

Pricing and Revenue Management

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Airline Marketing

Module 12

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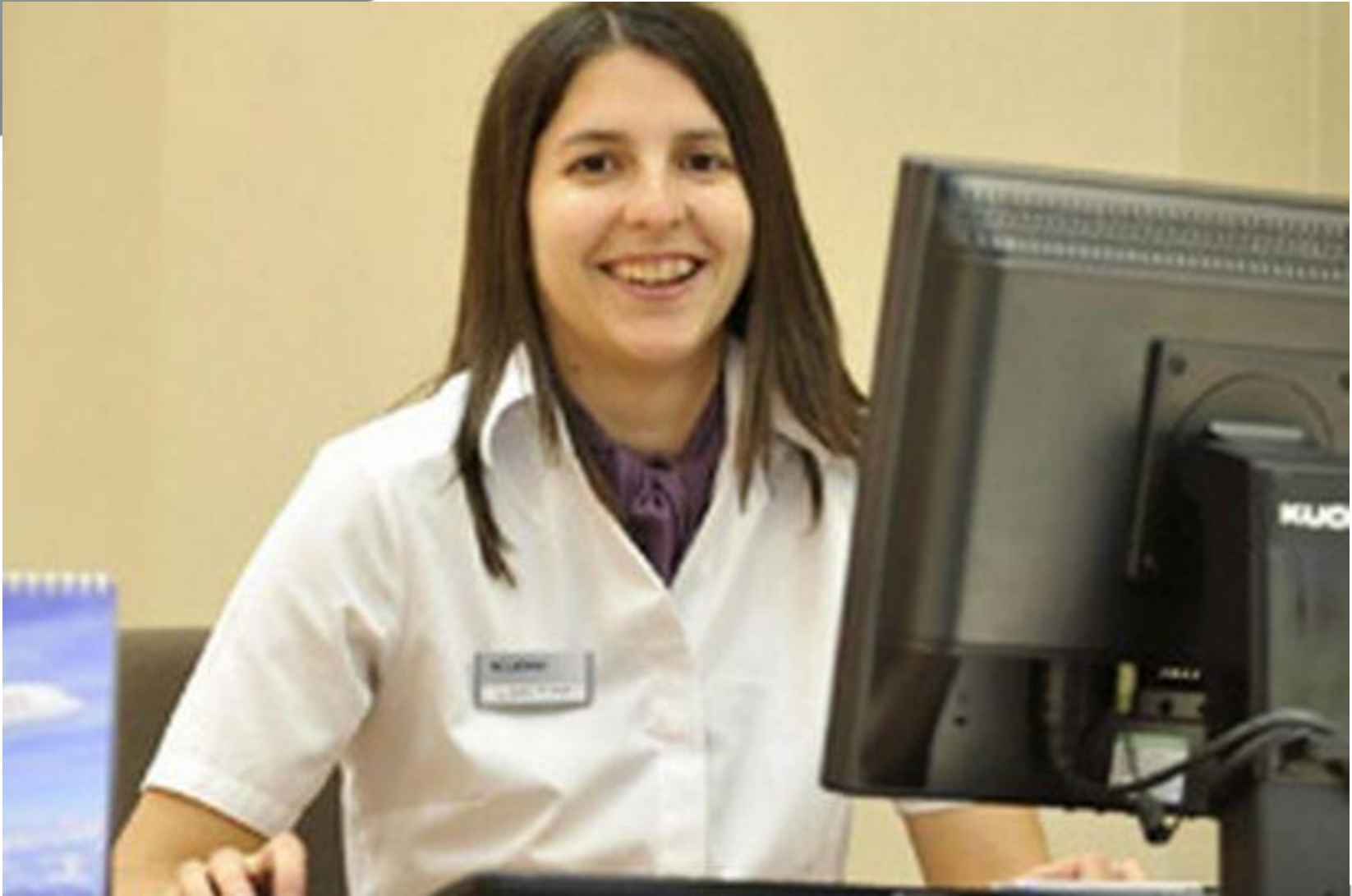
“The price of an airline ticket is one of the great mysteries of modern life. It costs one price if you buy it over the phone and another if you buy it in person, one if you buy it this morning and another three hours from now. It practically defies the laws of physics.”

Senator Ron Wyden, Introduction to S 383 Airline Passenger Fairness Act

Ols style travel agents....



Or maybe more
friendly...



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

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
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4	BKK	HKG	1020	1410	GF	150	F	BKK-HKG THU-24MAY07									
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								3	KQ	5865R	TLPX1MTH	T	/1M	01APR7-06JUL7		M	EH
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								5	EK	6900R	VE1MTH1	U	/1M			R	EH

- 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)*

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

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

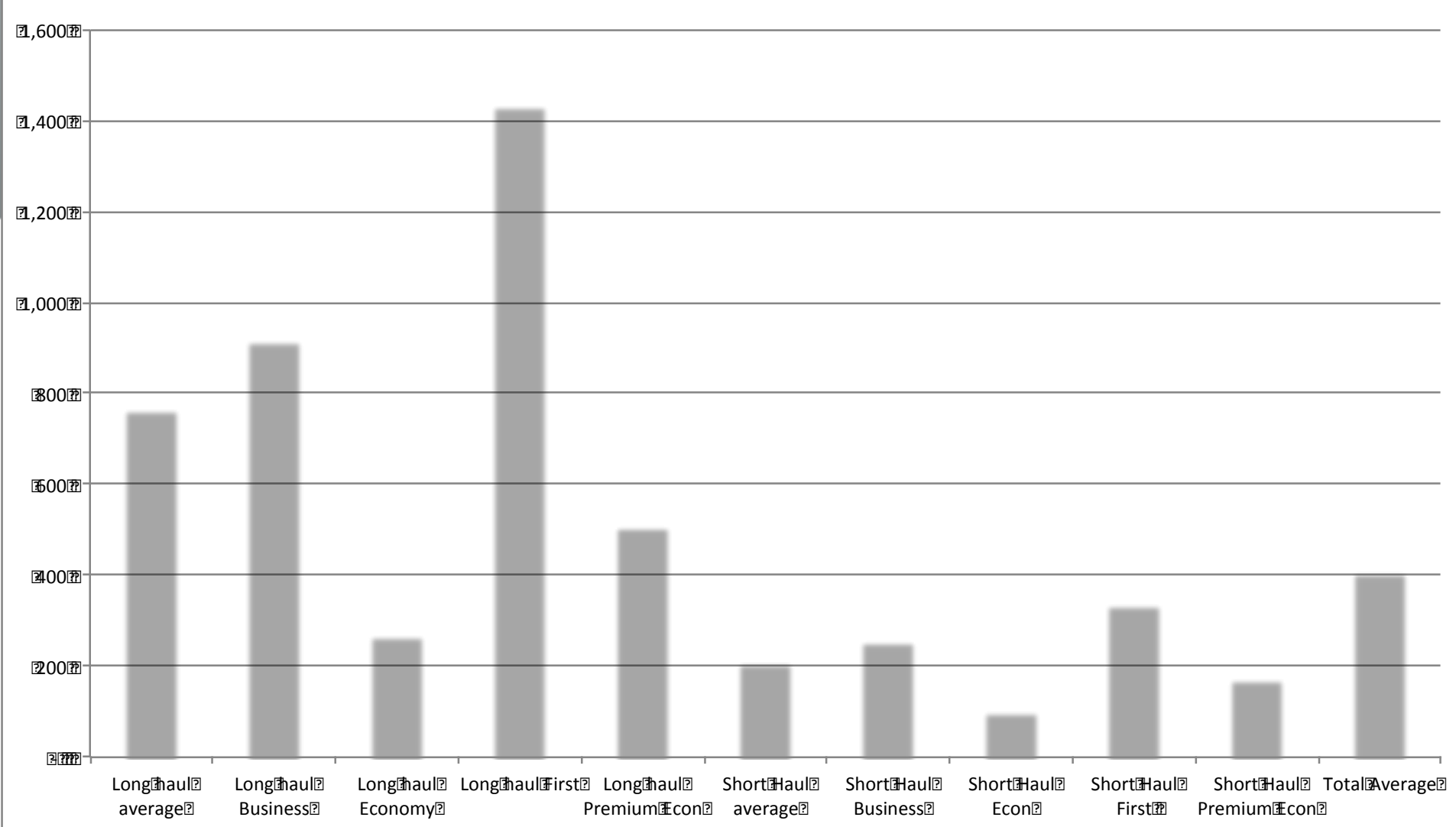
BA Fares - London to Singapore

	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

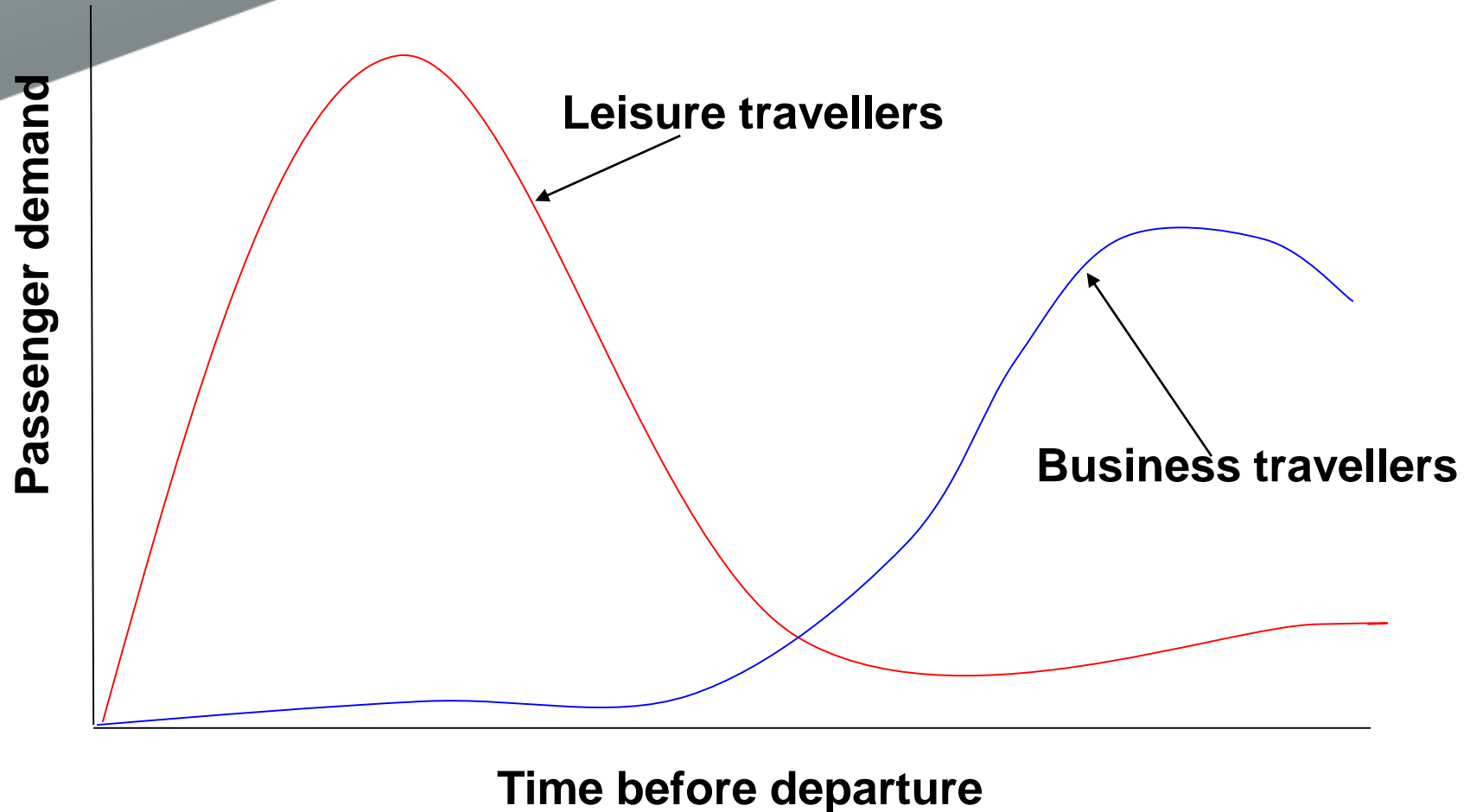
*Restricted to certain flights on certain dates

Average Fares (Indexed SH Econ = 100) 2013

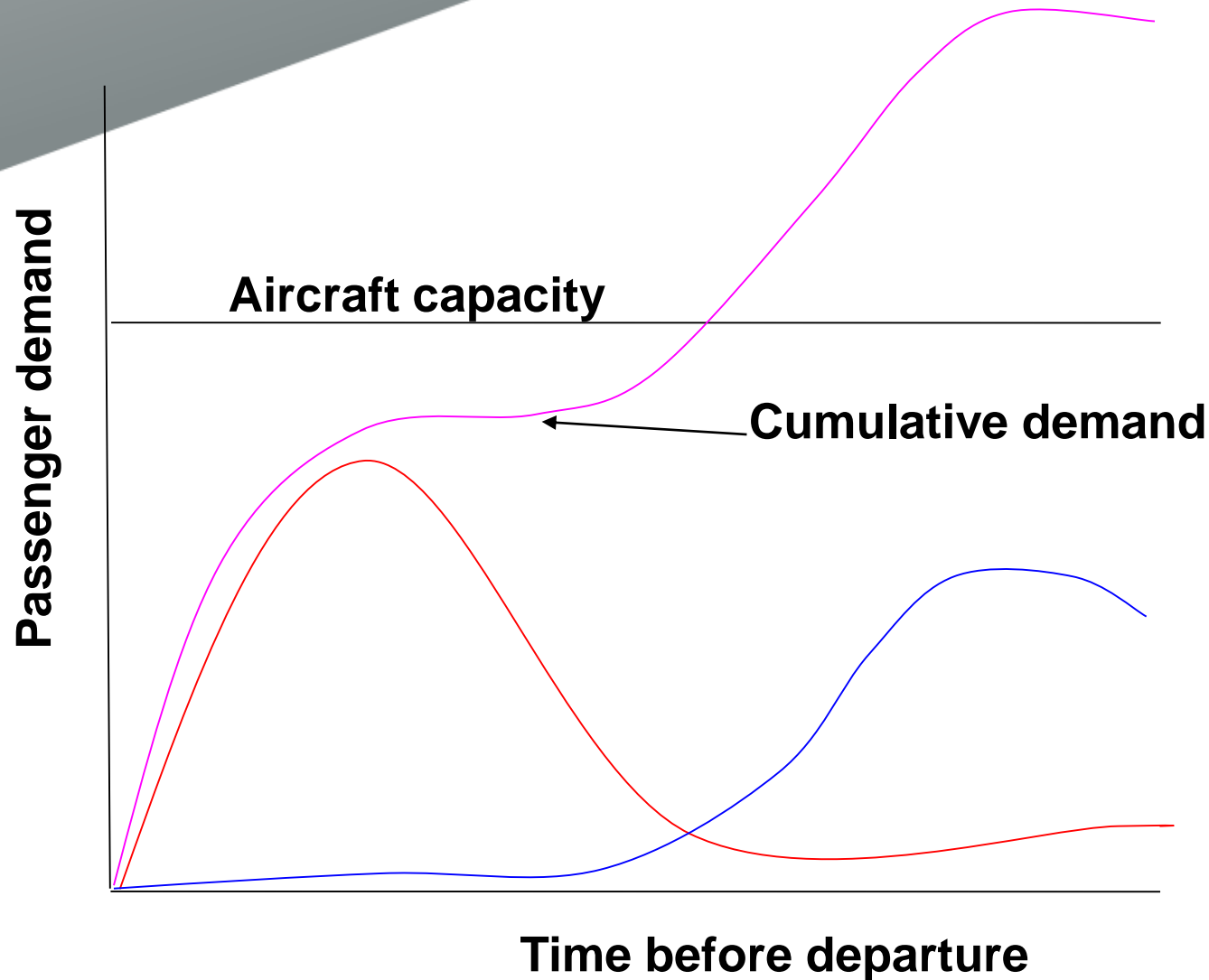


Source: CWT 2013, author analysis

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?

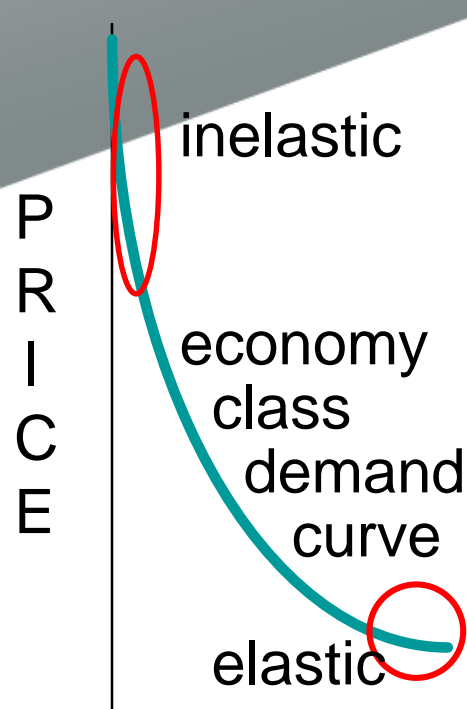
	Rev	Yield	Load Factor
a	$(50 \times 1900) + (250 \times 1300) = \$420,000$	$420000 / (50 + 250) = \$1,400$	$((50 + 250) / 300) \times 100 = 100\%$
b	$(190 \times 1900) + (50 \times 1300) = \$426,000$	$426000 / (190 + 50) = \$1,755$	$((190 + 50) / 300) \times 100 = 80\%$
c	$(135 \times 1900) + (135 \times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

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)

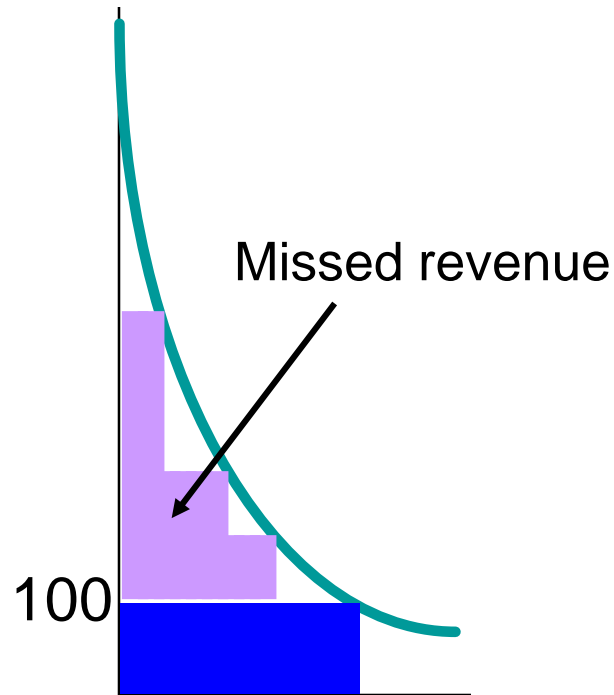
Why so many different prices for the same product?



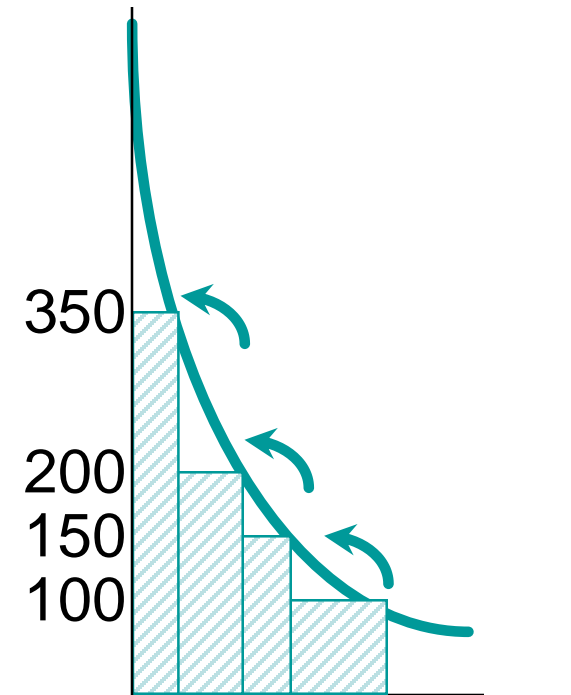
Quant Demand

price/demand relationship, market segmentation, rev = area under curve

Source: Busuttil



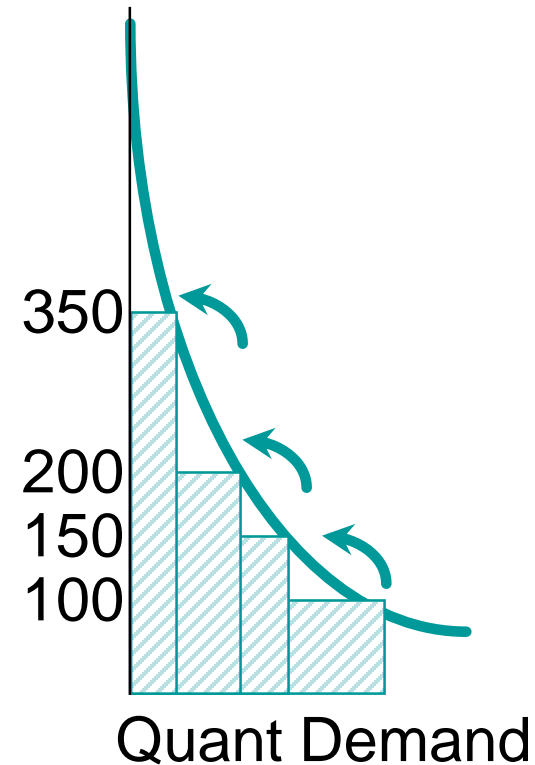
Quant Demand



Quant Demand

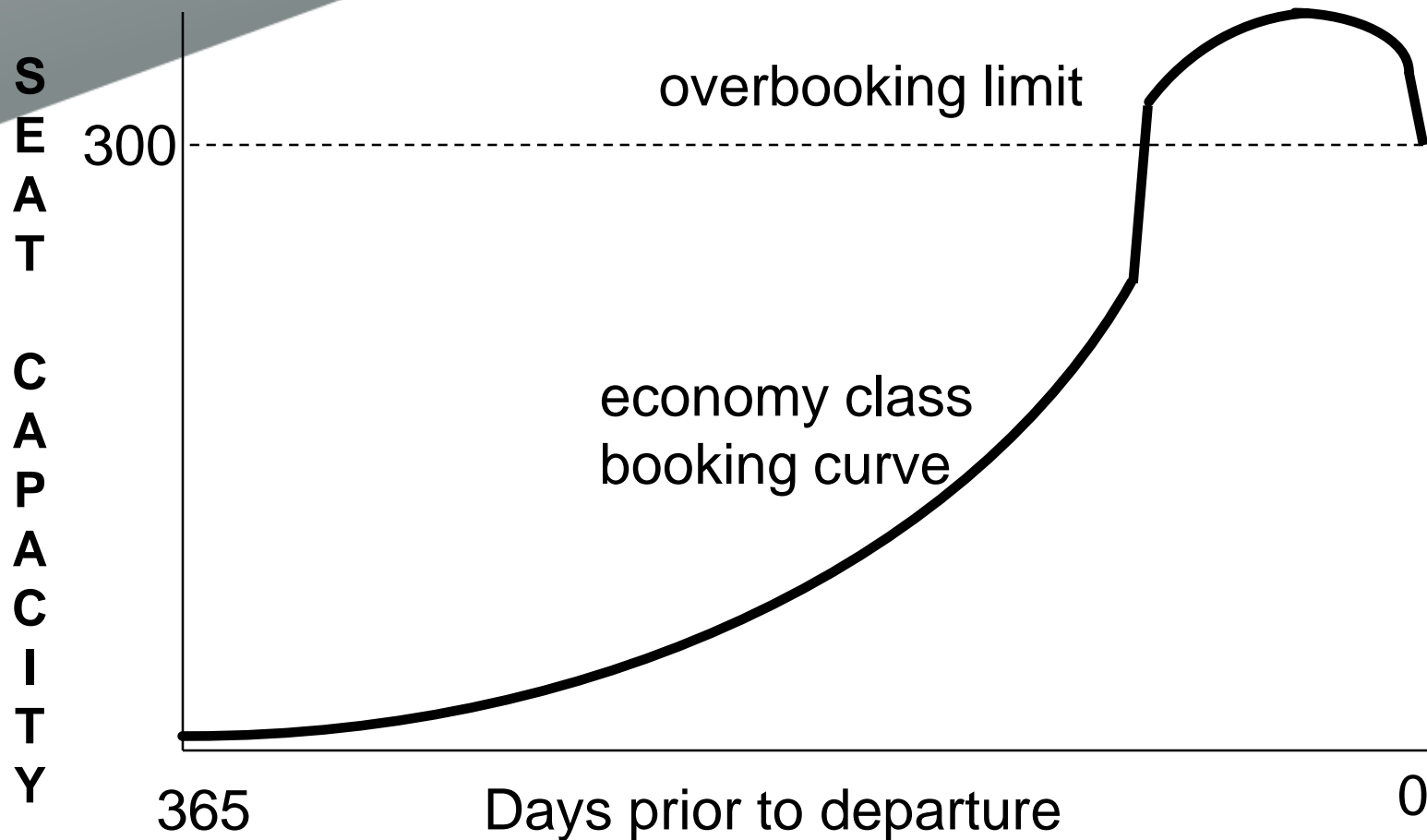
Why do your prices have so many conditions?

- 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
 - you can even get them to dress as Elvis!



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.

Why sell more seats than you have seats available?



The yield management toolbox

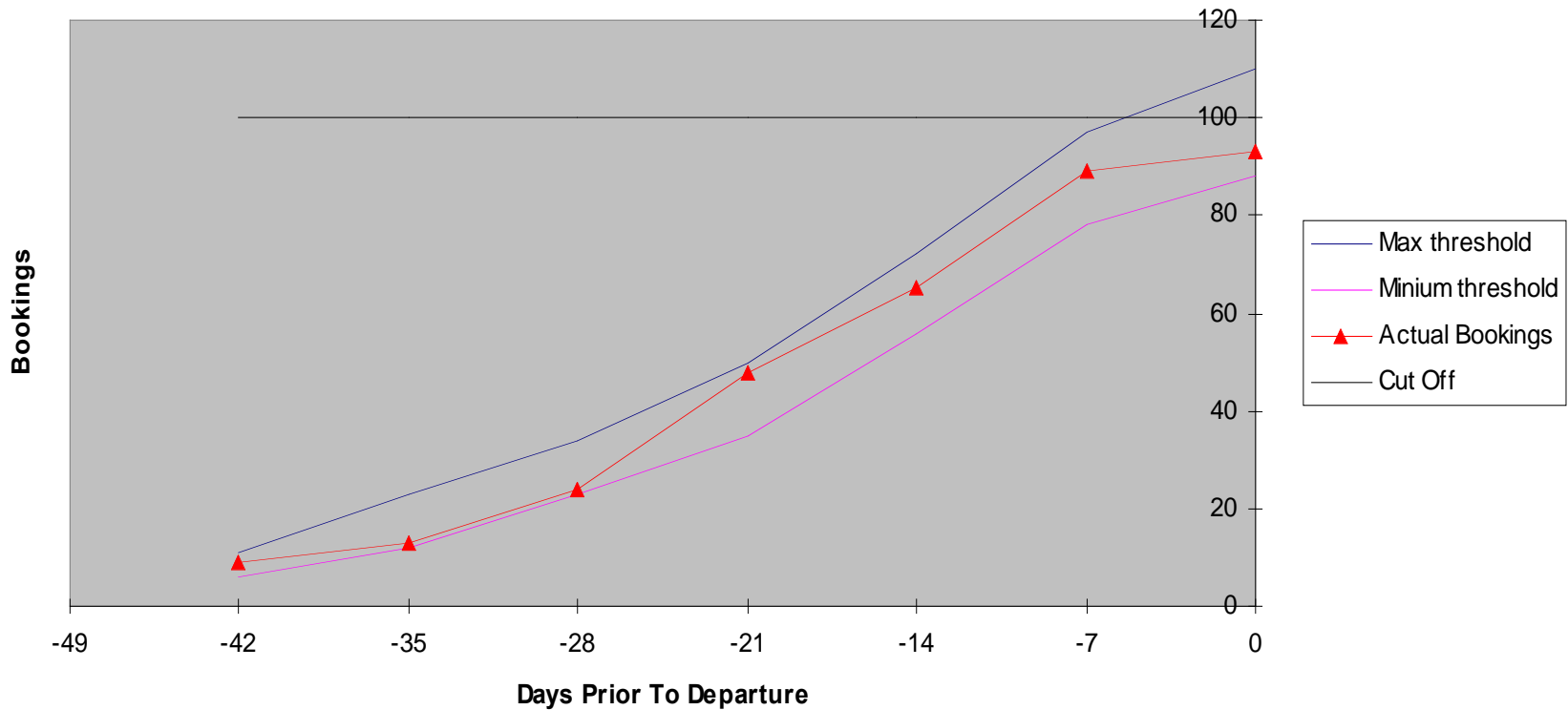
- Fare levels
 - The prices charged for each fare class
- Fares classes
 - The number of seats available in each fare class
 - May be up to 100 (or more)
- Overbooking
 - Acceptance of bookings in excess of capacity to minimise the number of unused seats at departure
 - Tempered with denied boarding 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

Low Cost Airline 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

Choose your flight

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

Flying from

Belfast Intl BFS

Outbound

4 August 2011

Going to

London Stansted STN

☐ Return

4 August 2011

Search again

3 day view

3 week view

Year view

☐ Standard ☒ FLEXI

[Tell me more about FLEXI](#)

✈ Outbound journey

Belfast Intl to London Stansted

Wed 03 Aug	Thu 04 Aug	Fri 05 Aug
FLEXI £173⁹⁹ Dep 06:10 Arr 07:25	FLEXI £173⁹⁹ Dep 06:10 Arr 07:25	FLEXI £173⁹⁹ Dep 06:10 Arr 07:25
FLEXI £173⁹⁹ Dep 10:15 Arr 11:30	FLEXI £173⁹⁹ Dep 11:15 Arr 12:30	FLEXI £173⁹⁹ Dep 11:30 Arr 12:45
FLEXI £173⁹⁹ Dep 16:20 Arr 17:35	FLEXI £173⁹⁹ Dep 16:20 Arr 17:35	FLEXI £173⁹⁹ Dep 16:20 Arr 17:35
FLEXI £173⁹⁹ Dep 19:15 Arr 20:30	FLEXI £173⁹⁹ Dep 19:15 Arr 20:30	FLEXI £173⁹⁹ Dep 19:15 Arr 20:30

Your journey is one way only.

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

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 Wordpad Explorer Messenger

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

Outbound journey London Luton to Barcelona

Thu 11 Feb	Fri 12 Feb	Sat 13 Feb
LOWEST FARE £7899 Dep 10:25 Arr 13:35	£22699 Dep 10:25 Arr 13:35	£45199 Dep 16:30 Arr 19:40
£8899 Dep 16:30 Arr 19:40	£20199 Dep 16:30 Arr 19:40	No flights available

Return journey Barcelona to London Luton

Sat 13 Feb	Sun 14 Feb	Mon 15 Feb
£2486 Dep 14:15 Arr 15:40	£8786 Dep 13:15 Arr 14:40	£6386 Dep 14:15 Arr 15:40
LOWEST FARE £2386 Dep 20:20 Arr 21:45	£6386 Dep 21:45 Arr 23:10	£5386 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



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