Airline Revenue Management: Review and Analysis

Bijan Vasigh and Reza G. Hamzaee*

I. Introduction

U.S. Airlines have shown a poor financial performance in the past few years. With falling demand, the industry's real incomes have been diminished significantly (Figure 1). The demand for air transportation is closely associated with the general level of economic activity and, naturally, is not great during depressed periods. Changes in general economic conditions are of most importance in influencing changes in the total quantity of transportation services used. In response to the falling demand and loss of market shares for different airlines, the industry has exercised a number of fare wars in recent years. And due to lack of flexibility in the cost structure, several major carriers such as Pan American, Eastern, Braniff, Florida Express, Continental, Trans World Airlines, and Midway are out of business or filed for protection under Chapter 11 of bankruptcy code.[1] Bankruptcies, mergers, and labor disputes have reduced the number of major airlines from twenty-three to eight in the years since deregulation of 1978 (Baily and Liu, 1995).

Understanding consumers' demand enhances the ability of airlines to cope with the current market problem. Air travel demand is related to individual traveler's choice as well as the business climate. The elasticity of demand for air transportation is significantly affected by the availability of other forms of transportation as well as the purposes for travel. An important characteristic of demand for air travel is that the advantage of air travel over other means of transportation increases with the length of the trip. Moreover, a business traveler who is attending an important meeting would likely have a demand with a relatively lower price elasticity than that of a leisure traveler with a more flexible plan and limited budget.

Identification of the factors that influence air travel demand is important to understanding the market demand. Factors such as income, trip purpose,

---

* Associate Professor of Business Administration, Embry-Riddle Aeronautical University, Daytona Beach, Florida, and Professor of Economics, Missouri Western State College, St. Joseph, Missouri and Walden University, Missouri, respectively.