

Airline Pricing and Revenue Management

Dr Keith Mason FRAeS

Istanbul Technical University

Air Transportation Management, M.Sc. Program

Airline Marketing

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Pricing and Revenue Management



Dr Keith Mason

Head, Centre for Air Transport Management

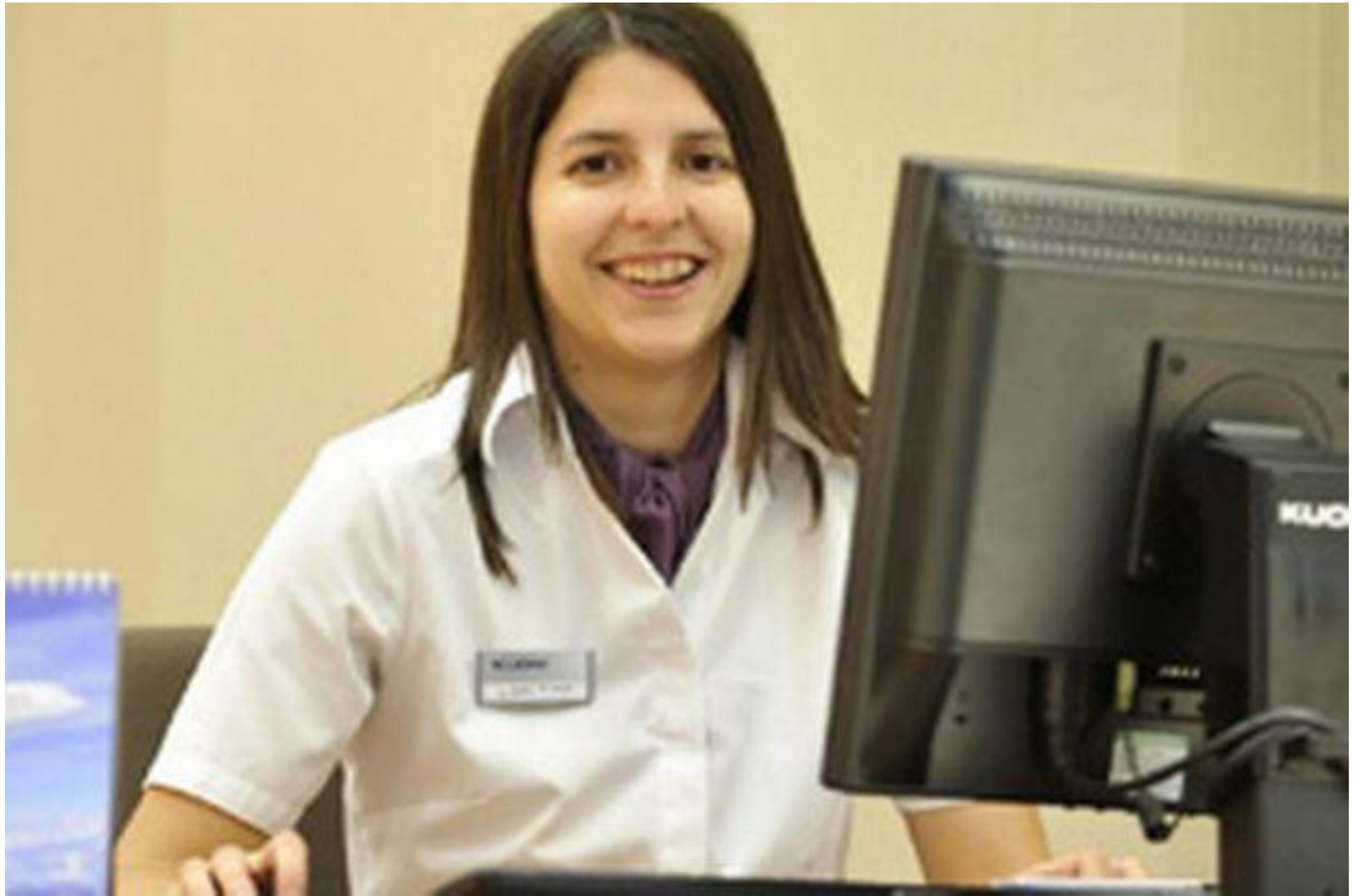
“The price of an airline ticket is one of the great mysteries of modern life. It costs one price if you buy it over the phone and another if you buy it in person, one if you buy it this morning and another three hours from now. It practically defies the laws of physics.”

Senator Ron Wyden (Oregon) , Introduction to S 383 Airline Passenger Fairness Act, 1999

Old style travel
agents...



Or maybe more friendly...



But if you did get to
see the screen....

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THU 24MAY07 BANGKOK      /HONG KONG    24/0000 24/2359      G*GAL
1 BKK HKG 0800 1145 TG 600 FA AA PA CA DA JR ZR YA BA MA#744B E
2 BKK HKG 0835 1230 CX2700 J9 C9 D9 I9 Y9 B9 H9 K9 M9 L9#330C*E
3 BKK HKG 0945 1340 CX 708 J9 C9 D9 I9 Y9 B9 H9 K9 M9 L9#330C*E
4 BKK HKG 1020 1410 GF 150 F BKK-HKG THU-24MAY07
5 BKK HKG 1040 1430 TG 628 C MPM 1258 EH
6 BKK HKG 1130 1520 CX 750 J PUBLIC FARES
7 BKK HKG 1225 1620 KQ 230 J AUD CURRENCY FARES EXIST
8 BKK HKG 1320 1710 UL 422 J
  
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      CX      FARE      FARE      C      AP      MIN/      SEASONS..... MR GI I
      THB      BASIS
1  AI      5100R YEE7BKK  Y          / 7          M  EH
2  ET      5800R TLEE1MTH T          /1M      26FEB -31OCT R  EH
3  KQ      5865R TLPX1MTH T          /1M      01APR7-06JUL7 M  EH
4  KQ      6395R QLPX1MTH Q          /1M      01APR7-06JUL7 M  EH
5  EK      6900R VE1MTH1  U          /1M          R  EH
  
```

Setting Pricing objectives

- Profit maximisation
 - Market share maximisation
 - Break-even
 - Survival
 - Match competitors
 - Predatory pricing (not legal)
 - Send signal about the quality of the product
-
- *Airlines pricing objectives may vary from market to market and route to route*
 - *Pricing policy should not be considered in isolation but in relation to load factor and cost*

Key Factors Affecting Pricing Strategies

- Supply factors
 - Regulatory regime (regulation vs liberalisation)
 - Capacity in the market
 - Cost of service
 - Customers needs are different
 - Different customer needs impose different costs
 - Competition
 - Direct (including low cost carriers)
 - Indirect
- Market Factors
 - State of economy
 - Customers willingness to pay
 - Demand elasticity

Fare Type

- Normal/basic fares
 - First class
 - Business or executive
 - Economy
- Promotional Fares
 - Route specific - fares are subject to restrictions:
 - Min/Max stay*
 - Saturday night stay*
 - Departure time restrictions*
 - Advance purchase time requirement*
 - Routing (round trip, indirect service)*

BA Fares – London to Amsterdam

| | Return Fare |
|----------------------------|-------------|
| Lowest Economy * | £159 |
| Unrestricted Economy | £460 |
| Unrestricted Business/Club | £514 |

Fares quoted 20th June 2013 for 26thAug 2013 day return

One way fares exclude taxes, fees and surcharges

*Restricted to certain flights on certain dates

BA Fares – London to Singapore

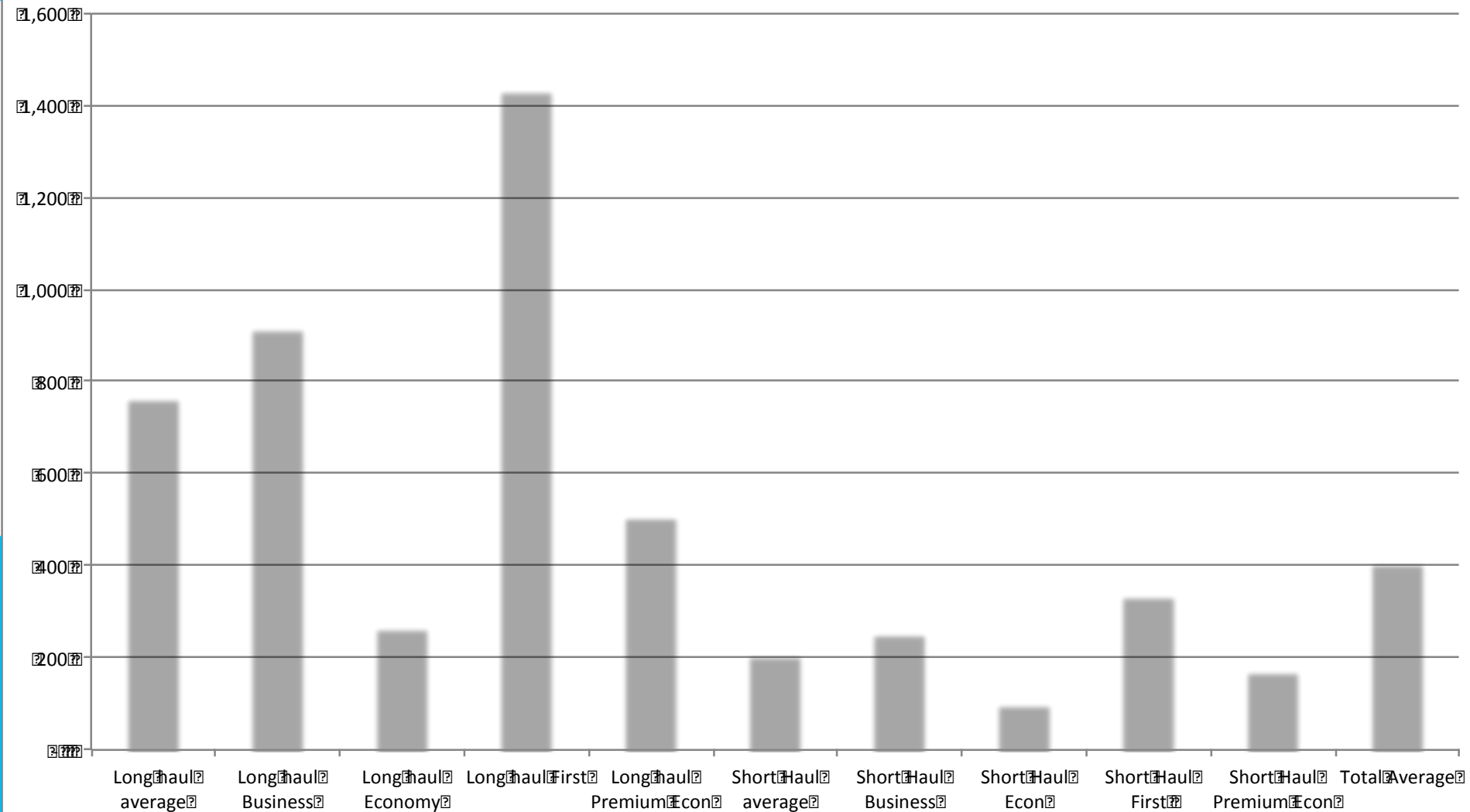
| | Return Fare |
|----------------------------|-------------|
| Lowest Economy * | £842 |
| Unrestricted Economy | £1,830 |
| Unrestricted Business/Club | £5,854 |

Fares quoted 27th Aug 2012 for 8th Oct 2012 one-week return

*Restricted to certain flights on certain dates

Average paid business travel airfare multiples

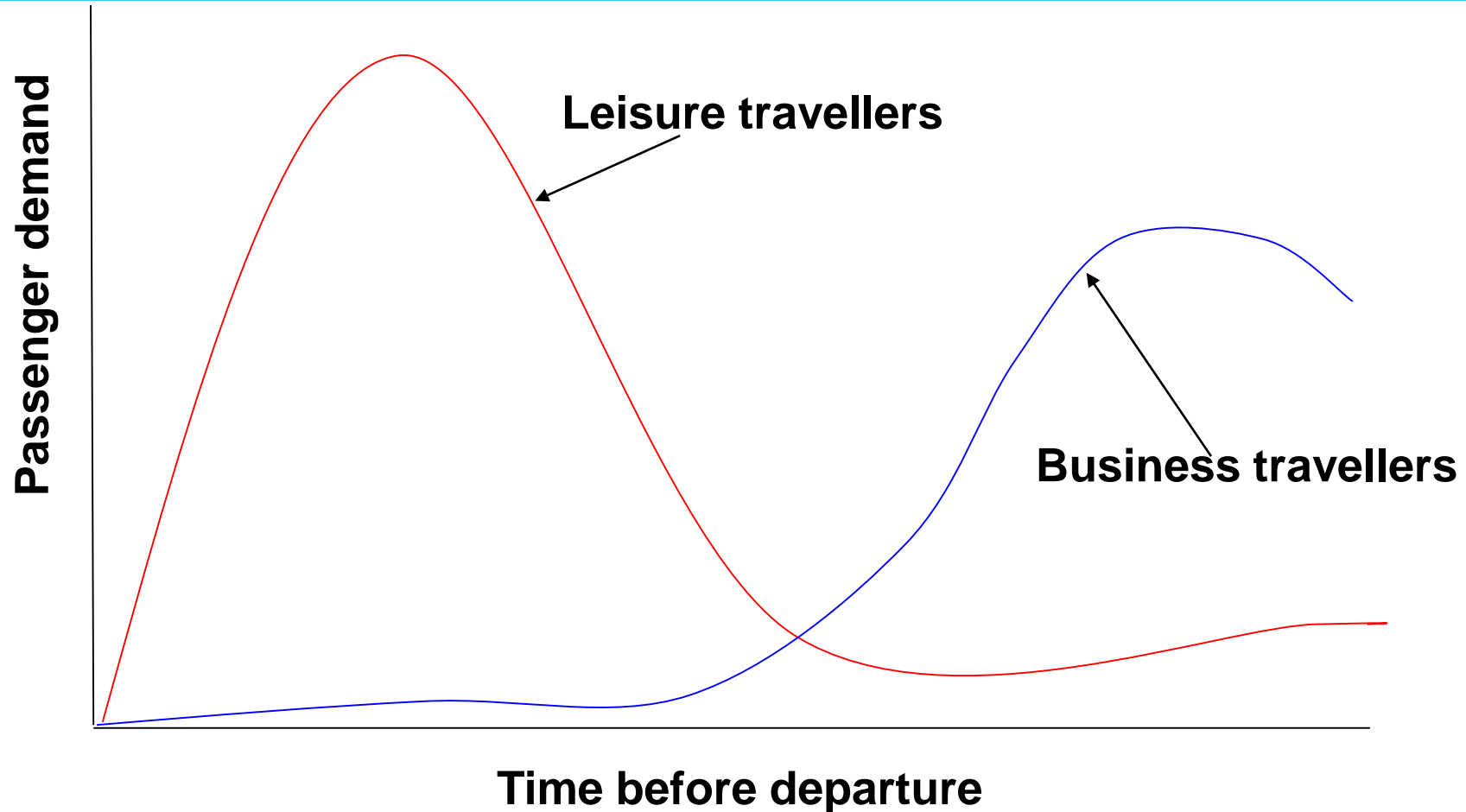
Average Fares Indexed (SH Econ = 100) 2013



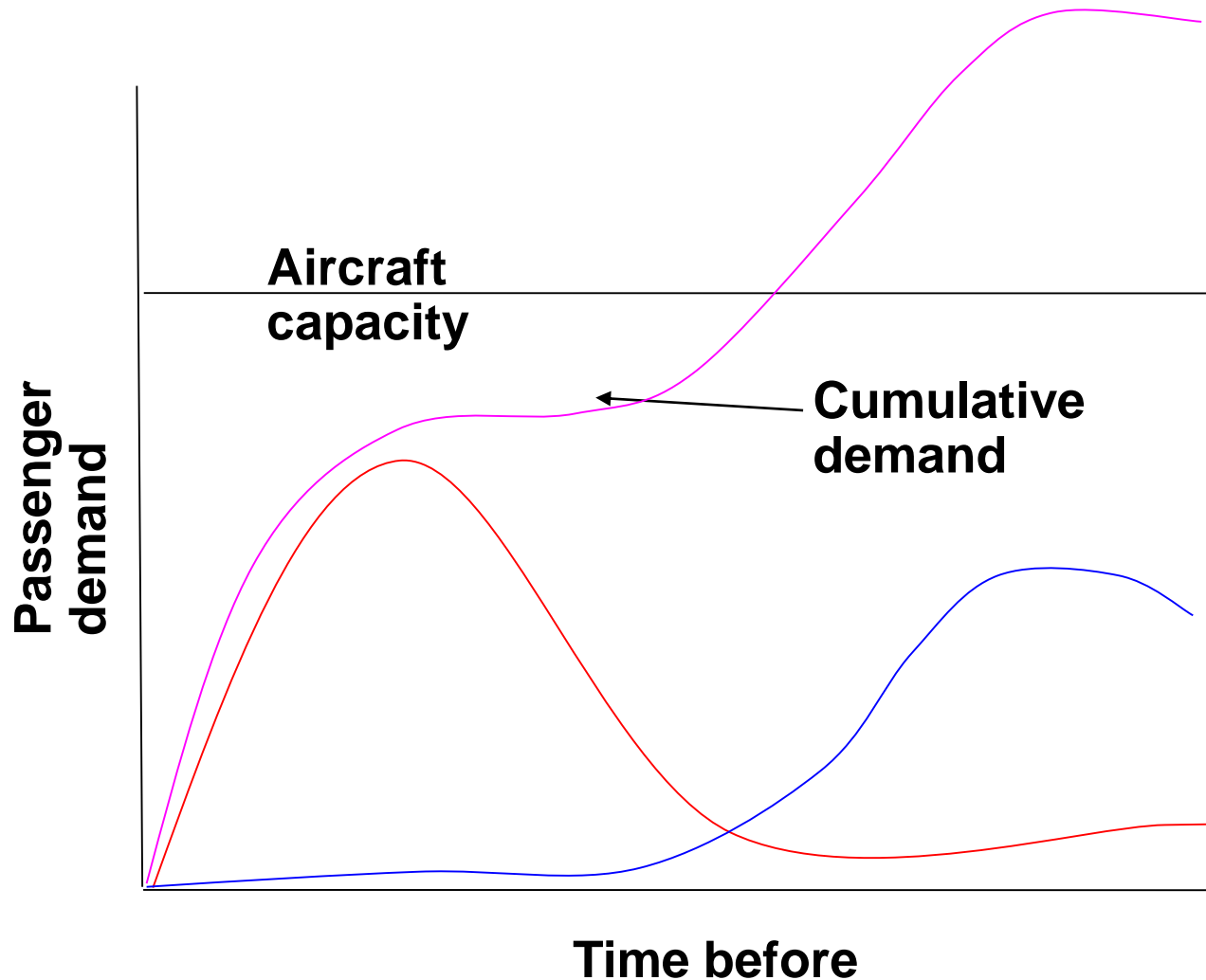
Problems with Network Carriers' Pricing

- Too many fare types and fare classes
- Too many conditions and restrictions
- Complex structure
- No clear pattern of change over time –
 - Dynamic Revenue Management
- Growing gap between restricted and unrestricted fares
- Obsession with market share and load factor growth at the expense of profit

Demand profile for a flight



Capacity/rev/yield management required



Yield management or revenue management?

- 300 seats: Full fare @ \$1,900, Discount fare @ \$1,300
 - Would you prefer
 - a) 50 Full fare and 250 Discounted
 - b) 190 Full fare and 50 Discounted
 - c) 135 Full fare and 135 Discounted?

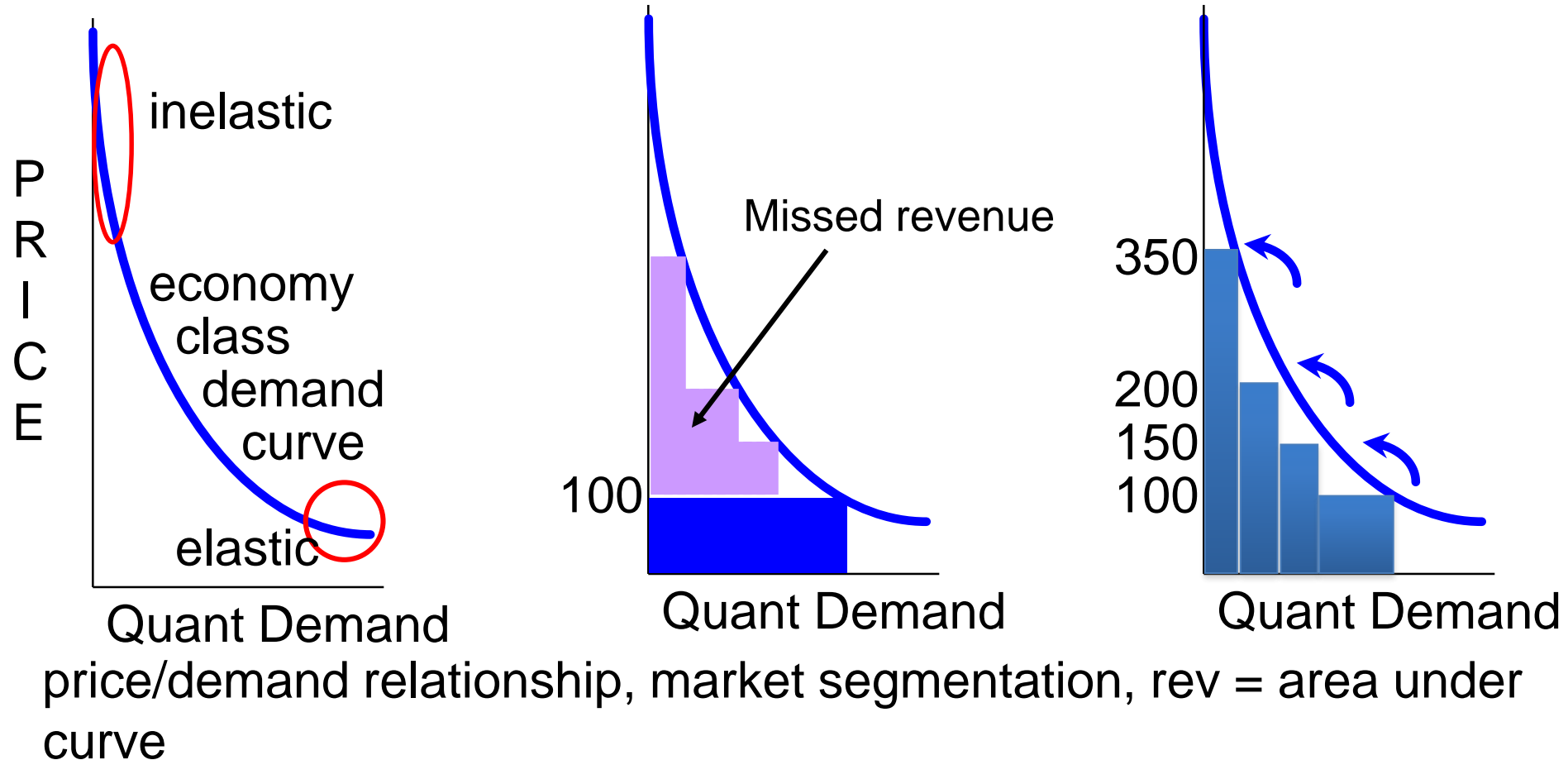
| | Rev | Yield | Load Factor |
|---|---|----------------------------------|---|
| a | $(50 \times 1900) + (250 \times 1300) = \$420,000$ | $420000 / (50 + 250) = \$1,400$ | $((50 + 250) / 300) \times 100 = 100\%$ |
| b | $(190 \times 1900) + (50 \times 1300) = \$426,000$ | $426000 / (190 + 50) = \$1,755$ | $((190 + 50) / 300) \times 100 = 80\%$ |
| c | $(135 \times 1900) + (135 \times 1300) = \$432,000$ | $432000 / (135 + 135) = \$1,600$ | $((135 + 135) / 300) \times 100 = 90\%$ |

Source: Busuttil

Yield management – the problem

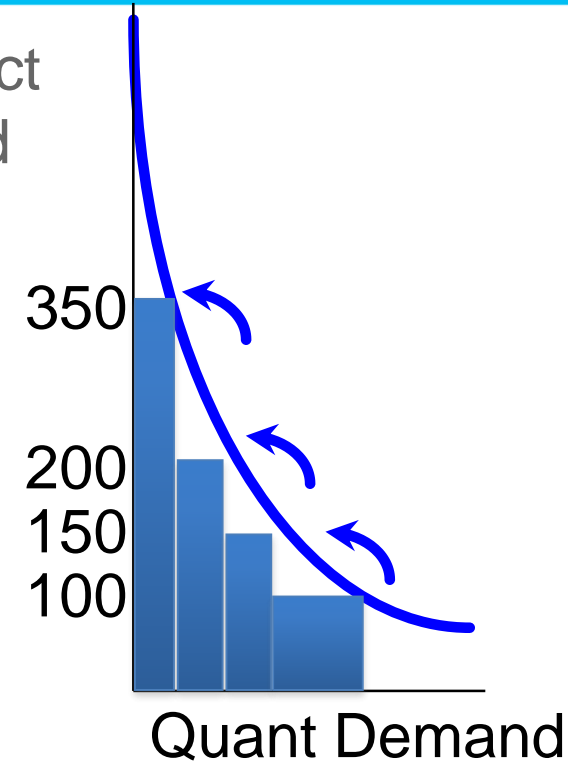
- Airline objective is to maximise revenue for each flight
- Yield management is better called revenue maximisation
- The process gambles on the existence of a future customer that is prepared to pay more for a seat than a real customer today
- Leisure travellers are prepared to pay less but tend to book earlier
- Business travellers are prepared to pay more but book much later
- Therefore the airline might seek to adopt differential pricing (i.e. charging different prices for the same product)

Why so many different prices for the same product?



Why do your prices have so many conditions?

- Anti-marketing: or how to make your product less attractive to the late-booking high-yield customer
 - stay Saturday night
 - book three months in advance
 - non refundable/endorseable/reroutable

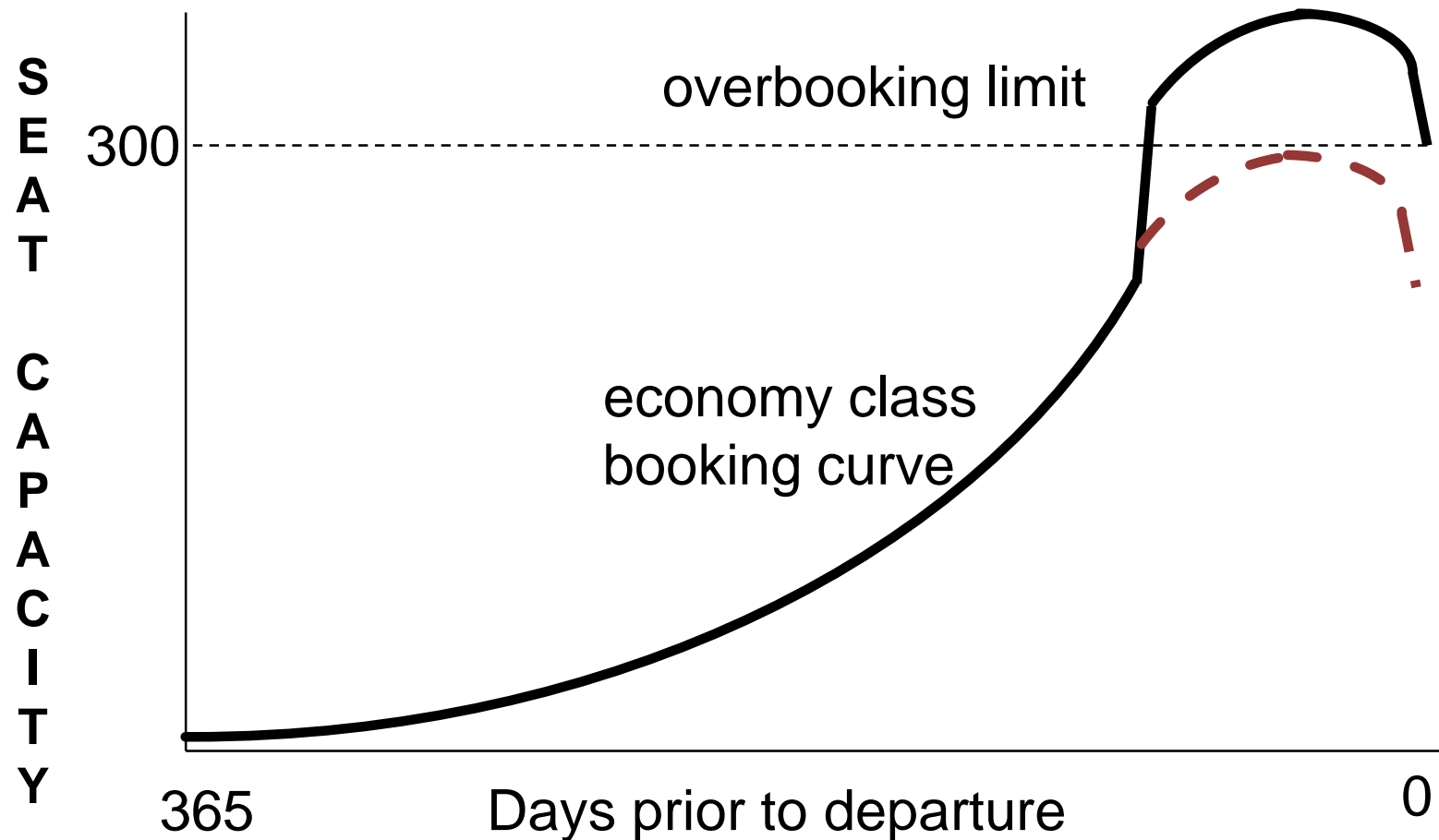


People will still shop around for the lowest price they can get, but you can force them to progressively “trade up” to the more expensive seats as you approach day of departure.

You can even get them to dress up as Elvis!



Why sell more seats than
you have seats available?



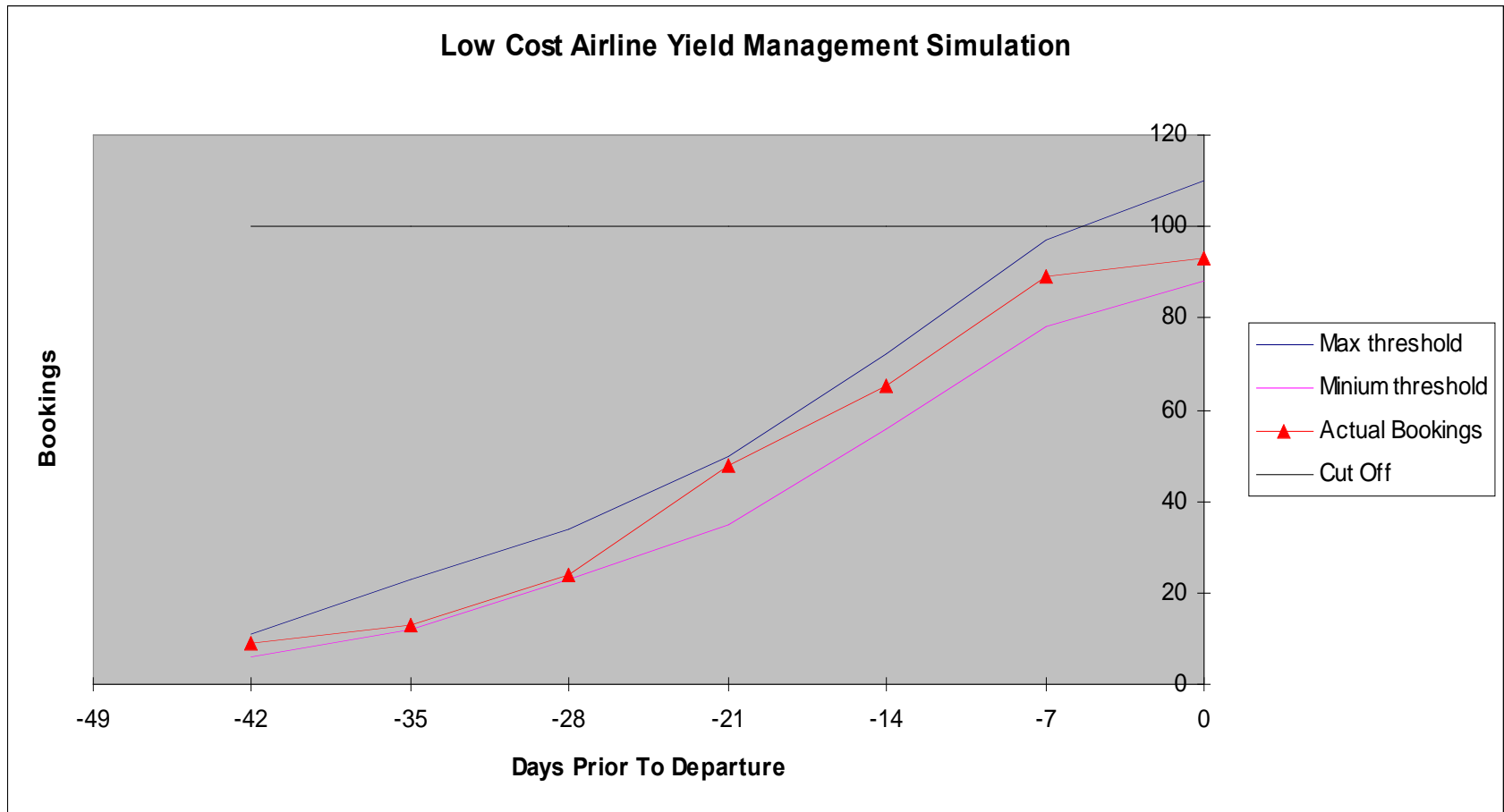
The yield management toolbox

- Fare levels
 - The prices charged for each fare class
- Fares classes
 - The number of seats available in each fare class
 - May be up to 100 (or more)
- Overbooking
 - Acceptance of bookings in excess of capacity to minimise the number of unused seats at departure
 - Tempered with denied boarding cost (of economy pax)
- Itinerary Control
 - Discrimination on one sector between passengers travelling on different itineraries across a network (Alliance challenge)

LCC revenue Management approach

- EasyJet introduced a one-way pricing model that has now been adopted by other LCCs and network carriers in competition with LCCs
 - One price in the market at one time
 - Price starts low, furthest away from departure
 - When (say) 10 seats are sold at the lowest price the price is increased by (say) £5 or £10
 - Demand is managed by either increasing prices quickly (to drive up yield) or retaining price low (to stimulate sales)
 - Overbooking not required
 - People can change tickets for an admin fee and the difference in price between current price and the fare customer bought ticket for

Low cost yield management simulation



Consumers trade schedule & prices

easyJet

1 Choose flights >> 2 Add flight options >> 3 Choose hotel >> 4 Choose rental car >> 5 Passenger details and pay >> 6 View flight confirmation

Choose your flight

Click on the flight price from the timetable below to add it to your basket. Prices shown include all taxes, fees and charges – based on payment method selected.

Flying from *
London Stansted STN

Outbound
10 July 2013

Going to *
Belfast Intl BFS

☐ Return
10 July 2013

Search again

* All required fields are marked with an asterisk.

3 day view

3 week view

Year view

FLEXI
Fares include:

- ✓ Unlimited date changes*
- ✓ Up Front seats
- ✓ Speedy Boarding
- ✓ Fast Track Security*

- ✓ Max size cabin bag
- ✓ Hold luggage
- ✓ Dedicated bag drop
- ✓ No extra payment fees

*T&C's apply

See more

☐ Show me FLEXI fares

☒ Show me Standard fares

Tell me more about FLEXI

ALL FARES INCLUDE THE FLIGHT ADMIN FEE - what you see is what you pay

Outbound journey

London Stansted to Belfast Intl

Tue 09 Jul

Wed 10 Jul

Thu 11 Jul

| | | |
|---|---|---|
| £36⁹⁹ Dep 07:50 Arr 09:05 | £33⁹⁹ Dep 07:50 Arr 09:05 | £48⁹⁹ Dep 07:50 Arr 09:05 |
| £48⁹⁹ Dep 13:15 Arr 14:30 | £50⁹⁹ Dep 13:15 Arr 14:30 | £68⁹⁹ Dep 18:00 Arr 19:15 |
| £49⁹⁹ Dep 19:45 Arr 21:00 | £47⁹⁹ Dep 19:45 Arr 21:00 | £72⁹⁹ Dep 19:45 Arr 21:00 |

Your journey is one way only.

Don't forget we also fly from London Gatwick, London Luton & London Southend to Belfast Intl

Your Basket

Show in currency Pounds Sterling

London Stansted to Belfast Intl
Please, select outbound flight in the flight selector

Final Price £0⁰⁰

☐ Pay by Credit Card: £0.00
☒ Pay by Debit Card: £0.00

Add more flights

Continue >>

NO ADDITIONAL FEES
all our fare prices include the flight admin fee - what you see is what you pay

Source: EasyJet
website June
2013

Or add ticket
flexibility

Edinburgh to London Luton

 113 people currently looking at this route

| - Mon 12 Jan Tue 13 Jan Wed 14 Jan + | | |
|--|--|--|
| FLEXI | FLEXI | FLEXI |
| £128⁹⁹ Dep 07:05 Arr 08:20 | £128⁹⁹ Dep 07:05 Arr 08:20 | £128⁹⁹ Dep 07:05 Arr 08:20 |
| FLEXI | FLEXI | FLEXI |
| £128⁹⁹ Dep 10:20 Arr 11:35 | £128⁹⁹ Dep 18:20 Arr 19:30 | £128⁹⁹ Dep 18:20 Arr 19:30 |
| FLEXI | | FLEXI |
| £128⁹⁹ Dep 20:05 Arr 21:15 | | £128⁹⁹ Dep 19:50 Arr 21:00 |

easyJet's Flexi-fare

EVERY BUSINESS NEEDS TO BE FLEXIBLE

With our flexible fares you get all the services you need – from just £100* one way, including taxes.

- Unlimited free date changes in a 4 week period – from 1 week before to 3 weeks after the original travel date
- 1 piece of hand luggage (unlimited weight)
- 1 piece of hold luggage (20kg max)
- Speedy Boarding
- No extra booking fees

You can book up to 120 days in advance. Terms and conditions apply.



But not automatically cheap!

easyJet - Step 1 - Flights - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Forward Stop Reload Home Search Favorites RSS Print Mail News Groups

Address http://www.easyjet.com/EN/Booking.mvc/SubmitStep1 Go McAfee SiteAdvisor

Click on a fare from the timetable below to add it to your basket or search again using the search options below

Flying from London Luton LTN Outbound 12 February 2010

Going to Barcelona BCN Return 14 February 2010 Search again

3 day view 3 week view Year view

Flexible Fares

Outbound journey London Luton to Barcelona

| Thu 11 Feb | Fri 12 Feb | Sat 13 Feb |
|---|--|--|
| LOWEST FARE £78 ⁹⁹ Dep 10:25 Arr 13:35 | £226 ⁹⁹ Dep 10:25 Arr 13:35 | £451⁹⁹ Dep 16:30 Arr 19:40 |
| £88 ⁹⁹ Dep 16:30 Arr 19:40 | £201 ⁹⁹ Dep 16:30 Arr 19:40 | No flights available |

Return journey Barcelona to London Luton

| Sat 13 Feb | Sun 14 Feb | Mon 15 Feb |
|---|---|---|
| £24 ⁸⁶ Dep 14:15 Arr 15:40 | £87 ⁸⁶ Dep 13:15 Arr 14:40 | £63 ⁸⁶ Dep 14:15 Arr 15:40 |
| LOWEST FARE £23 ⁸⁶ Dep 20:20 Arr 21:45 | £63 ⁸⁶ Dep 21:45 Arr 23:10 | £53 ⁸⁶ Dep 20:15 Arr 21:40 |

Don't forget we also fly from London Gatwick & London Stansted to Barcelona

Continue >>

Show in currency Pounds Sterling

London Luton to Barcelona
Dep 13 February 2010 16:30
Arr 13 February 2010 19:40
Flight 2267
1 Adult 1 x £451.99

Barcelona to London Luton
Dep 22 February 2010 20:15
Arr 22 February 2010 21:40
Flight 2268
1 Adult 1 x £63.86

Total flights and options for all passengers: £515.85

Add more flights Continue >>

Internet

LCC Rev Mngt in action

- Barcelona Carnival
- Valentine's day



FSCs find it hard to compete against

- Lufthansa, Austrian and Swiss have all adopted a three tier pricing system (from Autumn 2015)
 - No frills tariff
 - Intermediate fare – includes offering typical of traditional FSC short haul economy class
 - Higher fare – with additional flexibility

Conclusion

- As deregulation spreads and competition intensifies there will likely be a reduction in fares at the lower fare end of the market
- Increased use of Internet provides “transparency” for travellers – increasing consumer power and those looking for a bargain will shop around more
- Network carriers respond through
 - Reducing the number of fare types
 - Offering one-way fares
 - Reducing or eliminating restrictions on fares
 - Increasing the number of tickets sold on-line
 - Adapting low cost carriers revenue management style