

Airlines' Pricing Strategies and O-D Markets: Theoretical and Practical Pricing Strategies

Mohamed Ramadan R. Abdelhady

Email address: mrr11@fayoum.edu.eg

Faculty of Tourism and Hotels

Fayoum University

Egypt

Mostafa Mahmoud H. Abo-Hamd

Email address: mmal1@fayoum.edu.eg

Faculty of Tourism and Hotels

Fayoum University

Egypt

Abstract

Nowadays, to recognize the airline business model, it is necessary to investigate how the global aviation industry has evolved since the airline deregulation act of 1978 (Abdelhady et al., 2019). The deregulation of the airline industry in the US by 1978 and then in the early 1990s in the EU, that was resulted in having the low-cost carriers (LCCs), has led to significant changes in the global aviation industry. The success of LCCs and their acquisition of a large market share in the air transport market are due to the fact that such airlines rely mostly on providing the air transport services with a competitive price for passengers (Abdelhady et al., 2018). Successful marketing is just as important as engineering for an airline to survive. Part of the marketing mix is the pricing policies of a company. This is specifically important to position the product on the market and to generate the revenue desired. In the case of airlines, this field has hardly been researched until now. Although it is crucial for any airline to offer competitive fares, academic studies are rare. If there is airline-related literature available, it usually focuses on the whole marketing mix but not on pricing itself. Hence, it only treats the topic superficially and then refers to other sources. Nonetheless, it is a highly significant field of research since it gives insights to a company's strategy. Airlines attempt to segment the demand in each origin-destination (O-D) market by offering different combinations of price levels and restriction bundles, or fare products, designed to appeal to different groups of potential travelers with different levels of willingness to pay. In an effort to achieve this segmentation of demand, airlines impose purchase and travel

restrictions on lower fares designed to act as 'fences' to prevent consumers with higher values of willingness to pay for air travel from buying at a discount. The study pursues to highlight on evaluating pricing strategies and O-D markets for FSCs and LCCs based on monitoring of air ticket prices in different markets and in different time periods. Furthermore the authors would like to find out how airlines set their pricing strategies to compete in a fast- growing and highly competitive market. The study has used ticket restrictions to estimate the effect of market concentration on price discrimination. Monitoring took place from August 2018 till December 2019. The survey was focused on the Egyptian market and especially on Egypt Air and other carriers operating their flight on this market. Specifically, there were selected routes such as: (CAI-DXB-CAI)– (CAI-PAR-CAI)– (CAI-LHR-CAI)– (CAI-AUH-CAI)-- (CAI-FRA)- (BAH-CAI)- (CAI-KWI)- (CAI-ALG)- (CAI-RUH), which are served by Egypt Air, Emirates, Air France, British Airways, Lufthansa, Etihad Airways, Gulf Air, Kuwait Airways, Air Algerie, and Flynas. Passenger booking data were obtained from Amadeus, one of the four major GDSs used by travel agents and airlines to book tickets and handle ticketing activities. This study shall help both professionals and researchers to get an insight to airlines' pricing strategies and O-D markets in the global aviation industry. It is often assumed that the airlines' fares increase monotonically over time, peaking a few days before the departure. We show that the volatility of fares increase in the last four weeks before departure, which is the period when the airlines can formulate a better prediction for a flight's load factor. Finally, especially within the last two weeks, FSCs may offer lower fares than those posted by LCCs. Monitoring of air ticket prices was focused on pointing out fundamental differences in airline pricing strategies depending on various factors.

Keywords: The Aviation Industry, Pricing Strategies, RPKs, LFs, ASKs, LCCs FSCs, O-D Markets, GDSs.