

Outsmarting the airlines on price could get harder

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Technology and competition have made it easier for consumers to capture deals on airline tickets with the right strategy.

These people are strategic [consumers](#), and the focus of University of Michigan professor Jun Li's new research. She found that while they comprise a relatively small percentage of airline ticket buyers, their

habits can have a profound effect on revenue.

Her study, "Are Consumers Strategic? Structural Estimation from the Air-Travel Industry," explores consumer behavior and how airlines should adjust their [pricing strategy](#). Li's co-authors are Nelson Granados of Pepperdine's Graziadio School of Business and Management and Serguei Netessine of INSEAD in France.

"Information technology makes it so much easier for the consumer to learn about airline pricing strategy, and it gives companies the ability to use this data," said Li, assistant professor of technology and operations at Michigan's Ross School of Business.

Li's analysis of airline fare and booking data showed that 5.2 percent to 19 percent of airline consumers are strategic. That is, they search for flights and wait to see if the price goes down. Airlines adjust prices based on the demand they see. If demand falls, they often lower prices; if demand beats the forecast, the price won't change or could rise.

In the leisure travel market, airlines actually benefit from this strategic behavior because customers are price-sensitive and flexible. Airlines are hurt more in the business travel market by this behavior, because that market is less price-sensitive and less flexible.

Airline computer systems typically adjust prices at regular intervals based on demand, and strategic consumers cross those set time intervals. Consumers are reacting to what the airlines do, and algorithms don't account for it, she said. But the airlines are looking at how to fix it.

"The right strategy could help [airlines](#) increase revenue by 3-5 percent," Li said. "That might not sound like much, but since airline costs are fixed, every bit of additional revenue helps the bottom line."

More information: "Are Consumers Strategic? Structural Estimation from the Air-Travel Industry" *Management Science* 201460:9 , 2114-2137 [dx.doi.org/10.1287/mnsc.2013.1860](https://doi.org/10.1287/mnsc.2013.1860)

Provided by University of Michigan

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