THE WALL STREET JOURNAL. ONLINE

November 15, 2005

THE MIDDLE SEAT

By SCOTT MCCARTNEY

Fliers Embrace Airlines' New Pricing

Sales Rise as Delta, Others Slash Business-Travel Fares; More Traffic in Miami

November 15, 2005; Page D3

A new approach to pricing plane tickets is proving to be both a good bet for the big airlines and a good deal for consumers.

Nine months ago, big carriers led by **Delta Air Lines** slashed prices for business travelers purchasing last-minute tickets and started winning back customers from discount carriers. In Miami (favored by legacy airlines), for example, airport boardings are growing at roughly the same pace as in Fort Lauderdale (where discounters dominate), reversing years of declines, as low-fare airlines slurped up business at the airport 25 miles up Interstate 95.

With so-called simplified pricing, airlines slashed unrestricted fares by 50% or more and eliminated other restrictions on discounted tickets, such as the Saturday-night-stay requirement, replacing that with requirements for a one- or two-night stay in order to get a cheaper price.

A year ago, American was charging $2,386 for a round-trip, nonstop unrestricted ticket between Boston and Dallas, for example, but now that price has been cut to $1,198, according to Harrell Associates, an airfare research firm. At more than $2,000 a trip, many business travelers sought out cheaper connecting trips, but with the price cut in half, buying the nonstop flight is more palatable.

The move was a huge philosophy shift for airlines. Executives at **AMR** Corp.'s American Airlines and other carriers had argued that cutting prices for business travelers would drain revenue at a time they couldn't afford the loss. **Continental Airlines** pegged its potential loss at $200 million a year.

But they were wrong -- for reasons right out of Economics 101. Cheaper unrestricted tickets, it turns out, stimulated business travel. Airlines sold more tickets at lower prices than at higher prices. And even if they didn't always get the very cheapest fares, travelers were happy to buy them if they could skip that onerous Saturday-night stay. As a result, airlines are somewhat more upbeat about the radical change.

"It wasn't as bad as we feared it was going to be," said Scott Nason, American's vice president of revenue management. "I can't convince myself it's been revenue positive, but on the whole, there are some very good things about it."

One positive for airlines is that travelers began buying more spur-of-the-moment tickets. A Business Travel Coalition survey of 72 major corporations in May found a 62% jump in the number of tickets purchased within two days of the departure, compared with May 2004. Affordable last-minute airfares increased demand and enticed travelers to buy at the last minute instead of locking up cheap, restricted tickets in advance, said Kevin Mitchell, the coalition's president. Airlines also found that simplifying their complicated fare structures enabled more customers to book off their Web sites, saving transaction costs.

Delta Air Lines started the new pricing trend after experimenting with a novel price structure in Cincinnati last year. In January, Delta pulled the trigger on a simplified pricing structure throughout the U.S., eliminating the Saturday-night-stay requirement on cheap tickets and capping its most-expensive, unrestricted fares at $499 one-way, plus tax.

The legacy airlines were responding to competition from discounters, which have taken customers by offering better value for last-minute bookings. Incumbent carriers matched whenever new competition arrived, and big airlines said they faced low-cost competition on as much as 70% of their routes.

Things have changed slightly since January, when high fuel prices prompted Delta to raise its cap to $599 and others happily went up, too. American hedged its bet by refusing to cap its fares in some markets with high-priced, last-minute travel. But the basic structure stuck.

Still, carriers have been able to push through multiple across-the-board fare increases since January. In addition, reductions in domestic capacity through bankruptcy and shifting airplanes to international markets have given airlines more pricing power. After declining for the previous 13 months, the average price to fly one mile domestically increased in May, year over year, and has increased every month since, according to the Air Transport Association. "Fare simplicity may be playing a small role, though less capacity and routine fare increases are the stars of the show," said Jamie Baker, analyst at J.P. Morgan.

Fairer Fares

Airlines slashed business fares to compete with discount airlines. Here's the impact on some heavily traveled U.S. routes.

ROUTE	RECENT ONE-WAY FARE	YEAR-AGO ONE-WAY FARE	CHANGE
Houston-San Francisco	$319	$999	-68%
Minneapolis-New York	$240	$708	-66%
Chicago-Los Angeles	$306	$704	-57%
Boston-Houston	$452	$999	-55%

Source: Harrell Associates survey of 280 major routes taken Sept. 26

American says it has regained customers in Los Angeles, New York, Chicago and Dallas because of simplified pricing, as well as in Miami. Between 2002 and 2004, domestic travel at Miami inched up only 2%, while domestic traffic grew a hefty 18% in Fort Lauderdale in the same period, fueled by lots of new service from **Southwest Airlines**, **JetBlue Airways**, Spirit Airlines and others. When American slashed prices, Miami started catching up, Mr. Nason said. The two airports are now growing at about the same rate.

To be sure, discount carriers continue to grow rapidly and have remained profitable while bigger competitors have remained mired in huge losses. But weaker discounters have fallen on hard times-both ATA Airlines and Independence Air are trying to reorganize in bankruptcy court. Airline executives think the more-competitive pricing structure has hurt those carriers.

Of course, discount airlines and many other businesses long ago figured out that you could win over customers if you made it easy -- and affordable -- to buy your product.

- **Write to** Scott McCartney at middleseat@wsj.com[3]

URL for this article:
http://online.wsj.com/article/SB113200793750896833.html

Hyperlinks in this Article:
(1) mailto:middleseat@wsj.com
(2) http://online.wsj.com/article/0,,middle_seat_mailbox,00.html
(3) mailto:middleseat@wsj.com
(4) http://online.wsj.com/article/0,,middle_seat_mailbox,00.html
(5) mailto:middleseat@wsj.com