Pricing

The pricing in some services can be very complex. The revenue management department uses software and powerful computers to predict, monitor, and manage each flight on each date separately. For example, the flight 2015 American Airlines (AA) between Chicago and Phoenix, which departs every day at 17:30 for a 2.200Km trip, is very popular.

The 125 economy class seats are divided into seven categories by pricing experts. There is a huge variety of ticket prices for these seats. Round-trips can be sold from $ 238 (with various restrictions and cancellation penalties) to $1,404 for a ticket without restrictions. Typically, cheaper trips are sold to tourists, who have flexible dates and buy tickets well in advance, and the most expensive trips are sold to business customers, where flexibility is most important and the booking is made on the hour. There are also places a small business class, at much higher prices.

In the weeks prior to each of the Chicago-Phoenix flights, the application that manages pricing adjusts the number of seats in each category, taking into account the tickets already sold, sales history, and passengers that may use the flight as a connection to other flight. If sales are low, American Airlines adds seats to cheaper categories. If business customers buy tickets without restrictions earlier, the software takes seats from the discount rates to the unrestricted fares, so they are available for last minute bookings the software predicts it may a arise. In the most recent flights, with 69 of the 125 seats sold 4 weeks before the flight in 2015, American Airlines computer began to limit the number of seats for the lower rates. A week later, it closed sales completely for the cheapest tickets, with prices less than $300. For the customer looking for a cheap ticket, the flight was full.

One day before departure, with 130 passengers scheduled for the 125 seats available, American Airlines continued to offer 5 places for sale at the highest price, because the database still indicate that 10 passengers would not appear or would take other flights. The Flight 2015 that day left full, and no one was left out. The next day, the database stores the latest information with the flight behavior, and the models are updated so the next estimates are improved.

Exam 10.07.2008

a) Taking into account the information provided in the text, how do you characterize the price elasticity of demand for the two segments identified (passengers on tourism and passengers on business trips)? Justify.

b) Characterize the pricing objective that is the base of this complex pricing policy. Justify.