US Airlines: keepin' it simple

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As the US air industry stabilises after its crisis in 2002, Euromonitor Internationalâ€™s new report â€“ "Travel and Tourism in the USA" â€“ shows that the future of the industry lies with greater consumer power and simpler, more transparent airfares.

Euromonitor Internationalâ€™s new research shows that the recovery of the US airline sector peaked in 2004, with value growth of 9.1% - a significant improvement on the 9.5% loss in value that was recorded during 2002. However, in 2005 growth rates will stabilise at a lower level, with Euromonitor predicting 3.2% growth in real terms.

During the recovery from the crisis of 2002, competition in the US air industry intensified. As a result, traditional US carriers were forced to introduce simpler, more transparent pricing in order to compete effectively.

Traditional US airlines amend pricing

One of the most prominent factors that has affected the major playersâ€™ pricing strategies over the past few years is the proliferation of low-cost/low-fare airlines. Full-service airlines have typically operated highly complex pricing structures, designed to maximise revenues by segmenting passengers. Such structures often mean that business travellers and those with less flexibility have been forced to pay much higher prices. With low cost carriers now offering a compelling alternative, traditional airlines have had little choice but to design more competitive pricing schemes in order to keep their customers happy.

US Airways, for example, introduced "GoFares" in April 2004 - a new, permanent pricing structure that is capped of US$499 each way, and can start at a mere US$29 each way. GoFares also eliminated Saturday night stays, which have typically segmented business and leisure travellers. January 2005 also saw the national roll out of Deltaâ€™s SimpliFares. This features a 50% reduction in unrestricted fares, a reduction of fare classes, simplified advance purchase requirements and the elimination of Saturday night stays.

Internet use creates transparency
Increased use of the internet for the marketing and distribution of airline tickets has also forced traditional carriers to offer greater transparency in pricing. Euromonitorâ€™s research shows that the total value of Internet transactions in air travel grew by 17.6% between 2003 and 2004. Although, the internet has always played an integral role in the low-cost carrier business model, traditional airlines are now starting to move towards direct, internet-based distribution. Advertising prices through the internet has facilitated comparison-shopping between airfares, allowing passengers to choose the best price.

A few years ago one customer might have purchased a seat for US$200, whereas the customer seated adjacent might be paying US$2,000 for the same service. Now, if consumers arenâ€™t happy with the prices on offer, they can easily take their business elsewhere - a move, which has become all too familiar to traditional airlines.

Having been slow to introduce ticketing capabilities to their own sites, traditional airlines tended to rely on third parties such as Expedia and Travelocity to sell excess tickets, usually at heavily discounted prices. However, these carriers are starting to move towards selling tickets directly via their websites. Alaska Airlines, for example, was the leading carrier taking 27.4% of its sales through its website during 2003, as compared to 21% during 2002. Euromonitor expects this trend to continue as airlines begin to conduct more and more business over the internet.

Is it all downhill from here?
The US air industry has likely reached its recovery and growth is expected to decelerate in the next five years. Euromonitor International predicts that the average annual growth between 2004 and 2009 will reach only 1.4%. To this end, fare reduction, simplification and transparency will all serve traditional airlines well in improving passengersâ€™ flying experience and cultivating their demand for air travel.

Please visit Euromonitor International for more information

This report offers a comprehensive guide to the size and shape of the travel and tourism market in the USA. It examines the size of the travel accommodation, transportation, car rental and retail travel markets, allowing you to identify the sectors driving growth. It identifies the leading companies and offers strategic analysis of key factors influencing the market, including background information on disposable income, annual leave and holiday taking habits.