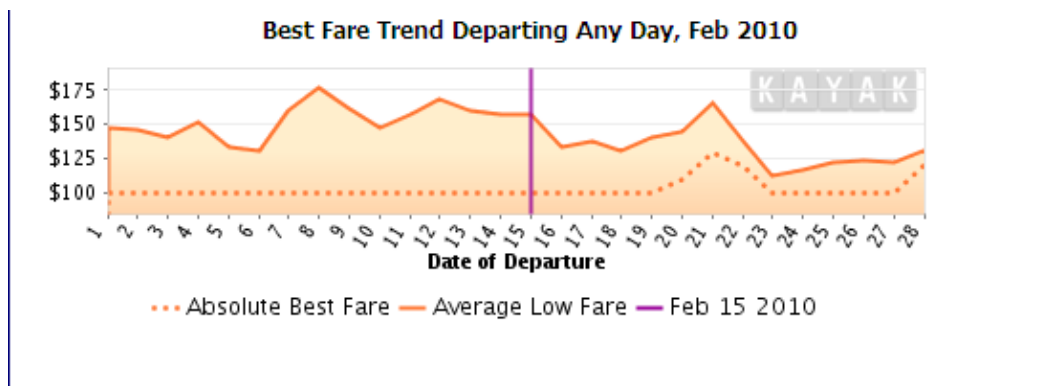


Chapter 4 Fundamentals of Pricing and Revenue Management

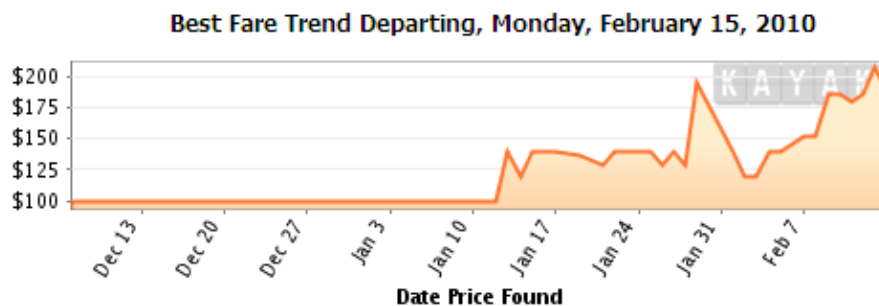
The charts show the airfare pricing for the Washington D.C. to Boston route for a flight leaving today (Monday Feb 15).

The upper chart shows the average “best fare” from all airlines (solid line), and absolute best (i.e. lowest) fare from an airline. Why does the best fare fluctuate for tickets on the same route.?

The lower chart shows the “best fare” for a flight departing Monday Feb 15. Why does the price increase as the date of departure approaches?



Time to buy? See the rise and fall of prices over the past 90 days.



1. "Pricing" refers to the process of _____

2. "Revenue Management" is the process of _____

3. Origin-Destination Demand is _____

4. Price and Time Elasticities are _____

5. Demand Segmentation _____

Chapter 4.1 Airline Prices and O-D Markets

1. "Airline airfares are defined for O-D Markets, not for airline flight legs (also known as segments)." Page 74

Explain the difference between an "O-D Market" and a "Flight Leg." Give an example.

2. What is an Itinerary? Explain with examples.

3. "... a single flight leg serves many different O-D markets" (page 74) Explain what this phrase means. Use example.

4. Airfares for an O-D market are determined by the following three factors.

a. _____

b. _____

c. _____

5. Would you expect the Airfares (or prices) of one O-D market (e.g. Washington, D.C. to Los Angeles) to be the same the Airfares between another o-D market (e.g. Boston to Los Angeles). Explain.

6. Name and describe the three “Theoretical Pricing Strategies”

7. Describe the difference between “price discrimination” and “product discrimination”. Explain how this applies to airline services

8. “Differential pricing” as used by airlines in an O-D market is designed to present a range of fare product options to consumers (page 78). Explain what the term “fare product” means in terms of airline airfares.

9. Explain the term “Willingness-to-Pay”. Use a diagram as appropriate.

10. Explain why the concept of “Willingness-to-Pay” is beneficial to the *service providers* (i.e. the airlines)

11. Explain why the concept of “Willingness-to-Pay” is beneficial to the *consumers* (i.e. the passengers)

12. What is meant by the term “segments [of the market]” or “demand groups.” (page 79). Give examples

13. What is meant by the term “diversion” (page 80). Give examples

14. What is meant by the term “diversion” (page 80). Give examples

15. What is a “dis-utility cost” (page 80). Give examples

16. What is the purpose of the “Saturday night minimum stay” restriction? What is this designed to address? Give an example

17. Why did the “ability of legacy airlines to extract revenue premiums change dramatically in 2001.” List three factors and explain how each one contributed to the change.

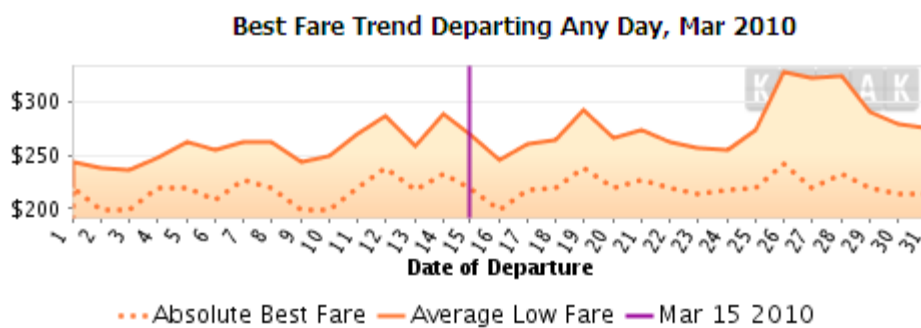
18. What is the difference between “Differential Pricing” and “Yield Management” Explain.

19. What is the goal of “Revenue Management” (page 89)

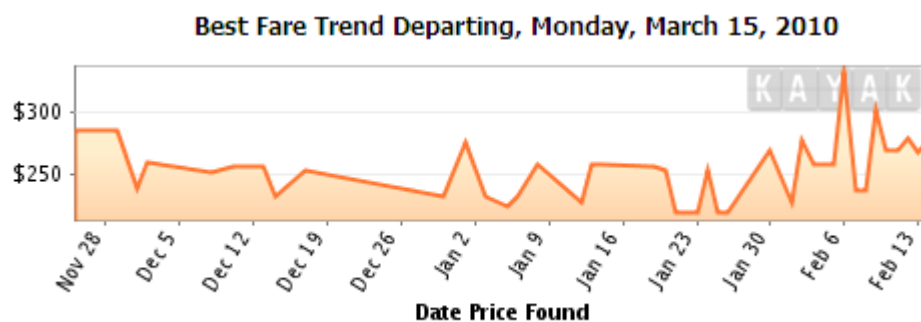
20. The figure below shows two charts derived from Kayak.com for travel 30 days out (i.e. March 15 shown by magenta line) for travel between Washington D.C. and Los Angeles.

21.

- a. The chart shows the (i) absolute lowest fare being offered by one airline at this time (dashed-line), and (ii) the average lowest fare offered ball all the airlines at this time (solid line). Why do the lowest fares increase towards the end of March.



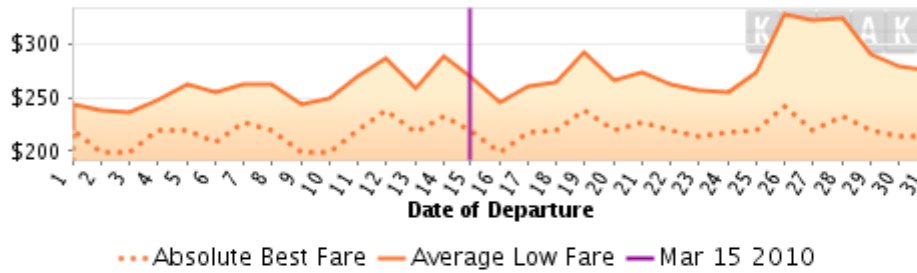
- b. The chart shows the best fare for the March 15 travel date. The data in the chart before today (Feb 15) is actual historic airfares. Why does the best airfare fluctuate? When is the best time to purchase a ticket?



[browse fare history](#)

Flexible travel dates? Find the cheapest departure date.

Best Fare Trend Departing Any Day, Mar 2010



Time to buy? See the rise and fall of prices over the past 90 days.

Best Fare Trend Departing, Monday, March 15, 2010

