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## Businesses Are Getting Price Break on Fares

By JEFF BAILEY

CHICAGO, Jan. 13 - Clients of his educational software firm, the Critical Skills Group, reimburse him for his travel costs, but Charles C. Jett said it still offended him to be charged \$1,900 to fly round trip to Los Angeles. "I wouldn't charge anyone that," Mr. Jett said.

Increasingly, neither would airlines, which are becoming less inclined to try to charge very high fares, a trend that has pleased Mr. Jett. He paid just \$400 recently to fly to and from San Francisco. "The price was a lot lower than I thought it was going to be."

Business travelers have long been irritated to know that the casually dressed person in the next seat - a vacationer or a student headed back to college - paid a lot less to be on the same flight.

A substantial gap still remains between business and leisure fares. But now, corporate travel officials say that some order has intruded on the black art of airline pricing. The average price of tickets is rising, if modestly, but most of the millions of fares that make up that average sell within a narrower price range than a year ago. The very highest business fares, bought at the last minute, have declined drastically. Many of the lowest leisure fares, bought far in advance, cost a bit more. Thus, the airline industry's price structure is beginning to look - to business travelers, anyway - a lot more reasonable, and fewer of them should feel gouged. "In the last 12 to 18 months, I haven't been shocked by an abhorrent fare," said J. Robert Tillman, who frequently travels on short notice as an executive recruiter and partner at Blackbird Partners, based in Oak Brook, Ill.

Indeed, the ratio of domestic business fares to leisure fares, tracked by **Harrell Associates, an airline consulting firm in New York**, has fallen to about four to one today from about six to one as recently as a year ago. Average one-way business fares fell to \$400 from \$600 and leisure fares held steady at about \$100.

The expansion of low-cost carriers like [Southwest Airlines](#) into more markets has forced traditional carriers, including American Airlines and United Airlines, to reduce fares, including those of business travelers. The Internet, which allows travelers to comparison shop far more effectively than in the past, helps, too. And financially desperate carriers, led by [Delta Air Lines](#), abandoned past pricing models in hopes of avoiding collapse.

**Bob Harrell, principal in Harrell Associates, said domestic business fares fell about a third from their peak in 2000 and, despite recent increases, are still down 20 percent to 25 percent from the peak.**

For instance, one-way last-minute tickets on American Airlines from Boston to Dallas were 50 percent cheaper early last month than a year earlier, or \$599 versus \$1,193, **Mr. Harrell** said. United's one-way business fares from Chicago to Los Angeles fell 69 percent in that period, to \$316 from \$1,009. And

[Continental Airlines](#) reduced its Houston-to-San Francisco one-way business fare 68 percent, to \$319 from \$999, according to Mr. Harrell.

Over time, airline executives hope the new pricing will stimulate demand for travel and produce a more sustainable revenue base for an industry known for volatility.

The airlines, said Michael Allen, a managing director at Back Aviation Solutions, a consulting firm in New Haven, "were offending the traveling public by having such high walk-up fares." His firm counts far fewer very high fares. The percentage of domestic city pairs - heavily traveled routes, Dallas to New York, for instance, - with average round-trip fares (including the cheapest and the most expensive seats) of more than \$500 hit nearly 16 percent in 2000. But since then, it has plunged to less than 6 percent, according to Back Aviation.

More people are able to travel at prices some regard as the reasonable middle range of fares - \$200 to \$400 for a round-trip ticket. About half of domestic tickets were sold in that price range in the late 1990's, according to Back Aviation. Beginning in 2001, however, more seats fell into that middle range. And by the second quarter of 2005, more than 70 percent of tickets sold for \$200 to \$400, Mr. Allen said.

After a sharp decline, fares on average began to rise again last May, according to figures compiled by the Air Transport Association, an airline industry trade group. Bankrupt airlines are now trimming the size of their fleets, reducing the number of seats for passengers, so domestic fares are expected to continue upward at least through the first half of 2006. At the same time, demand remains strong. So, unless fuel prices unexpectedly soar, industry results should strengthen in 2006.

A combination of fuller planes and higher fares, on average, pushed fourth-quarter 2005 airline industry revenue up about 11 percent, estimated David Strine, an analyst at Bear Stearns & Company. He expects 2006 revenue to rise about 6 percent.

The question now is whether airlines, as they have in the past, will try to take advantage of a favorable supply-and-demand situation by sharply raising prices for business travelers. "Will it turn back up when the industry gets healthy, or are we in a new world now?" said Steve Morrison, who, as a professor and chairman of the economics department at Northeastern University, follows the gap between business and leisure fares.

Mr. Morrison said he thought the traditional carriers might at this point lack the market power to reinstate a system of significantly higher business fares. "It sure seems like the low-fare carriers are sufficiently entrenched," he said. "You would think it's a new world."

With stiff competition and the Internet making prices more transparent, Mr. Morrison said the gap between the highest and lowest prices should over time continue to narrow.

A gradual narrowing of the range of fares was already under way, but got a real jolt a year ago when Delta, looking for some strategy to become more competitive and avoid bankruptcy, simplified its fare structure and capped one-way fares at \$499, later raised to \$599. Reluctantly, most competitors in most markets followed suit, though they feared they would not attract enough additional business travelers to offset the lower prices.

Delta said the move was essentially neutral to its revenue. "It came out to be almost a wash," said Glen W. Hauenstein, an executive vice president. But he hopes customers will feel better about pricing that

seems less capricious than in the past. "We're kind of considered untrustworthy in some respects," he said.

Alaska Airlines, to make its pricing easier to understand, now presents fares on its Web site in a matrix that allows customers to easily compare the lowest and highest prices on a particular flight and the restrictions that go with each fare. Southwest does, too.

US Airways, which operates the shuttles between New York and Boston and Washington that are used heavily by business travelers, has long charged a relatively high price. The former low price was \$248 for a round-trip ticket, purchased 21 days in advance. The airline flew its planes on those routes nearly 45 percent empty, said Scott Kirby, an executive vice president.

Last month, it began offering advance purchase fares as low as \$138 round trip, hoping to fill some of those seats but not wanting business travelers to fly at the reduced rate. "We sold a bunch," Mr. Kirby said. He is aiming to fly planes more than 70 percent full.

While business fares are coming down, some leisure fares are rising. "The absurdly low fares - many of them are coming out of the system," Mr. Kirby said. Southwest's entrance into the Philadelphia market, where US Airways holds a large share, included some \$29 one-way fares. "They were introductory - for a year and a half," Mr. Kirby said grimly. He said he was pleased that Southwest raised many of those fares to \$49.

But as Southwest and its low-cost competitors continue expanding, some fares that today seem very high will decline. "We're the price policeman," said Keith Taylor, a Southwest vice president. "We take that role very seriously." It charged as little as \$49 one way between Dallas and St. Louis, recently entering that market, deeply undercutting American.

Southwest, long before Delta's cap, had set a \$299 maximum on a one-way ticket. "They're setting the pricing ceiling in the industry," said Kevin Mitchell, who operates a group called the Business Travel Coalition that advocates on behalf of corporate travelers. "They're brilliant people."

With the very high fares, airlines were discouraging last-minute business travel. "The airlines can't measure the number of times I may have gone," Mr. Mitchell said.

Tom McCabe, global director of travel services at [PerkinElmer](#), a medical and industrial instruments maker based in Wellesley, Mass., said: "The trip not taken: why worry about beating up the airline for a 10 percent or 15 percent discount? Why go at all?"

\$1,200  
.....

\$1,000  
.....

Example:

AMERICAN →  
Dallas-Philadelphia  
\$931 in 2004  
\$599 in 2005

\$800  
.....

\$600  
.....

# A Narrower Range Of Fares

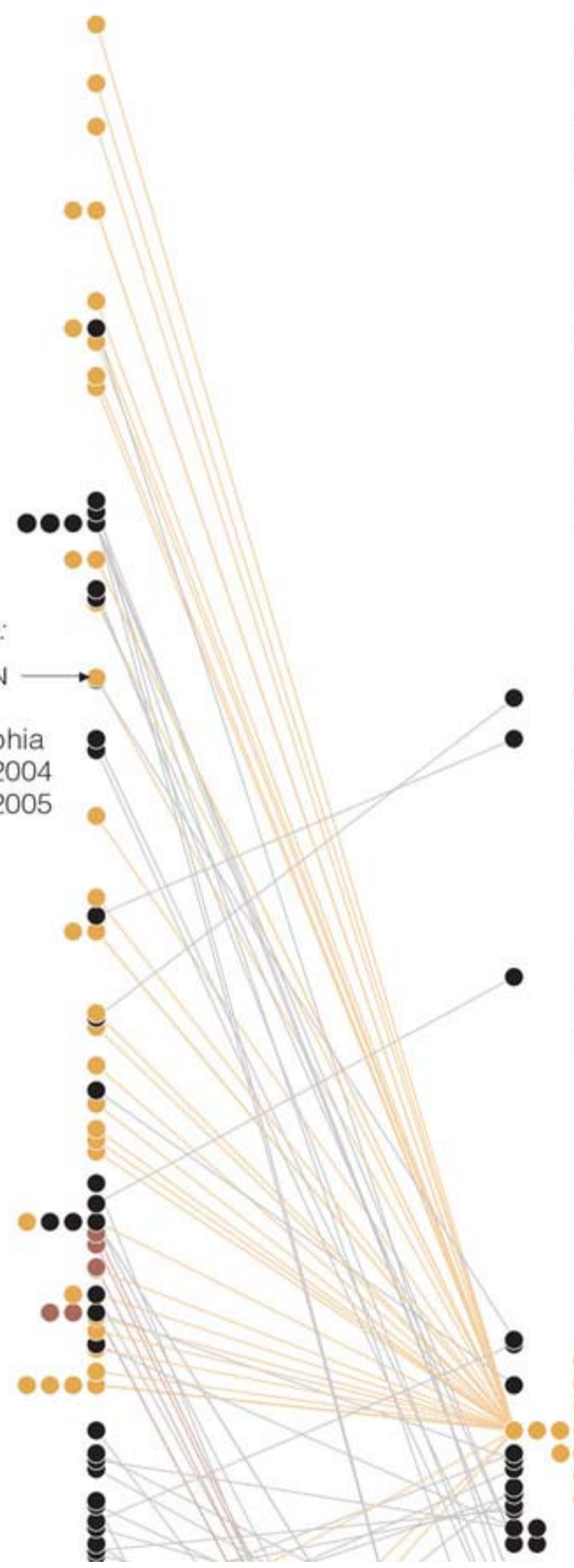
After Delta capped one-way business fares at \$599 in January 2005, many airlines followed suit, leaving the range of ticket prices narrower than it used to be.

## One-way business fares on 280 major domestic routes

Circles show one pair of cities.



**\$599**  
39 pairs of cities



Source: Harrell Associates