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Do fliers gain when airlines consolidate?

US Airways' Delta bid may mean less competition in key markets; frequent-flier impact uncertain.

IdeaWorks contributed information to this article - - see italics.

US Airways Group Inc., which yesterday bid \$8.67 billion to acquire Delta Air Lines, believes consolidation would help the troubled airline industry. But in the wake of US Airways' own purchase by America West, it's less clear how much consumers stand to benefit.

Delta has rejected the offer by US Airways. But if the hostile bid should prove successful, analysts say there could be some advantages for consumers, but also some risks. Users of US Airways frequent-flier miles, for instance, could benefit from having access to Delta's extensive international route system. On the other hand, overlaps in service, especially in some Southern cities where both airlines have major operations, could reduce competition and lead to increased fares. What's more, persistent glitches in the process of integrating US Airways and America West raise concerns about customer service should the Delta bid succeed.

A US Airways-Delta merger would create the country's largest carrier, with an 18% market share by available seat miles, an airline industry measure of capacity. Delta, the nation's third-largest airline by passenger traffic, has hubs in Atlanta, Cincinnati, New York (John F. Kennedy) and Salt Lake City. US Airways, which ranks No. 6, has hubs in Charlotte, N.C.; Philadelphia, Phoenix, Pittsburgh and Las Vegas. There is significant overlap between Delta's 6,795 daily flights and US Airways' 3,846, especially because both operate shuttles on the East Coast.

So far, US Airways has disclosed little about how a takeover of Delta would affect each airline's operations. One exception: One of the two companies' overlapping East Coast shuttle services, which connect Boston, New York and Washington, would probably have to be sold to satisfy antitrust concerns, US Airways says.

Beyond the shuttles, there is significant overlap in the South, with Delta's main hub situated in Atlanta and US Airways having significant operations in Charlotte. The concentration means that "it would destroy competition in the deep South," says Michael Boyd, president of Boyd Group Inc., an aviation-industry advisory group in Evergreen, Colo.

For example, while no airline currently commands more than a 39% market share in Charleston, S.C., a merged US Airways-Delta would gain more than a 70% share of that market, Mr. Boyd says. The new airline would have more than 75% of flights serving Montgomery, Ala., and nearly 80% of the market in Charlottesville, Va. "This is going to really hurt the consumer," he says.

Even outside of the South, the sheer size of the merged airline could create pricing power that pushes fares higher, especially along the East Coast, says Jay Sorensen, president of consulting firm IdeaWorks. However, Mr. Sorensen says that could benefit consumers in the long run.

"The first response to that [merger] outcome might be negative," Mr. Sorensen says. "But I think it's a good thing for the consumer. This industry simply needs higher fares to get back on a solid financial footing. Profitable airlines give better service in every regard from comfort in the air to reliably delivering baggage at the end of a flight."

US Airways counters arguments that fares could rise. It points to its merger with America West, which it says led to fare cuts averaging 24%. Plus, the airline says, even in the South, low-cost carriers like Southwest Airlines and AirTran Holdings Inc. remain as competition.

US Airways has proposed combining the two airlines' frequent-flier programs should the merger succeed. For US Airways' frequent fliers, Delta's extensive international routes could offer more destinations. But for users of Delta's SkyMiles, a merger could bring setbacks. For instance, Delta's SkyMiles currently expire after three years for members whose accounts have no activity, compared with a 18-month expiration term for US Airways' program, which is half the industry standard. Although Delta is shortening its expiration term to a two-year period, that's still longer than that of US Airways, says Tim Winship, publisher of FrequentFlier.com.

"When you boil it down, you have a low-cost carrier acquiring a full-service carrier," says Mr. Winship. "Watch out for terms and conditions changes," Mr. Winship says, "and keep your fingers crossed that they don't reflexively adopt the lowest common denominator since part of the goal of these tie-ups is to squeeze down costs and maximize efficiency."

In the short term, US Airways' merger with America West portends possible logistical problems to a combination with Delta. US Airways and America West aren't expected to be fully integrated until the second quarter of next year, says a person familiar with the process. For now, consumers remain confused about which airport kiosk to use and where to check in at the airport for a flight.

In an internal US Airways newsletter dated yesterday, a Q-and-A explaining the Delta merger proposal acknowledged the integration glitches US Airways still faces with its America West deal. One question began, "Are you guys out of your minds?"

One issue in a US Airways-Delta merger that could need immediate attention is the fate of one of the East Coast shuttle services the two airlines operate. But the sale of either of the shuttle services would likely mean little more to consumers than a change in name on a plane, industry experts say.

Both services, Delta Shuttle and US Airways Shuttle, currently operate hourly flights on weekdays between New York and the two other Northeast corridor cities, with more infrequent shuttle flights on weekends. The services are not a huge source of profit, despite their popularity, says Mr. Boyd, the aviation-industry adviser.

It's unclear who would be interested in buying either of the shuttle services. Analysts speculated yesterday that AMR Corp.'s American Airlines, Northwest Airlines and UAL Corp.'s United Airlines would be the most likely suitors. American has tried to buy the US Airways shuttle before and runs flights along the shuttle routes on tiny regional jets. Its customers would clearly prefer an upgrade. An American spokesman declined to comment yesterday.

-Ron Lieber contributed to this article.