

# Delta Air Lines Introduces a Simpler Fare Structure for Domestic USA Routes



*Powering Travel Procurement*

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## Deja Vu

After several days of rumors and leaks, it was confirmed on January 5, 2005 that Delta (DL) will immediately introduce a nationwide pricing model identical to the limited-scope model currently in Cincinnati. The move comes less than five months after DL introduced SimpliFares on all flights to and from their Cincinnati hub, which spurred traffic by 30%.

Over the coming weeks it will be interesting to see how the industry responds, especially in the remaining fortress hubs. Because there is limited competition, the airlines in these markets have the most to lose by implementing a similar structure. We expect them to match Delta on competitive routes and stay with their current fare structure on others.

The Delta move affects all companies, whether they have a preferred airline deal with Delta or not.

## What does the new fare structure look like?

Delta is doing several things:

- Removing the Saturday night stay restriction.
- Lowering the spread between highest walkup and lowest discount fares.
- Reducing the number of fare classes to just 8, two in first class and six in economy.
- Dropping absolute fare levels, maximum fare capped at \$499 one-way in economy and \$599 in first class.
- Reducing the change fee from \$100 to \$50.

There are still some restrictions, including:

- Minimum one night stay required for many inventory controlled fare classes.
- The fare structure being somewhat different on each route, based on whether Delta faces competition or not.

## How does this affect corporations?

All companies are affected by this move by Delta. Competitive responses from other airlines will mean that those without Delta deals will also see changes.

In the short term you can expect your average fare paid to decrease on DL's routes as published fares drop. The drop will be large if you use a lot of high fare classes such as Y, B, M and H.

We also suspect that short-term contractual savings will drop as most fares are filed in fare classes that are not eligible for the higher discount levels. Bottom-line, you will pay less.

Over the long term, fares paid and total travel spend could go up depending on market conditions and travel behavior, such as:

- Increased purchase of higher fare classes because their levels are now lower and they have fewer restrictions.
- People may travel more. If there are reasonable short-notice fares available, it is easier to justify a face-to-face meeting vs. a teleconference.
- Reduction in advance purchase days since there is no longer punitive pricing that penalizes late bookings.

It is too early to discard your Delta contract. If Delta is a good fit for your company, chances are they will still be a good fit (unless you use them primarily in Dallas (DFW), where they are halting most service next month).

An often overlooked aspect is the potential that it will be increasingly hard to shift share on competitive routes. Smaller discounts and competitive matches will result in smaller pricing gaps between preferred carriers and non-preferred carriers.

#### **What if I have a corporate contract with Delta?**

Delta indicated that they will honor all existing contracts to the end of their terms. Delta still discounts many of these fares, though at much lower levels than their current mainline service. Since introducing SimpliFares in Cincinnati (CVG), Delta has sent amendments to corporate contracts lowering discounts on SimpliFares. The effect of this was confined to only CVG routes since August, but now will affect the entire route system.

Those with Delta preferred deals have already seen amendments reducing discounts to lower levels, mostly in the single digit percentages. Their argument is that since published fares have been reduced significantly, a lower discount will still mean that companies will pay less when compared to a high discount off a high published fare.

Some corporate programs like Delta Meetings Network are being cancelled.

#### **How can eCLIPSE Advisors help you?**

eCLIPSE Advisors keeps close track of these developments. Since each company is different, we can help you create a response tailored to your specific needs. We can help you in many ways:

- If you already have a Delta contract, we can assess the spend and savings impact of Delta's amendments reducing discount levels. If you are an eCLIPSE client, your eCLIPSE support team is already doing this analysis.
- Even if you do not have a Delta contract, expect other airlines to change their corporate deals to reflect a reduction in published fares on routes where they compete with Delta. We can estimate the spend and savings impact of these amendments.
- If your company's travel patterns are such that there is significant other airline overlap with Delta's network, then spend, savings and traveler behavior on other airlines will also change. We can assess the overlap and quantify the repercussions.



- eCLIPSE Advisors can help you understand traveler behavior on Delta routes with regards to advance purchase days and fare classes used so that you can project financial impact.
- We can assess the impact of Delta's changes for making decisions on whether to include or exclude Delta from your portfolio of preferred airlines.
- We can provide consulting support based on best practices to maximize compliance so that your program will maximize savings.
- eCLIPSE Advisors can help you to quantify the value of the managed travel program through changes in the airline industry.

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### **About eCLIPSE Advisors**

eCLIPSE Advisors is a travel procurement firm that offers a global suite of air, hotel and car procurement services designed to improve the travel procurement process and optimize savings and performance on corporate travel contracts eCLIPSE solutions currently manage in excess of \$3 billion in airline, car rental and hotel expenditures for Fortune 1000 Corporations, including twenty five of the BTN Corporate 100 companies. For additional information about eCLIPSE Advisors services please contact:

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