Some Basic Facts About Airline Ticket Pricing

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There has been much misinformation and misunderstanding about the nature of airline ticket pricing and airline losses. There is an audio recording making its way around the internet accusing me of personally causing a loss of “millions upon millions of dollars” to a Jewish company.

A president of a travel agency wrote an article castigating me for publishing the deal and causing huge financial losses to EL Al. Surely, a travel agent would understand what I am about to say, yet perhaps he is blinded by the fact that the only real losses in this case will be his, due to people booking directly online and not through his agency, though that was never mentioned in his public condemnation.

He even compares buying these tickets to stealing music, and quotes Rav Yisroel Belsky’s p’rashah that such a thing is absolutely assur, and you must feel that it’s wrong, and if you don’t, you should seek help from someone else. Obviously, though I neglect to mention that Rav Belsky himself said that these tickets are completely mutzar to use. To equate these situations is so preposterous, it is mindboggling.

I’m shocked by the amount of motzie shem ru and lack of dan ke-kaf zechus that some airlines have been spread by people who have not asked me for my side of the story or even the basic facts of the situation.

All I attempt to do here is lay out some basic information that consumers can present to their rov, so that they will both have a fuller understanding of this scenario.

Again, I am not writing any of this from a halachic perspective. I will just go into the basic technical details.

1. FUEL SURCHARGE

The EL Al ticket glitch was a regularly priced ticket that did not include a fuel surcharge. There was no mistake in the ticket price, only in the collection of a fuel surcharge. This is an additional fee on top of the cost of the airline. This is only charged by some airlines to avoid paying some government taxes on the actual fare and to make their tickets look artificially cheaper in some countries.

Whether the concept of ona’ah applies to a surcharge would be a question worth looking into. However, it is clear that a fuel surcharge is not an essential part of a ticket.

It’s worth noting that when you use EL Al miles for a “free” ticket, they tack on a massive fuel surcharge, but if you use American Airline miles to book an EL Al award ticket, they do not collect any fuel surcharge, so we see that the concept of flying on EL Al without paying a fuel surcharge already exists.

2. LOSSES IN A FIXED-COST BUSINESS

Government statistics show that 20% of airline seats go unsold. This is not comparable to walking into a store to find a mispriced item and buying it, which causes an actual loss for the store. This is not even comparable to hiring a wagon driver to take you somewhere at a loss. An airline somehow expects to collect the full price for the airline, nothing in revenue. This is the reason that Prisceline exists: to sell fares at rock-bottom prices, as something is always being thrown on the market. Any revenue earned for a seat that would otherwise go unoccupied is a gain, not a loss. Perhaps at a lower price it is a lower gain, but a lower gain is not a halachic loss. The actual cost to fly an additional person is close to zero, as the airline industry is one where nearly all costs are fixed (salaried, aircraft lease payments, fuel, maintenance, in-flight entertainment, reservation systems, etc.) are fixed and incremental costs are quite minute.

3. ONA’AH AND A MARKET PRICE FOR AIRLINE TICKETS

A commonly referred to problem in this case is ona’ah, or the overcharging or underpaying by more than 16.7% of an established true market price. This concept applies when there is a set market price for an item. In fact, in real estate and for other items as well, the consensus is the same: that any price is ona’ah, as there is no set market price.

I personally posted deals on DansDeals.com and have flown on flights where the airline industry needed to make a sale and flown people for 50%, 70%, or even 95% off of what someone would “normally” pay. Did my $20 airfare from Pittsburgh to Boston and back earlier this year cause JetBlue a loss? It was actually an advertised sale and they just wanted to fill an empty seat. The $20 in their pockets is better than $0, as this is a fixed cost business and making money in such a business can’t cause a loss, no matter how little you pay.

The US Department of Transportation made their rule that airlines must honor price mistakes specifically because there is no market price for airline and it is unfair to expect people to know what a great sale is and what a mistake is. In fact, when United Airlines made a mistake with the mileage required to fly to Hong Kong, they were able to cancel people’s tickets, as there is a market rate for mileage tickets. To say that there is a market rate for a paid ticket is a novel concept.

Are we not to buy any airline ticket people willing to pay for far more than that to fly nonstop, but those people aren’t the ones who were interested in this deal at all, and they’ll be buying full-fare tickets. If EL Al always had this price for nonstop tickets, who would ever pay the big bucks? Basic economics shows that it’s better for EL Al to normally charge $1,000-$1,500 to fly nonstop and have a plane 80% full than it is to charge $580 and fill a plane completely. However, it’s even better than that for EL Al to charge an average of $855 and fill 20% of a plane while still charging $1,000-$1,500 to the folks who normally do pay extra to fly nonstop and fill the remaining 80% of the plane. This is, in fact, an ideal situation for them and quite brilliant of their CEO to devise and offer.

If you are feeling guilty about buying the tickets, then it would be better for EL Al if you pay the $150 upgrade fee rather than cancelling altogether. This is not cash money to them but a marketing ploy to increase revenue. For the original tickets plus the upgrade revenue paid for a seat on a capacity controlled flight for a seat that would likely have gone unoccupied is all positive for EL Al’s bottom line, not the opposite.

Airlines have sales and pricing rules that restrict people who normally pay full fare from paying a dirt cheap ticket, as they need a mix of people paying full fares and people paying dirt cheap to turn a profit. With either of those types of travelers alone (having only leisure or only business passengers), they could not make a profit. That is a fact and is the reason airline pricing is so crazy and changes by the minute. And that is why a one-way ticket from New York to Cleveland can cost anywhere from $25 to $1,400. In my opinion, as someone involved in airline pricing, this is pricing for many years, there is simply no fixed market rate for airline tickets.

This one-time solution will likely help EL Al’s bottom line, as they found a way to capture an entire new audience. And who knows? Maybe they’ll discover why it’s worth paying EL Al $1,000 to fly nonstop in the future, and perhaps this is a way they are being very flexible with date changes and being much kinder than other airlines normally are. The PR that EL Al is earning with all of this kindness is priceless.

4. EL’S ACTIONS

If EL Al did not want people to be using their tickets, they would have acted differently. They would have instructed their customer service representatives and managers to cancel if they felt guilty.

Instead, when people called to express guilt, they were all told to fly to Israel, enjoy their trip, and to fly again soon. This was even the case when people pressed and asked to speak to a supervisor, regarding their guilt. They could have also placed advertisements in Jewish media stating that they were forced to honor the ticket but, in actuality, they were not motech the ona’ah (as, indeed, ona’ah can be forgiven, and if it is not forgiven, it must be demanded by the affected party within a reasonable amount of time), and then thousands of ehrliche Yidden would gladly have cancelled their tickets. Instead, they chose to do none of that, and to just enjoy the positive PR across the nation’s media outlets, on websites, and in the social media online.

5. A BRILLIANT SOLUTION AND A PRIMER TO UNDERSTANDING AIRLINE PRICING

Surveys have shown that most people have switched to the nonstop flight. EL Al made those flights available with capacity controls put into place, with flights expected to sell not being offered at all. With this system in place, there is practically no marginal cost of flying someone, and they were able to collect $150 per person on top of the $335-$535 that people paid for the tickets in the first place. The reason this is actually a nice profit on customers, many of whom would otherwise not have flown to Israel this winter, let alone nonstop on EL Al as opposed to any other airline or with miles.

Why doesn’t EL Al always charge $485-$685? Because there are lots of people booking directly online and to make their tickets look artificially cheaper in some countries.

For airline tickets

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