Unit 2 discussion board

Unit 2 Discussion Board Introduction: The concept of dynamic pricing is not new, but essentially a version of the old practice of price discrimination in different markets. The importance of dynamic pricing lies in its use of the current information technology to spread its wings (Perloff, 2004).

Air Deccan:

Dynamic pricing has been used by airlines around the world to increase their business. In India the open skies policies in the domestic sectors had led to the growth of low-fare carriers and removal of fare fences, causing the demand to buy down. This purchasing behavior has led to the use of the dynamic pricing model by Air Deccan to estimate the willingness to pay and optimize yields. The dynamic pricing strategy of Air Deccan is to use price as a function of demand and supply, wherein the earlier the booking is done the lesser is the price (About Us).

To enable this pricing model made use of Information Technology to the full extent by setting up an Internet-based Centralized reservation system that centralized customers reservations through distribution channels through the Internet, call centers or travel agents. This enabled fares to be controlled by a group of computers using linear programming for revenue management. From the time a flight is opened for booking pricing is tracked and changed based on demand. The system uses a fare buckets for a given flight and fares change by the date, day of week and time of day (Sampler, 2006).

The price of an air ticket booked early on Air Deccan compares favorably with an upper class rail ticket and is a boon to the more than 300 million middle class segment of society in India, which has happily accepted this means to affordable air travel. This advantage that Air Deccan offered with its dynamic pricing policy has caused a dramatic growth in the use of Air

Deccan, whereby within three years since its starting, it has flown more than 5. 8 million passengers and garnered a market share of 21. 2 percent to become the second largest carrier in the country, pushing the national carrier Indian to third position (Air Deccan overtakes Indian in market share).

Air Deccan faces two disadvantages as a result of its dynamic pricing strategy. It is facing threats to its market share from the full-service carriers in the country as well as new low-cost carriers. The full-service are lowering their airfares in the face of threat from Air Deccan and the other low-cost airlines, while the new entrant low-cost airlines are expected to use price as an entry strategy. There is no more flexibility available in pricing strategy of Air Deccan and erosion of its market share will see drop in revenues and bottom lines. In addition Air Deccan is vulnerable in its distribution as it is Internet oriented. The Internet penetration in India is limited and this will hamper any expansion that Air Deccan plans to increase market size to offset threats from competition (Sampler, 2006).

Conclusion:

Air Deccan is an airline that has employed dynamic pricing strategy in the right market and has exploited it to maximum benefit. However it is now entering the phase where threats from its existing and new competitors will reduce the advantage of its dynamic pricing strategy.

Literary References

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