



DYNAMIC PRICING IN AIRLINE SECTOR IN INDIA: A STUDY OF PERCEPTION OF THE PASSENGERS IN BENGALURU



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ABSTRACT

In India, Airlines sector has been playing a vital role by providing mobility, revenues, employment, business solutions and tourism. The operating costs being high in the sector, ensuring cost competitiveness in the sector is the need of the hour. The idle capacity which again is a concern with the airlines firms was to be addressed. So, in this regard, the paper addresses some of the issues like, dynamic pricing, global scenario, Indian Aviation Industry and other issues in the airlines industry.

KEY WORDS: *Dynamic Pricing, Aviation Industry, Domestic Travel, Business Travel*

INTRODUCTION

The last decade witnessed a dramatic increase in the number of passengers in airlines accompanied by a marked change in the attitude of most passengers towards air travel. Air travel firms regularly adjust ticket prices over time to fill all seats while getting as much as possible for tickets.

In dynamic pricing, the price is not firmly set; instead it changes based on changing circumstances, such as increases in demand at certain times, type of customer being targeted or changing marketing conditions. This type of pricing strategy is especially common in certain types of business, particularly those providing a service, such as airlines, but can also be used with product pricing.

It's constantly changing pricing is that factors in limited seating capacity, the number of reservations made, time to departure, typical number of cancellations and other factors that influence how full the plane is upon departure. The goal is to fill the planes so that revenue is maximized on each flight.

Mobilizing on the domestic demand has been a major concern for the low cost carriers and the spin off benefits that Dynamic Pricing has brought is tremendous. It has been observed that over a period of time, Airline firms are prospering with off-shore travel demand and stability with domestic travel demand but also with governmental support, infrastructural expansion, FDI in Airline sector and the like. There is an earnest effort that is needed to reform the Airline sector to be functional in an integrated way.

AIRLINES SECTOR- THE GLOBAL SCENARIO

The global airline industry continues to grow rapidly, but consistent and robust profitability is elusive. Measured by revenue, the industry has doubled over the past decade, from US\$369 billion in 2004 to a projected \$746 billion in 2014, according to the International Air Transport Association (IATA).

Much of that growth has been driven by low-cost carriers (LCCs), which now control some 25 percent of the worldwide market and which have been expanding rapidly in emerging markets; growth also came from continued gains by carriers in developed markets, the IATA reported. Yet profit margins are razor thin, less than 3 percent overall.

In the commercial aviation sector, just about every player in the value chain – airports, airplane manufacturers, jet engine makers, travel agents, and service companies, to name a few – turns a tidy profit. Yet it's one of the enduring ironies of the industry that the

companies that actually move passengers from one place to another, the most crucial link in the chain, struggle to break even.

That is largely due to the complex nature of the business, manifested in part by the significant degree of regulation (which minimizes consolidation), and the vulnerability of airlines to exogenous events that happen with great regularity, such as security concerns, volcanic eruptions (independent.co.uk), and infectious diseases (reuters.com). But ongoing price pressure is also a factor; the airline industry is one of the few sectors that have seen prices fall for decades. Since the 1950s, airline yields (defined as the average fare paid by a passenger per kilometer) have consistently dropped.

Given these unique circumstances, airlines must continue to focus on top-line growth because their limited profitability depends almost solely on revenue gains, while increasing productivity in order to shore up and perhaps even increase margins. The way individual commercial airlines react to and navigate several trends playing out across the globe will determine carrier performance in the coming years.

Increasing consumer expectations

People have grown accustomed to seeing significant improvements in their experiences with things they buy. Large and small products are more reliable and more user-friendly than ever before. Considering the way the cars have progressed even in the past decade, with upgraded safety and entertainment features, and far better handling and fuel consumption, the air travel has a different pattern. It remains for many a disappointing, grumble-worthy experience. The air carriers have to address because upgrading the “hard product” – the aircraft – is an expensive way for airlines to differentiate themselves, and the payback could be long in coming. Enhancing the “soft product” – through a welcoming and seamless customer experience across all aspects of air travel, from reservation to touchdown – is cheaper, but often more difficult to implement. Typically, such enhancements entail a wholesale behavioral and cultural shift within the organization, particularly for frontline, customer-facing employee.

Need for reduction of costs and Improvement in operational efficiency

Airlines need to make large and ongoing improvements to operate more efficiently. With few exceptions, the most successful airlines are those with the strictest cost controls. The biggest (albeit cash-

intensive) lever to reduce costs lies in fuel efficiency, as jet fuel typically accounts for 40 to 55 percent of operating expenses.

Carriers with sufficient funds have been gradually modernizing their fleet to incorporate more fuel-efficient aircraft. Yet, because planes are so expensive, this approach has real value only if it is thoughtfully implemented in line with the carrier's long-term plans for the configuration of its network, such as the programmatic expansion of certain routes over a period of years.

Cost reduction can also be achieved through enhancements in organizational structure, operating model, and work practices. In particular, legacy airlines have often built up complex processes over decades that cost far more than the streamlined processes of the LCCs.

For example, the systems that legacy carriers have in place to handle transfer passengers – how to price connections, how to handle baggage between the two flights, whether to hold a connecting flight for a few late passengers or simply rebook them, and so on – were designed when their networks were far smaller. Today, those systems have layers and layers of complexity built in, making them cumbersome and costly in many cases.

Airline Sector Boom

The rapid growth of air travel in developing markets, such as Latin America and especially Asia, is shifting the industry's center of gravity. Middle East-based carriers such as Emirates, Etihad Airways, and Qatar Airways are taking a large slice of the formerly profitable Europe-Asia traffic from those continents' legacy airlines.

The Middle East carriers are highly dependent on connecting traffic, because their home markets are limited by the smaller population of their region. Yet their unique geographic positioning – most of the world's population is within eight hours' flying time – means they are able to capture a disproportionate share of long-haul market growth.

Similarly, LCCs continue to experience above-average growth rates for the industry, particularly in emerging economies with many first-time fliers. Worth noting, however, is that LCCs also increasingly face rising customer expectations, especially in mature markets. These carriers will need to find the right balance between making investments to improve the experience they offer and maintaining their cost advantage.

The consolidation of Airlines will play a role in the industry as well. To a large degree, the industry's low margins are driven by its fragmentation, and the resulting overcapacity in many markets. Still, U.S. carriers have been

able to improve their financial performance dramatically, primarily through bankruptcy restructuring and a series of major mergers.

INDIAN AVIATION INDUSTRY

By 2034, India is expected to be among the top five air domestic travel markets globally, in terms of additional passengers per year, according to the International Air Transport Association (IATA).

The civil aviation industry in India has witnessed a new era of expansion driven by factors such as low-cost carriers (LCC), modern airports, foreign direct investments (FDI) in domestic airlines, cutting edge information technology (IT) interventions and a growing emphasis on regional connectivity. Simply going by the market size, the Indian civil aviation industry is amongst the top 10 in the world with a size of around US\$ 16 billion.

"The world is focused on Indian aviation - from manufacturers, tourism boards, airlines, global businesses to individual travelers, shippers and businessmen... If we can find common purpose among all stakeholders in Indian aviation, a bright future is at hand," as per Mr Tony Tyler, Director General and CEO of International Air Transport Association (IATA).

Market Size:-

Domestic air passenger traffic in India has posted double-digit growth which is a growth of about 16.3 percent in October 2014, according to data released by International Air Transport Association (IATA). Domestic airlines flew 5.92 million passengers in October 2014 as compared to 5.01million passengers during the same period in 2013. The number of passengers carried by domestic airlines during the January-October 2014 period was 55.06 million as against 50.7 million in the year-ago period, according to data released by Directorate General of Civil Aviation (DGCA). Aircraft movements, passengers and freight at all Indian airports are expected to grow at a rate of 4.2 per cent, 5.3 per cent and 5 per cent, respectively, for the next five years, according to estimates by Airports Authority of India (AAI).

Investments:-

FDI inflows in air transport (including air freight) during April 2000 to November 2014 stood at US\$ 542.55 million, as per data released by Department of Industrial Policy and Promotion (DIPP).

Major investments and developments in the Indian aviation sector

- ✧ Air Works India Engineering has focused on growing international business and has formed a joint venture (JV) with Yaksa Investment to

provide aviation maintenance services to international airlines and domestic operators.

- ✧ Changi Airport India has picked up a 26 per cent stake in Bengal Aerotropolis Projects (BAPL), and will now run the airport for 15 years.
- ✧ AirAsia has planned to add three aircrafts by the end of 2014 and 10 more by the end of 2015, which will take their total fleet to 15 aircrafts.
- ✧ Star Alliance has planned to make New Delhi's T3 and Mumbai's T2 Terminals into hubs which will provide a smoother experience for flyers.
- ✧ Vistara, the proposed airline by the Tata Group-Singapore Airlines (SIA) alliance, has signed an agreement for aircraft communications, airline operations and network connectivity with SITA.
- ✧ IndiGo Airlines has ordered 250 A320 neo airplanes from Airbus for a record deal worth around US\$ 25.5 billion.

Government Initiatives:-

Government agencies have projected that around 500 airports in all, both brownfield and greenfield, would be required by 2020. The private sector is sought to be involved in a big way through different PPP models, with substantial involvement of state support in terms of financing, concessional land allotment, tax holidays and other incentives.

Some of the major initiatives taken by the government are as follows:

- ✧ The Government of India plans to form a committee comprising bankers, aviation experts and technocrats to help turn around and look at privatizing national airline Air India.
- ✧ The Government of India has launched tourist visa on arrival (TVoA) enabled by electronic travel authorisation (ETA) to 43 countries.
- ✧ The Ministry of Civil Aviation plans to list Airports Authority of India and Pawan Hans Ltd on the stock exchanges.
- ✧ The Government of India has approved the construction of five budget airports to improve regional connectivity and work on them will start from FY15.
- ✧ Indian authorities plan to roll out a pilot of fingerprint scanners at airport entry points that will be linked to the country's Aadhaar unique ID number project. From January 2015, passengers with an Aadhaar number can place his or her fingerprint on a biometric kiosk at airport entry gates in Bengaluru's Kempegowda International Airport, with the details then checked against

details held by the Central Industrial Security Force.

- ✧ The Government of Odisha has signed a Memorandum of Understanding (MoU) with the Airports Authority of India (AAI) for developing an airport at Jharsuguda in western Odisha at a cost of Rs 210 crore (US\$ 34.09 million).

Road Ahead:-

India's domestic and international passengers, as well as its number of aircrafts, are expected to grow significantly in the coming years. This projected growth, combined with India's low air traffic density—72 compared to 282 in China and 2,896 in the USA—indicates untapped potential given the projected burgeoning young population and rising disposable income levels.

It is of paramount importance for the industry stakeholders to engage and collaborate with the policy makers to come up with efficient and rational decisions that will shape the future of Indian civil aviation industry. With the right policies and focus on quality, cost and passenger interest, India would be well-placed to become one of the largest aviation markets by 2030.

Source: - India Brand Equity Foundation

Pros and Cons of Dynamic Pricing in Airlines Firms:-

Pros:-

1. Reduction of loss because of vacancy of seats
2. Robust market for low cost carriers
3. Passenger benefit from advance booking by lesser fares
4. Cutting edge technology to leverage business travelers and address the idle capacity
5. Revenue maximization for not so profitable air routes
6. Much higher returns through stimulating demand by announcing price
7. Eliminates possible loss by changing price
8. Helps to anticipate the demand to adjust with the supply
9. Eliminates the travel agents from exploiting the consumers
10. Better service to the consumers in case of cancellation
11. The pricing mechanism helps to ascertain the different consumer types and decide the magnitude of the price discrimination.
12. Airline firm can offer special deals and customization for the individual customer

13. Dynamic Pricing has brought about the changes in pricing in airlines due to wiring of the economy through internet, corporate networks and wireless networks
14. Buyers can compare the prices of different airlines to leverage on bargaining position with lesser search costs
15. Technology allows firms to collect data about the preferences, tastes to customize the price
16. Transaction costs are eliminated as there is no need for the people to be physically present in the time and space and also the third party costs of distribution is not there
17. Airline sector is characterized by increased uncertainty and demand volatility. Dynamic Pricing is preferable over single fixed price
18. Natural segmentation of business travelers, casual travels and hybrid travels helps to adjust fares .
19. Yield management systems leads to maximize the profits by forecasting demand, closely monitoring the bookings and dynamically adjusting the seats available
20. Complex software enables major airlines to fill unsold seats at marginal revenues by generating direct sales via their websites and mobile application

Cons:-

1. Airline industry is grappling with the task of determining the right prices to charge a customer for a product or a service
2. It is difficult to know own operating costs and availability of supply
3. It is herculean task for airline firm to sense the demand
4. Implementation of sophisticated price and customization schemes is costly in airlines firms
5. Successful deployment of Dynamic Pricing schemes involves excessive setup costs
6. Airline firms with distribution through “mobile first” strategies are visible to the large audience as internet access is immediate, easy and omnipresent

REVIEW OF LITERATURE

1. Erma Suryani , Shuo-Yan Chou and Chih-Hsien Chen deals with how to develop a model to forecast air passenger demand and to evaluate some policy scenarios related with runway and passenger terminal capacity expansion to meet the future demand.

System dynamics frameworks can be used to model, to analyze and to generate scenario to increase the system performance because of its capability of representing physical and information flows, based on information feedback control that are continuously converted into decisions and actions. We found that airfare impact, level of service impact, GDP, population, number of flights per day and dwell time play an important roles in determining the air passenger volume, runway utilization and total additional area needed for passenger terminal capacity expansion.

2. According to **Lyneis (2000)**, the air travel demand can be affected by two factors, e.g. external and internal factors. Assumption about future demand and performance are essential for business decisions. He considered airfare as the internal factor, and Gross Domestic Product (GDP) and population as the external factors. People play in a dominating role in the city life, the scale of population will determine the air travel demand (Jifeng, Huapu, & Hu, 2008).

3. Vaidyanathan Jayaraman and Tim Baker

opines that the Internet offers the potential for dynamic pricing for a wide range of products across the supply chain. Dynamic pricing can be formally defined as the buying and selling of goods in markets where prices move quickly in response to supply and demand fluctuations. Unlike physical markets where change occurs slowly because of information delays, change occurs very rapidly on the Internet. In the marketplace, the Internet is a powerful tool for almost instantaneous consumer feedback. For example, prices can be changed dynamically to meet demand because the cost of changing a price may be lower on the Internet than in physical markets. The success of dynamic pricing is helping in the growth of new businesses, including broad-based e-commerce portals new interactive networks. This paper has several objectives. The first objective is to look at factors that affected the use of dynamic pricing in the past. The second objective is to summarize the notion of dynamic pricing over the Internet. The third objective is to examine the different methods for collecting dynamic demand data over the Internet. The final objective is to present two models to optimize the revenue obtained for build-to-forecast and build-to-order environments.

RESEARCH DESIGN

While the airline firms have a lot of benefits from the Dynamic pricing, the passengers cast the dark side of Dynamic Pricing. There is a necessity to capture the opinion of the passengers on the Dynamic Pricing

OBJECTIVES OF THE STUDY

1. To understand the concept of Dynamic Pricing in Airlines Industry;
2. To examine the Pros and Cons of Dynamic Pricing in Airlines firms;
3. To capture the responses of target respondents on various issues in Dynamic Pricing; and
4. To offer constructive suggestion for effective pricing policy formulation and implementation.

The study is descriptive in nature and survey of 100 passengers is done using Simple Random Sampling technique. Primary data has been mustered through well-structured questionnaire and personal interview and secondary data have been collected from various published sources such as journals, articles, books, web resources and the like.

DISCUSSION RESULTS

The following table provides summary of responses where SA-Strongly Agree; A- Agree; N-Neutral; DA- Disagree; and SDA= Strongly Disagree.

Table 1: Summary of responses on Dynamic Pricing in Airline firms

Sl. No.	Dynamic Pricing in Airlines and its impact on the Airlines Sector	SA	A	N	DA	SDA
Passengers						
1	Mobile applications help the passengers to get better deals at reasonable fares	30	32	23	9	6
2	Dynamic Pricing will avoid losses to the passengers because of segment pricing	23	40	27	5	5
3	Introduction of Dynamic Pricing has brought the discipline in ticket pricing against competition	5	44	32	9	10
4	The customers have more choices as to travel in airlines due to dynamic pricing	13	32	27	14	14
5	Dynamic Pricing is a comprehensive solution to the customers to avoid exploitation by the third-party	19	42	15	20	4
6	Demand of business travellers is relatively inelastic and more tolerant to high prices	24	27	22	15	12
7	Leisure or family travellers are more price conscious and so lower ticket prices	50	16	16	12	6
Airlines Firms						
8	Information Technology helps discriminate business and tourist travellers	14	54	14	14	4
9	Dynamic Pricing is a major factor for the growth of Indian Airlines Industry	05	36	23	30	6
10	Dynamic Pricing will result in revenue maximisation for all players	12	29	22	28	8
11	Dynamic Pricing along with the complex softwares has helped to improve marginal revenues	5	40	21	27	9
12	Online booking of tickets has reduced the unfair pricing of the tickets by the middlemen	16	36	34	9	5
13	The dynamic pricing has increased the leisure travel and resulted in the increased revenues	40	27	24	5	4
14	Dynamic Pricing is a solution to the vacancy problems faced by the airline firms	24	25	30	19	2
15	Cost disadvantages are controlled as irrational pricing is reduced	27	16	9	32	16

Source: Primary Data

Majority of the respondents strongly feel that Dynamic Pricing will avoid losses to the passengers; customers have more choices as to travel in airlines, comprehensive solution to the customers to avoid exploitation by the third-party. 50% of the respondents feel that, Leisure or family travellers are more price conscious and so lower ticket prices.

About 2/3rd of the respondents feel Information Technology helps discriminate business and tourist travellers. 1/3rd of the respondents disagree that Dynamic Pricing is a major factor for the growth of Indian Airlines Industry. 1/3rd of the respondents are neutral that online booking of tickets has reduced the unfair pricing of the tickets by the middlemen. 16% of the respondents strongly

disagree that cost disadvantages are controlled by the Dynamic Pricing.

FINDINGS

- ♣ India holds the fourth largest domestic passenger volume and aims for the third position by 2020 (Biji Eapen, Chairman & CEO of Speed Wings Aviation Academy and National President, IAAD)
- ♣ The airlines firms are creating smarter, faster and more personalized self-services, along with digital and social media solutions to enhance customer service and engagement.
- ♣ Airlines firms aim to use new-age technology to help enhance guest experience improve costs and productivity and boost ancillary revenues.
- ♣ Low switch over costs in airlines impacts the business
- ♣ The bargaining power of the channels of distribution and customers is high.

SUGGESTIONS

- ✓ Mobile app friendly airlines have better edge in tapping regular travellers
- ✓ Customers are well informed. So, a comparative analysis if facilitated, then more passengers will opt.
- ✓ Business travel segment is not price sensitive. So, level of service quality is more desired. On the other, leisure travel segment is price sensitive. So, price elasticity can be experimented to increase the spread for airline firms
- ✓ Greater transparency of pricing, form greater market interconnection or faster speed of routing orders to best-priced airlines can help better customer search
- ✓ The on-line and offline channel of booking tickets has to be matched and streamlined

- ✓ Online audiences can be mustered, whose attention spans are short, by enabling on-the-minute updates and information. Communities can be used to keep the favour and attention of the group.

CONCLUSION

Airlines sector is one of the booming sector and at the same time, the costs involved are one of escalating in nature. With thin margins and uncertainties in demand, the sector needs a pricing strategy which can help to contribute to the revenues. The Kingfisher Airlines doomed because of the incessant losses and wrong decision making. Mergers and Acquisitions are the strategies sought after in the sector. Airlines Industry is an attractive and emerging sector. The only concern with the firms is to leverage cost and reap maximum benefits.

Dynamic Pricing can be a very useful tool with the Airlines firms. The benefits to consumers through Dynamic Pricing are debatable. But, with the advancement in technology and supporting apps, comparative analysis of fares and striking the best deal ensures that the consumers make better and informed decisions.

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