

You Paid What for That Flight?

It Can Cost More to Fly to Hartford Than Barcelona. What Airlines Consider in Setting Prices



By

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Airline ticket prices often seem like a brain-teaser with little logic. From Chicago, a flight to Miami is more than twice as far as a flight to Memphis, but the shorter Memphis flight costs 25% more on average. Fly to Washington, D.C., from Hartford, Conn., and the average fare is nearly three times as high as if you flew to nearby Baltimore from Hartford, according to government data for the first quarter of this year.

If Los Angeles is the same distance from New York as London, why does it cost so much more to fly to London than LA? Even though airline costs are tied largely to how far you fly, airline fares have little relation to distance. Scott McCartney tells us why.

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The fares travelers pay typically have little relation to how far you fly, even though airline costs are largely dependent on the length of a flight. Long trips often cost less than short trips. Flights of the same time and distance can have radically different prices.

David Dugan's defense company paid [US Airways](#) \$1,358 for a non-refundable coach, round-trip ticket this week to Hartford from Washington. And yet Mr. Dugan had just bought \$900 round-trip tickets for a family trip from Washington to Spain.

"It's crazy," he said. "We're going to Europe and it's cheaper than going to Hartford."

Airline pricing is enormously complex, often confounding and angering travelers with prices that change several times a day, carry an almanac full of rules, restrictions and penalties and have huge disparities in the price of a trip in different markets or even just different days.

THE MIDDLE SEAT

The price you pay for a ticket is driven by a number of variables: competition, types of passengers, the route and operating costs. But the biggest factor, by far, is whether discount airlines fly in a market. Low-cost carriers often set the price in markets because competitors feel compelled to match that price or risk losing customers and flying empty seats. And when they aren't there, big airlines behave radically differently when setting prices.

"It's the number of competitors and the quality of the competition," said airfare analyst and consultant Bob Harrell.

The kinds of travelers in a market heavily influence what prices airlines charge as well. If the route has lots of business travelers—like Hartford to Washington—then airlines set prices high knowing customers will be less sensitive to higher prices. If the route is populated by price-sensitive travelers—think Florida cities and Las Vegas—then airlines set prices low in order to fill up planes.

"Airlines are just saying, 'What is the most I can get for that seat?'" said Bradley Seitz, president of Topaz International Ltd., which tracks and audits airfares for major corporations.

On the Hartford-Washington route, what they can get is a lot: The average price in the first quarter was \$648 round-trip, or 99 cents per mile, according to the Department of Transportation, making that route one of the most expensive in the country per-mile.

Meanwhile, [Southwest Airlines](#) charges far lower prices between Hartford and Baltimore, about 40 miles north of Washington, so the average ticket price was \$236, or 42 cents per mile.

When Andrew Kowal made a trip to Washington from Hartford for meetings at the Capitol, his corporate travel department asked if he would fly to Baltimore instead. It made little sense to him

to rent a car or buy a round-trip Amtrak ticket to get to Washington instead of simply flying where you want to go.

"Think about the resources used if I went to Baltimore," he said. "How could that be cheaper?"

Business travelers pay more than twice as much per mile, on average, to fly from New York to London as they do from New York to Los Angeles, according to Topaz. In the second quarter, the average round-trip from New York's Kennedy Airport to Los Angeles International Airport was \$1,088, while the average ticket from JFK to London's Heathrow Airport was \$3,610, Topaz found in checking ticket purchases for companies.

Not only are business routes more expensive, but the London-bound travelers are more likely to buy business-class seats than the L.A. fliers. It's more expensive, too, for airlines to operate internationally, and international ticket taxes are higher.

But the reality is that big airlines that fly to both Los Angeles and London from New York face low-fare airline competition on the domestic route, but not the international route, and so they charge far more. Bigger competitors often match prices of discount carriers like Virgin America, which had 20% of all passengers flying between JFK and LAX in the first quarter, according to consulting firm Oliver Wyman Group's PlaneStats database.

And when there's not low-fare competition, prices soar. The most-expensive average domestic ticket in the first quarter was \$786 for round-trip flights between San Francisco and Philadelphia, according to the DOT. That 2,521-mile route is dominated by United and US Airways, who are competitors but also partners in the Star Alliance. Fly to Boston from San Francisco—183 miles farther by air than Philadelphia—and you paid an average \$296 less round-trip in the first quarter, according to DOT. The difference: [JetBlue Airways](#) has 17% of the San Francisco-Boston market, but none of the San Francisco-Philadelphia market.

High fixed costs do make short routes more expensive, per mile. But airport costs like terminal rents and landing fees and even the expense of buying or leasing jets, pale in comparison to the two biggest expenses at airlines: labor and fuel. Both go higher as flights get longer.

When the airline industry was regulated, the government set prices sensitive to distance, and buying tickets—far more expensive in the regulated days because airlines were guaranteed profits—was a bit like going to the gas pump.

Now, airfares are more like Coca-Cola, says Rob Britton, a former [American Airlines](#) executive who now lectures at business schools. "How much does Coke cost? The reality is it depends on where you are. You pay a lot more at the cineplex than you do at the grocery store," he said. "Charge what the market will bear."

That means distance has little to do with pricing. Cincinnati to New York happens to be exactly the same distance by air as Long Beach, Calif., to Salt Lake City, and both routes include a hub for Delta Air Lines at one end. The similarities end there. For Cincinnati-New York, a market rich with business travelers where Delta carries 98% of all passengers, travelers paid an average 42 cents a mile in the first quarter, according to the DOT. For the Long-Beach-Salt Lake route, Delta competes with jetBlue Airways and charged only half as much.

Delta says prices on each route are based on "market dynamics," including distance, operating costs and competition. US Airways declined to comment on its pricing strategy "for competitive reasons."

High prices do catch the attention of low-priced competitors. In the first quarter this year, the most expensive market in the country, per mile, was Boston to Philadelphia, a US Airways-dominated route, where the average fare was a whopping \$684. Southwest began serving that route in June.

And now? US Airways' *highest* coach fare is \$281 round-trip—\$400 less than its first-quarter average fare.