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Fare war no bargain for United

Could complicate financing search

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As United Airlines cuts costs in its search for investors to pull it out of bankruptcy, a major fare war has erupted that threatens the carrier's revenues.

Low-cost airlines last week dropped prices earlier and on more routes than usual for the typically slow fall travel season. And on Tuesday, East Coast discounter JetBlue Airways turned up the heat by putting a million seats on sale for up to half off its usual low prices.

Major airlines, including United, have been forced to match the lower fares in certain markets. The major carriers reduced 48,000 airfares last week, according to Travelocity.com. That followed sweeping discounts announced by AirTran Airways and Southwest Airlines on July 6.

United's average leisure fares on its top 20 domestic routes already are down 25 percent from a year ago, compared with a 15 percent drop for the nation's seven mainline carriers overall, said Bob Harrell, head of the aviation consulting firm Harrell Associates in New York.

That's below an already low base from last year, when customers shied away from air travel because of the war in Iraq and other factors, he said.

"To have fares below low is a reflection of the depth of the industry's woes," Harrell said.

On average, fares on United's Boston-to-San Francisco route are down 46 percent from last year, to $119 one way, Harrell said. Chicago-to-Philadelphia fares are down 46 percent, to $59 one way.

Chicago-to-Denver fares are down just 4 percent because United severely cut prices at its Denver hub last year to combat competition there, particularly from Frontier Airlines.

The latest fare war comes at a delicate time for United. The carrier recently was denied a $1.6 billion federal loan guarantee, forcing it to shop its business plan to investors elsewhere.

Executives have said repeatedly in recent weeks that competition and high fuel costs will require more cuts at the airline, which already planned to shave expenses by $5 billion a year by 2005.

A fierce price war is exactly what the carrier does not need.

"It makes the task of raising money that much more difficult," said John Pincavage, a Westport, Conn.-based financial adviser to airlines.

Potential investors probably will want to reduce United's revenue expectations based on fare competition and will become particularly worried by price wars, he said. "They don't use scalpels; they use meat cleavers," Pincavage said of airline equity investors. "They'll haircut the revenue plan because they see fare wars."

United spokeswoman Jean Medina said the airline does not expect the current fare war to have any effect on its search for financing. "It's very common for carriers to offer sales to increase interest during the fall, which is a traditionally slow travel period," she said.

Michael Boyd, an airline consultant in Colorado, said the worst it could do is "take some equity investor's eye off the ball."

"This fare thing is part of the ongoing noise that airlines go through, and it doesn't affect United's survival," Boyd said. "Some investors get squirrelly when they hear low-fare carriers are dropping fares, but it's not something United can't deal with."

Boyd said the current broad-based fare war could be a result of low-cost carriers beginning to compete with each other rather than just luring customers away from major airlines.

One good point for United is that the price war is primarily domestic, and about 35 percent of the airline's revenue comes from international routes.

"All its eggs are not in the U.S. domestic basket. Its international yields are holding up nicely on the Pacific and Atlantic," said William Swelbar, president of the aviation consulting firm Eclat Consulting in Arlington, Va.