

The a la carte pricing strategy by airlines

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The concept of a la carte pricing has been used in the transportation industry for some while. There have been great stories of the success of this pricing method in some American businesses, but also the policies have failed in others such as the people express transport business. Although the basic principles of a la carte pricing have always been applied, it is only recently that the concept has been developed further and extensively by the airlines. At the basic level, airlines have always charged people who take up more space much more than those who don't.

For example first class travelers always pay more than business class travelers. In the same way, the more luggages one has the more they will be required to pay for the travel. This ultimately proves that a la carte pricing is not a new concept, just one that has been developed extensively recently. Advantages of a La Carte Pricing The fees charged by airlines for simple things such as special diets and travelling bags are not going away. More and more airlines have taken advantage of these strategies. The special pricing has indeed helped airlines to bridge the gap for profits that they have previously contended with.

Loss incurred from damaged goods and a cancelled flight is often covered by the a la carte pricing. Airlines that have introduced this dynamic policy have recorded an increase of almost five hundred dollars in profits even in the harsh economic times. Many flights charge extra fees for small things such as the convenience of a checked bag and food during the flight. Additionally to get some advantages and offers, clients are required to pay some more. Clients may choose to forgo frequent flying miles in order to save three dollars.

This means that in saving the three dollars, they are unable to cash in on the flier miles offers. The airlines are therefore able to save much on the offers by charging less for clients who forego the offers, (Doganis 2002, 266). Clients are becoming more and more comfortable with the a la carte pricing. The main reason for this is the easiness with which they can make choices. By booking for flights from the internet, checking their own bags and skipping the flight meals, they are able to pay less than if the flights had just increased the prices.

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Frequent fliers especially business people, prefer to pay a basic fare than choose the special advantages they are willing to pay for. Very few flight passengers prefer to pay an all inclusive fare, where each person is charged a flat fare, and then receive all the services. Clients are out to save what they can in any way they can. Having the choice for services they can receive and the money they pay for such services often proves advantageous and increases the chances of acquiring frequent fares, (Besanzko, Dranove and Shanley 2007, 210).

The United States low fare airlines, JetBlue and Air Tran have developed strategies that are making it even more advantageous for clients to pick the a la carte priced flights. The airlines in their marketing strategies have eliminated the inconveniences involved in low price flights. For example, people do not need to pay for Saturday overnight stays any more so that they can get the cheaper flights. Instead there are routes that can be taken that are equally cheap. The routes are indicated clearly for the customer,

giving them the choice of an overnight stay, or an early flight for much lesser fare (Boyd 2007, 28).

The advantage of this strategy is mostly to customers, especially again to the frequent fliers. Clients are able to break their round trip tickets to separate one way tickets that often prove to be cheaper. Because clients can clearly see that they will pay for each leg they are able to make choices on what they can afford best. Clients find it easy to shop for the cheapest airline that is offering the services that suit them best. Clients can easily change airlines in each leg depending on the price of flights. This means that airlines are facing much more competition than before.

Whereas a la carte pricing has introduced some new pricing strategies, it has also developed a competition that had not been realized before. Just because clients have chosen a particular airline for the first leg of their flight, doesn't mean that they will necessarily complete their journey with the same airline. Depending on the pricing for fares and particular services that they may require, the clients may choose to pick cheaper flights. With a la carte pricing, airlines encourage clients to book for their flights and services that they may require before.

The earlier the booking, the cheaper the fares. Airlines are therefore able to save on extra costs and plan ahead for the flights with proper budgets, (Shaw 2007, 187). The inconveniences of last minute booking are paid for by the clients. The loss incurred through last minute booking and cancelled services are serviced through specialized prices for the clients. Disadvantages of " a La Carte Pricing Model" With " a la carte pricing" clients find it harder to compare prices for flights.

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Very few companies for example the south west airlines still subscribe to the all inclusive fares. Companies have come up with different packages to attract different clients. Dewine (1998 19) the disadvantage exposed by this strategy is that airlines spend so much time and resources developing and marketing their packages. Studies as to what the clients may need are extensive and often time consuming. Some packages may fail because of the seasons and presentation, yet the comparison required to draw the line on marketable products is hard to make.

Without proper comparisons it is hard for airline companies to decide which packages are more profitable and why. In the same way clients often find it difficult to compare prices and are easily swayed to what they may consider cheaper products. If a company introduces a package that seems to be much cheaper though it may be more inconveniencing clients shift to the new products introduced. The fees vary from airline to airline and sometimes the consumers cannot keep up with the new packages being introduced. They often find it difficult to decide which airline is in fact genuinely cheap.

Shaw (2007, 184) A la carte pricing often means that airlines pay the high class clients much better than their opponents. Unfortunately much of the business for airlines comes from the middle class clients. Company employees and business entrepreneurs are the common clients. During the holidays is when mostly the high paying clients are travelling. Airlines therefore work hard to develop loyal middle class clients who will help maintain the business during the hard times. High class clients also tend to have more demands about their diets and cormfortability.

In ensuring that these clients experience the maximum comfortability, airlines not only neglect the middle class clients but also pay more costs for very few clients. Most of the packages developed in the a la carte pricing model can only be afforded by the high class. The other clients prefer just the basic air travel services: the airplane to get them from one place to another (Connor 2001, 69). For airlines to make higher profits and increase their fares at the same time there is need to focus on clients who may pay less but fly more frequently.

Frequent air fares are more reliable even though they may pay much less. By providing just a small service at low or no cost, airlines can tap to the middle class clients while maintaining the few high class. For example there are some airlines that have offers providing in-flight snacks for no extra charges. They may not provide full meals, however the snacks and other small privileges such as pillows give the airlines better chances of getting much more clients than others, (Morrison and Winston 1995, 93). A la carte pricing has introduced serious competition for the airlines.

The clients are becoming much fewer following the tough economic and financial status. For the few who are travelling by air, the choice does not always include the services offered by some airlines but more the price that the airlines charge for the travel and the services available. Connor (2001, 73) Often travelers choose the basic prices and services, with much more focus being placed on the journey itself rather than the comfortability during the journey. Clients choose to forego some services in favor of cheaper fares.

Although the choice has proved to be advantageous for the clients, it is a two sided coin for the airlines. On the one side the low prices have attracted more clients and created a class of frequent fliers, and on the other hand the same policies have lowered the fees charged for flights extremely often having a negative effect on the profits. In order to attract more clients who are already scarce, the airlines have had to reduce their pricing very much. The focus has moved from high profits to better and cheaper services. Furthermore, a la carte pricing gives airlines the advantage of hiding some extra costs.

Doganis (2006, 148) Airlines have taken advantage of the pricing strategies to exclude taxes and security costs. While this strategy is often advantageous to the airlines that are able to advertise some very low prices, the clients often feel cheated. Clients may approach some airlines to purchase tickets for flights believing they are cheaper than the other airlines only to find that there were some costs included in the fine print. Airlines on the other hand attract more customers and clients by advertising low prices. Future Trends in a La Carte Pricing The a la carte pricing is here to stay.

The strategies may change over time but the main policies will continue to be used in pricing air fares. However while the low priced airlines often use this method of pricing, the major carriers have yet to develop this pricing strategy exclusively. Some airlines feel that maintaining basic airline pricing is much easier to handle and maintain than a la carte pricing strategies. A la carte pricing has also given clients the advantage of budgeting and saving. Because clients are able to choose what they want to have and afford, more and more people are able to afford air travel.

Air fares can be broken into single price units that are then repackaged in many ways giving the clients much more options to consider. The flights may be broken down to smaller and cheaper trips or the air fares may be set by excluding certain services. Clients can easily test some packages and pick one that suits them best. American air lines have found an easy way to eliminate restrictions that were formerly necessary to reduce the cost of travelling. For this reason the pricing strategy will continue to exist.

For those airlines that have failed to include these strategies in deciding air fares are finding that they are losing more and more clients. With the current economic status, it is becoming harder and harder to conjure travelers. Business people who were previously frequent air travelers are finding it harder to afford frequent trips. Instead they are opting for less frequent travel and more communication and shipping through the internet. The competition is therefore becoming higher and higher, with each airline developing different packages with lower costs to attract the frequent traveler.

The probability of the airlines returning to basic air fares is therefore very low, instead the a la carte pricing will be polished and improved more. Conclusion Airlines are having a hard time maintaining loyal customers, keeping their profits high and acquiring resources at cheap prices. For example the price of fuel keeps rising and the travelers keep reducing. In order to make money, airlines have introduced prices for almost everything they can offer. They charge for checked luggage, earphones, space and some air lines have gone as far as to charge extra for the aisle seats or the nonsmoking area seats.

Clients are taking more and more time comparing prices for both the journey itself and the extra services offered in the flight. Companies are therefore spending more and more developing better packages for the clients and advertising these packages. Whereas they are required to advertise lower prices for the air fare, they are also required to offer quality services. In establishing the a la carte pricing, airlines need to study the needs of the clients, offer some extra service that may not cost them much but will make them stand out from the rest.

Sometimes incurring a small extra cost may be the only way to maintain clients and frequent travelers. Companies need to take time developing the best policies to apply and different packages for air travel. References 1. Boyd. A (2007). *The Future Pricing: How Airline Ticket Pricing Has Inspired A Revolution*. United States. Palgrave Macmillan. 28 2. Besanko. D, Dranove. D And Shanley. M (2007). *Economics Of Strategy*. United States. John Wiley And Sons Publishers. 210 3. Connor. W (2001). *An Introduction To Airline Economics*. Connecticut.

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