

Impact of e-commerce in the popularity of differential pricing
-Special Reference to Airfare

Boby Thomas MPhil, MCom, MA(Eco), BEd

Asst. Prof. Commerce, Pavanatma College, Murickassery, Idukki.

Abstract

E-Commerce is the exchange of goods and services with the help of internet. Along with the popularity of internet, e-commerce was also getting popular in the past. But in the recent years internet is getting popular because of the use of e-Commerce. The popularity of e-commerce is replacing the conventional models of commerce in our society. Foot falls to retail shops are declining day by day, and also the mall rentals. This study focuses on the changes in the traditional pricing concept of Indian retail markets. Fixed price, MRP, fair profit, etc have been regarded as the ethical behaviour of Indian merchants. But e-commerce is drastically removing this concept to differential pricing. The study reveals price difference is even more than 200% in certain areas. Ensuring transparency in differential pricing, e-customers welcome this pricing. A transparent mechanism for flexible pricing, including revenue management, negotiation mechanisms, etc transformed into simple and popular way of price discrimination. Even the public sector enterprises started differential pricing and there is almost nil opposition to this strategy from the customers. The article, with the help of secondary data examines the pricing policies for on line marketing with a special emphasis on differential pricing, customer loyalty and segmentation.

Key words: *Differential pricing, internet pricing, revenue management, price discrimination.*

1.1 Introduction

Buying and selling of goods and services through internet is getting acceptance among the consumers mainly because of the convenience. Online market has already abolished the traditional auction floors of stock exchanges. The trend is fast moving to other locations also. Studies show that 45 per cent of malls are expected to be converted into non-retail space within next 15 years. Shopping mall rentals are also dropped by 30% as the shopping malls are witnessing lesser footfalls leading to increase in vacancy rate at 25 per cent¹. Convenience, accessibility and transparency are the key factors that accelerate the popularity of online trades. As the market and options are wide, the customers and business men has ample opportunity to experiment. The customer response analysis is also very easy for the business.

1.2 Types of E Commerce

E Commerce models includes B2B, B2C, C2C, C2C, C2B, B2G and G2B.

1. Business to Business (B2B) model brings the multiple wholesalers and retailers together. Dealing with bulk purchases, it helps the procurement of product from global producers. Tradeindia.com, indiamart.com, alibaba.com, keralaindex.com, quickerala.com, brandskerala.com etc are some examples for this model.

2. **Business to Consumer (B2C):** These types of trade bring multiple consumers and retailers together. Dealing with retail, it helps the procurement of consumer goods at anytime from anywhere. Amazon.com, zovi.com, naaptol.com, shop.irctc.co.in, jabong.com, snapdeal.com, qrs.in, ebay.in, keralarcade.com, etc are some examples for this model.
3. **Consumer to Consumer (C2C):** This type of e commerce websites helps consumer to sells his item to another consumer. It deals mainly with second hand goods. It is mainly like classified advertisement. It helps to get the best price available to the seller and buyer. olx.com, quikr.com, carwale.com, cochin.click.in, etc are some examples for this model.
4. **Consumer to Business (C2B):** It helps the consumer to interact with the businessmen. The customer can quote his price to get the best price available. priceline.com, atyourprice.com, etc are some examples for this model.
5. **Business to Government (B2G):** It allows the business 'E filing' of documents, 'E filing' of tax return and payment of tax and also registration for services. The government websites that offers this facility includes incometaxindiaefiling.gov.in, passportindia.gov.in, civilsupplieskerala.gov.in, etc.
6. **Government to Citizen (G2C):** This facility allows the citizen to interact with government through E filing of documents, E filing of tax return and payment of tax, Registration for services, Getting online certificates, etc. cr.lsgkerala.gov.in, incometaxindiaefiling.gov.in, passportindia.gov.in, civilsupplieskerala.gov.in, etc are some examples for this model

1.3 Pricing of goods and Services:

The traditional concept of pricing was fair pricing. Under fair pricing model the producer is allowed to take a fair profit in addition to the cost of the product. Any excessive charging was regarded as unethical. But in case of luxury articles the 'fair pricing' theory has not been adopted. Psychological pricing was adopted by business men to maximise profit in such cases. The method was popularly known by differential pricing. This method became popular in market economies.

Sliding scale pricing was popular even in socialistic economies and mixed economies. With the adaptation of liberalisation policies, differential pricing became popular gradually. The mind setup of government and the society changed and they are more conscious to the services provided rather than the price of it.

1.4 Differential Pricing:

Charging different prices to different customers for the same product or service, without any value addition, is termed as differential pricing. Price Discrimination, also known by flexible pricing includes personalised pricing, group pricing and product versioning.

1. **Personalized pricing:** It is the first-degree price differentiation. Here the business men analyses the characteristics of each customer and sells the product to each customer at a different price. This can be the traditional form of price discrimination.
2. **Group pricing:** This is the third-degree price differentiation and popular form of differential pricing emerged during industrial revolution. Here the business men divides the market into various segments after careful examination of the common features and charges the same price for everyone in each segment.

3. **Product versioning:** This is the second-degree price differentiation. Here a product line is created by creating slightly different products for the purpose of price differentiation. The customers are offered slightly different product or even slight difference in the guarantee or services offered.

Examples of Price Discrimination

1. Retail incentives- discount coupons, rebates, bulk and quantity pricing, seasonal discounts, and frequent buyer discounts.
2. Coupon: Coupons are given to prospective customers to get special discounts.
3. Premium Pricing: Setting the price of a product higher than similar products to “skim the cream”
4. Segmentation by age group, student status, ethnicity and citizenship:
5. Gender-based pricing- eg. Nightclubs, dance clubs, etc
6. Discounts for members of certain occupations like Govt. Employees, doctors, teachers, etc.
7. Incentives for industrial buyers
8. Haggling/ Bargaining – negotiation on inflated pricing
9. Sliding scale pricing - different customers are charged different prices based on their income.

1.5 Online price discrimination:

The opportunities for the experiments on price discrimination are high in interment marketing. The ‘consumer behaviour analysis software’ is frequently used to observe the customer response to price differentiation. Hence the online traders have a tendency for price discrimination. This discrimination is very popular in travel industry. The study concentrates on the price discrimination in the area of airlines.

1.6 Airline models of price discrimination.

Air lines are adopting multidimensional Price discrimination. Different models of Premium pricing, Coupons, segmental differentiation, seasonal discounts, and frequent buyer discounts etc are the common models of price discrimination adopted by airlines to maximise profit. Airlines adopt different models of premium pricing.

- (1) **Time based:-** The most dynamic one is time based pricing. Airline strategy is offering least pricing in advance booking and increasing price as the seats are booked.
- (2) **Value based (Travel Class based):** Another model is facility based. A travel class is a quality of accommodation on public transport. The accommodation could be a seat or a cabin for example. Higher travel classes are designed to be more comfortable and are typically more expensive. There are Business, First Class, Premium Economy, Economy classes offered by airlines. The amenities provided and charges are also different.
 - (a) **First Class:** First class is a travel class on some airliners intended to be more luxurious than business class, premium economy, and economy class. On a passenger airline, first class usually refers to a limited number (rarely more than 20) of seats or cabins toward the front of the aircraft which have more space, comfort, service, and privacy. In general, first class is the highest class offered, although some airlines have introduced new classes above

this. First-class air travel has been very expensive. Hardly few airlines have first class in the Indian domestic airline.

- (b) Business Class:** Business class is a travel class available on many commercial airlines. In the airline industry, it was originally intended as an intermediate level of service between economy class and first class, but many airlines now offer business class as the highest level of service, having eliminated first class seating. Business class is distinguished from other travel classes by the quality of seating, food, drinks, ground service and other amenities. Air India calls its business class as 'a haven for business & leisure travellers, spacious cabins & plush seats, aisle or window seats for every passenger on 747 aircraft, delectable entrees accompanied by wine, exclusive check-in facility and lounge facility'.
- (c) Premium economy:** Premium economy is a travel class offered on some airlines. Positioning in price, comfort, and amenities, this travel class is levelled between economy class and business class.
- (d) Economy class:** This is the most common and most popular air travelling class. Least cost is mostly offered here. Only seating facility is offered in this class.
- (3) Flexi service:** Targeting the person who needs flexibility in travelling such as to change their trips, flights, etc flexible booking service is also offered. Indian airlines name it as web special economy, super value economy, Flexible economy.
- (a) Super value economy: The least price is offered here. The customer will be charged for cancellation or change of flight, if any required.
- (b) Flexi saver economy: Here flight and date changes are allowed free of cost. Refund is also made at free of charge. But the number of changes allowed are limited
- (c) Flexible Economy: Here also flight and date changes are allowed free of cost. Refund is also made at free of charge. There is no limitation as to the number of changes made.
- (4) Segmental differentiation:** This type of differentiation is popular in all airlines, especially for defence personnel. But the amount of discount is very less comparing to the price of ticket. Indian airline is offering price discount to ten segments at present. The segments include Youth Passengers, Student Passenger, Senior Citizen Passenger, Leave Travel Concession, Armed Forces, General Reserve Engineering Forces, Para military forces, Armed forces bravery awardees, War Widow and War Disabled officers.
- (5) Discount Coupons:** Discount coupon codes are given to individual customers to get discounts on their additional bookings. These coupons are valid for limited periods only.

2.1 Research Questions:

1. Whether there exists price discrimination in airline passenger fare?
2. What are the price discrimination models adopted by airlines?
3. Which one is the mostly discriminated pricing model?
4. What is the base of popular model of price discrimination adopted by airlines?
5. Whether the discrimination has any relation with facilities provided?
6. Which travel class has high discriminated fares?

7. What is the range of discriminated prices?
8. What is the range of discrimination in the same travel class?
9. What is the range of travel class price discrimination?
10. Whether the passenger can benefit from price discrimination?

2.2 Scope of the study.

The study is limited to the online pricing of domestic flights operating in India. The period of analysis is also limited to two months mainly because of the time constraints and easiness of data collection. The scope is limited to the domestic flights operating between Kochi to Bangalore and Kochi to Delhi. The study is also limited to the economy class and business class since other two classes are not available in the selected segment.

2.3 Research Methodology.

Systematic random sampling is used to select the samples. Out of the six popular flights operating in the Indian domestic segment, Air India is selected, being the public sector undertaking. From the private sector, 'Jet airways' is randomly selected. Convenient sampling is used for the selection of dates of data collected for analysis. From the various routs available the Kochi-Delhi route is randomly selected.

2.4 Collection of data.

Primary data is collected mainly from the airline websites. The major travel agents sites such as www.cleartrip.com, www.goibibo.com and www.air.irctc.co.in are also referred to get the least price.

3.1 Data Analysis:

The given below tables show the air fare of different airlines from Kochi to Delhi on the basis of travel class. Only those airlines with a flying duration up to 5 hours only are selected for analysis. The price depends on the time of data collection. The price increases as the vacant seats are reduced.

Table 1
Air Fare Discrimination in Economy class

	Air India	Jet Airways	Least Quoted	Fare
One month advance Booking	9063	7653	5246	146 %
15 days' advance Booking	13284	15798	6868	193 %
Previous day Booking	38749	23894	9954	389%
On the same day	38749	23896	8152	338%
Price Difference	428 %	312 %	190 %	

The above table shows that the price of the flight is increasing as the day of flight is arriving. Those who book in advance are charged less, and high price is charged from those who book later. The price discrimination in the economy class goes up to 389% between flights of the same category. Among the flights, Airindia's differential price ranges from Rs. 9'063 to 38'749 resulting into a fluctuation of 428%. For Jet airways, the differential price changes up to 312 %. But the fluctuation in least price offered still remains 190%. For the flight that has quoted least on the day the price difference is 46% less. The price difference increases to 338% on the day of travel. Among the least quoted flights the price difference is only 190%.

Table 2

Air Fare Discrimination in Business class

	Air India	Jet Airways	Least Quoted Flight	Fare Difference
One month advance Booking	31140	48335	17546	275 %
15 days' advance Booking	31140	55072	17546	314 %
Previous day Booking	38749	57574	18245	212 %
On the same day	38749	57574	18245	212 %
Price Difference	124 %	119 %	103 %	

Table 2 analyses the price discrimination of business class. Price of the flight ticket is increasing as the day of flight is arriving. Those who book in advance are charged less, and high price is charged from those who book later. The price discrimination in the business class goes up to 314 % between flights of the same category. Among the flights, Airindia's differential price fluctuation is 124%. For Jet airways, the differential price changes up to 119 %. But the fluctuation in least price offered is 103%.

Table 3 given below shows the travel class based price discrimination in the Indian airlines. The same flight charges differential prices from passengers of different classes. The price discrimination in the two travel class is shown and analysed. Table 4 analyses the travel class price discrimination in Jet Airways. The least quoted flights of all days are analysed with the help of figures in Table 5.

Table 3
Air Fare Discrimination in Air India

	Economy Class	Business Class	Fare Difference
One month advance Booking	9063	31140	344 %
15 days' advance Booking	13284	31140	234 %
Previous day Booking	38749	38749	100 %
On the same day	38749	38749	100 %
Price Difference	428 %	124 %	

Table 4
Air Fare Discrimination in Jet Airways

	Economy Class	Business Class	Fare Difference
One month advance Booking	7653	48335	632 %
15 days' advance Booking	15798	55072	349 %
Previous day Booking	23894	57574	241 %
On the same day	27544	57574	209 %
Price Difference	360 %	119 %	

Table 5

Air Fare Discrimination in Least quoted Airlines

	Economy Class	Business Class	Fare Difference
One month advance Booking	5246	17546	335 %
15 days' advance Booking	6868	17546	255 %
Previous day Booking	9954	18245	183 %
On the same day	8152	18245	224 %
Price Difference	190 %	104 %	

The figures in the above table show the degree of price discrimination prevailing in the airline fares. The price discrimination between two travel classes, ie business class and economy class, are high in the initial periods but gradually it diminishes. 344 % was the variation in prices at the time of one month advance booking in Indian airlines. But there is no difference in price on the day before travel.

But in Jetairways the price difference is 632% on the selected day of one month advance booking. It also reduces to 240% on the day before travel. For the least quoted rates of the day, the discrimination is 334% in one month advance booking and 183% on the day before travel.

4.1 Findings:

- (1) Price discrimination exists highly in airline fares, irrespective of the flight.
- (2) Airlines adopt more than one models of price discrimination.
- (3) The mostly discriminated pricing models are time based price discrimination and travel class based price discrimination.
- (4) Demand and supply regulates the pricing.
- (5) Airline prices increases with the reduction in vacant seats.
- (6) The prices will vary irrespective of the facilities provided.
- (7) The price discrimination increases as the date of travel is close by.
- (8) Price discrimination is high in economy class.
- (9) The range of discrimination fluctuates even up to 632% of the least fare or even more.
- (10) The range of discrimination in the same travel class varies from 146% to 389% in the economy class.
- (11) The range of discrimination in the same travel class varies from 275 % to 314 % in the business class.

- (12) The range of price discrimination between economy and business class varies from 0% to 632%.
- (13) The customer, if market quotient and not brand loyal, has a chance to choose the flight with least fare, as there can be a flight with least fare.

4.2 Conclusion.

Price is considered as the key strategic element of success of any industry in the ever changing modern electronic environment. Maximisation of price has a tendency to lose the customer and also may attract the attack from the competitor. Differential pricing is the key to arrive at the optimum price, with a view to maximise the profit, without losing the customer. In a highly competitive market, price discrimination will also be high. Transparency in the pricing mechanism will only attract the customer, which is highly ensured in e commerce. The airline industry is highly competitive in nature. The customers are also generally educated and hence transparency is ensured. Hence there is no customer opposition to the high price discrimination.

There is ample scope for further research in this area. The travel fares in airlines are fluctuating very constantly. The airline model of price discrimination is getting more popularity among the online business sector. Indian Railways has already started the introduction of 'premium pricing', time based price discrimination. Interstate buses are also on the way to time based price discrimination to maximise prices.

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