

## The Middle Seat / By Scott McCartney

# Southwest Gains Muscle at Chicago's Midway

*As Airline Grows, Boosts Competition, Travelers May See Fares Drop*

**O**N A RECENT MORNING, Mike Risk got off his flight from Kansas City, Mo. and looked for his New York-bound flight on the display monitors at Chicago's Midway Airport. He did a double-take.

"It's all Southwest," he said. "Almost entirely Southwest."

Southwest Airlines has taken a commanding position at Midway Airport, acquiring 10 gates from ATA Airlines to give it 29 gates—more gates than it has at any other airport in its system. The Dallas-based airline has nearly three-quarters of the traffic at Chicago's second-biggest airport, according to the city aviation department, and Southwest says it plans to grab a lot more as it moves beyond its short-hop routes.

Chicago may become Southwest's largest city by year's end, and in the process, Southwest will not only grab more local passengers in Chicago but also become an even bigger player in east-west long-haul travel. A bigger Southwest at Midway means cheaper fares for travelers across the country and more pressure on incumbent airlines at O'Hare International Airport, although AMR Corp.'s American and UAL Corp.'s United are in better shape for battle after having slashed costs and moved to more efficient operations.

"We're very well prepared to grow our presence in Chicago," said Southwest Chief Executive Gary Kelly. "There's just a huge pool of passengers that don't have access to low fares."

Southwest's presence in markets does make a difference, even if you don't fly Southwest. The airline tends to push down prices wherever it flies. Between Chicago and Memphis, Tenn., for example, the one-way unrestricted coach fare is \$487 on American, United and Northwest Airlines. Southwest doesn't fly to Memphis, but it does fly to Little Rock, Ark., about the same distance from Chicago as Memphis. An unrestricted one-way ticket from Chicago to Little Rock on American is only \$199. Or compare flights from Chicago to Raleigh-Durham, N.C., where you can get a one-way ticket for \$181 on American or United, and \$174 on Southwest. But to Columbia, S.C., where Southwest doesn't fly, a one-way ticket on United is \$676.

Once a dreary depot with low ceilings and dingy paint, south-side Midway has undergone a rebuilding and



has become an attractive, comfortable, airy airline hub. An \$800 million renovation was completed in 2004. While many business travelers prefer O'Hare, where American and United have huge international hubs, business traveler Drew Thawley recently found himself sitting in a rocking chair at Midway, near a power plug, using Wi-Fi access while he waited for a connection between ATA and Southwest.

"I like this better than O'Hare," said Mr. Thawley, who lives in Indiana and finds himself frequently making connections in Chicago. "I spend more time now at Midway than I do at O'Hare."

But the Midway invasion has left other discount carriers struggling to gain mass in the nation's third-biggest city. By locking up Midway, Southwest has made it hard for competitors to get into Chicago. AirTran offered to buy ATA's assets in bankruptcy court to form its own Chicago hub, but was outbid by Southwest. America West Airlines studied ATA but declined to bid, then bought US Airways Group Inc. JetBlue Airways doesn't fly to Chicago. Its chief executive, David Neeleman, has said he'd prefer a couple of gates at O'Hare, but can't get space at either Chicago airport.

AirTran was particularly disappointed it got edged out of the ATA deal. But the airline did get a couple of ATA gates that were controlled by the city, and has grown from eight daily flights at the beginning of last year to 36 flights a day to Minneapolis, Newark, N.J., Charlotte, N.C., Dallas, Atlanta, Boston and several Florida destinations.

AirTran has become the second-biggest carrier at Midway—a distant second behind Southwest. "We're big enough now in Chicago that we don't have to get bigger to make it work," said Kevin Healy, AirTran's vice president of planning.

The city says that Southwest dominance is a good deal for travelers, bringing low fares to more cities, even if it means other discount airlines get

edged out. "We believe consumers in the city and around the U.S. have benefited from Southwest's presence here," said Wendy Abrams, spokeswoman for the City's Department of Aviation, which runs both Midway and O'Hare. "We hope they continue to grow."

Frequently opportunistic throughout its history, Southwest has grabbed precious real estate at Midway when competitors collapsed. When Midway Airlines shut down in 1991 during the first Gulf War, Southwest sent a group of employees to Midway and worked a deal with the mayor the next day. This time, Southwest outbid AirTran in bankruptcy court for ATA assets. Southwest spent \$60 million on 10 gates and a maintenance hangar at Midway. It provided financing and an equity investment, too, but has been paid back that \$75 million, and has no investment or loans with ATA.

With ATA's gates, Southwest jumped from flying to 30 markets to now flying to 46 cities from Chicago. More are coming: When it announced its first 12 flights from Washington's Dulles Airport last week, seven are to Midway. Southwest now has 208 daily flights at Midway, and will grow to 216 by Oct. 5. Currently its biggest operation is Las Vegas, where it has 223 daily departures.

To clinch the deal with ATA, Southwest had to agree to a code-sharing arrangement with the airline, selling connecting tickets together and funneling passengers to each other. ATA, now with a former Southwest executive as its chief executive, flies only on routes where Southwest doesn't go, such as to Hawaii from the West Coast.

ATA flew to 34 U.S. markets from Chicago in June 2004, according to Eclat Consulting, but now goes to only three: New York LaGuardia, Washington Reagan and Dallas-Fort Worth. When Southwest decided to begin serving Denver this year, ATA dropped Denver immediately.

Close to one-third of its passengers now come from Southwest, and ATA says it has found new life serving as Southwest's partner. "That's our business model," said Josef Loew, ATA's senior vice president for scheduled service. "We fly out of Southwest strongholds to various places Southwest chooses not to fly."

**WSJ.com Online Today:** Have a question for Scott about air travel or the airline industry? Write to him at [middleseat@wsj.com](mailto:middleseat@wsj.com). WSJ.com subscribers can read answers to selected questions in Middle Seat Mailbox, Fridays, at [WSJ.com/OnlineToday](http://WSJ.com/OnlineToday).