

3. Airlines had to apply to the CAB 90 days in advance and receive formal approval to discontinue service to a city.
4. Airlines were prohibited from entering the tour business.

The crafters of the Deregulation Act envisioned the creation of a freely competitive market that would provide needed air service more efficiently. The passage of this act may seem like ancient history, but even after 40 years, airlines are still grappling with this evolving competitive marketplace.

To facilitate the move to a competitive market, the CAB and its regulatory capacities were eliminated, and the **U.S. Department of Transportation (DOT)** assumed the responsibilities for overseeing operational issues such as the overselling of tickets, smoking on flights, and potentially deceptive advertising practices, as well as competitive concerns such as mergers and acquisitions. Air routes were made available to all carriers who could meet safety and service standards, and new carriers were encouraged to provide a variety of low-priced services. The **Federal Aviation Administration (FAA)** has responsibility for the safety of air transportation carriers.

Deregulation removed all the previously listed operating constraints that restricted airline operations. Pricing became very complex. Rather than a simple three-tier structure (economy, business, and first class), there are multiple prices, and airlines change these prices hundreds of thousands of times each day. Sometimes, very low prices on a particular route may be available for only a few minutes. All these changes are being made as airlines attempt to meet customer needs, maximize load factors, and increase revenues through their revenue management systems. Today, there is little to keep a carrier from entering a new city other than airport safety and capacity constraints.

Airlines may now function as tour operators, providing packaged tours directly to the public. In addition, they may own and operate travel agencies, and they may develop new methods of selling tickets other than directly and through the existing travel agency system. This latter change has resulted in satellite ticketing terminals that operate in a manner similar to automatic teller machines and other forms of electronic access, including ticketless travel.

Deregulation made the **hub-and-spoke system** the primary route pattern for **legacy carriers** throughout the world. Airlines select hubs near major metropolitan areas, where passenger, administrative, and maintenance activities can be concentrated and quickly rerouted to their final destinations. By designating primary hubs, airlines are able to funnel traffic into these centers to feed their **trunk routes** from smaller markets along **spoke routes**. This system allows the airlines to capitalize on **economies of scale** and match the size of the aircraft serving a market to the demand from that market. An example of a hub-and-spoke system is shown on the map in Figure 6.4.

FIGURE 6.4
Hub-and-spoke system.

