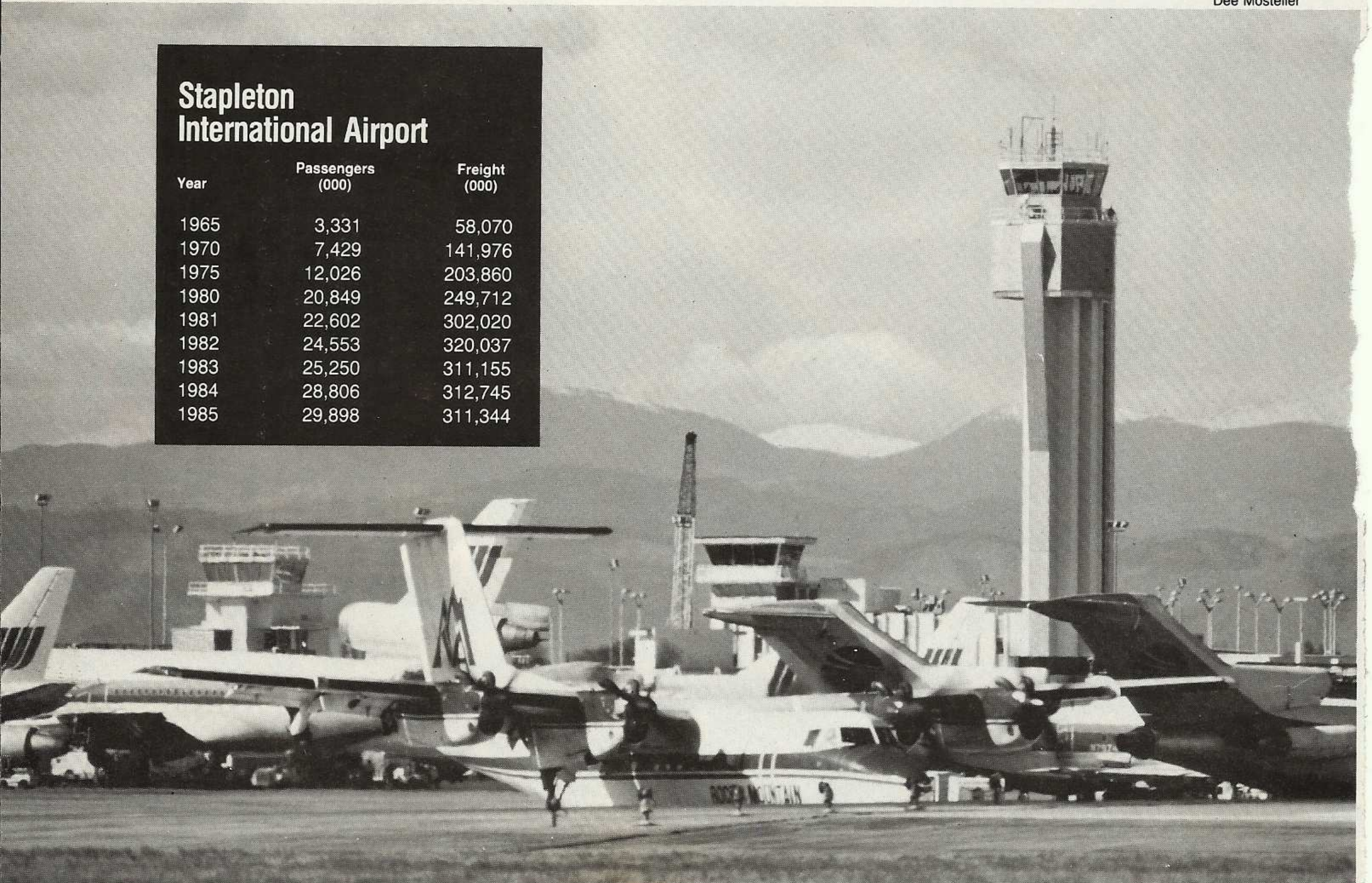

Stapleton International Airport

Year	Passengers (000)	Freight (000)
1965	3,331	58,070
1970	7,429	141,976
1975	12,026	203,860
1980	20,849	249,712
1981	22,602	302,020
1982	24,553	320,037
1983	25,250	311,155
1984	28,806	312,745
1985	29,898	311,344

own way with nearly $85 million annual operating revenues collected from airlines and vendors. A renovation program is continuously underway to improve handling and reduce delays; and the airport management is ever tiptoeing on a tightrope on such issues as noise abatement, trying to appease airlines and the public, the usual situation for large airports everywhere.

One major problem, from the airlines' viewpoint, is that no one is making much, if any, money flying out of Denver with the current spate of discount fares, according to industry analysts. Yields have dropped to as low as 5¢ per mile; and even Continental, with its pared-down costs, has a cost per seat-mile of about 5.8¢. Both United and Frontier had a cost of over 8¢. "It doesn't take a genius," one analyst said, "to figure out you can't make money that way."

Denver yields low

Continental's Regional VP, Bill Neary, admits that "Denver yields aren't as profitable as other parts of our system," and that "the fare wars have had an impact on our economy." A study made by Continental, based on material from the Airline Tariff Publishing Co., showed that Denver had the lowest average one-way, full-coach, unrestricted fares of any major hub in the country. Averaging all the major destinations, Denver's aggregate fare was $149. The next lowest was Houston, also dominated by low-cost carriers, with $158. Chicago, Atlanta, Minneapolis, Pittsburgh and Los Angeles all had average one-way fares of well over $300.

United's Regional VP, Bruce Strand, also says that "Denver yields are not as high as they should be to give us a happy balance." Both airlines, however, tout Denver as an "important market," claim their "commitment to the airport is very high," and talk about the boarding records they've had here this year.

To exacerbate the discounting problem, until Frontier's demise, Denver had the unique if not very healthy distinction of being the only three-airline hub in the country, all others being dominated by two. Texas Air Corporation Chairman Frank Lorenzo calls this "the heart of the whole problem;" and market analyst David Sylvester of Montgomery Securities in San Francisco, said, "This has been a major danger all along. It's been clear for four or five years that, although the Denver market is big enough for three airlines at standard fare levels, the airport capacity isn't enough, especially with deep discounting." Long before Frontier shut its doors, San Francisco analyst Sylvester predicted a "war of attrition" in Denver, ending with one of the three going out of business.

The demise of Frontier, however, gives Stapleton little cause for relief. In some ways it could make things worse. Frontier was the third largest airline hubbing at Denver, but it will not simply go away. It was an individual airline initially. Then it was bought by People Express which, in turn, has been bought by Texas Air Corp., aka Continental. If all this consolidation is approved by the Department of Transportation, Continental will become the largest airline in the U.S., United's current rank. Stapleton will become a major battleground for two largest airlines in the U.S.

Stapleton is an airport badly cramped for space. Built to handle 18 million people a year, "we're now jamming 30 million through it," says Richard Boulware, the airport's head of marketing and public affairs. Designed in the prop plane era, the concourses are too close together to allow two jets, even narrowbodies, to pass each other, and each of two sets of parallel runways are spaced too close to allow maximum operations during IFR. Stapleton's "personality profile," as Boulware calls it, is an airport with both seasonal and daily peaks, during which the majority of its flights are crammed together . . . with a passenger ratio of 60% transient to 40% local . . . and a fleet mix that includes airlines, military, business and general aviation aircraft. "An airport with tremendous potential for growth . . . and no where to put it."

One local airline executive said, "Stapleton must have been designed by a madman." Another one claims, "It wasn't designed at all."

Even more pertinent to the airlines, Stapleton's 90 gates have long ceased to be adequate for 23 airlines running 1,400 flights a day. Thus, gate swapping has become a way of life at Stapleton. With three major concourses each basically controlled by one of the dominant airlines, there is little left for the others to work with. Most sublease or share gates on concourses controlled by Continental and Frontier (People Express). Some have had to resort to mobile lounges and remote parking. Commuters operate out of a cinder-block building (soon to be replaced by concourse "A-Plus"), far from the other gates. One commuter, Trans-Colorado (a Continental Express carrier) has to park at an isolated hangar and bus passengers to the main terminal. Even the majors, especially Continental, say that the lack of gate space is "stunting our growth at Denver."

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Each of two sets of runways at Stapleton, designed in the prop plane era, are spaced too close together to allow maximum operations during IFR.

Doughty

Constant renovation

The space problem is a tough one. Stapleton is surrounded by heavily populated areas, only seven miles from downtown Denver. "It reached saturation in 1979 or '80," Boulware said, "and it's been patch-up ever since." The number of passengers has increased at rate of more than 10% per annum for years, and the first half of 1986 saw a record increase of 17.2%. (According to Boulware's office, even with Frontier flights cancelled, passenger boardings continue to grow.)

The current renovation program, begun in 1984 to increase parking, terminal and runway space, and upgrade existing facilities, is costing about $275 million, all of which is being poured into a "throw-away airport." Stapleton will be put out to pasture (or sold as condo space) when Denver builds its new airport, proposed for completion some time in the next decade. "We have to keep upgrading," says Boulware, "until we get the new field. This place could wear out overnight if we ever stopped." United is also spending $130

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Stapleton is only seven miles from downtown Denver. New proposed airport site is 12 miles northeast of Stapleton.

Stapleton Int'l continued

million to enlarge and upgrade its Concourse B, where it controls 29 gates and other passenger areas, and Continental will spend half that to upgrade Concourse C, where it has 23 gates.

Competition, as much as space limitations, has driven the airlines to overcrowding during peak periods, and setting up unrealistic connection times, for which both passengers and airlines suffer. Between overcapacity on the ramps that sometimes holds an airplane for up to an hour waiting for a gate, and delays caused by Denver's "quirky" weather, there are untold numbers of missed connections and resultant accommodation and meal vouchers issued. Delays cost airlines about $104 million in Denver last year.

It is the fare wars, however, that have caused Denver's explosive growth, says Doughty. Price cutting and route grabbing began with deregulation, and became even more intense following the air traffic controllers strike in 1981 and its cap on landing slots. In 1982 when competition intensified United, in particular, began a major buildup in Denver, buying slots from anyone who would sell them.

But the serious fare wars didn't begin until fall of 1983 when Continental went bankrupt and re-emerged three days later as a low-cost, low-fare carrier. With its drastically trimmed down operations, Continental flew back into the fray with a flat trip rate of $49 to anywhere in its system.

United's revised thinking

Frontier, which had seen a consistent profit for 12 years prior to that, took up the Continental challenge immediately. "We had no choice," said a former Frontier executive (one of a rather large breed these days). "We had to match them, even if we operated at a loss." Which is exactly what Frontier often had to do. By the end of 1983, 86% of Frontier's passengers were flying at a discount, up from 40% in 1980; and the airline was starting to lose money.

United chose not to match Continental's new fares for several months. Corporate Communications Manager Joe Hopkins said, "We felt that they were too small to be a threat when they came back after reorganization, and we opted to keep up our yields." Hopkins admits that United lost some share of the market and "had to revise our thinking." Eventually United had to enter the trenches.

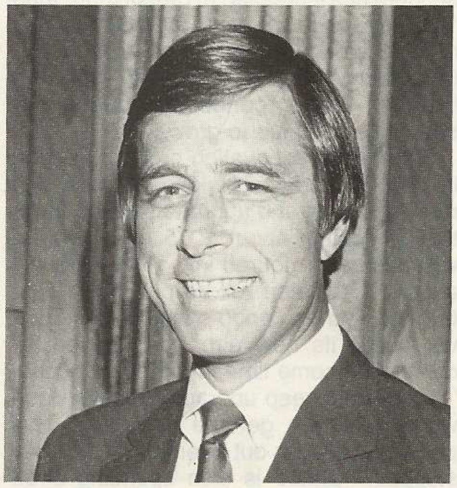
The ex-Frontier official believes, "If United had matched immediately, there might have been a different ending. Continental might not be around today."

From then until early 1986 Continental maintained its position as the Denver faresetter, with Frontier and United matching. Continental's strategy has been to enter new destinations with ultra-low rates for a limited time "to establish a market," says Neary. For example, in August Continental started new service to Baltimore with an advance purchase, one-way fare of $69, and to Sacramento for $49. When the airline starts service to London next April (pending DOT approval), one-way fares will start at $199, going to $266 after 30 days. Using this same fare structure when it opened Denver-Honolulu last year, Continental had 82,000 calls for reservations in four days.

Still, United has held on to its market-share lead, even through 1985 when a pilot strike halted all flights for a month and stopped the airline's expansion cold. Once the pilot strike was settled and "wages were at better levels," says Strand, "our growth really took off." By early 1986, United was back up to its 40% share level in Denver.

In 1985 People Express entered the Denver market and fare battle, but was badly restrained by the lack of gate space. It solved the problem, momentarily, by purchasing Frontier for $300 million, laying claim, indirectly, to the "hometown airline's" 21 gates. When Frontier's losses increased to a rate of $10 million a month by early 1986, People Express turned it into a no-frills entity, with charges for meals and baggage checks, and rock bottom prices that daunted even the people at Continental. Frontier was now the fare leader, taking them as low as $9, at one

Neary



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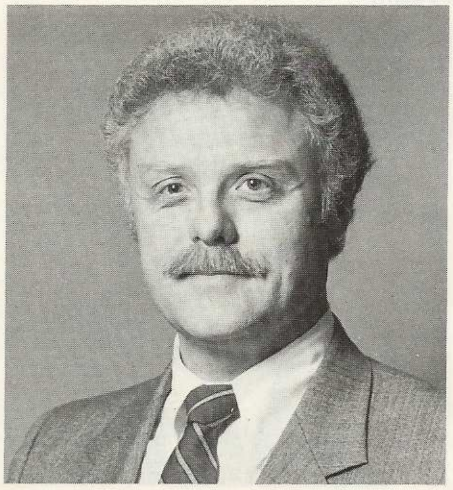

point, to Colorado Springs, and $39 to such destinations as Dallas/Ft. Worth. In desperation, Frontier even had a period during which it had a system-wide, 30-day advance purchases fare of $19. Both United and Continental followed suit to various degrees, but were careful to point out that *they* were lowering prices without lowering passenger service standards.

Frontier's no-frills action precipitated a circus-like atmosphere at Stapleton for weeks. A "food fight," as Neary calls it, broke out when Continental offered free box lunches to Frontier passengers. Later, when Frontier put up a billboard claiming the lowest fares, Continental personnel, including top marketing executives from Houston, set up camp in a "truth bus" under the sign, until Frontier had to remove the billboard.

"It got out of hand," says Boulware. So much so that the state Attorney General's office declared the fare wars advertising "deceptive" and "misleading," saying it "violated Colorado's consumer protection codes."

War casualties

The fare wars took their toll and the laughing stopped. "It was definitely one of the prime factors in our financial downfall," says Marilyn Mishkin, a Frontier spokesperson. Discounting also helped kill Pioneer Airlines, a long-time Denver-based commuter which folded its wings in May. "Fare wars have made it extremely difficult for us all, especially the small carriers," says Dennis Heap, VP-marketing for Rocky Mountain Airways, one of the Denver regionals that has survived by joining the Continental Express system (see related story this issue.)

Fare discounting was also the main reason Southwest Airlines withdrew from Denver in October, says Mary Sheets, area marketing representative. Southwest had five flights a day to Albuquerque, N. Mex. and Phoenix, Ariz., both of which were also served by the three dominant Denver airlines. "We didn't have the lowest fares or the greatest frequency, and we couldn't compete," said Sheets. "We weren't carrying the loads we needed, and we couldn't get gates to increase our frequency; so we decided to put our efforts into other hubs where we would have more growth potential." Southwest also found that it could not keep up its standards for quick turnarounds in the delay-ridden Denver area.

Airlines were not the only casualties of the fare wars. With the energy crisis, and Denver's emergence as a possible new center for the alternate source, oil shale, there came a glut of new travel agencies to the area. The energy crisis ended, Denver business traffic failed to materialize and the fare wars went on. "There was too much competition and too little profit in the fares," says Conrad Blumburg, president of the area American Society of Travel Agents chapter and co-owner of Regatta

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Travel. "I don't know of anyone who made money in 1985; and we've shown a profit only one month this year." Many of the less well-established agencies folded.

The complicated, multi-layered fares, with their myriad, ever-changing restrictions, also affect the agents, who say they can't keep track of what's going on. "Anything they announce today could change tomorrow, or even later today," says Michael Newman, president of Tufor Travel.

Analysts like Sylvester feel that when the dust settles over the Frontier issue, and two dominant lines—United and Continental—emerge, "we'll see fares returning to compensatory rates where a fair profit can be achieved." He also thinks that "in 12 months the capacity in Denver will be back to normal market growth." He doesn't see Denver returning to a three-airline situation. "I think the carriers are ready to fill their planes and make a profit again," he says.

Continental's Neary agrees that "fares may go up some," but he predicts that "low fares are here to stay."

Frontier's decline, itself, has started another big war in Denver. First came United's offer to buy Frontier for $146 million; and Continental cried "monopoly" in a lawsuit that said this would give United two-thirds of the market and gates in Denver. It also came down on United's dominance of the travel agents through Apollo, which is used by about 70% to 80% of the area agencies. Of United's offer, analyst Anthony Hatch of Argus Research in New York said, "It's a bargain basement price . . . United doesn't have to fight for Denver . . . it just bought it."

The suit was rejected and so was the buy out bid; but United ended up with six gates and two large hangars in Denver and coveted gates and slots in other capacity-constrained airports bought from Frontier for $53 million. The other Denver airlines began eyeing Frontier's routes and remaining gates.

More gates in 1987 or 1988

At that point 12 of Frontier's gates were scheduled to go back to the city for a $22 million payoff to People Express, to be released. Then Frontier went into Chapter 11 bankruptcy proceedings and the gates went on hold, with part of Frontier's fleet buried in them. "Concourse D really started looking like a ghost town," says one airport official.

Says Lynn Liebowitz, the airport's deputy director for finance and business, Continental has first request for the 12 gates; but the airline will get them anyway if Texas Air's recent bid for both Frontier and People Express goes through.

Meanwhile the airport will have 21 additional gates available when its new Concourse E is completed in 1987 or 1988. The gates, says Liebowitz, will be leased on a "preferential-use basis" to a number of airlines including American, Delta, Eastern, USAir, TWA, Western and Northwest. Liebowitz says the airport has also had a request from America West and "another unidentified airline" to start service in Denver, and their gate needs are being "reviewed" now.

Oddly enough United "is not interested in any more gates," Hopkins said. The airline has not decided what to do with the six new gates it has on Concourse D, which is a long way from its main Concourse B. Hopkins also said United doesn't have enough airplanes to pick up new routes at this point, although he predicts "majors expansion" in Denver later on, "meaning that the war may get hotter yet."

One other airline—Mexicana, with its one shared gate used for two daily flights—is actually happy with its Denver facilities. Says Regional Manager Kenneth Stevens, "Mexicana feels very comfortable in Denver. There are no restraints on us—we're too small—and we have a beautiful customs facility (built for a Western flight to London that didn't materialize), almost all to ourselves. We've got more than enough room to develop this relatively small market."

The gate problem has been enough to

Dee Mosteller

Stapleton Int'l was built to handle 18 million people a year; last year it handled almost 30 million. First half of 1986 figures were up a record 17%.

deter some would-be contenders for a third line dominator, including American, which at one time had a standing order for 25 gates. The order, according to American Communications Director Al Becker, has been withdrawn. "A few years ago we proposed having a major Denver hub, but we couldn't get the gates we needed. Now we'll wait for the new airport; and, in the meantime, we're developing other hubs where we can get space . . . and make better yields."

Other types of space problems plague Stapleton. When the weather is at its best, the four major runways—two north/south and two east/west—and a small STOL strip can handle 72 departures an hour. During IFR, traffic can dwindle to as low as 12 per hour, according to Frank Johns, Stapleton's tower chief.

Two new runways—a 6,500-foot north-/south strip due for completion by the end of this year, and a 12,500-foot east/west strip planned for 1988—could alleviate the problem, except for one thing: inadequate ramp and taxi space. Existing ground operating areas are so tight that Johns doubts whether the first new runway will help much, especially in good weather, when the airport is already at maximum handling capacity on the ground. "It will help significantly," he says, "during IFR with commuters using the new strip."

Nonetheless no new ramps or taxiways are planned, although the ramp around Concourse E will allow for the passage of two jumbo jets. "We'll wait and see what happens," say both Johns and Doughty. The airport director claims, "We can add new taxiways and ramps as needed."

Even though the airport is actually ninth on the list of airports with the most closings and delays, Stapleton delays are legend in the airline business. Western, which has limited gate space (ergo, limited flights) in Denver, has been promoting its main hub, Salt Lake City, with a national advertisement showing a businessman, obviously late for a meeting, explaining to his peers that he "had to fly through Denver." Some industry folks think it was this ad that prompted Stapleton's sudden move this year to develop its first "image" advertising campaign. Not true, say Doughty and Boulware. The airport had already pledged $350,000, with another $100,000 "contingency" to "educate the local public as to the benefits of Stapleton," says Doughty. He says the campaign is strictly to support the airport's current expansion and the new airport in the future, both of which depend on public support for continuation.

So controversial are Denver's airports that they have become the "second hottest subject in the local press," says Boulware, ". . . after the Broncos (football team)."

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Part of the ad campaign is to show the Colorado public that the airport doesn't cost the taxpayer money; that instead it provides nearly 40,000 jobs, directly and indirectly, and adds $3 billion a year to the state's economy. Another issue is noise abatement, "to let them know," says Doughty, "that we do care about it."

Stapleton has entered a major noise abatement program "a little late," Doughty admits, because "we have to prove to the local voters that we *can* control noise at Stapleton, before they will approve the new airport site (about 12 miles northeast of Stapleton)."

Stapleton's program includes the establishment of a permanent noise officer, Steve Alverson, who says the airport has come up with "major concessions to the community." These include reduced-noise takeoff procedures; a preferential-runway use plan that puts most takeoffs to the north over the Army's barren Rocky Mountain Arsenal and landing from the prairies in the east; a $22 million program to insulate houses and other buildings in the immediate neighborhood; a noise "hotline" that has increased monthly phone complaints from under 200 to over 1,000; and a proposed fleet mix rule with limited Stage II operations.

Ultimate goal

The fleet mix rule, Doughty says, "does put some burden on the airlines," who are calling it "economically damaging." The airlines and airport have agreed to work out the problems and come up with an appropriate plan within a six-month period.

Stapleton, meanwhile, has been doing other things to alleviate congestion and further reduce delays. Snow-moving equipment has been tripled and a Doppler system is being installed to better anticipate weather. Airlines are being asked to spread the traffic around to alleviate bunching up at peak times, "but traffic demands dictate departure times, not the airlines," says Boulware. General aviation has been encouraged to move to satellite fields; and all air freight operations have been moved to a single terminal in the north quadrant, with its own ground transportation and runway access area.

The ultimate goal, of course, is to get the new airport, which will have four times the capacity of Stapleton, into the works. "We have a unique opportunity," says Boulware, "to design an airport—close to a metropolitan area—from scratch, to have maximum efficiency, unlimited expansion potential and zero noise impact."

But Stapleton management must prove its sincerity and capability in controlling noise and congestion in the old airport first to satisfy the local constituency, which has the power to veto the proposed site. "If that happens, we'll just stay right here, and make do with what we have," says Boulware determinedly.