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ON THE COVER:
*TIME photo-illustration. Obama: Photograph by Jonathan Ernst—Reuters*

*Jets like this Boeing 737-700 are flying with record low numbers of empty seats, and airlines are reaping the profits. Photograph by Jeffrey Milstein*



*Janelle Monáe's cosmic sci-fi saga, page 52*

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Passengers paid on average **$378.62 for a domestic round-trip flight** (including baggage and reservation-change fees) last year

**642 million passengers** flew domestically on 8.4 million flights

Photographs by Jeffrey Milstein

**92 flights** sat on the tarmac at a U.S. airport for more than three hours

# CABIN PRESSURE

## AS AIRLINES BECOME MORE STREAMLINED AND PROFITABLE, FLYERS FACE AN EVER TIGHTER SQUEEZE

BY BILL SAPORITO/LGA TO FLL/MIA TO LAX TO JFK

# IF YOU WANT SOME INSIGHT INTO WHY THE DEPARTMENT OF JUSTICE PUT A GATE HOLD ON THE MERGER BETWEEN AMERICAN AIRLINES AND US AIRWAYS, HERE'S A NUMBER TO PONDER: 13 MILLION SEATS—GONE.

That's how many airplane seats have disappeared over the past year—removed from the system by airlines as they reduce capacity. According to the website Aviation DataMiner, these cuts have come from across the industry. Only ultra-low-cost carriers Spirit and Allegiant are growing.

This means life in the skies will not be improving anytime soon: no empty seats, no room overhead and stressed-out staffs. With fewer seats available, the domestic load factor—the percentage of seats filled—reached a record of 87.1% in June. And as there is little or no capacity growth in the forecast, the future of flying promises more cramp for more cash.

That reality became painfully obvious in a two-day, three-airline lap around the country in late August. "You can't go out with flights that aren't filled," says Blair Pomeroy, an aviation expert with consultancy Oliver Wyman. "The load factor is up 20 points in the last two decades. They have gotten that increase by eliminating marginal flights." Fares are rising because airlines have stopped chasing market share. Instead, they've tried to maximize profit from existing customers by upsizing or downsizing their equipment and adjusting timetables. That means, in some cases, making fewer trips with larger jets. Or sometimes just the opposite: flying smaller jets that are cheaper to operate. This is why you are stuck on a 70-seat Embraer 175 for close to four hours from Pittsburgh to Denver rather than a more comfortable Boeing 737 or Airbus A320.

At the same time, the industry continues to harvest what it calls ancillary revenue (and what passengers call fees—along with a few other words) for everything from checked baggage to so-called premium economy seats, priority boarding, trip insurance, movies, meals and drinks.

The fees are part of a strategy to "decommoditize" air travel, as Delta said in a recent presentation to analysts, by focusing on a "customized and differentiated experience." Translated, that means you pay to get on the plane, then keep paying until you reach the level of comfort and service that matches your lifestyle or pocketbook, from zero extra for a middle seat in the way, way back of a fully loaded wide-body to a vast sum to be cosseted in business class. The major carriers, of course, also try to lock in their less budget-restricted corporate customers with global alliances and frequent-flyer programs that offer better seats and upgrades. But even for the top ranks of flyers, belts are tightening—Delta announced that it would be adding a spending qualification for its medallion level. "Every customer," says Marty St. George, head of marketing for the low-cost carrier JetBlue, "has to decide what they value."

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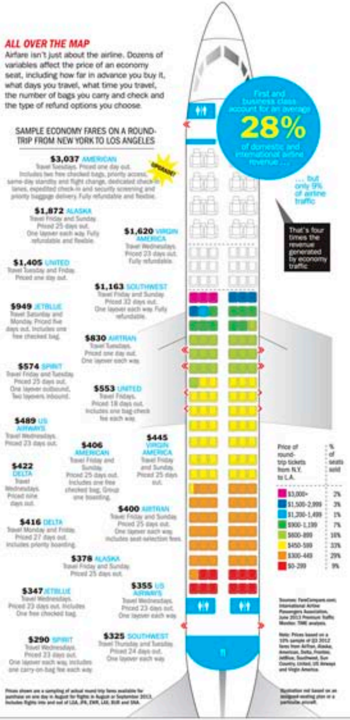
> —BLAIR POMEROY, aviation expert with Oliver Wyman

The fare-and-fee strategy has rewarded the industry with plump profits. Last year, Delta's net profit hit $1.6 billion on rising revenue and profit per passenger; the industry's pretax profit margin is up 8 percentage points since 2009. More important, carriers have developed the operational discipline to sustain these profit levels for years, as long as fuel prices remain manageable. "The legacy airlines used to be run like government agencies and not hungry businesses," says Pomeroy. "Those days are over." Indeed. In July, American racked up $349 million in earnings. Not a bad bounce back from being broke.

How did we get here? You have to go back to 2008, when oil reached $147 a barrel and jet fuel peaked at $3.89 a gallon. The domestic airline industry lost nearly $10 billion that year. Struggling Northwest Airlines landed in the arms of Delta, dooming Northwest's struggling Memphis hub; for Delta, it was so long, Cincinnati. In 2010, United united with Continental. Cleveland is getting nervous about being dumped. And US Airways' earlier merger with America West ended Pittsburgh's hub dream. In merging, the combined companies shrank their footprints—and their costs.

As of 2012, jet-fuel prices were roughly at the same level as in 2008, yet the industry made about $2.3 billion. A new age has dawned.




## Lean, Mean and Nothing in Between

THE MIXED GLORIES OF THE NEW AVIATION age are on full display at New York City's LaGuardia Airport, where I wait in the luggage-check-in line for a Spirit Airlines flight headed for Fort Lauderdale, Fla. The scene is chaotic as passengers lugging shopping bags, boxes and all manner of containers frantically attempt to repack so they can avoid bag charges.

The flight looks full despite a 6:50 a.m. departure. Spirit often flies vampire hours to keep its planes in the air as much as possible. How about a 10 p.m. flight to Plattsburgh, N.Y., from Fort Lauderdale, and a return at 1:30 a.m.? It's filled with Canadians escaping high-priced fares in Toronto.

On board, seating is tight. Spirit gets 218 passengers on its Airbus 321s vs. 159 for, say, JetBlue's Airbus 321s. The guy sitting next to me, in the middle seat, has his knees jammed into the seat in front of him. Because I paid $25 extra to get a window seat next to the emergency exit, there's no chair in front of me and I can stretch out my 6-ft. 2-in. frame. The first row goes for another $50. Advertising is pasted on the overhead compartments and tray-table backs.

Spirit has become today's most profitable airline by attracting passengers who otherwise wouldn't fly: low-margin customers the network carriers no longer desire. "The simplest way we describe the Spirit market," says the company's CEO, Ben Baldanza, "is the people who pay for the tickets themselves."

Here's how Baldanza summarizes the changes he sees in the industry: "Less competition, less capacity, fewer intervening marginal hubs." He means, for instance, that St. Louis, once a hub for airlines like TWA and American, is no longer a Western gateway. And good luck finding direct service to Omaha—or much of any service to Sioux Falls, S.D. Closing midsize hubs "created an industry that is financially more stable for the first time in a long, long time," Baldanza tells TIME. It's good for consumers in the sense that a stable industry has value, but not so good in that there are fewer flights between midsize cities—and some smaller markets have lost service completely.

Baldanza has been working hard to provide more options and city pairs. In doing so, he is shaking up the industry. After taking charge of the then money-losing Spirit in 2006, Baldanza analyzed all the world's airlines and reached a conclusion. "The airlines that were perennially successful were really at the extremes," he says. "We realized they were either high touch like Emirates, or low cost like Ryanair."

He went low cost, unleashing a highly disciplined, highly discounted airline that is growing 20% annually with industry-leading profit margins. At Spirit, price is the product. The average base fare is \$79, which gets you a seat. Everything else is extra. Spirit charges for checked bags as well as those in overhead bins. If you want an assigned seat, a middle, aisle, window or exit-row seat, that will cost you, based on a sliding scale. Would you like some water? Two bucks. The average passenger typically spends an extra \$35 for add-ons, but the average total cost, at \$110, still beats most of the major carriers.

Baldanza has his sights set on expansion. He figures there are at least 400-city pairs in the U.S., Caribbean and South American markets—or roughly any market where 200 people a day are flying. "We have more growth opportunities than we have airplanes on order," he says. In the airline industry, that's revolutionary, even if it's not exactly the kind of revolution that brings a smile to the face of a frequent flyer.


**Newer Isn't Always Better**

I AM FLYING WITH A SENIOR CITIZEN OUT of Miami—that would be the jet, not a fellow passenger. I'm on one of those aging Boeing 757s that have served as industry workhorses for years. This one is owned by American and has all the hallmarks of its age: the upholstery is tired, and the first-class seats are old school, not much different from the coach seats (or so I tell myself as I head back to Row 17). The in-flight entertainment is hilariously outmoded—ancient screens suspended from the cabin ceiling with your choice of the same movie. A woman behind me remarks that she was expecting something "where you could change the channels."

American and United have ordered hundreds of new jets, which theoretically could make life better in the air. The 787 Dreamliner, for instance, has a cabin altitude pressure of 6,000 ft., meaning you will suffer less from jet lag. But you might suffer elsewhere on the jet. Boeing has configured the long-haul Dreamliner with eight seats across in the coach section, with an option for nine. Likewise, it has offered its extended range 777-300ER with nine seats across the back, with an option for 10. Typically, only charter outfits opt for sardine seating. But some airlines, like United and Japan's ANA, are converting to or ordering nine across in their Dreamliners. The loser gets seat 33 F, LAX to Tokyo. And on its 777s, American has opted for 10 seats, 3-4-3 across (meaning each row has four middle seats). Aviation designers are even broaching the idea of making middle seats narrower to offer the cheapest of the cheap seats.

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—BEN BALDANZA, *Spirit CEO*

The next day, homeward bound, I'm on another 757. A different carrier. And a better seat. An upgrade! This time it's United, from LAX to JFK, and there's evidence that the airline, newly consolidated with Continental, is trying to raise its game after a rocky start. The Los Angeles-to-New York and San Francisco-to-New York flights are among the most profitable routes in the U.S., and United has upped the ante in business class. The company has given up a couple of rows of coach seats to install lie-flat seating and everything else you would normally associate with transoceanic travel. American and Delta have no option but to match the offer, and they are doing so.

The seats have just about everything—and they should, given that their cost to the airline can easily exceed \$50,000 apiece. There's a shelf for things like mobile phones. The individual in-flight entertainment includes movies, audio, games and the ability to connect your iPad or iPhone if you have the right cable. There's a USB port. And there are meals, served on actual plates, with unlimited wine and beverages. (This being a morning flight, coffee and juice will suffice.)

Business-class seats in the transcontinental market are typically priced from \$3,000 to nearly \$5,000. That's what has lately lured JetBlue into the premium market. It will begin business-class service on the coast-to-coast route next year, at what will likely be half the current market prices. "Our competitors all



**Low and behold** *Spirit Airlines CEO Ben Baldanza in his sparse office in Miramar, Fla. The thriving discount carrier focuses on "people who pay for the tickets themselves"*

have that front-cabin product that creates a subsidy for them," says JetBlue's St. George. In other words, United can use the revenue generated in its business class to offer cutthroat coach fares against JetBlue's single cabin coach offering.

Experts say this move by JetBlue and Southwest's expansion into international travel suggest that the days when low-cost airlines differentiated themselves from legacy carriers are over. They are now all fighting for the core corporate customer, plus as many leisure travelers as they can entice. Southwest, which thrived on its one-size-fits-all model, is now separating the herd with early check-in fees; having acquired AirTran, it also has business-class seats to sell. "It's a hybrid world," says Pomeroy. St. George rejects that idea and says JetBlue is instead bringing innovation to another overpriced market.

**It Can't Get Worse, Probably**

AS THE UNITED FLIGHT APPROACHES JFK, the pilot announces that we are arriving early. Perhaps, but that's only because there's a time cushion routinely built into airline schedules; a flight is considered on time even if it arrives up to 15 minutes late. In reality, as many as 40% of flights nationwide are late, a consequence of an outdated air-traffic-control system and carriers' squeezing everything they can out of a handful of very busy hubs. Being early, however, often just means that you get to wait on a taxiway for a departing jet to get clear of your gate. At least the chair's comfy.

American and US Airways have gone on the offensive against the Department of Justice, vowing to fight for their merger in court on the grounds that it helps consumers. The companies say the combined airline networks are complementary and would offer more choices to more destinations across a broader global network. For frequent flyers, there's also access to American's OneWorld alliance, a network of connections with foreign airlines. The financial stability of the merger would also ensure job stability, the two carriers say.

The DOJ argues that having a grand total of three legacy carriers will lead to higher fares, especially at dominant hubs. Said Assistant Attorney General Bill Baer: "Consumers will lose the benefit of head-to-head competition between US Airways and American on thousands of airline routes across the country—in cities big and small." In the meantime, the merger is frozen until after the trial, which may not start until next year.

Economic history tells us that consolidation in the airline industry—and in virtually any industry—leads to higher prices. But the previous mergers were necessary for the airlines to survive. The DOJ could negotiate an agreement in which the new American gives up slots at Reagan National or Charlotte, say, to foster more competition here and there. But a settlement would surely mean a reduction of service to the smaller markets now served by those airports.

That's the way it is in the airline industry these days. Whatever happens can hardly make things worse. Until it does. ■