Abstract

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Title:
Conditional Efficiency, Operational Risk and Electronic Ticket Pricing Strategies for the Airline Industry

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Abstract:
As the United States moves toward an economic slowdown and possible recession, the airline industry is particularly vulnerable to consumer price sensitivity regarding the purchase of electronic tickets. In this research, we provide a methodological approach that utilizes operational risk metrics to examine the impact of various electronic ticket pricing strategies on profitability. Specifically, the work presented herein is differentiated from previous airline revenue management studies in the following ways:

1. We develop a Monte-Carlo simulation model which can be used effectively to construct conditionally efficient discount ticket pricing strategies.

2. We show that operational value at risk and expected shortfall are effective measures for weighing the risk-return trade offs for efficient discount ticket pricing strategies along the constructed frontier.

3. We implement a demand recapturing variable in the simulation model where prior studies have assumed independent demand among various consumer classes.