

## New Pressure to Simplify Airfare

*Delta Details Plan to Cut Some Prices by Up to 50%; Boston to Key West for \$389*

By EVAN PEREZ

**D**ELTA AIR LINES confirmed plans to cut many of its fares on domestic flights, a move that will bring some immediate relief to sticker-shocked travelers and put pressure on rival carriers to lower their prices.

The Atlanta airline, ranking third among U.S. carriers in traffic, today plans to cut unrestricted fares by as much as 50% across the continental U.S., effective immediately. As a result, passengers will pay no more than \$599 for any first-class one-way seat, and no more than \$499 for one-way coach fares. Delta also plans to announce that it is abandoning an unpopular rule that required a Saturday-night stay for lower fares. The airline also



will reduce the number of different fares it sells.

Delta initially intended to expand its simplified fare structure later this month but accelerated its plans after details leaked out in recent days. Some frequent fliers grumbled on Internet message boards that they might postpone ticket purchases

until the move was made.

The airline, for instance, says a one-way full coach fare to Seattle from Atlanta will be \$499 under the new plan, a 56% reduction. Boston to Key West coach will be \$389, down from \$687. New York to Mobile will be reduced 36% to \$419.

The changes drastically expand a simplified, less-expensive fare structure that Delta had been testing at its Cincinnati hub since August. At the same time, Delta will join other big airlines by imposing new fees for tickets not purchased on its Internet site.

The big winners from Delta's fare-cutting rollout will be business travelers, who often had to pay \$1,000 for last-minute travel. Since Delta's Cincinnati experiment began in August, for example, Delta's average business fare from Cincinnati to New York has fallen 28%, while leisure fares have dropped about 8%, according to an analysis by Harrell Associates, a New York airline-consulting com-

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pany. Fares in many other markets might not come down as much because Delta already has had to lower prices in 70% of its markets where it faces competition from low-cost airlines.

Still, there can be many complications finding the least-expensive seats, if Delta's Cincinnati experiment is an indicator. Delta has dubbed its new pricing formula SimpliFares, because it offers only six coach and two first-class fares, down from several dozen previously on any given flight. But not all restrictions have been eliminated.

On Delta's Cincinnati-to-New York route, for example, an analysis by Harrell Associates found Delta was offering 26 different fares, 10 of which were leisure fares. That is down from 29 fares, including 16 leisure fares, Delta was selling on the same route before its SimpliFares experiment in that market. Some of the lowest prices are available only Tuesdays and Wednesdays—two of the least desirable travel days. "It's simpler than it used to be, but there are still plenty of fences to go around," said Bob Harrell, the consultant whose company did the fare analysis.

Delta officials said most of the additional fares found in the Harrell analysis are either sale fares (to match competitors) or are so-called pro-rated fares sold to passengers who are connecting to international flights. On any single day, Delta still is selling only eight fares for travelers on that route who aren't connecting to international flights, according to Paul Matsen, Delta's chief marketing officer.

Delta's new pricing initiative is part

of its top-to-bottom restructuring effort aimed at improving customer service and making its operations more efficient. Delta is trying to recover from three years of turmoil and \$6 billion in accumulated losses, including by cutting costs to better compete with budget airlines that have been invading its turf.

But price cuts could trigger further deterioration in the financial health of an industry that already has five carriers (representing 20% of all U.S. airline seats) currently in bankruptcy court. Big airlines such as Delta long have used complicated fare structures as a

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method to squeeze extra revenue from last-minute business travelers. But in recent years, customers have been defecting to lower fares from budget airlines, causing the major airlines to rethink their policies. **America West** and **Alaska Air Group Inc.**'s Alaska Airlines have made similar moves, but Delta's larger size likely will cause nearly every competitor to react. Wall Street analysts worried that with so many airlines already financially sick, Delta's lower prices could infect the entire industry.

**Northwest Airlines** said in a statement yesterday that "fare simplifications" of the sort being described are revenue negative. The carrier warned that widespread cloning of Delta's strategy by other carriers "would immediately adversely and significantly affect industry revenues." Other airlines declined to comment.

Delta officials, however, have viewed major change in the industry's fare system as inevitable and decided they preferred to change now, said Delta's Mr. Matsen in an interview. "We could sit back and wait for low-fare competition to force us to react," he said. But "we're going on the offense."

Delta's revisions are likely to accelerate change that is under way for travelers nationwide.

**US Airways Group Inc.**, squeezed by growing discount competition, last May launched cheaper fares with fewer restrictions in Philadelphia to blunt the arrival of **Southwest Airlines** at that airport, a US Airways hub. US Airways' GoFares don't require Saturday-night stayovers and cap the highest one-way coach fare at \$499. The airline, which is in bankruptcy-court protection for the second time in two years and is fighting for its life, has since expanded its lower fares, and an airline spokeswoman said 25% of the carrier's domestic passengers now are traveling on GoFares. In GoFare markets, demand is up and load factors are higher, but yields are lower, "as would be expected," she said.

Alaska Airlines last February overhauled its entire pricing structure. The Seattle-based carrier, the nation's ninth-largest by traffic, was the first of the hub-and-spoke airlines in the country to make such a clean break with the old fare systems. Don Garvett, Alaska's vice president of planning and revenue management, said the airline has had a "modest decline" in yields, the amount a passenger pays to fly a mile, and a "modest increase" in traffic.

Mr. Matsen said Delta expects a short-term drop in revenue, but he said that will be offset by improved efficiency as more travelers use the Internet to book Delta tickets, and by an increase in traffic.

This month figures to be a major restructuring period for Delta, which narrowly avoided filing for bankruptcy-court protection in October. The airline plans to rework more than half its route network this month, increasing flights at its Atlanta hub and abandoning its unprofitable Dallas hub. As part of a plan announced in September, Delta this month is imposing pay and benefits cuts for most of its U.S. employees.

—Susan Carey and Melanie Trothman  
contributed to this article.