

Virgin fans may fret, but Alaska Airlines deal will benefit many West Coast travelers



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A Virgin Air Airbus A320, headed to... (Mike Siegel/The Seattle Times) [More ▾](#)

Airline experts say Alaska's absorption of Virgin America likely won't raise West Coast fares and will boost Alaska's competitive hand. But the deal could have another local impact — Boeing's grip on Alaska may be loosened after the airline starts flying scores of Airbus planes.

By [Dominic Gates](#)

Seattle Times aerospace reporter

Die-hard fans of Virgin America may be upset that Alaska Airlines is set to swallow the smaller San Francisco-based carrier, known for its stylish sense of cool.

Yet airline experts say Alaska's absorption of Virgin likely won't raise West Coast fares. And the beefing up of Alaska's network, particularly in California, should bring real benefits for many air travelers.

Brett Snyder, founder of the airline-industry blog Cranky Flier and a resident of the Los Angeles area where Alaska's reach will be greatly extended, welcomes the increased opportunity to redeem the miles earned on his Alaska Airlines Visa card.

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“I’m excited about having more ability to use Alaska to go different places,” said Snyder. “From a passenger perspective, I’m really OK with it.”

For the Seattle-based airline, executing the merger without major stumbles — admittedly, a real challenge — should secure its long-term growth.

Still, one big local company may see a darker side to the news. If Alaska comes to appreciate its new fleet of Airbus jets, Boeing has the most to lose.

Hard-fought bidding war

In a teleconference call, Alaska's Chief Executive Brad Tilden explained the rationale for the big move announced early Monday as "perhaps a onetime opportunity to really get a much stronger foothold in California."

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"We're likely to be your airline if you live in Washington, Oregon or Alaska, and there's 12 million people on those states. ... This gives us California ... 39 million people, the biggest market in the country," he said.

"We just wanted more canvas to work with."

Tilden said Alaska has been contemplating an acquisition for a couple of years and first approached Virgin last fall.

When rival second-tier premium carrier JetBlue threw its hat in, the negotiations became a bidding war that Tilden described as "hard-fought."

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At that point, Alaska had to pay whatever it took to keep New York-based JetBlue from invading its West Coast turf, wrote Ernie Arvai of industry consultancy Air Insight.

Alaska said it will borrow \$2 billion for the \$2.6 billion acquisition. With a stronger balance sheet than JetBlue, it will have no trouble securing the financing.

Virgin America shareholder approval is expected in June, and Alaska hopes to secure regulatory approval in late fall to close the deal by year end.

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The two airlines will continue to fly as separate entities for about a year after that until they get a combined operating certificate from the Federal Aviation Administration, after which they'll become a single airline.

The deal was not greeted with enthusiasm by Richard Branson, the billionaire behind the Virgin brand.

In a message on his Virgin Group website, Branson bemoaned the loss of his baby, which he said he formed in 2007 because flying in the U.S. had become "an awful experience."

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"I would be lying if I didn't admit sadness that our wonderful airline is merging with another," Branson wrote. "There was sadly nothing I could do to stop it."

Because of limits on foreign ownership of U.S. airlines, Branson, a resident of the British Virgin Islands, had only a 24.9 percent stake in Virgin America, with U.S. hedge funds owning the largest stake and calling the shots.

Of course, said Snyder, the Cranky Flier, "I'm sure he's not going to cry over it that much longer." Branson's stake in an airline that financially was never hugely successful will be sold for a stratospheric price.

Branson's airline does have an impish style, with funny safety videos and agents playing music to liven up the wait at the gate.

Henry Harteveldt, founder of travel-industry advisory firm Atmosphere Research, said Virgin America focused its investment on making the onboard experience "snazzier, hipper and more stylish."

Even economy passengers can use their seat-back touch screens to watch free live TV and to order food and drinks brought to their seat.

“Virgin has a very fun and playful spirit,” Harteveltdt said, while Alaska offers a “friendly and very professional” but seat-back approach to passenger services.

It may be a blow to Virgin America loyalists to lose that experience, Snyder said, but most travelers are more concerned about a comfortable, affordable, on-time ride to wherever they want to go.

“This aura around Virgin America of just being cool, for some people is really appealing,” said Snyder. “For others, it doesn’t matter as much.”

Alaska is also well regarded for good quality service, and its on-time operations record is better than Virgin’s, overall.

And as for fares, both Snyder and Harteveltdt said that because Virgin has a relatively light schedule on routes that are also flown by multiple other carriers, there’d still be plenty of competition if it were eliminated.

For example, Delta, United and Southwest as well as Alaska all fly on Virgin America’s routes from Seattle and Portland to the Bay Area.

“It’s not like this is a route going to no competition, said Snyder. “I doubt there’ll be a huge impact on fares.”

That argument could help Alaska fend off any attempt by antitrust regulators to block the merger.

Boeing vs. Airbus

For Boeing, the stakes are high.

Alaska’s mainline fleet consists of a single aircraft family, the Boeing 737. In the Monday teleconference, Alaska executives said they haven’t decided exactly how they will deal with the acquisition of Virgin’s fleet of Airbus planes.

“We like a single fleet, yes. I mean, as an operations guy, if you have the single fleet, it’s so much easier across employees, particularly with pilot groups,” said CEO Tilden. “But the Airbus is a proven airplane. So we’ll see.”

Virgin operates 60 Airbus A320s, almost all leased. It is committed to lease 10 new A321neo aircraft in 2017 and 2018, and has firm orders directly with Airbus for three more A320s and 30 A320neos.

Brandon Pedersen, Alaska’s chief financial officer, joked about the added expense of operating more than one aircraft.

“We are big believers in single fleet” airplane types, he said. “So much so that we bought another single fleet.”

Pedersen said that as the Virgin A320s come off lease, starting in 2020, Alaska could let them go if it chooses to, gradually reverting over time to a fleet weighted toward Boeing jets.

But the conversation on the teleconference did not suggest that is a likely option.

And Addison Schonland, industry analyst and founder of Air Insight, published a piece Monday predicting that “the newer, bigger, Alaska will keep both Airbus and Boeing in the fleet.”

He said this will provide new leverage over Boeing in price negotiations. More significantly, he sees the largest Airbus A321neo as particularly suitable for Alaska’s opening up new long-range routes.

“Alaska is Boeing-biased, which is fine,” Schonland wrote. “But as [Alaska executives] learn about the A321, especially the A321neo, this is likely to change.”

“The A321neo is an aircraft that allows Alaska, which likes long, thin routes, an opportunity to experiment like never before,” he said, adding that this plane could fly from Honolulu to New Zealand.

Boeing’s competitive jets, the 737-900ER and the 737 MAX 9, don’t have as much range.

Schonland said he could see Alaska settling on the Boeing 737 MAX 8 as its standard domestic jet, and the single-aisle Airbus A321neo for its transcontinental and longer-range routes.

That’s got to be a deeply worrying scenario for Boeing, which declined to comment Monday.

J.P. Morgan industry analyst Jamie Baker, in a note to clients Monday, wrote that “the market opinion on the Airbus single-aisle product, particularly the next generation ‘neo’ variants, has improved and Alaska might grow to love its new Airbus aircraft.”

The lessors who own Virgin’s planes will push to have the leases renewed. Boeing may push the other way.

“Only time, and how aggressive Boeing and lessors want to be, will determine how this shakes out,” Baker wrote.

From Boeing’s perspective, Alaska’s leadership on Monday left the question worryingly open.

Pedersen declared himself “not worried” about the challenge of integrating two separate aircraft types.

“We’re going to get to know the Airbus airplane and go from there,” he said.

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