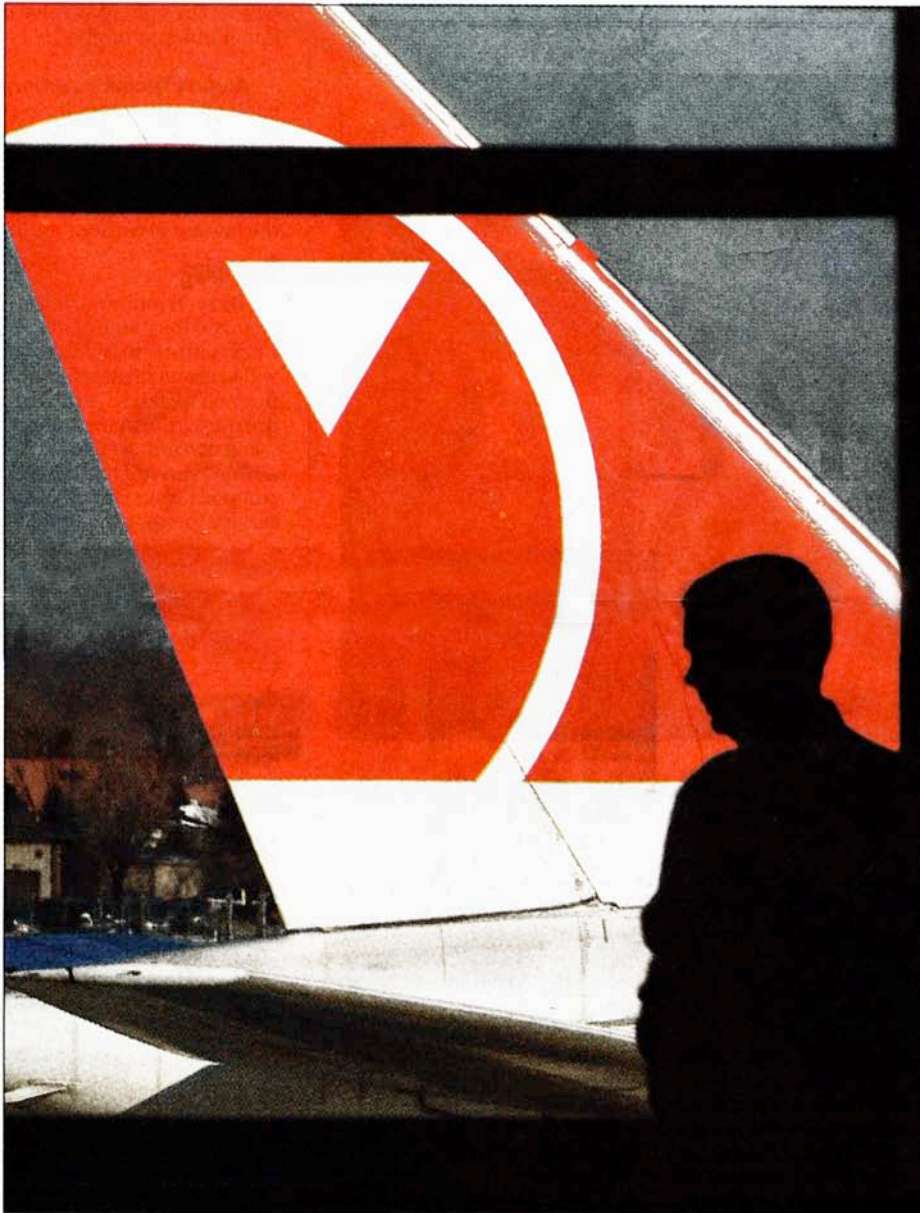


Twin Cities business travelers are paying 30 to 50 percent less for some Northwest fares than a year ago, according to a new study.



Glen Stubbe/Star Tribune

Northwest Airlines was critical of fare cuts by Delta Air Lines but matched prices in markets where both carriers offer connecting service.

### Fare slide

Northwest Airlines has reduced some business fares on key Twin Cities routes after Delta Air Lines' major fare restructuring in January. These Northwest one-way fares are for tickets purchased no more than three days before traveling. Fares are refundable and do not include minimum stays.

Destination	Fares		
	Jan. 26 2004	Jan. 24 2005	Pct. chg.
Boston	\$749	\$579	-23%
Chicago	\$443	\$311	-30%
Detroit	\$556	\$499	-10%
Ft. Myers	\$834	\$449	-46%
Las Vegas	\$665	\$549	-17%
Los Angeles	\$943	\$449	-52%
New York	\$708	\$579	-18%
Orlando	\$777	\$649	-16%
Phoenix	\$638	\$449	-30%
San Fran.	\$930	\$649	-30%
Wash., D.C.	\$635	\$549	-14%

Source: Harrell Associates

# Fare cuts seem to be holding firm





Glen Stubbe/Star Tribune

**Although business travelers are only a fraction of total passengers, they historically have paid high fares and provided much of the profits for Northwest and other big carriers.**

**By Liz Fedor**  
*Star Tribune Staff Writer*

Some Twin Cities business travelers who fly on Northwest Airlines on short notice are paying 30 to 50 percent less than a year ago, according to a new study of airline fares.

The analysis by New York-based Harrell Associates suggests the widespread fare restructuring initiated by Delta Air Lines in January is sticking, raising the potential of short-term, steeper financial losses at Northwest and other big carriers.

According to Harrell, Northwest charged \$943 a year ago for a one-way, refundable ticket from the Twin Cities to Los Angeles. In January, Northwest was selling the one-way fare for \$449 — a 52 percent drop.

Delta's moves to cap domestic fares and eliminate Saturday-night-stay requirements have spread like a "fungus" throughout the airline industry, said Bob Harrell, whose firm looked at fares on 280 major domestic routes.

Average fares for tickets bought no more than three days in advance were down 28 percent on Northwest flights, 32 percent on Delta and 44 percent on American, Harrell found.

Delta said it reduced the fares in hopes of stimulating additional business travel and wooing back passengers who have shifted to low-fare competitors. Northwest was critical of Delta's action, which forced Northwest to respond with fare cuts of its own.

"It's going to result in us having lower revenues this year," Northwest CEO Doug Steenland said in a Jan. 28 message to employees. Northwest has lost about \$2.5 billion on its operations during the past four years.

Major airlines, including bankrupt United Airlines, slashed fares in the wake of Delta's cuts.

Although business travelers are only a fraction of total passengers, they historically have paid high fares and provided much of the profits for Northwest and other big carriers.

But Delta CEO Jerry Grinstein sees that practice as a business model of the past. In a Jan. 10 speech, he said that business travelers started comparison-shopping on the Internet and are demanding fair prices. Delta's new "SimpliFares is not a gimmick," Grinstein said. "Rather, it is a fundamental change in the way we do business."

Harrell predicts the business-fare cuts will remain in place. If they produce short-term revenue losses, they also will increase the pressure on airline executives to further cut operating costs.

"The business traveler is going to get some breaks on Northwest Airlines. There's no doubt about it," said Terry Trippler, a Minneapolis-based fare watcher. But he said Northwest has tried to minimize its revenue damage by avoiding blanket matches of Delta cuts.

The carriers are streamlining and cutting business fares, Trippler said. But the thinking that all airlines must charge the same prices "has been broken," he said.

In response to the recent cuts in business fares, major airlines are reducing some of the corporate contract discounts they have had in place with large companies. As a result, many businesses won't save large amounts of money from the recent fare cuts, said Nick Vournakis of Carlson Wagonlit Travel.

Delta's new SimpliFares include a \$499 ceiling for customers buying last-minute walk-up fares. That is a one-way fare for economy-class seats on domestic routes. The carrier also

**“There are many things that may make people happy but may not produce more revenue or be sustainable.”**

**Tim Griffin, Northwest executive vice president**



**Executive Tim Griffin said NWA did not match Delta's fares throughout its system.**



**Delta CEO Jerry Grinstein said business travelers are demanding fair prices.**

reforms, Harrell said. “They are targeting low-cost carriers, which continue to expand into their back yard. They are targeting weak carriers in the market that are less able to sustain the short-term revenue hit.”

Low-fare AirTran Airways has been growing rapidly, and like Delta it operates a hub out of Atlanta. Delta launched its fare reforms as US Airways and United Airlines were seeking more labor cuts and paths out of Chapter 11 bankruptcy.

The major airlines still offer numerous fare types on a given flight, and the Big Six carriers offer special deals through corporate contracts. But as lower business fares become available in the marketplace, Northwest and other large airlines don't want to apply a second round of big discounts for their corporate customers, Vournakis said.

“We are in the process of making adjustments to our corporate contracts in light of the reductions we have made to our unrestricted fares,” Northwest spokesman Kurt Ebenhoch said Tuesday.

Historically, a large business will have corporate contracts with multiple airlines, which allow the company to earn discounts for buying a certain portion of its tickets on those preferred airlines.

A corporate customer often received a 20 percent discount on a full, walk-up fare, but now that discount percentage might be much smaller, Vournakis said. For example, under the old structure, a corporation might be charged \$800 for a ticket, which is the price after a 20 percent discount is applied to a \$1,000 fare.

Now that fares have been reduced, he said, the corporation might get a 9 percent discount on a fare that is \$850. After the discount is applied, the corporation's ticket price is \$773. “It's only a \$27 savings,” he said.

“The corporate business focus is to travel smart and save money,” Vournakis said. That's the case regardless of what fare structure is in place.

Many business travelers avoid walk-up fares and three-day advance purchases and opt for travel that is at least seven days in advance, because those fares are considerably less expensive, he said.

Despite the efforts by major carriers to reduce and simplify their fare structures, Vournakis said he does not expect corporate discount programs to disappear.

“You are always going to have last-minute travelers,” he said. “A corporate contract is specifically intended to provide a level of discount for that type of ticket. And I don't think corporations are ready to lose that potential benefit back to the bottom line.”

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eliminated the Saturday overnight-stay requirement for travelers.

In a recent conference call with securities analysts, Tim Griffin, Northwest's executive vice president of marketing and distribution, said Northwest had not instituted Delta's fare structure throughout its system. It matched prices in markets where Northwest and Delta offer connecting service.

However, Griffin said that in many cases where Northwest offers nonstop service and Delta offers connecting flights, Northwest has not lowered its fares to Delta levels. Northwest is offering higher prices, more restrictions on the fares or both.

Delta executives are clear in their motivation for the fare