Airline Mergers – The Real Cost

Since 2001, several airline mergers have taken place with little or no resistance. Delta merged with Northwest, United with Continental, Southwest with AirTran, and most recently US Airways with American Airlines. One factor contributing to this trend is the rising cost of jet fuel. Most travelers thought that antitrust regulators might object to this many consolidations in such a short stretch of time, but actually there has been little objection to consolidation in this industry.

Consolidation often helps a company cut costs, become more efficient, and expand routes, but fewer airlines means fewer choices for the consumer. What does that actually mean? Historically when the supply of the product decreases while the demand increases or remains the same, the price of the product increases. So as a consumer you can expect to have more individuals competing for fewer seats allowing the airlines to increase prices. You the consumer will pay more for a ticket due to fewer flights offerings while the airlines reap the benefit of increased revenue without lifting a finger. Several members of the Senate Judiciary Committee’s antitrust subcommittee expressed concern that with the latest consolidation, US Airways with American Airlines, the top four U.S. airlines would control 80 percent of the U.S. market. Proponents of consolidation in this industry point out that the industry has been in trouble for the past ten years. They claim that consolidation will produce a healthy industry allowing for investments in service and technology. This statement is supported by the fact that in 2012 U.S. carriers showed an operating profits of $6.9 billion, compared with posted losses of $2.6 billion in 2008.

Mergers can be tricky and messy. Not only is there the operational difficulty of combining planes, customers, employees, and routes but also the combination of philosophies and corporate cultures. Often the CEO of the merged airline sets the tone and initial guidance toward a new culture that will hopefully benefit all. Additionally a merger effects all other corporations in the business. Radia Amari, an airline analyst of IbisWorld Inc., indicated that Delta could be effected by the American – US Airway merger because now both will have a strong presence on the East Coast.

It is still too early to know the full effect of many of these mergers on the industry, consumers, and the corporations themselves. All consumers can do is wait, watch, and collect those frequent flyer miles.