Data Analysis for Dynamic Pricing in Airline:
The Role of Tactical Pricing

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EXECUTIVE SUMMARY

The competitors in the airline industry often rely on pricing strategy to capture more sales as a main mean of competition. Thus, dynamic pricing is often utilized to maximize profit while allowing better pricing against competition at the same time. In order for dynamic pricing to be effective, airline company has to take in consideration both internal and external information. Tactical pricing is an important component for airline, for it provides both short term and long term strategies to ticket pricing. The case is an exemplification of how tactical pricing plays an important role in the decision making process of an airline company.

Keywords: Airline, Dynamic Pricing, Key Performance Indicator, Market Management, Tactical Pricing

ORGANIZATION BACKGROUND

Current Landscape of the Airline Industry

The airlines industry has gone through unprecedented transformation during the past 10 years. With an extensive number of mergers, restructuring, and bankruptcies, the landscape of the airline industry has changed into a competition for the market share with aggressive strategies and tactics. With an extensive number of mergers, restructuring, and bankruptcies, the landscape of the airline industry has changes so that now airlines are battling for market share with aggressive strategies and tactics. Last decade had many vicissitudes such as American Airlines bankruptcy, followed by a lengthy merger with the US Airways. Although there were many hurdles such as legal challenge to the US Airways and American Airline merger, in the end Airline industry saw one of the many major mergers across the market. The chart in Figure 1 gives the market share of various airlines before USAir and American Airline merger.

Airlines have to face other challenges such as increased fuel prices. In 2012, fuel costs accounted for 32.1 percent of the total revenue (Standard & Poor 2013). Even though overall the fuel prices have dropped after their peak in 2003, any sudden spike in the oil prices would adversely impact the airline industry. To overcome these issues, the airline as a whole is investing in newer, more fuel efficient airplanes

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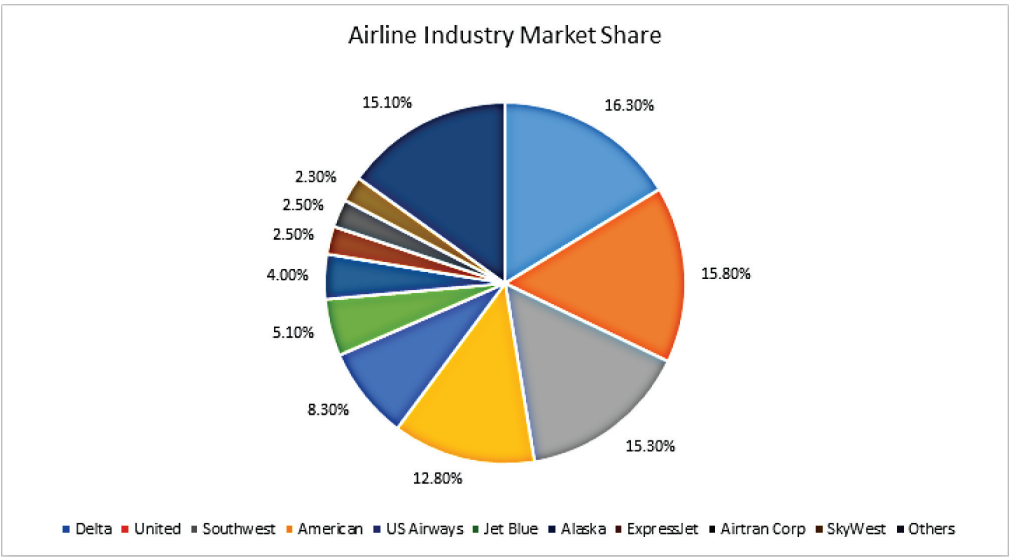
Figure 1. US bureau of transportation statistics 2014



and hedging oil prices by using financial instruments like derivatives. They have undertaken other steps to overcome the increased oil prices - Delta Airline bought an oil refinery in 2012 and struck a deal with the British Petroleum to supply oil after refining. When asked, Delta management presented their rationale strategy stating that a small decrease in oil prices will translate into significant savings given Delta's large scale operation.

North America Airline (NAA) is a major airline that operates primarily between Canada and United States and across Canada. Founded in 1993, NAA is relatively a new comer into the market. Being able to provide competitive pricing is extremely important to NAA. Currently, NAA serves 6 million passengers per year, over an average of 3500 flights per month. It has a flight crew of 3000 employees. The Information Technology department consists of 500 personnel who handle the support of the IT infrastructure, from call centers, online ticketing, airport point-of-sale, the reservation system, and the in-flight media and point of sale.

As shown in Figure 2, NAA organizational structure is relatively a flat functional organization. The functional teams operate as autonomous bodies that collaborate to complete

Figure 2. NAA organizational structure