

Case Study Page 143- Anatomy of a Budget flight – Mr Halil

(a) i) Price discrimination is when certain people pay different prices for a product. It occurs when businesses charge a different price for the same good or service. Easyjet airlines charge a cheaper flight for all those who book early. I.e. A seat normally sold for £20 could be sold for £140 for late bookers. This idea has only just recently become popular over the past 5 years many people tried to book last minute for cheaper flights. Some airlines still charge cheaper fares to 'fill in seats' and would charge a very small mark up in the seat to make minimum levels of profit last minute.

- ii) Full cost pricing is when a business may attempt to take indirect cost that can be attributable to a particular product on deciding the price. Easyjet uses different prices for different destinations as some flights across different destinations may have a different price towards others. For example, Easyjet charges £20- £140 for a flight from Luton to Nice which is 700 miles, but a flight from Luton to Istanbul is £80- £200, which is 1600 miles. This may be because of an increased intake of fuel and time of air attendants and pilots.

(b) One pricing method Easyjet may use is costplus pricing. This involves setting a price by calculating the average cost of flights and adding a mark up for profit. For example for each flight Easyjet makes it receives £6136 and makes a profit of £545 if it adds a 5% mark up on each ticket it would receive an extra £306.80 per flight and on average if Easyjets flights are £48.70 it will only mean each flight on average is now £51.13. This is an example of how costplus pricing works. It is a quick and simple way of pricing. It also ensures the revenue is accounted for and ensures profit capability.

Easyjet may also use contribution pricing. This method takes into account that different products within a company might need to be priced using a different criteria. Easyjet might take into account indirect cost and charges more for the flights that are more successful. E.g. a flight from London to Paris is more popular than a flight from London to Budapest. If successful flights are charged at a higher price they will contribute to more of the overheads and profit whereas less successful flights will contribute less. This is a good method of costing because demand factors are being taken into account. On table 19.5 once there has been enough sold to cover the cost the rest is put straight towards profit.

(c) There are many reasons of how Herb Kelleher's 4 rules might influence the price strategy of low cost airlines. The first rule allows a business more flexibility and the ease of stress and complications of using more than one type of plane go to disarray. When using one airline only a certain amount of tools will be needed, staff will not need to be of expertise of different types of plane only the Boeing 737 in Easyjets case. Staff and stewardesses will be familiar with all the safety procedures and pilots will be transferable with each plane.

The second rule is cost based orientated, it allows profits to be a key focus area for good accounts and it allows the business to have a good understanding of products ability. It also allows for business to use the internet to cut out the 'middle man' and demands better from suppliers. This also gives the staff a motivation in the aim and objective of Easyjet.

The third rule is cost based orientated as Herb Kelleher wanted to keep the airline on the ground for as least time as possible. He believed the more time the plane is on the ground the more money that is wasted. His rule on 8 flights a day will mean 30 minutes on ground on each end. This allows all safety to be checked and is reasonable for companies like Easyjet and Ryanair to get to grips with as these are airlines with primary objectives as profit.

The fourth rule is more market orientated in that it is trying to look out for customer relations with the airline in the bid of re use of service. Kelleher believed that if customers are happy and believe they are being treated with loyalty they will use the airline again which is what Easyjet and other budget airlines want as their primary objectives are to fill up seats whereas other companies have objectives to charge premium prices for outstanding services. The fourth rule is more of a price tactic as in it is a way of using a promotional too usually over a short periods of time.

(d) BA is the largest airline and flag carrier in the UK has competitors such as Ryanair and Easyjet, there are many ways in which they could respond, especially as BA is a very big airline company known to have a respectable reputation. One responsive method used by many companies is competition based pricing.

The first competition pricing strategy BA could use is going rate pricing. This is normally used if BA are reluctant to start a price war and are worried of the risk of falling revenue. This is a good method to use as in 1998 BA started a price war with Richard Branson Virgin Atlantic airlines in which both companies cut their prices dramatically. Branson claimed 'We will never be beaten by BA on price and will always offer better quality' this price war allegedly cost BA millions. This is why going rate pricing may be a good option for BA considering past experiences. The strategy allows the business to examine competitor's price and choose a price in line with them. However it is usually the company with strong brand identity that normally succeeds, BA does have a strong brand identity. Consequently it does not take into account consumer wishes and may not always be the best price set.

The other competition based pricing is destroyer pricing. This involves cutting prices, sometimes very vastly, for a period of time set by directors of BA plc. This strategy may be used to drive rivals out of the game. if BA was to use this they could charge low prices to make smaller reluctant companies fall out of the airline company. The disadvantage of destroyer pricing is that the company may have to take the risk of obtaining losses to make feasible the possible earning of profit. It can be a lot of stress for BA and shareholders maybe unwilling to take the risk and may opt out and go into dispute with

directors. Over recent years it has become a very risky thing to do and many businesses no longer use it.

To conclude, I believe the best pricing strategy is going rate pricing. BA has experienced large amounts of losses when trying to drive other companies out of business. Going rate pricing allows comparisons being made in the market and avoids price war. BA has a strong identity so many consumers will also favour BA instead of other low cost airlines. If BA was to try destroyer pricing there is also a possibility of a 'backfire' which involves BA being forced out of the market.

(e) Easyjet has used various pricing strategies that have proven to be effective and some over the past couple of years have been disadvantageous.

One of the pricing strategies Easyjet has used is contribution pricing. This method is advantageous because charging prices for different destinations is feasible to customers and many people understand the concept of 'more miles, more money'. It has allowed the business to have a clear understanding of the service being offered. Consequently, contribution pricing may make certain popular destinations become unpopular because of the higher prices. Competitors may also use this as an advantage, as they may charge lower prices of destinations Easyjet charges higher prices for. This is an attractive way to gain respect for other airlines.

Another pricing strategy Easyjet have used is price discrimination; this market orientated strategy is an extremely effective strategy. One advantage for this is that many consumers will book early knowing that it will be cheaper, on the other hand consumers booking last minute may feel unhappy paying more for the same service. Price discrimination also allows Easyjet to know how many seats are filled up in the early stages of the flight and enables them to survey which flights are popular. Consequently it also deters last minute holiday makers.

Another advantage of price discrimination is when Easyjet charge higher prices in peak seasons, this is where they know many people will want to go to say Paris in June and the Alps in December. In is advantageous because of the certainty of customers travelling, Easyjet must on the other hand, beware of charging too high a price, which may deter customers from flying with them.

Easyjet has also used going rate pricing, which has proved to be successful in avoiding price wars and allows easy comparisons and wide range of choice. Many businesses feel that lowering prices to be more competitive can be disastrous for them and so instead, they settle for a price that is close to their competitors this is what Easyjet has incorporated any price movements made by competition is then mirrored by Easyjet so long that they can compensate for any reductions if they lower their price. Thus using costplus pricing in adding a mark up. Easyjet is a business which is considered as one of the more dominant within its market because it offers a service that is popular through many aspects such as the TV show on ITV

known as 'Airline' and advertising. As a result, it has the power to set the price in which your competitors will attempt to follow.

In conclusion, over the past decade airline travel has rose in the UK from 4 million in 1958 to 224 million in 2006. many airline companies are aware of this and are incorporating effective customer relations. One way is must do this is to have effective price strategies in place to allow the shareholders and directors of companies to be happy along with the 20 million passengers of Easyjet to be happy. I believe the pricing strategies by Easyjet are proving successful and many people see Easyjet as a low cost budget airline.

Easyjets price discrimination strategy is the most successful in my eyes. In 2005 every champions league game Easyjet charged premium prices for destinations in Greece and Barcelona made an estimated 3 million pound profit. Easyjet charge premium prices at peak times and holiday periods which customers have known this trend for the last decade in travelling. It has now become second nature for customers of price discrimination. I believe Easyjet will make good levels of profit in the next couple of years because of its effective pricing strategies.