

# American airline

Business



Task American Airline Part Objective The objective of the American Airline is capitalizing on profits from its several airlines through pricing strategy. At the same time, it keeps considers market fluctuations due to the different seasons; peak and off peak seasons (Koontz, 422). They manage to achieve this objective by creating an optimal mix fare in each flight by charging the maximum amount to customers. They also account for unavoidable losses such as spoilage and over-sale penalties. The optimal mix fare charges strategy maintains the airline as it counteracts market fluctuations, thus ensuring the unhindered flow of supply and demand. At the same time, it maximizes on the profits whenever apparent (Oliver, 108). In addition, this strategy trims down the stiff competition from rival airlines and enhances quality services (Koontz, 439).

#### Information

To understand how the airline maximizes profits and selling amount needed to determine the optimal mix of fare for this flight, the super 80 jet with a carrying capacity of 125 to calculate was provided. Exhibit 1 shows past information of this flight's cumulative graph and shows that the fare for this flight ranges from \$170-\$750 per seat. Chances are that 20-25 booking opportunities will be vacant for us to retain the customers, as all tickets are refundable. This gives us enough time to bid new prices for the flight before any booking announcement has taken place. Additionally there is a 15% and 20% no show flow of local passengers, and obviously, demand is greater for the lower charge than the higher charge; hence, no fiscal records for no-shows. Profits are an unconstructive action due to spoilage and over-sale penalties, yet it is an affirmative action due to the optimal mix fares. The percentage of cost incurred due to spoilage is \$150 each, and the penalty for <https://assignbuster.com/american-airline/>

over-sale is \$100 per passenger for five passengers and below, \$250 per passenger for six to ten passengers and \$500 per passenger for eleven and more passengers.

### Controls

Fares are determined by the rule of supply and demand; that is, when the departure date is near, and the fare decreases when the flight is sparsely booked, and seats start to run out the fare increases. In regard to the super 80 jet, the capability of bidding the prices is used to compel acceptance or rejection of bookings, which is from \$170-\$750 per seat. For example, a customer asked for the pro-rated fare, which is greater or equal to your bid price, the entire passengers are accepted with the same fare, thus determining the proceeds.

### Formulation

As stated earlier, profits are determined by prorated fare and bid price, hence if the pro rated price is equal or greater than the bid price the booking is accepted otherwise it is rejected as it leads to losses. Therefore, minimizing the spoilages and over-sale penalties maximizes the profits. The best formula for calculating the profits is total revenue acquired minus spoilage and over-sale costs.

### Tools

The tool needed here is a revenue formula to calculate the maximised proceeds. The appropriate formula is;

Revenue earned =

Variables OP = number of over-sales passengers

i = prorated prices at the time

Pi = prorated prices

<https://assignbuster.com/american-airline/>

T (Pi) = number of tickets sold at prorated prices

ES = empty seats

The revenue earned equals the total revenue minus spoilage cost (\$150 per seat) and over-sale cost.

Works Cited

Koontz, Harold, and Heinz Weihrich. Essentials of Management: An International

Perspective. New Delhi: Tata McGraw-Hill, 2007. Print.

Oliver, Sandra. Public Relations Strategy. London: Kogan Page/CIPR, 2010.

Internet

resource.