

# Airlines Cut Prices On Overseas Fares

*Looking for New Profits, Carriers Lure Fliers To Business Class; A 50-Day Advance Purchase*

By AVERY JOHNSON

**W**ITH THE domestic market in turmoil, airlines are increasingly looking to international flights for profits.

Even before Delta's dramatic fare restructuring last week, many airlines were quietly making major changes to international ticket prices. The big U.S. carriers are also adding capacity on international routes, where there is less competition from discount carriers.

In one of the most significant moves, airlines are offering deep discounts in business class for travelers who can book weeks or months in advance. The goal: Get more high-end leisure travelers to buy seats at the front of the plane, while still charging top-dollar prices to business travelers who book at the last minute.

On **Continental Airlines**, for example, a Newark-to-London business-class seat is priced at \$1,920 round-trip for people who can book 50 days in advance—or more than 75% less than the walk-up fare of \$8,314, not including taxes and fees. Recently, **Delta Air Lines** started selling a Los Angeles-to-Buenos Aires round trip for \$2,326 if booked 50 days in advance, a discount of about 80% off the regular fare. Los Angeles-to-Paris is priced at \$2,020 with advance booking, compared with a last-minute price of \$7,154.



Paulista Museum, Sao Paulo

## Going Abroad

Some new business-class fares:

- **Delta: Atlanta-São Paulo**  
Full fare/Discounted fare:  
**\$7,472/\$2,400**  
Lead time: **50 days**
- **American: New York-London**  
Full fare/Discounted fare:  
**\$8,364/\$2,821**  
Lead time: **42 days**
- **United: Chicago-London**  
Full fare/Discounted fare:  
**\$8,300/\$3,336**  
Lead time: **42 days**

It is happening partly because airlines have been aggressively adding seats on international flights as travel rebounds. In November and December, load factors—the percentage of available seats that are occupied—declined on international flights, according to airline reports, because the increased traffic didn't quite keep up with the added seats. In the past, business-class was generally full and as a result discounts were unusual.

Now that the airlines have a lot more seats to sell, leisure travelers willing to shell out a little more to ride up front can enjoy a unique opportunity. But there is a significant hurdle: The best deals require purchasing a ticket unusually early.

**AMR Corp.**'s American Airlines recently instituted a 42-day advance-purchase discount for New York-London business-class seats, and **UAL Corp.**'s United extended a 42-day advance purchase from Chicago to London and New York to London. **Northwest Airlines** has a 50-day discount business-class ticket from Minneapolis to London for \$2,020 round-trip. British Airways also has put in a 42-day advance between U.S. cities and the U.K., and today is expected to announce a promotion aimed at selling more premium-class tickets to North American travelers: People who buy

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those high-end international tickets get enough bonus frequent-flier miles for two U.S. domestic round-trips.

For consumers, all this means that booking early can mean a better seat on a longer-haul flight at a less stratospheric price. While the discounted business-class fares still don't approach advance-purchase economy fares, they are starting to approach walk-up coach seats, which can run around \$1,100 from New York-to-London during the off-season.

The weak dollar may also eventually have an impact on international airfares as the busy summer travel season gets closer, although it hasn't been a factor so far. As travel has picked up in the past year or so, Americans have returned to Europe. In addition, travel agents say that travel in the other direction is keeping transcontinental business brisk.

Overall, major airlines are adding seats internationally much faster than they are domestically. By the end of this month, international seat capacity will have risen 12% from a year earlier, compared with a rise of only 2.3% in domestic capacity, according to an estimate by Michael Allen of Back Aviation Solutions.

United Airlines has even cut some domestic routes in order to beef up international service by 14%; it plans to add routes including Washington, D.C., to Zurich and San Francisco to Nagoya, Japan. In June it plans to add a second daily flight between Los Angeles and Tokyo.

In addition, US Airways will start flying to Venice and Barcelona this spring, while Continental will begin to service Hamburg and Berlin.

For U.S. airlines, the international market represents a little more than a quarter of total revenue—but that number is growing more quickly than domestic revenue. The Air Transport Association says that the six traditional U.S. carriers made 29% of their revenue from international sales in the 12-month period ending in September 2004, up from 27% in the comparable period ending in 1995.

The recent turmoil in domestic ticket prices highlights the pressure on domestic carriers to look for profits elsewhere. Last week Delta lowered its domestic walk-up fares to \$499, ended Saturday-night-stay requirements, and reduced some of its other fees, in the battle against discount carriers. Other carriers quickly followed suit.

Changes like these are sparking concerns that the airline industry's bottom line will take a significant hit in coming months. J.P. Morgan airline analyst Jamie Baker anticipates that other airlines adopting Delta's fare changes could drain up to \$2.5 billion a year in revenue from the \$70 billion domestic airline market.

The kind of fare simplification taking place domestically, however, is less likely to be seen on international routes soon. It is partly because low-cost carriers still aren't a threat. (Although airline consultant Bob Harrell predicts that low-cost carriers will fly across the Atlantic in three to five years.) In addition, fare changes must in some countries first be vetted by various regulatory bodies. Even airlines trying to match fare changes by competitors do so more slowly on overseas routes.

Still, on a few routes, US Airways is experimenting with simpler fares internationally. In recent months it has said it has simplified first-class fares to leisure destinations, eliminating early-booking discounts and penalties for last-minute purchases. For instance, on the Philadelphia-to-Freeport, Bahamas, it is now charging a flat rate of \$549 for a round trip, not including fees.