It’s 1979. You just booked a flight home. What did you buy?


You chose among six airlines offering a total of seven daily flights on the route. But first, a stop in Dallas/Ft. Worth. Transfer to another airline two terminals over.

Your fare was similar to the fare the fellow sitting next to you paid. About the same as everyone around you. About the same as the folks on any other airlines’ flights you could’ve picked, in fact. Why shop for the best price? They’re all the best price.

Also the worst.

Fast-forward to 2001. You’ve booked a flight home on Delta. You chose among six airlines again – three of them are new – offering 28 daily flights at 208 different fares with various freedoms and restrictions.

There’s still a transfer in Dallas/Ft. Worth, this time on Delta two gates down. You booked three weeks ago for a deep discount, you’ll stay the weekend, and your ticket cost about the same as it did 20 years ago. Adjust for inflation and it’s actually a third less.

The customer next to you booked last week for a moderate discount. She paid double your fare. The 15 people closest to you paid eight different fares. The one who huffed up to the gate in a panic at the very last minute is one of only six customers on the plane flying at full fare – quadruple yours. His great relief at getting on board lessened the sting; so did his triple-dip frequent-flyer miles. He’s a million-miler, so he puts the ticket on his credit card and picks up a special summer-travel bonus. The bonus points add up to almost half a free round-trip ticket from this flight alone.

From your seat the flight seems about the same as 20 years ago. The crew, the safety announcements, the magazines, the view from 30,000 feet.

Yes, it feels familiar up here. But the economic machinery keeping the airline aloft is fundamentally different.

These pages are meant to help explain why and how that difference affects you every time you travel.
True or False?
Airfares are more expensive today than they were before deregulation in 1978.

**FALSE.** Domestic airfares have dropped an average of 39 percent, after adjusting for inflation, since 1978. When weighted dollar-to-dollar against the Consumer Price Index increase of 155 percent over the same period, fares increased only 56 percent. Either analysis indicates a fare drop in real terms.

True or False?
The airline industry is hugely profitable.

**FALSE.** The industry is notoriously cyclical and although it now shows healthy signs, it hasn’t always been this way. In the 1990s, the total net profit for the domestic airline industry was $7.7 million – that’s less than a penny for each dollar of revenue. Since 1978, average real yields are down 39 percent and are still dropping. The industry actually lost more money in four years during the early 1990s than it had made in all the years combined since the Wright Brothers took flight at Kitty Hawk.

Changing Tickets

Twenty years ago the U.S. air travel industry was deregulated, and for the first time market forces – instead of government policy – emerged as the primary architect of airline economies. The free market began to reshape airlines into more dynamic businesses that compete through supply and demand.

Today the industry is transformed. To attract customers, carriers have added flights and destinations. There are vast differences in fares, depending on the tradeoffs between convenience and price the customer wants. And overall, the average fare has dropped 39 cents on the dollar from 1978, after adjusting for inflation.

With regulatory barriers to entry swept away, the industry has grown fiercely competitive. Today more U.S. and international airlines than ever compete for business, wooing customers with superior service and investors with the prospect of solid profits. Airlines have grown the market, and in turn grown with it … or withered in its intense competitive heat.

Two decades after the fact, deregulation clearly has been a deep and reckoning force. In its presence established carriers who failed to adjust are simply gone, including one of the nation’s first airlines, Pan Am. And Eastern, once its largest.

Those who have succeeded have adapted by fundamentally retooling for the free market. Scheduling and pricing – each quite visible to the customer – were deeply affected. They changed for one reason: the imperative of profitability – and the best assurance of that is to provide better service for the customer.

Reversing decades of industry trends toward financial loss, the very best airlines have learned to survive. Success is due to one primary reason too: sound business practices. Airlines are obliged to faithfully obey free market rules just as certainly as they once obeyed regulations. And because the best carriers respect that fact, air travel today is cheaper, better and faster.

Despite this reality, some consumers are convinced that pricing, competitive practices and routing choices are categorically less consumer-friendly than they were 20 years ago.

Why? One explanation suggests that people tend to take change personally. Rather than viewing a familiar route or fare change as a business response to market forces, a long-time customer might find it entirely reasonable to take the change as a personal affront – an act of corporate indifference to customer loyalty.

That reaction is understandable but misdirected. Why?

First, market forces inevitably drive airlines to give consumers what they want: the pricing, schedules, destinations and service their collective buying patterns reveal. Moreover, the airline industry is one of the most fiercely competitive in the world. Like all companies, if the airlines are to succeed, they must offer customers what they want, employees a rewarding career and shareholders an attractive return on their investment.

A BRIEF HISTORY OF AIRLINE DEREGULATION.

In the early days of domestic air travel, ticket prices were dictated by the Civil Aeronautics Board (CAB). All seats were the same and comparable flights cost the same no matter which airline you flew.

1940s and ’50s. Federal policy still kept all airlines’ prices the same. So in those days, airlines weren’t real “competitors” in today’s sense of the word – they couldn’t adjust the product offered in response to the laws of supply and demand to innovate and differentiate. The only way to “compete” for customers was through extravagant service. The CAB even dictated where carriers could fly.

20 years ago the U.S. air travel industry was deregulated, and for the first time market forces – instead of government policy – emerged as the primary architect of airline economies. The free market began to reshape airlines into more dynamic businesses that compete through supply and demand.
Changing Tickets

1960s. Early in the decade, regulators approved new fares based on time of departure, length of stay and bundled tour features. By its end, regulators had allowed discount fares on midweek and weekend flights, although limited to certain routes or seasonal cycles, in order to stimulate demand for less-traveled flights and seasonal cycles. But the supply-and-demand genie was out of the bottle. The public wanted more.

1970s. They got it. In the early '70s, carriers sprang up in California and Texas and flew only within their state borders, where they were exempt from federal regulation. They competed on price, and soon their planes were full. Their customers began warming to the idea that Washington was costing them money on airline travel. Under public pressure, the CAB allowed more discount travel in 1976, letting charter flights charge $99 for one-way fares between New York and Florida.

1978. Eventually, pressure from carriers, some cities, and customers prompted the government to quit regulating domestic prices entirely in 1978.

Customers welcomed choice. And carriers welcomed competition. For years they’d been flying routes as required, with some flights barely half full. Now they needed some way to fill them without angering and losing the full-fare customers they already had.

And thus began the science of modern-day air travel, which quickly sprang into action and developed into the industry we know today. It was propelled with the help of two powerful new tools.

First was the hugely efficient system of hub-and-spoke plane routing, which changed the face of air travel forever.

And second was the use of computers to study, learn and predict how customers really want to travel, and how much they’re willing to pay for the many gradient options between cost and convenience.

The economic model for today’s airline industry was born.

**Now & Then:**

There is far more competition now. There were 94 commercial airlines in 1999, compared with 39 in 1978.

Surprised?

“NO EMPTY SEATS? HOORAY!”

Airline customers react emotionally to ticket prices. That’s understandable – but from the airline’s point of view, the science of pricing a ticket isn’t emotional at all. In fact, it’s as close to pure science as possible – and because of computers it grows more exact every day.

The heart of its science is one simple (and widely misunderstood) fact:

- Airlines don’t prosper from expensive seats. Airlines prosper because of full airplanes with each seat sold at the right price.
- Therefore filling planes is the airline’s essential task. Not surprisingly, the science to accomplish it has developed into a finely wrought intricacy. And squarely in the center of the process are the two complex disciplines of pricing and revenue management.
- Pricing is the science of setting prices. Simple? Hardly.
- Three key forces affecting prices – market performance, supply and demand, and competitive factors – are in constant turmoil. Now add various immediate, seasonal and unpredictable elements that can suddenly change the picture.
- That’s why at any given time, an airline may offer a dozen or more prices on the same flight... in response not only to its own needs, but also to competitors and to even larger outside forces that converge to express themselves through what the customer buys.
- Then the science of revenue management steps in to optimize the “mix” of all these various prices for one essential purpose: Filling airplanes.
- Revenue management assesses the history of customer behavior – deep data indeed, with millions of past customer purchases to analyze; weights it against the price options currently offered; postulates various contingencies against grids of history and projections; and finally arrives at an optimum mix: The precise number of seats to offer at each of the various fares and restrictions, in the combination most likely to fill the most seats. Not surprisingly, revenue management uses extremely sophisticated computer modeling to reach these conclusions.

When pricing and revenue management are choreographed perfectly, they blend principles of actuarial science (predicting future behaviors based on the past) and calculus (tracking a moving target) – in a chess game that doesn’t end until the moment the plane lifts off the runway.

And how can you be sure they’re choreographed perfectly?

- When a flight’s completely full. So believe it or not, a full plane means everyone wins.
- The airline wins (and by extension its shareholders win too) because the flight operates at maximum efficiency. After all, an empty seat is a sale perished forever.
- Customers win too, because optimum calculations have reserved precisely the correct number of seats to deliver exactly what everyone on board needed on that day.
- The airline confidently took the calculated risk of holding open a few unsold full-fare seats until the last possible moment – a great relief to the business customer who rushed to the airport with a crucial unexpected trip.
- At the other extreme, the airline was able to offer the lowest fares in airline history to those leisure customers on board who planned far in advance.
- So next time you look around and see the number of empty seats is precisely zero... think of it as the face of pricing and revenue management success, and consider that one way or another it’s paying off for you, too.
You’re driving to Grandma’s. Is there an Interstate from your driveway directly to hers? Not unless you have unusual connections.

Instead, you travel an Interstate to a hub city, take a state highway, and proceed to her town on smaller roads built to handle local traffic. Express and local train service use this same idea. It’s called “hub-and-spoke.”

Aircraft move around the country in much the same way. But it wasn’t always so.

Under the old regulatory model, carriers were forced to fly directly to remote or small markets, even with regular flights that were routinely nearly empty. These were, in effect, “unusual connections” directly from Grandma’s driveway to yours. That was convenient for an isolated few, but grossly inefficient for millions of others.

Airlines obviously lost money on these routes because the cost of any given flight is about the same, whether it’s empty or full. Every vacant seat at takeoff is literally lost money.

Basic economics says that every empty seat raises the “break-even” price – where the airline stops losing money on each seat sold, and begins to show profit instead.

Spreading those numbers across an airline’s complete fleet makes it clear that half-empty flights driven to Grandma’s front door drove costs sky-high, systemwide. In a deregulated market, such routes simply have to be dropped if there’s not enough traffic to render them at least marginally profitable.

This reality is compounded by the fact that airline fleets are finite – Delta’s, for example, consists of more than 600 aircraft. When one of these multimillion-dollar planes flies half-empty, an airline’s primary business asset – the craft and crew – is diverted from serving routes where paying customers are standing in line for seats.

Airlines are businesses. Business obeys supply and demand. And market forces insist airlines supply seats where customers demand them most often.

The industry has found that the hub-and-spoke system that Delta pioneered before deregulation has enormous advantages.

“Hub-and-spoke” is hugely efficient – the best method known for reaching a maximum number of destinations using a limited number of aircraft – and its efficiency becomes obvious when compared to the old “direct-line” system.

Using the old system, 10 planes can deliver customers to 10 destinations. But a hub-and-spoke system, with the same 10 planes, can offer exponentially more routes (the exact number depends on the particular hub/spoke configuration used).

For instance: Through Atlanta alone, Delta and its subsidiary Atlantic Southeast Airlines (ASA) today offer more than 900 daily flights, giving customers a choice of thousands of routes each day – using fewer than 400 aircraft.

The result? More service and options to customers systemwide – not only from hubs but at hundreds of spoke cities as well.

Consider the flight options in Charleston, S.C., if the Atlanta airport weren’t a hub. The daily demand for pure “Charleston to Atlanta” service – simply to Atlanta, no further – is roughly 125 customers each way. That demand between the two cities might allow Delta to offer one flight each day.

But by routing through an Atlanta hub, Charleston customers are just a transfer away from 151 destinations worldwide. And Delta is able to offer nine flights – not one – to 2,000 customers every day.

The Hub-and-Spoke System Remodels the Airways

Deregulation Made Us Do It

Two tools in particular have helped airlines re-gear their operations for a free market.

The first is hub-and-spoke routing – using key cities as “hubs” where flights converge like “spokes” from smaller airports. This routing system – similar to Interstate highways – allows customers to reach the widest-possible choice of destinations with only one transfer.

The second tool is the science of revenue management, which is based on the growing understanding of what the traveling public wants, based on millions of records of its behavior. Compiled and analyzed by computer, this record of customers’ past choices can help predict their future choices.
Naturally, fierce inter-hub competition among carriers creates even more choices. For instance, a customer flying from Los Angeles to Hartford can choose to route through Atlanta—or 15 other hub cities: Baltimore, Charlotte, Cincinnati, Cleveland, Dallas/Fort Worth, Denver, Detroit, Houston, Minneapolis/St. Paul, Newark, Philadelphia, Pittsburgh, St. Louis, San Francisco or Washington, D.C.

**Hub-and-spoke routes reduce transfers.** The percentage of flights where customers change planes only once is about the same today—roughly one-third—as in 1979. But today, two-transfer flights are all but eliminated. Meanwhile, no-transfer flights have increased; and 99 of 100 transfers are to the same airline. In 1978, 14 percent of customers had to change carriers entirely.

**Hubs are powerful economic engines.** Transportation hubs have always sparked growth. For example, Chicago’s population in 1850 was 30,000. In 1848, Chicago began railroad service, and by 1856 the city was a hub serving a dozen railroad companies. By 1860, the population tripled, to more than 100,000.

In the same way, today’s air service makes a community more attractive to businesses, investors and tourists alike, and plays a key role in economic decision-making. (See sidebar on this page.) Hub-and-spoke also drives the economic engines for smaller communities, since they can be linked to national and international destinations with just one transfer or fewer.

**The hub-and-spoke system does not increase fares.** Average ticket prices at hubs are approximately 5 percent higher than similar tickets at spokes. This so-called hub premium reflects the often-ignored fact that the average ticket price reflects the higher percentage of business customers who travel from hubs. Of course, most hub cities are commercial centers and enjoy a robust business base. Fares used by the business traveler generally are higher because they are booked later and have fewer if any restrictions. Although average ticket prices at hub airports may be higher, customers at hub cities have the benefits of far more service options. They enjoy the convenience and flexibility of high frequency and nonstop service; both are important factors to the business traveler. Airlines have to cover the cost of providing this service and the large operation to support this schedule.

In sum, the hub-and-spoke system uses common sense to serve as many communities as possible, as efficiently as possible.

And it has been applied for efficiencies from everything to air transport to overnight package and mail delivery, by diverse industries, all for a very good reason:

It works.

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**SO YOU WANT TO BE A HUB CITY?**

An airport hub can be a potent economic engine.

One case in point: **Atlanta.** In December 1998, an independent economic impact study was performed for the city of Atlanta, analyzing the effect that the presence of Delta Air Lines alone at Atlanta’s airport has on the city, state and region. Atlanta is Delta’s largest hub and epitomizes the qualities of a hub-and-spoke system.

This 1998 study quantified Delta’s impact on the 20-county area surrounding the city (the Metropolitan Statistical Area, or MSA).

It found:

- **The total economic impact of Delta’s operations on the city of Atlanta is enormous.** Depending on estimate methods, it ranged from $9.5 billion to $11.5 billion in 1998—5 percent of Georgia’s entire estimated Gross State Product. That’s $3,000 for every man, woman and child in the 20-county Atlanta metropolitan area.

- **Delta’s presence in Atlanta generates enough state and local taxes to build a new Georgia Dome every year.** Delta paid $57 million in state and local taxes in 1998. Delta employees and Delta-supported business paid $170 million in household taxes.

- **Delta is the state’s largest private employer.** The airline employs more than 30,000 in Atlanta’s 20-county MSA alone. Delta’s indirect and direct employment activity in the Atlanta MSA generated about 115,000 jobs in 1998.

- **Delta customers spend considerable money when they visit Atlanta.** The Atlanta Aviation Department calculates that they spent a total of almost $9 billion in 1999.
PREDICTING DEMAND

Massive computers built to understand customer behavior have cut waste in the airline industry as surely as fuel-efficient trucks cut waste for freight companies, refrigeration cuts waste for grocery chains, and zero-defect quality programs cut waste for automakers.

These computers are remarkably sophisticated. They distinguish among time-sensitive, route-sensitive and price-sensitive customers; weigh their options; calculate all possible consequences down through the branches of the fare tree; tightly track and precisely predict how, when and at what price specific airline seats sell; and minimize—even eliminate—empty seats at takeoff. They’re more than 70 percent successful today—at up from 54 percent loads filled by far cruder methods in 1979.

Delta has an industry-leading revenue management system. What this technology means to the customer is that Delta is able to more accurately protect last-minute seats for the business traveler, while offering greater availability of discount seats for the leisure traveler. It also minimizes overbooking and customer inconvenience by more accurately forecasting those who “no-show” for flights.

WHAT DO MODERN PRICING METHODS PRODUCE?

Convenience. Delta Flight 885 offers nonstop service between New York’s Kennedy Airport and Miami, departing at 7:10 p.m. and arriving in Miami at 10:26 p.m.

Partnership. Business fares generally account for 40 percent of bookings, which won’t sustain multiple flights, so Delta offers advance-purchase leisure fares to make the route feasible to serve.

In essence the business traveler and leisure traveler coexist in a partnership that gives them both more choices.

Choice. Flight 885 is allotted a variety of fares each day, based on the collective behavior of past customers. Some coach passengers pay as little as $98 and book up to 332 days in advance. Some might pay as much as $470 by walking up to the counter just before departure. There is no “average” customer, but 60-day advance bookings for vacation are common, and 7-day advance bookings for business are too. Still other customers take advantage of low fares that are available for travel on weekends and sold at the last minute via the Delta Web site, delta.com.

This kind of variety and flexibility simply wasn’t available to customers 20 years ago. As federal deregulation intended, competition has indeed met demand with supply—and a healthy vengeance.

WHO PAID WHAT?

(ALL FARES ARE ONE WAY)

First Class (24 Seats)
- (1) Full first class $ 623
- (4) Discount first class $ 470
- (2) Paid upgrades $ 153
- (7) Free upgrades $ 0
- (3) SkyMiles frequent flyer award $ 0
- (7) Empty seats

Coach (159 Seats)
- (5) Full coach $ 470
- (12) Delta Meeting Network $ 210
- (27) 7-day advance purchase fare $ 129
- (3) Travel agent discount fare $ 117
- (5) Government/Military discount fare $ 101
- (49) 21-day advance purchase fare $ 98
- (18) Air/Sea fare for cruise customers $ 87
- (15) Convention/Meeting fare $ 85
- (12) Special weekend Web Fare $ 79
- (10) SkyMiles frequent flyer award $ 0
- (3) Empty seats

332 Days Out

The flight is loaded into the reservations system for ticket sales. The airline must determine how many seats to sell at each fare, making sure that some are still available for the business traveler making last-minute plans.

* This flight and the fares in the chart above are for demonstration purposes; actual fares and schedules will vary.
60 Days Out
50 seats are booked.
21 at the 21-day advance purchase fare.
15 at the convention/meeting fare.
8 SkyMiles frequent flyer first class awards.
6 at the 7-day advance purchase fare.

30 Days Out
132 seats are booked.
60 at the 21-day advance purchase fare.
20 at the convention/meeting fare.
18 at the air/sea fare.
10 SkyMiles frequent flyer coach awards.
7 at the 7-day advance purchase fare.
5 at the full coach fare.
4 at travel agent discount fare.
3 SkyMiles frequent flyer first class awards.
1 at the full first class fare.

Morning of the Flight
178 seats are booked.
55 at the 21-day advance purchase fare.
30 at the 7-day advance purchase fare.
18 at the air/sea fare.
15 at the convention/meeting fare.
10 SkyMiles frequent flyer coach awards.
12 at the full coach fare.
7 on first class free upgrades.
5 at government/military fares.
4 at the discount first class fare.
12 at Web Fares.
3 SkyMiles frequent flyer first class awards.
2 at travel agent discount fare.
3 at the full first class fare.
2 on first class paid upgrades.

Takeoff
At departure, 173 customers of the 178 booked actually board the plane.
49 at 21-day advance purchase fare.
27 at 7-day advance purchase fare.
18 at the air/sea fare.
15 at the convention/meeting fare.
12 Delta Meeting Network seats.
10 SkyMiles frequent flyer coach awards.
7 on first class free upgrades.
5 at government/military fares.
5 at the full coach fare.
4 at the discount first class fare.
12 at Web Fares.
3 SkyMiles frequent flyer first class awards.
3 at travel agent discount fare.
2 on first class paid upgrades.
1 at the full first class fare.

Flight 885 takes off with 95 percent of its seats filled.
Why Does Your Seat Cost Less Than Mine?

What’s this?
A ticket?
A seat?
A destination?
A service?

Customer paid deep discount fare, so any changes will cost $100.

At the heart of the contract is your fare class (Y,B,M,H,O,K, etc.). There are trade-offs among time, money and convenience.

These fees and taxes go to the airport, and to local, state and federal governments.

The ticket itself has grown electronically sophisticated. This one is coded with magnetic information about the customer’s trip.

Most customers don’t receive paper tickets at all. They prefer the convenience of electronic ticketing, and for their records they use a receipt/itinerary card like this, that documents all flight information. Customers using electronic tickets don’t need to worry about inconveniences associated with paper tickets, such as theft and loss, and aren’t concerned about having paper tickets delivered in time to travel.

Answer: A ticket is a complex contract, whereby you and Delta trade convenience for money, and money for convenience. It’s the basic agreement you make with an airline in a deregulated world. Here’s a closer look at the terms of your contract.

Members of SkyMiles frequent flyer program earn miles toward free trips with each flight.

The ticket is a complex contract, whereby you and Delta trade convenience for money, and money for convenience. It’s the basic agreement you make with an airline in a deregulated world. Here’s a closer look at the terms of your contract.

Members of SkyMiles frequent flyer program earn miles toward free trips with each flight.
Pricing: Fairer Fares

Airline customers are sensitive consumers in basic ways. They’re price-sensitive, time-sensitive, or a blend of both.

“Pure” leisure customers are mostly sensitive to price. They’re willing to trade a departure date or time for a price they want.

“Pure” business customers are mostly sensitive to time. They’re willing to trade extra money for the departure time they want.

And between these two extremes lies a vast gray mix of preferences where most of us fit in.

Deregulated airlines were faced with developing new fares for all potential customers. As you can imagine, this proposition got very complicated, very fast.

Today there are specialty fares for corporate customers, senior citizens, government and military employees, conventions and meetings. Other fares are pegged to how far in advance a flight is booked, and the prices increase as departure day approaches— at 21 days, 14 days, seven days and finally in some cases three days out. The steepest fares are for last-minute seats, because holding them open means the airline risks departing with them empty. To airlines, an empty seat is lost revenue—lost forever.

If consumers wanted choice, and airlines wanted the chance to fine-tune the art of supply and demand, deregulation certainly granted their wishes. Today, a fare from Orlando to Washington, D.C., is offered by eight different airlines, with a total of 157 different prices ranging from $157 to $637. That smorgasbord of fares is meant to produce an optimum mix of leisure and business travelers that, taken as a whole, fills planes as efficiently and profitably as possible.

(True or False? Customers have to fly a lot more connecting flights since the “hub-and-spoke” system went into effect.

FALSE. According to the Official Airline Guide, North American Edition, the percentage of direct flights flown by domestic travelers has remained precisely the same since deregulation in 1978.

(True or False? Airlines squeeze every possible dollar out of business travelers.

TRUE AND FALSE. The blunt answer is yes and no. Airlines are in the business of balancing supply and demand, and have a duty to find a balance that pleases customers, betters competitors, and generates an adequate return for investors. So certainly it’s in a carrier’s best interest to determine what a seat is worth, and set its price accordingly.

Airlines therefore reserve a sufficient number of seats for customers with last-minute, urgent requests. The price for assuming this risk of an empty seat at departure is based on the airline’s millions of departure experiences.

(continued on next page)
Pricing: Fairer Fares

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Airline computers spend their days and nights calculating how the customer in 11A is different from the one in 11B. What’s his price sensitivity? What’s her time sensitivity? What are their travel histories?

These computers apply mathematical tools to forecast demand, estimate no-shows and optimize the fare-mix—all aimed at filling the most seats.

Precisely which fares are available at a given moment depends on what the actual demand has been and is expected to be—a dynamic process that’s in constant flux from the moment the flight is opened for sales until it leaves the gate.

To clearly understand that dynamic flux, however, requires this distinction:

As seats are sold, both prices and seat availability fluctuate.

In other words, a flight opens for sale with a pre-determined number of seats at the prices effective for the dates of travel, and those fares may or may not be available when you want to book, depending on how well the flight has sold up to that point.

For humans, these fluctuations can be baffling. Fares are complex. Customers can call for prices three days in a row and get three different fare quotes. Pricing seems mystifying and beyond their control.

Yet ironically, the exact opposite is true. Competition has granted customers tremendous flexibility—if they choose to exercise it.

Recently an industry analyst observed that before deregulation, air travel was for the business traveler and the rich.

Now the skies are open to everyone.
The cost of consumer goods has gone up 155 percent while airfares have gone up just 56 percent since 1978. In other words, in real dollars adjusted for inflation, plane travel has actually gotten substantially cheaper.

The same analyst wrote, “Now, with so many different prices offered on each flight, there’s a fare for just about everyone. Maybe what’s really frustrating is choice.”

Perhaps not such a problem after all.

(continued from previous page)

One rarely noted fact: Most customers do not pay full fare. One published full fare (prominently described as a “milestone” in high fares by the Wall Street Journal, at $1,002 for a Boston-to-Los Angeles one-way leg), after investigation wasn’t at all representative of the average customer, who paid $240.

Anecdotes are entertaining, but can be misleading too. At Delta’s Atlanta hub, for instance, 90 percent of customers travel on a discount fare of some sort.

Annually, more than 56 percent of Delta’s domestic coach customers travel on deep discount fares.

At Delta, “discount” fares mean those that average 60 percent less than full, unrestricted coach fares. “Deep discount” fares average 30 percent lower than discount fares.
Twenty years ago Washington utterly retooled the engine that drives the airline industry by converting it to run on the fuel of competition instead of regulation. Rarely has a governing body, in one swift move, so effectively freed an industry from artificial governance and harnessed it to consumer choice. In the two decades since the Airline Deregulation Act of 1978, most of its stated goals have been met. Chief among these goals has been, and remains, competition. Today airlines offer more flights, more often, to and from more places, and at lower prices. Facilities and revenues that would be the pride of any community their size. Their host cities enjoy economic booms like those that converging railroads sparked a century ago.

And happily, the record shows that this strong growth has come about with uncompromised customer safety.

The current state of airline travel in this country is a result of a long-regulated industry mastering supply and demand over the span of two decades. The result is the most efficient and effective model known to transportation science.

**Verdict: It Works!**

service on low-fare airlines has never been more widely available. The nation’s low-fare airlines carry more customers today than ever before. After a decline in the late 1980s, the last decade has seen a resurgence of low-fare airlines, with a 299 percent increase from 25 million annual customers in 1990 to almost 84 million in 1998. This 84 million customers represented 21 percent of all domestic origin and destination traffic – equaling the highest percentage since airline deregulation in 1978.

Competition exists on most routes, and the arrival of a new entrant stimulates competition, which in turn increases demand for low-fare seats. Many travelers from start-up cities already purchase discount fares on the larger carrier. And in many cases, they’re connecting beyond the hub to destinations not served by the “start-up” carrier.

A representative scenario might be one of the country’s busiest airports, Atlanta, where customers can choose among not just major carriers but also AirTran, Frontier, Midway and Vanguard air service. While some start-ups have failed, often it is due to undercapitalization or poor management.

**Consumers have far more choice now. Today, 86 percent of the public can choose between two airlines – and in many cases among more – when making travel plans. At deregulation, only 26 percent had any choice at all, and very few had more than a simple choice between two carriers.**

In two remarkable decades, a record number of carriers entered the market and a record number failed. But carriers who learned to respect and respond to the market have thrived.

**Now & Then:**

**Surprised?**

In essence, the architect of the domestic airline industry today is the customer. As a result, Americans today are accustomed to a menu of air travel choices with impressive fare, itinerary and service options.

The impact reaches beyond travel itself. Local economies across the country feel the potency of dollars spent by commuters passing through airports. Large airport hubs, where regional spokes of service converge, are like cities themselves, with armed with the twin tools of hub-and-spoke routing and sophisticated revenue management systems.

It’s a very different picture from 1979.

**Delta manages the airline business better than anyone.** More than 100 million flyers must believe so too – that’s how many customers chose to fly Delta in 2000, more than any other airline has ever flown in one year. Such success is why we have become the trusted carrier we are today, charging fair prices and rewarding those who place their travel plans, their investments, and indeed their lives, in our hands.
Now & Then

What’s New?
Travel choices are broader. The hub-and-spoke system gives travelers an exponential increase in one-connection destinations.

What’s New?
The Consumer Price Index has grown at more than double the rate of airfares. The CPI has risen 155 percent since 1978. Airfares have risen 56 percent on average.

What’s New?
Discount depth has nearly doubled. In 1978, the average discount was 42 percent. Today it’s 70 percent.

What’s New?
Large airlines are vulnerable to failure. In fact, big airlines have proven about as likely to go bankrupt in the face of competition as small, low-fare start-ups.

What’s New?
What's New?
Almost all customers fly at significant discounts. Many take advantage of the last-minute discounts now offered via the airlines’ Web sites. Delta offers deeply discounted fares every week on its Web site, delta.com

What’s New?
Carrier choices are broader too. Today, there are 94 domestic airlines – up from 39 in 1978.

What’s New?
Travel choices are broader. The hub-and-spoke system gives travelers an exponential increase in one-connection destinations.

What’s New?
Air travel is the safest it’s ever been.

What’s New?
Nonstop flights are more common than ever. Even with the boom in ticket sales and destination options, the percentage of customers changing planes has not grown. The hub-and-spoke system usually limits itineraries to one transfer at most, and almost never requires flying two airlines.

What’s New?
Discounted tickets have doubled. More than nine of 10 tickets sold by major carriers today are discounted, compared to roughly half of all tickets sold at the time of deregulation.

What’s New?
The industry is far more efficient now. Thanks to better operations driven by competition, airlines’ financial health has begun to recover after years of loss. Debt-to-equity ratio has improved from 1.9 : 1 to 0.9 : 1 in the past six years.

What’s New?
Customer choices are broader too. Today, there are 94 domestic airlines – up from 39 in 1978.

What’s New?
What’s the same?
Small and medium-sized carriers are thriving alongside the leaders. In fact, market-share numbers among large carriers have barely budged in the past 20 years.

Nonstop flights are more common than ever. Even with the boom in ticket sales and destination options, the percentage of customers changing planes has not grown. The hub-and-spoke system usually limits itineraries to one transfer at most, and almost never requires flying two airlines.

Surprised?