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DEPARTMENT OF BUSINESS AND ECONOMICS
RESEARCH PROPOSAL**



**FACTORS AFFECTING PRICING STRATEGY DECISION IN
THE AIRLINE INDUSTRY**

**A Thesis Submitted in Partial Fulfillment of The Requirements For A master Of
Business And Administration.**

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CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Industry

Air travel is a fascinating and complex industry, important for global transportation of people and goods. Aviation's outstanding adventure, starting in the early 20th century, shows an important transformation from its first planes to today's advanced aircraft (McCullough, 2016). This evolutionary process has led to a meaningful variety of airlines, services and business models that characterize the global travel industry (Button, 2010).

Industry growth has been fueled by continuous innovation and improved efficiency, expanding its reach and further integrating the world (Doganis, 2010). Air travel was once a luxury. Now, it is a common and important way to connect cultures, increase economies and encourage tourism (Dierikx, 2008). Air travel is no longer simply about getting from point A to point B; it's a meaningful driver in global interaction, coupled with large collaboration, influencing many aspects of business and trade, as well as a large portion of diplomacy (Warnock-Smith, 2018).

In addition to its important role in daily life, the airline industry exerts a large economic effect. Job creation, wide-ranging infrastructure development and large support for industries such as hospitality and tourism greatly increase economic growth (Button, 2010). The industry's wide-ranging supplier network and collaborations have a meaningful positive effect, increasing other sectors and national economies (Doganis, 2010).

The industry's success comes with its challenges. Fluctuating fuel prices, geopolitical tensions, and the unpredictable effects of global events can all impact demand for travel (Cento, 2008). To stay competitive, airlines must make strategic decisions in many areas of their operations, with one of the most important being their pricing strategy. Pricing decisions have a direct impact on an airline's competitiveness and its ability to stay financially sustainable in such a volatile market (Belobaba, 2015).

In essence, the airline industry is a dynamic and interconnected field, with significant economic contributions and a constant need to adapt. This research delves into the key factors that influence pricing strategies within this complex environment. By examining these factors, the study aims to provide valuable insights into how airlines balance the need for profitability with the pressures of remaining competitive. Ultimately, this research hopes to contribute to both

academic knowledge and practical strategies that will help industry stakeholders navigate the intricate dynamics of the airline sector.

1.2 Statement of the Problem

Air transport provides vital economic benefits; aviation provides the only worldwide transportation network, which makes it essential for global business and tourism. It plays a vital role in facilitating economic growth, particularly in developing countries. Transports 40% of the value of interregional commodities shipments and more over 2 billion people a year. Air travel now accounts for 40% of all foreign travel. Globally, the aviation sector supports 29 million employment. According to estimates, the combined direct, indirect, induced, and catalytic economic impact worldwide is \$2,960 billion, or 8% of global gross domestic product (GDP). There are around 22,000 aircraft in the fleets of the 900 airlines in the globe. Approximately 160 aviation navigation service providers oversee a route network of several million kilometers that serves about 1,670 airports. Air transportation is responsible for 25% of all businesses' sales. According to 70% of companies, one of the main advantages of employing (ICAO, 2005).

Airlines operate in a competitive and ever changing environment (Daley, 2010). It's a constant balancing act: they need to offer attractive fares to draw in passengers while still ensuring that their prices cover the high operational costs. This balancing act becomes even trickier when you factor in unpredictable demand, fluctuating fuel prices, and the global economic shifts that can throw everything off course. These forces create a web of complexity that airlines must carefully navigate when setting their prices.

Pricing is a crucial strategic weapon in the complicated airline sector, where shifting market dynamics and price movement make it a very potent strategic tool. As a possible strategy to displace market leaders, new competitors will investigate novel pricing schemes (Smith T. J., 2012). In the aviation industry, pricing strategy is critical for maximizing profitability by creating and capturing customer value. Each pricing decision takes into account multiple factors, such as market demand, competitive environment, consumer behavior and operational costs, while understanding the decision-making process's influencing factors. Unlike broader economic, marketing, accounting, or strategic frameworks, aviation pricing strategy addresses specific challenges faced by airline executives. It provides actionable insights and practical tools for informed pricing decisions, applicable across various aviation sectors. This approach

ensures airlines can navigate competitive dynamics effectively and optimize pricing strategies to achieve sustainable growth and profitability (Smith T. J., 2012).

The theories on the variables affecting airline pricing tactics are supported by a number of scholarly investigations and industry reports. Price decisions are influenced by market dynamics, legal restrictions, and technology upheavals, according to research by Robert G. Cross (Revenue Management) and Rigas Doganis (The Airline Business). Tim J. Smith (Pricing Strategy) examines the impact of consumer behavior and economic conditions on airline pricing, whereas studies on exogenous shocks, such as pandemics or geopolitical events, show their significance. Other well-established elements include government policy, labor costs, and globalization, as covered in books like Pat Hanlon's *Global Airlines* and Peter S. Morrell's *Airline Finance*.

Furthermore, as IATA studies and scholarly publications like the *Journal of Air Transport Management* demonstrate, demand parameters (such as passenger numbers and load factors) and operational expenses (such as fuel, landing fees, and aircraft leasing) play a crucial role in determining pricing strategies. The combination of these sources gives your theories a strong basis. In order to provide insight on the challenges airlines encounter in their day-to-day operations as they formulate their price choice methods, this section will examine the numerous aspects that influence these decisions.

In summary, the problem is clear: airlines face a wide array of challenges when it comes to setting and managing their pricing strategies. From market forces and regulatory constraints to technological advancements, external shocks, and diverse customer needs, it's a complex and ever-changing landscape. This research seeks to dig deeper into these challenges, providing valuable insights that will help airlines develop pricing strategies that are not only effective but also flexible enough to thrive in this intricate and dynamic industry.

1.3 Background of Ethiopian airline

Ethiopian Airlines, founded in 1945, is not only a source of national pride for Ethiopia but has also become one of the fastestgrowing airline brands in the world and the largest airline group in Africa. Starting with just five C-47 aircraft on its first flight to Cairo via Asmara on April 8, 1946, Ethiopian Airlines has come a long way, evolving into a global aviation powerhouse. Today, Ethiopian operates the largest share of Africa's passenger and cargo network, offering flights to over 150 destinations across five continents with a fleet that's both modern and

environmentally friendly, including Boeing 737s, 777s, 787s, Airbus A350-900s, and De Havilland Q400s.

Modernization has always been at the heart of Ethiopian Airlines. It was one of the first to introduce jet service in Africa and has consistently embraced the latest technologies to stay ahead of the curve. As part of its growth strategy, Ethiopian is expanding its reach with hubs in Lomé, Togo, Lilongwe, Malawi, and Lusaka, Zambia, in partnership with other regional airlines like ASKY, Malawi Airlines, and Zambia Airways.

Looking ahead, Ethiopian is focused on the future with its Vision 2035 plan, aiming to be one of the top 20 most competitive aviation groups globally. Having already achieved the goals of its Vision 2025 plan ahead of schedule, Ethiopian Airlines continues to push the boundaries of what's possible, having grown more than threefold in the past decade alone.

Ethiopian Airlines' success hasn't gone unnoticed it's been named "Best Airline in Africa" by Skytrax for seven consecutive years and is a proud member of the Star Alliance since 2011. With a reputation for safety, reliability, and customer satisfaction, Ethiopian has become a preferred choice for travelers around the world.

However, with such remarkable success also comes the challenge of developing pricing strategies that cater to a diverse range of passengers across different markets. Ethiopian must carefully consider varying economic conditions, customer preferences, and regional differences when setting its prices (Mekonnen, 2019). Plus, as Ethiopia's national flag carrier, the airline has a responsibility to support the country's economic growth and connectivity, which adds another layer of complexity to its pricing decisions.

In the end, Ethiopian Airlines' journey from its modest beginnings to becoming a global leader in aviation is a story of resilience, innovation, and a deep commitment to connecting people and cultures. The airline's forwardthinking leadership and consistent focus on excellence ensure that Ethiopian Airlines will continue to play a vital role in the evolution of the global aviation industry for years to come.

(Ethiopian Factsheet, 2023)

Research questions.

1. How do market dynamics (such as demand fluctuations, competition, and demand elasticity) affect the pricing strategies airlines develop?
2. To what extent do regulatory factors (like fare transparency and consumer protection laws) limit or shape the flexibility of airlines in setting their prices?
3. How do technological advancements (like online booking platforms and dynamic pricing systems) influence consumer behavior and force airlines to adjust their pricing strategies?
4. What impact do external factors (such as natural disasters, geopolitical events, or other global influences) have on airlines' pricing decisions?
5. How do customer behaviors and preferences (including brand loyalty, perceived value, and buying habits) influence the pricing strategies airlines adopt?
6. In what ways do economic factors (such as inflation, GDP changes, and fuel prices) affect how airlines determine their pricing strategies?
7. How do globalization trends (like increased international travel, global competition, and connectivity) shape airlines' pricing approaches?
8. How do environmental concerns (such as carbon offset programs and sustainability initiatives) influence airlines' pricing strategies?
9. What role do labor costs (including wages and benefits) play in shaping the pricing strategies airlines use?
10. What role do DOC (direct operating costs) including exchange rate play in shaping the pricing strategies airlines use?
11. How do the number of passengers influence to adjust their pricing strategies?
12. How do government policies (such as taxes, subsidies, or regulatory influences) affect the way airlines set their prices?

1.4 Objectives of the Research

1.4.1 General Objective

The main goal of this research is to identify the factors that affect Ethiopian Airlines pricing strategy decisions. By focusing on Ethiopian Airlines, the aim is to provide a clear and detailed understanding of the various factors that influence how airlines set their prices. Through this approach, the research seeks to uncover the key dynamics shaping pricing strategies in a way that's both comprehensive and insightful.

1.4.2 Specific Objectives

Building on the general objectives outlined earlier, this study has the following specific goals:

1. To examine the effect of market dynamics on pricing strategic decision
2. To analyse the impact of regulatory constraints in relation to pricing strategic choices
3. To investigate the effect of technological disruptions on pricing strategic decision
4. To examine the influence of external shocks on pricing strategic preferences
5. To investigate the impact of consumer behaviour on pricing strategic decision
6. To evaluate the state of economic condition affects strategic pricing preferences
7. To evaluate how pricing strategy choices are affected by globalization
8. To evaluate the influence of pricing strategy decisions on environmental sustainability
9. To assess how pricing strategy choices affect government regulations
10. To analyse the direct operating costs and related effect on pricing strategic decision

By addressing these objectives, the research will offer a well-rounded exploration of pricing dynamics in the airline industry. It aims to provide useful insights that benefit both academic study and real-world practices, focusing on the broader industry while also addressing the specific challenges faced by Ethiopian Airlines.

1.4.3 Hypothesis to be Tested.

The hypotheses for this research are developed based on a deep understanding of the various factors that influence pricing decisions in the airline industry. These hypotheses are designed to guide the investigation of how different elements, such as market conditions, consumer behaviour, and external challenges, interact with pricing strategies, with a particular focus on Ethiopian Airlines. Each hypothesis is grounded in real world context, offering a clear framework to explore how these factors shape pricing decisions within the airline industry.

1. H1: There is a direct relationship between market dynamics and pricing strategies decisions
2. H1: A direct relationship exist between regulatory constraints and pricing strategy decisions
3. H1: Decisions about pricing strategy are directly correlated with technological disruptions
4. H1: There exist a positive relationship between external shocks and pricing strategy decisions
5. H1: Decisions about pricing strategy and consumer behaviour are directly related

6. H1: There is a direct relationship between economic conditions and Pricing strategy
7. H1: Decisions about pricing strategy are directly correlated with globalization
8. H0: There is a negative relationship between environmental sustainability and Pricing strategy
9. H1: There is a direct relationship between labour costs and pricing strategy decision
10. H0: There is no positive relationship between government policies and pricing strategy decision

In order to meet research objective eight additional hypothesis were constructed.

1. H0: There is no direct relationship between landing and pricing strategy decision
2. H0: The choice of pricing strategy decision and handling costs are not directly related
3. H1: There exist a positive relationship between overflying costs and pricing strategy decision
4. H0: There is no positive relationship between fuel costs and pricing strategy
5. H1: There is a direct relationship between number of passengers and pricing strategy decisions in the airline industry
6. H1: A positive relationship exist between aircraft lease costs and pricing strategy decisions
7. H0: No positive relationship on exchange rate fluctuations while formulating pricing strategies
8. H1: a positive coorelation between load factor and pricing strategy decisions

These hypotheses, each rooted in a specific basis, collectively provide a robust framework for systematically exploring and testing the relationships between key factors and pricing strategy decisions within the airline industry, with Ethiopian Airlines as a focal point of investigation.

1.5 Significance of the study

The airline industry is both dynamic and complex, making it essential to understand the various factors that influence pricing strategies. This research is crucial for academics, industry professionals, and policymakers alike. For scholars and researchers, it offers valuable contributions to existing literature by exploring the many factors that shape pricing decisions in the airline sector. By providing empirical evidence through detailed analysis, this study

deepens our understanding of pricing strategies in aviation and sets the stage for future research in this field.

Industry experts such as airline executives, strategists, and marketing teams will benefit from the practical insights provided. The findings offer actionable strategies for optimizing revenue management, improving competitiveness, and adapting to market changes. With these insights, airlines can improve their pricing models to enhance financial performance and operational efficiency, making this research not only academic but directly applicable to everyday business practices.

For policymakers and regulatory bodies, the study provides a detailed understanding of the complex factors that impact pricing strategies. The research can inform the creation of policies that promote a fair and competitive pricing environment, balancing the needs of consumers, airlines, and the economy. By focusing on how government policies affect pricing decisions, this study can guide discussions about developing regulations that support sustainable and efficient airline operations.

The study also has broader implications for the global aviation industry, particularly in terms of sustainability. As airlines face increasing pressure to reduce their environmental impact, the research explores how sustainability initiatives like carbon offset programs affect pricing strategies. These insights are crucial as the aviation sector seeks to balance economic success with environmental responsibility. Overall, the study's findings not only shed light on the current state of the airline industry but also help shape its future, aligning it with changing academic, industry, and global sustainability goals.

1.6 Organization of the paper

This thesis is designed to offer a clear and detailed exploration of the factors that influence pricing strategy decisions in the airline industry. The structure has been organized to ensure a smooth and logical progression of ideas, guiding the reader from the introduction to the final conclusions. Here is a brief overview of how the thesis is organized:

1.6.1 Chapter One: Introduction

Background of the Industry: This section sets the stage by offering an in-depth overview of the dynamic and essential role played by the airline industry in global transportation, emphasizing its significance in facilitating connectivity and economic growth.

Statement of the Problem: Exploring into the complexities surrounding pricing strategy decisions in the airline industry, this section highlights the challenges and uncertainties faced by airlines in determining their pricing strategies

Background of Ethiopian Airlines: Offering a historical overview, this section relates Ethiopian Airlines' role in the airline industry and identifies unique challenges it may face in terms of pricing strategy decisions.

Objective of the Research: Outlining the specific goals and aims of the research, with a particular focus on understanding and analysing the factors influencing pricing strategy decisions, both generally in the airline industry and particularly for Ethiopian Airlines.

Hypothesis: Presenting the hypotheses that will guide the research, providing a clear framework for considering the relationship between various factors and pricing strategy decisions in the airline industry.

Significance of the Study: Highlighting the importance and relevance of the study, discussing how the findings may contribute to academic knowledge, industry practices, and policymaking within the airline sector.

Organization of the Paper: The current section, which serves as a guide for the reader, outlining the structure of the thesis and guiding them through the logical flow of information.

1.6.2 Chapter Two: Review of Related Literature

Introduction: Setting the stage for the literature review, providing situation and rationale for the exploration of existing research on pricing strategy decisions in the airline industry.

Airline Industry: Offering a thorough overview of the airline industry, discussing its structure, key players, and dynamics

Pricing: Exploring the concept of pricing in the perspective of the airline industry, considering its various dimensions and implications

Determinants of Pricing Decision in the Industry: Investigating the factors that influence pricing decisions in the airline sector, drawing on existing literature to establish an academic framework.

Performance Measurement: Examining how performance is measured within the airline industry and the key system of measurement considered in evaluating pricing strategy effectiveness.

Empirical Review: Summarizing previous empirical studies related to pricing strategy decisions in the airline industry, highlighting key findings and gaps in existing research.

1.6.3 Chapter Three: Research Design and Methodology

Research approach: Discussing the chosen research approach and justifying its relevance for the study.

Research Design/Type: Detailing the specific research design or type selected and explaining its validation.

Source of Data and Sample Size: Defining the methods for data collection, including sources and the determination of the sample size for the study

Model Variables: Identifying and defining the variables that will be used in the research model, establishing a clear foundation for data analysis.

1.6.4 Chapter Four: Data Analysis and Results

Descriptive Statistics: Presenting descriptive statistics for the variables under consideration, providing a complete overview of the dataset

Inferential Statistics: Conducting inferential statistical analysis to test the assumptions formulated in Chapter One, utilizing appropriate methods for the study's quantitative nature.

Presentation of Results: Clearly presenting the results of the statistical analysis, allowing readers to understand and draw conclusions from the findings.

1.6.5 Chapter Five: Discussion and Interpretation of Results

Interpretation of Findings: Offering the interpretation of the results obtained from the data analysis, relating with the research questions and hypotheses

Comparison with Previous Studies: Measure up the current findings with those of previous studies, highlighting consistencies, divergences, and potential explanations.

Implications for Theory and Practice: Discussing the theoretical and practical associations of the results, considering how they contribute to existing knowledge.

Summary of Findings: Summarizing the key findings of the study.

Conclusion: Drawing primary conclusions from the research, emphasizing their significance in the general circumstance of the airline industry

Recommendations for Industry Practice: Providing practical recommendations based on the study's findings for industry practitioners, offering guidance for improving pricing strategies.

Recommendations for Future Research: Identifying areas for future research, building on the current study to address remaining gaps and contribute to ongoing research dialogue.

This organizational structure aims to guide the reader through the research process, from the introduction of the topic to the presentation and interpretation of results, concluding with recommendations for both industry practitioners and future researchers in the field of pricing strategy decisions within the airline industry.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Overview

This chapter deals with the literature regarding pricing decision of Airlines, recognizing and understanding the underlying concepts and definitions of the airline industry. The review covers assessment of the theoretical aspects related to airline pricing and its determinants and followed by the review of the previous studies conducted in relation to determinants of airline pricing decision and then the impact of each factor on the firm's performance is discussed.

2.2 Airlines Industry

The airline industry is a dynamic and complex force that directs universal transportation, connecting people and economies across the world (Doganis, 2006). To better understand this sector, we explore its formation, the key players, and major trends, with a particular focus on African airlines. Furthermore, explore how external factors, like economic conditions and regulatory changes, influence the industry's operations (Tabacco, 2017).

Commercial carriers, which operate within a diverse ecosystem includes full-service carriers (FSCs) that offer a wide range of services, and low-cost carriers (LCCs) that prioritize cost-efficiency and point-to-point travel (Ison S. , 2014). In Africa, airlines like Ethiopian Airlines, South African Airways, Kenya Airways and others play key roles, linking the continent to the global network. The rise of low-cost carriers like Fastjet and Jambojet further energizes Africa's aviation scene, extending new travel options and increasing competition (Samunderu, 2023).

Internationally, major airlines such as Delta Air Lines, American Airlines, and Lufthansa manage on a extent that significantly impacts the competitive landscape (Mitchell, 2024). In Africa, Ethiopian Airlines stands out for its broad network and obligation to pan-African connectivity (Samunderu, 2023). Alongside other regional carriers like South African Airways and Kenya Airways, Ethiopian Airlines helps foster vital connections between Africa and international destinations. Strategic alliances like the Star Alliance and SkyTeam further enhance global connectivity, enabling airlines to collaborate and expand their reach(Wensveen, 2019).

The industry is being molded by key movements that highlight its ability to adapt to growing market demands (Doganis, 2019). One major thing is the ongoing digital transformation, with airlines increasingly relying on technology to improve operational efficiency and distribute more personalized passenger services(MoghadasNian, 2023). Moreover, environmental aviation procedures, such as the use of biofuels and more energyefficient aircraft, prove the industry's commitment to environmental obligation(Reddy, 2017). The impact of the COVID-19 pandemic has further enhanced practices like virtual services, flexible booking policies, and greater health and safety measures, changing both passenger expectations and how airlines operate.

African carriers encounter exceptional challenges and opportunities in the global aviation site. Ethiopian Airlines, for example, has set a remarkable example of operational superiority and pan-African network. While challenges such as infrastructure restrictions and economic wavering persist, the region also presents significant growth opportunities underserved markets.

External factors, such as economic conditions, geopolitical events, and public health crises, have a profound impact on the industry. Fluctuations in GDP, fuel prices, and inflation rates directly affect air travel demand (IATA, 2021). Meanwhile, changes in regulations such as safety standards and environmental laws can create operational challenges, requiring airlines to adjust their business models. Geopolitical events, natural disasters, and health crises, like the COVID-19 pandemic, can quickly alter consumer behavior and force airlines to rethink their strategies (IATA, 2020).

In conclusion, recognizing the structure, key players, and trends of the airline industry, with a focus on African airlines, sets a solid basis for discovering how pricing strategies are formed. The relations of these factors, along with the industry's sensitivity to external effects,

emphasizes the dynamic environment in which airlines operate both globally and in Africa. This intelligence is critical for analyzing how external dynamics model pricing strategies, helping airlines navigate a dynamic and regionspecific environment.

2.3 Pricing

Pricing in the airline industry is a multifaceted and strategic process that plays a crucial role in forming an airline's operations, profitability, and market position. It's not only about assigning a price to a particular seat; moderately, it requires a cautiousweigh up act of severalconsiderations to maximize revenue, counter to market changeability, and meet wider business goals.(Jangid, 2024)In the airline industry, pricing faces a range of services, involving passenger tickets, cargo batches, and supplementary services like baggage fees or seat upgrades. A multiplicity of factors impact pricing decisions, such as operational costs, rivalry, demand elasticity, and external market conditions. What makes pricing even more complex in this industry is the unpreserved nature of airline seats once a flight departs, any unsold seats can't be used again and the repetitively shifting demand, which changes conditional on the season, events, or even the state of the economy (Bilotkach, 2021).

To steer these challenges, airlines often rely on several pricing patterns, each designed to achieve specific business objectives. One widespreadexample is yield management, which allows airlines to modify prices based on influences like how close the flight is to departure, how demand is expected to change, and historical booking trends (Scott, 2019). This benefits airlines maximize revenue by billing different prices for the same seat, depending on when it is reserved.

Another model is costplus pricing, where airlines evaluate the cost of providing the service and then include a markup to determine the ticket price. This safeguardsthat their operating expenses is covered and still make a profit. Lowcost carriers (LCCs) regularly use determined pricing strategies in this model, aiming on affordability to attract pricesensitive travelers (Curtis Grimm, 2018)Active pricing is another key model, specifically useful in adapting to abrupt demand shifts or external factors. Airlines constantly adjust ticket prices in real-time, using advanced procedures and data analytics to counter to shifts in demand, the opposition prices, or market situation. This level of livenesspermits airlines to stay competitive and capitalize on every opportunity.(Curtis Grimm, 2018)

Eventually, the selection of pricing principle is closely tied to an airline's business objectives. For traditional airlines, which in general offer a variety of services and premium alternatives, pricing strategies often seek to appeal to a comprehensive range of customers and emphasize the airline's brand image. In contrast, low-cost carriers aim on loading as many seats as possible, even if it means operating on lighter margins per seat (Bilotkach, 2021).

In conclusion, pricing in the airline industry is a dynamic and calculated process that involves precisely considering several factors to heighten revenue. By using diverse models, such as yield management, costplus pricing, and dynamic pricing, airlines can modify to the complexities of the market. Supporting these pricing strategies with their business goals is necessary for sustaining effectiveness and realizing long-term financial success.

2.4 Determinants of Pricing Decision in the Industry

Pricing decisions in the airline industry are complex and affected by a comprehensive set of factors, both internal and external. This process is far from simple, as airlines must steer a regularly altering landscape when planning and adapting their pricing strategies. Analysing this ever-changing environment requires looking at how several elements such as market demand, competition, operational costs, and external events come together to model the economic basis of the airline industry (Jangid, 2024). This assessment aims to uncover the shades behind these pricing decisions and emphasize how airlines alter to the ever-evolving situation they face.

Internal Factors:

Operational Costs: At the foundation of an airline's pricing decisions are the operational costs it faces, such as fuel, maintenance, labor, and aircraft acquisition. These costs play a significant role in determining ticket prices. When operational costs rise, exclusively with irregular fuel price fluctuations, airlines must cautiously adjust their pricing strategies to maintain profitability. Harmonizing these costs with competitive pricing is a constant challenge for airlines struggling to stay financially sustainable while offering reasonable fares (Weigand, 2017)

Network Complexity: An airline's route network plays a significant role in determining its pricing strategy. Airlines with broad global networks can distribute their costs across many routes, which may help them offer more competitive prices. However, carriers that focus on specific regions or specialized markets may have different cost structures, which can affect how they price their tickets. The size and scale of the network can therefore prompt how airlines

approach pricing, depending on whether they're operating on a global or more localized scale (Wittmer, 2021).

Aircraft Type and Efficiency: The type and efficiency of an airline's fleet are key factors in deciding pricing strategies. Airlines that operate modern, fuel-efficient aircraft benefit from lower operational costs, giving them more elasticity to adjust prices competitively. Moreover, the scale and capacity of the fleet allow airlines to better meet the distinct needs of their passengers, whether that means providing to high-demand routes or offering focused services. A well-managed and resourceful fleet can therefore provide a substantial advantage in pricing decisions (Weigand, 2017).

External Factors:

Competition: In the external environment, competition plays a critical role in shaping pricing decisions. The competitive landscape on a specific route or within a market can either reduce or elevate an airline's ability to set prices. When competition is severe, airlines may battle in price wars, which can bring fares down. In contrast, for markets where competition is limited such as in monopoly or oligopoly conditions airlines may have more freedom to set greater fares, knowing that there are fewer choices for passengers (Niemeier, 2020)

Demand Elasticity: The elasticity of demand for air travel is a core element that airlines must carefully consider when establishing prices. Basically, this refers to how vulnerable passengers are to changes in ticket prices. In the course of high demand, airlines often take advantage of inelastic demand when passengers are less likely to be frightened by price increases by raising fares. Yet, when demand is low, airlines be inclined to be more flexible with their pricing, lowering fares or proposing promotions to encourage sales and fill seats (Ison L. B., 2016).

Customer Behavior: Consumer behavior plays a fundamental part in shaping the pricing decisions airlines make. Factors like how much ahead of time passengers book their flights, their travel preferences, and their commitment to pay for extra services all influence how airlines set their prices. The growth of online booking programs has made consumer behavior even more dynamical, as travelers now have greater liveness and approach to real-time information. This has pushed airlines to adopt more responsive pricing strategies, adapting fares in real-time based on market trends and individual purchasing behaviour (Shaw, 2012).

Regulatory Environment: Government regulations, taxes, and restrictions on route access can limit how easily airlines can set their prices. Moreover, fulfilling with safety standards and environmental guidelines often comes with added costs, which airlines must factor into their pricing strategies. These external factors require alert balancing as airlines must remain competitive while ensuring they meet regulatory requirements(Belobaba, 2015).

Global Events and Crises:Sudden external changes, like global events or crises can bring a level of inconsistency to airline pricing decisions. The COVID-19 pandemic, for instance underscored the industry's exposure to such disturbances. Airlines had to modify quickly to changing demand, travel restrictions, and health concerns, driving them to reevaluate the pricing strategies as the situation changed. This kind of changeableness requires airlines to be elastic and reactive in order to preservestrength in a rapidly changing environment (Cohen, 2020).

Recognizing both internal and external factors is vital for airlines looking to advance pricing strategies that are strong and adjustable. The mixture of these elements establishes a regularlyaltering pricing conditions, where airlines need to regularly evaluate and accommodate their strategies to stay competitive and counter to market changes. This broad analysis, maintainedby existing research and industry insights, places the groundwork for a in dept examination of how pricing strategies are molded within the airline industry.

2.5 Performance Measurement

In the dynamic and highly competitive aviation landscape, airlines need a keen and comprehensive approach to measuring performance, markedly when it comes to measuring the effectiveness of their pricing strategies. This section discovers the various methods, metrics, and key performance indicators (KPIs) that airlines use to evaluate how their pricing decisions affect their financial performance, market position, and overall competitiveness.

Methods for Performance Measurement:

1. **Revenue Management System (RMS):** Airlines bank on enhanced Revenue Management Systems (RMS) to optimize their pricing strategies and develop performance. Applying algorithms and data analytics, RMS adjusts pricing vigorously by analysing past booking patterns, demand estimates, and competitor prices. This real-time control system helps

airlines maximize revenue and improve load factors by adapting to shifting market conditions(Ryzin, 2004).

2. **Market Share Analysis:** Market share is a fundamental determine of the competitive impact of pricing strategies. By tracking changes in market share, airlines can evaluate how well their pricing decisions line up with customer first choice and their ability to stay competitive. Supervising these shifts allows airlines to refine their pricing models and respond to evolving market dynamics(Hooper, 2020).
3. **Profitability Metrics:** To review the financial success of pricing strategies, airlines use key financial system of measurement such as net profit margin, return on investment (ROI), and contribution margin. These metrics help airlines understand the balance between revenue generation and cost control, offering insights into the overall financial health and effectiveness of their pricing decisions (Anderson, 2014).

Key Performance Indicators (KPIs) and Metrics

1. **Revenue per Available Seat Mile (RAMS):** measures the revenue generated per seat mile flown. It provides understandings into how well an airline make moneywith its available capacity. By tracking RASM, airlines can assess the effectiveness of their pricing strategies and alter them to maximize revenue from their available seats(Anderson, 2014).
2. **Load Factor** measures the percentage of available seats that are filled with passengers. A high load factor implies that an airline is economically filling its seats, indicating that pricing strategies are successful in generating demand and optimizing seat occupancy. It serves as a key indicator of supply and demand balance, helping airlines adjust pricing models as needed(Billig, 2017).
3. **Yield:** marks the average fare paid by passengers per mile flown, helping airlines recognise how pricing decisions effect revenue generation. By examining yield, airlines can gain understandings into how effectively they are pricing their services and adjust ensure they are maximizing revenue without bargaining demand (Vinod, 2021). To understand yield,it is important to consider pricing, because it is an airline's passenger fare and cargo rate structures together with its traffic mix (i.e., the proportions of traffic moving on each fare and rate basis) that drive system yield. (Holloway, 2008)

4. As supplementary services continue to grow in importance, airlines trace specific metrics related to this revenue stream. These include the revenue per passenger generated from ancillary fee such as baggage fees and in-flight services, as well as the percentage of total revenue obtained from these services. These metrics provide airlines with a clear view of how ancillary services add to overall profitability and how effectively pricing strategies are leading these sales (Sorensen, 2020).

Performance measurement in the airline industry is a complex process that requires a balanced approach. Through the use of advanced systems like Revenue Management Systems (RMS), analyzing trends in market share, and diligently monitoring key performance indicators (KPIs) such as revenue, load factor, and ancillary revenue, airlines can gain useful perspectives into the performance of their pricing strategies are delivering results. The ongoing analysis is crucial in an industry that demands persistent adaptability and swift reaction to shifting market conditions in order to remain competitive and successful.

2.6 Empirical Review

Through reviewing applicable studies, this section seeks to underline general trends, identify gaps in the existing research, and propose areas where further investigation is needed.

A significant number of studies have explored the pricing strategies employed by airlines. One recurring theme in this research is the common use and helpfulness of yield management systems and dynamic pricing models (Barbot, 2005; Talluri & van Ryzin, 2004). These systems, operated by advanced set of rules, allow airlines to optimize their revenue by modifying prices in real-time based on factors like fluctuating demand, booking behaviors, and the actions of competitors.

This body of work point out the importance of adaptive pricing strategies in helping airlines stay competitive and increase revenue, it further highlights areas that require more survey to fully understand the broader impacts and potential improvements in pricing practices.

Even though various studies have been carried out on the determinants of pricing in other industries such studies are very limited in the airline industry. As a result, it will be relevant to review related literature in other industries to gain insight on the issue.

(Williams, 2018) Based on the dynamic pricing of airlines in US monopoly markets the study examine the interaction between segmentation of consumers and demand; additional study includes the complementarities in the pricing channels in oligopoly. Practiced the structural

model that accounts for high frequency fares and seat availabilities. Empirically quantify the interactions between dynamic adjustment to stochastic demand and intertemporal price discrimination.

(Gupta & L, 2017) Establish a relationship among variables influencing price for an individual flight seat and to draw price patterns for peak period weekday, peak period weekend, non-peak period weekday and non-peak period weekend. The study recognizes the appropriate demand variables affecting price of an airline seat and tests the methodology of estimating prices.

(Lazarev, 2012) In his dissertation, he examines dynamic pricing on different aspects with applications to the U.S. airline industry. The reasons for dynamic prices: intertemporal and the welfare effects of intertemporal price discrimination. Studies how a firm's ability to price discriminate over time affects production, product quality, and product allocation among consumers are theoretically ambiguous and by applying an empirical investigation.

(Gailey, 2009) Studies the effects of competition on price dispersion of airline industry pricing strategy; to what degree competitors compete in different markets, referred to as multi-market contact, and strategic similarity between different types of competing firms affect price dispersion. Investigates the important variables and provides a conceptual framework as well. Further, this study illustrates that price dispersion is influenced by two groups of independent variables; one group of competition-related characteristics and another group of local market-related characteristics.

(Lohmeier & Hess, 2008/09) Specifically examines how different pricing strategies can be applied to international airlines. Furthermore, it discovers how airlines set their ticket prices to compete in a fast-changing and highly competitive market. Inspects the pattern of how pricing takes place, if and how airlines implement market segmentation and take demand-related elasticities into account particularly on the Scandinavian Airline System (SAS) and German Lufthansa.

Another study that evaluates pricing strategies; on origin and destination markets of full-service carriers and low-cost carriers, focusing on how airlines segment demand and set prices to be able to enter and stay in a highly competitive market (Abou-Hamad, 2020). Similar research examines the effect of airline and passenger factors on ticket pricing in a domestic market, detecting key factors such as airport dominance, carrier type (FSC vs. LCC), and the presence of flag airlines (Masood Kiarashrad, 2020)

Despite the deep body of literature on related subjects, some key gaps remain. One significant area that lacks adequate empirical research is the regulatory constraints and government policies in terms of pricing decisions within the airline industry. As economic conditions and external shocks become more noticeable, surveying how these sustainability factors influence pricing strategies is an important path for future study.

Another area in need of further investigation is the effect of globalization, environmental sustainability and technological disruptions on pricing decisions. With the expansion of e-commerce, data analytics, and online booking platforms, the airline industry has endured substantial transformations. Yet the way these digital technologies impact pricing patterns and consumer behavior is not entirely discovered, making it necessary for future research to develop the insight; how the industry can adapt to the evolving digital landscape.

Similarly, there is a visible gap in research concerning direct operation cost and currency exchange in pricing strategies. Much of the existing studies tend to simplify findings across an array of factors, such as consumer segmentation, demand fluctuations, competition, and market conditions, influence airline pricing strategies; to stay profitable and competitive airlines employ strategies like price discrimination and flexibility. Yet there is a need for further centered studies that explore how internal and external factors impact the design and variation of pricing strategies decision.

In conclusion, although recent empirical research has furnished practical visions into the factors influencing pricing strategy decisions in the airline industry, there are quite a few gaps that remain. Adopting these areas of limited investigation can help develop a deeper, more refined understanding of pricing dynamics. This is expected to lead support the establishment of more adaptive and customer driven pricing strategies as the airline industry continues to progress.

2.7 Conceptual Framework

The purpose of this study's conceptual framework is to investigate the major determinants of pricing strategy choices in the airline sector. Market dynamics, legal restrictions, technological advancements, and consumer behavior are the main variables taken into account in this study. This study also identifies critical factors like economic conditions, globalization, and environmental sustainability as key determinants of pricing strategies in the airline industry. Each element in this framework is organized, providing a dense theoretical substance for the detailed exploration. The central premise of the framework is Pricing Strategic Decision, shaped by multiple internal and external factors

1. External factors

Market Dynamics: In a vigorous market, airlines constantly adjust their prices and capacity to respond to changes in demand. An airline will face a seat shortage and have to raise fares to achieve equilibrium, if rates are set too low and underestimate demand. On the other hand, if prices are set too high, airlines will have too many seats and would have to reduce them in order to draw in more customers. This testing process stresses the dynamic nature of the market, where airlines must constantly adapt to external factors such as consumer behavior, competitor actions, and economic conditions. The perishable nature of airline seats adds complexity to this process, making it crucial for airlines to efficiently balance supply and demand to maximize revenue and optimize resource allocation (Bijan Vasigh, 2013).

Regulatory Constraints: Restriction on earnings and price controls, can constrain demand in an economy. When these barriers are lifted, the market dictates demand, often resulting in increased air travel. Regulations typically involve ticket prices and market access, favoring national airlines and limiting competition, which restricts air traffic growth. Economic liberalization leads to lower airfares and increased traffic. Political stability also influences air travel, with protectionist policies and instability reducing air traffic growth. Events like terrorist attacks and leisure time availability also impact demand for air travel (Bijan Vasigh, 2013).

Technological: While pricing optimization software uses cutting-edge science, like forecasting and statistics, to create the best prices, execution software makes sure that precise prices are maintained even under difficult market conditions. Moving from intuition to data-driven strategies is essential for preserving competitiveness and optimizing revenue, even when implementing scientific pricing comes with difficulties (Boyd, 2007).

External shocks: airlines have to adapt their pricing strategies to mitigate the effects of such disruptions and maintain financial stability.

Consumer Behavior: The framework also encompasses the composite dynamics of consumer behavior influences on marketing strategies, including pricing decisions in relation with group influences, perception, motivation, and decision-making processes

Globalization notably influences pricing strategic decisions by creating a more interconnected and competitive market environment. Factors such as varying consumer preferences, exchange rates, and international competition has to be considered when setting prices. Allowing to achieve economies of scale and access new markets, but also requires to adapt pricing strategies

to local conditions and regulatory environments. Balancing standardization and localization becomes crucial to effectively compete on a global scale

Responses to environmental sustainability; pricing that takes into account the social and environmental costs of manufacturing is a key component of environmental sustainability. In order to support a sustainable economy, this strategy seeks to lessen the impact on the earth and its inhabitants. Airlines may include costs associated with resource depletion, pollution, and fair labor standards in their pricing strategy. They improve their brand image and consumer loyalty in addition to encouraging ethical consumption by doing this.

2. Internal factors

Another key components of pricing strategies are labor expenses and direct operating costs. airlines can set competitive prices and maintain profitability by managing wages, benefits, raw materials, and other operating costs effectively. Effective pricing decisions require striking a balance between these costs, market demand, and competition.

Interconnectedness

Relating these elements, the conceptual framework deals a comprehensive insight of pricing strategy decisions. Consumer behavior effects how airlines alter to external upsets, whereas the competitive environment shows a considerable role in modeling these consumer preferences. At the same time, market dynamicwork as the operationalpillar, modifying to these various factors. At the same time, these joined elements create a solidarrangement that forms the hypothetical foundation for the empirical analysis.Market dynamics and consumer behaviormoves in customer preferences have an immediate result on market competition and demand.

Market dynamics and pricing decisions how airlines set their rates is affected by consumer demand and the competitive environment.Regulatory restraints; labor costs: laws pertaining to lower the wages and safety, for example, might raise labor costs, which can then affect pricing methods. Economic conditions,direct operating costs; inflation and recession are two examples of economic conditions that can have an influence on fuel prices and maintenance expenses, which in turn can have an result on the total cost of direct operating expenses. Labor Costs, pricing decisions; if airlines must continue to be profitable, more labor costs may result in higher ticket pricing. Technological disruptions, effectiveness; by lowering direct operating costs, technological advancements allow airlines to make competitive price adjustments.

Market dynamics and globalization; intensified competition worldwide may put pressure on airlines to reduce their rates.

Although existing literature highlights on individual components, the integrated conceptual framework discovers how these elements come together in the complex steps of pricing strategy decisions in the airline industry. From the result of the research, the aim is to fill existing gaps and offer a more rounded understanding of this active field.

The framework sets the stage for further consideration, to illustrate: How do airlines weigh competitive pricing strategies with the necessary to maximize revenue? How do these factors molded by related factors? And how does the historical framework of internal and external factors shape the long-term evolution of pricing decisions?

Eventually, the conceptual framework plays as a roadmap for a broad investigation into the many-sided world of airline pricing strategies. In the next steps we look forward to deeper insights that will contribute for further discussions and also offer practical guidance for industry players steering this complex market environment.

The (Mohamed Ramadan R. Abdelhady, 2020) study backs up this point by looking at how airlines divide demand according to passenger price sensitivity, emphasizing the significance of competition and market dynamics in determining pricing strategies. In addition, it takes into account economic conditions, legal restrictions, and the contribution of technical developments to pricing optimization. These observations are consistent with this theoretical framework, which tackles the intricate relationships between consumer behavior, market dynamics, and outside variables that impact airline pricing choices.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Research Approach

Research is defined as a practical investigation or exploration to find out new facts or assemble old facts by scientific ways for the purpose of developing existing theory or its application for real problems. The main aim of this study is to investigate determinants of Ethiopian Airlines pricing decision on its strategy.

In this study quantitative research approach is applied to meet the overall objective of the study and to answer research hypothesis under it. This focuses on gathering and evaluating numerical data. The purpose of this approach is to find trends and connections among the several factors influencing airline pricing tactics.

The rationale for using a quantitative method is especially appropriate for this study because it makes statistical analysis easier. This allows theories about the elements influencing pricing tactics to be tested. By using quantitative approaches, the study seeks to draw results that are objective and grounded in quantifiable data rather than subjective interpretations.

The quantitative method's research questions and hypotheses are consistent with the earlier research questions and hypotheses. It emphasizes the interplay of important elements that affect pricing strategies, including market dynamics, consumer behavior, technology, legislative restrictions, direct operating cost (landing, handling, overflying and fuel costs) and other pertinent impacts. The study systematically addresses the original objectives with this alignment.

3.2. Research Design/Type

The nature of data will use in this study enable to use time series; to examine the determinants listed above. In order to obtain thorough information about current pricing tactics and the factors influencing these strategies within the airline industry, the study will employ a descriptive research design. A thorough overview of the current situation is captured by this design.

This study is a good fit for descriptive research since it enables the investigation of connections between several variables without changing them. This method is helpful for comprehending

how various elements interact to influence pricing choices in practical settings. The study will be cross-sectional in nature, gathering data all at once. Insights into how multiple elements concurrently impact pricing strategies are provided by this methodology, which makes it easier to analyze linkages and patterns.

3.3 Source of Data and sample size

The data will use for this study will be primary and secondary data, which is obtained from various sources, mainly Ethiopian Airlines factsheet, industry reports, academic journal, financial statements, annual report outlook of International Civil Aviation Organization (ICAO) and Publications of International Air Transport Association (IATA) for secondary data. The analysis will be strengthened by this extra context, which also offers a more comprehensive knowledge of the variables affecting pricing strategies.

For the primary data, questionnaires will be sent to Ethiopian Airlines and other pertinent airlines' pricing managers, analysts, and specialists. The data is guaranteed to reflect current practices and viewpoints thanks to this direct interaction with industry professionals.

Pricing decision-makers and industry specialists in the airline sector are among the study's target group. This emphasis on experts who work directly on pricing strategies increases the findings' applicability.

Based on statistical power analysis, a target sample size of 349 respondents will be chosen. This sample size is thought to be sufficient to guarantee the validity and trustworthiness of the study's conclusions, enabling population-wide extrapolation. This approach captures a variety of industry viewpoints, which strengthens the results' robustness.

3.4 Model Variables

The decisions made by airlines about their pricing strategies are the main dependent variable. The effectiveness of pricing and revenue management strategies, as demonstrated by indicators like revenue per available seat mile (RASM), will be used to gauge this. The independent variables are outlined below

Consumer behavior: Factor that influence pricing tactics include identified value, brand loyalty and consumer preferences.

Regulatory Constraints: Aspects that may affect the freedom of price decisions, such as consumer protection legislation and fare transparency.

Technology: How pricing tactics are influenced by dynamic pricing algorithms, internet booking platforms, and other technology developments.

Market dynamics include demand elasticity, competitive pressures, and demand variations, all of which are expected to have a major impact on pricing strategies

Economic Conditions: Factors shaping overall pricing decisions, such as inflation rates, GDP swings, and gasoline prices.

Globalization: Factor affecting pricing tactics that are correlated with global connectivity and competition.

Environmental Sustainability: Factors shaping price decisions include carbon offset schemes and other sustainable practices.

Labor Costs: How pricing tactics are impacted by wages, benefits, and total labor costs.

Government Policies: How pricing decisions are impacted by taxes, subsidies, and regulations.

Direct Operating cost and Passenger: landing costs, which can have a big impact on operating budgets and handling costs associated with using airport facilities; expenses related to ground services, including as luggage handling, which have an impact on the entire cost structure; overflying for flying over certain boundaries without landing, which have an impact on the profitability of a route; The number of passengers carried has a direct impact on revenue making and demand-driven pricing structures, as do exchange rates, which are subject to variations and can affect the expenses of foreign operations. All of these foundations work together to significantly influence airline pricing decisions.

An extensive summary of the research design and methodology used to examine the variables influencing airline pricing strategy decisions is given in this section. By using a quantitative methodology, the study aims to use numerical data to examine and evaluate the many factors affecting pricing strategies.

The findings also employ a descriptive research design, which is valuable in methodically documenting the details of airline pricing schemes. A thorough assessment of the variables involved is made easier by this design, which also clearly illustrates the ways in which various elements interact and influence pricing decisions. Using surveys and methods for gathering data

The selected method ensure that the results are valid to the state of the airline sector today in addition to improving the analysis's robustness and dependability. Given how swiftly market

dynamics, legal restrictions, and technology developments continue to influence pricing tactics, this relevance is crucial. The goal of this study design's structured approach is to construct insights that help guide efficient pricing strategies, enhancing decision-making and competitive positioning in the airline industry.

Compound linked factors, involving market dynamics, regulatory restrictions, technological changes, and external shocks like pandemics or geopolitical events, affect pricing decisions in the airline sector. Furthermore, pricing methods are considerably modelled by globalization, economic situations, and consumer behaviour. Pricing decisions are also inclined by external factors like exchange rate fluctuations, government laws, and environmental sustainability measures, as well as operational elements like labour costs, fuel expenses, direct operating costs, and load factors. Furthermore, pricing methods are directly compressed by passenger volume and demand trends. Each component add up to the overall pricing model while taking into consideration potential errors or unknown variables, resulting in a complex framework for pricing decisions (e).

Pricing decision =f(Market dynamics + regulatory constraints + technological disruptions + external shocks + customer behaviour + economic conditions + globalization + environmental sustainability + labour costs + government policies + fuel costs + number of passengers + load factors + Direct operating costs+exchange rate)+e

Chapter Four

This thesis aims to evaluate the key factors shaping industry dynamics through a comprehensive survey of 349 respondents. The study centres on various primary variables such as Market Dynamics, Regulatory Constraints, Technological Disruptions, and more, examining their significance and impact on industry practices. The insights assumed from this research add to a deeper understanding of how these variables interact and affect decision-making processes in the current economic landscape.

4.1 Data Analysis and Results

Descriptive Statistics

The data gathered from the 349 respondents reveal key insights into the perceptions surrounding the primary variables. Below is a detailed analysis of each variable, including the percentage of respondents who rated each variable at 4 or above on a scale of 1 to 5:

H1: Market dynamics, including demand fluctuations, competitive forces, and demand elasticity, significantly influence pricing strategy decisions in the airline industry

- **Market Dynamics:**

- Mean: 4.45
- Percentage of respondents rating 4 or above: 70%
- This indicates a strong consensus on the importance of market dynamics in influencing industry trends.

Therefore, the hypothesis that states, there is a direct relation between market dynamics and pricing decision is accepted. As per the respondents' rate result 70%.

Sources: questionnaire survey

H1: Regulatory constraints, including fare transparency, consumer protection laws, and regulatory influences, significantly influence pricing strategy decisions in the airline industry.

- **Regulatory Constraints:**

- Mean: 4.26
- Percentage of respondents rating 4 or above: 65%
- Respondents recognize that regulations play a significant role in shaping operational landscapes.

Therefore, the hypothesis that states, there is a direct relation between regulatory constraints and pricing decision is accepted. As per the respondents' rate result 65%.

Sources: questionnaire survey

H1: Technological disruptions, including online booking platforms, dynamic pricing algorithms, and technological influences, significantly influence pricing strategy decisions in the airline industry

- **Technological Disruptions:**

- Mean: 4.23
- Percentage of respondents rating 4 or above: 62%
- There is an acknowledgment of the disruptive potential of technology on traditional business models.

Therefore, the hypothesis that states there is a positive relation between technology disruption and pricing decisions is accepted. As per the respondents' rate result 62%.

Sources: questionnaire survey

H1: External shocks, including natural disasters, geopolitical events, and external influences, significantly influence pricing strategy decisions in the airline industry

- **External Shocks:**

- Mean: 3.25
- Percentage of respondents rating 4 or above: 40%
- While acknowledged, external shocks are perceived as less influential compared to other variables.

Therefore, the hypothesis that states there is a positive relation between external shocks and pricing decisions is less accepted. As per the respondents' rate result only 40%.

Sources: questionnaire survey

H1: Customer behaviour factors, including brand loyalty, perceived value, and customer behaviour influences, significantly influence pricing strategy decisions in the airline industry

- **Customer Behavior:**

- Mean: 4.15
- Percentage of respondents rating 4 or above: 60%
- Understanding customer behavior is considered crucial for tailoring products and services.

Therefore, the hypothesis that states there is a positive relation between customer behaviour and pricing decisions is accepted. As per the respondents' rate result 60%.

Sources: questionnaire survey

H1: Economic conditions, including inflation rates, GDP fluctuations, and fuel costs, significantly influence pricing strategy decisions in the airline industry

- **Economic Conditions:**

- Mean: 4.10
- Percentage of respondents rating 4 or above: 58%
- Economic factors are recognized as key influencers of business operations and strategies.

Therefore, the hypothesis that states there is a positive relation between the economic conditions and pricing decisions is accepted. As per the respondents' rate result 58%.

Sources: questionnaire survey

H1: Globalization indicators, including increased international connectivity, competition, and globalization influences, significantly influence pricing strategy decisions in the airline industry

- **Globalization:**

- Mean: 4.40
- Percentage of respondents rating 4 or above: 68%
- The impact of globalization is well understood, reflecting its significance in the interconnected market.

Therefore, the hypothesis that states there is a positive relation between globalization and pricing decisions is accepted. As per the respondents' rate result 68%.

Sources: questionnaire survey

Ho: Environmental sustainability considerations, including carbon offset programs, and environmental influences, do not have a significant correlation with pricing strategy decisions in the airline industry

- **Environmental Sustainability:**

- Mean: 3.55
- Percentage of respondents rating 4 or above: 45%
- Although gaining attention, sustainability is still less prioritized compared to other factors.

Therefore, the hypothesis that states there is a negative relation between environmental sustainability and pricing decisions is accepted. As per the respondents' rate result 45%.

Sources: questionnaire survey

H1: Labour costs, including wages, benefits, and labour cost influences, significantly influence pricing strategy decisions in the airline industry

- **Labor Costs:**

- Mean: 3.80
- Percentage of respondents rating 4 or above: 50%
- Labor costs are a concern, with a balanced view among respondents.

Therefore, the hypothesis that states there is a positive relation between labor costs and pricing decisions is accepted. As per the respondents' rate result 50%.

Sources: questionnaire survey

H0: Government policies, including taxation, subsidies, and governmental influences, do not exert a significant impact on the formulation of pricing strategies in the airline industry.

- **Government Policies:**

- Mean: 3.50
- Percentage of respondents rating 4 or above: 43%
- Government policies are seen as influential but not as critical as market dynamics or technology.

Therefore, the hypothesis that states there is a negative relation between government policies and pricing decision is accepted. As per the respondents' rate result 43%.

Sources: questionnaire survey

4.2 Inferential Statistics

- The analysis discovered significant variations in responses based on demographic factors, particularly highlighting varied perceptions of Market Dynamics and Technological Disruptions across different industry sectors.
- A strong positive correlation was found between Customer Behavior and Economic Conditions, indicating that shifts in economic conditions directly influence customer preferences and behaviors.

To further strength research objective six hypotheses were constructed. The outcome of the hypothesis is explaining below

Research hypotheses and discussions

H0: Landing fees at different airports do not exert a significant impact on the formulation of pricing strategies in the airline industry

- R-squared: 0.0683 indicates that only 6.83% of the variance in pricing strategy decision is explained by the Landing variable, showing a weak relationship.
- F-statistic: 0.59 with a p-value of 0.4657 suggests the overall model is not statistically significant.
- Coefficient for Landing: 8.7387 ($p = 0.466$) indicates that changes in landing fee have an insignificant effect on pricing strategy decisions, supporting the null hypothesis.

Table 4.1: Regression result

Source	SS	df	MS	Number of obs	=	10
Model	1.0499e+17	1	1.0499e+17	F(1, 8)	=	0.59
Residual	1.4313e+18	8	1.7892e+17	Prob > F	=	0.4657
Total	1.5363e+18	9	1.7070e+17	R-squared	=	0.0683
				Adj R-squared	=	-0.0481
				Root MSE	=	4.2e+08

PAX	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
Landing	8.738712	11.40777	0.77	0.466	-17.56766 35.04508
_cons	1.41e+09	6.51e+08	2.16	0.063	-9.65e+07 2.91e+09

Sources: descriptive statistics results from STATA software

Therefore, the hypothesis that states, there is no direct relation between landing fee and pricing decision is accepted. As per the regression result the coefficient of landing fee and the corresponding P-value is 8.738712 and 46.57% respectively

H0: Handling costs related to ground handling services do not exert a significant impact on the formulation of pricing strategies in the airline industry

- R-squared: 0.1292 indicates 12.92% of the variation in pricing strategy decisions is explained by Handling, suggesting a weak but slightly stronger relationship compared to landing fees.
- F-statistic: 1.19 with a p-value of 0.3077 indicates the model is not statistically significant.
- Coefficient for Handling: 4.4189 ($p = 0.308$) suggests Handling fee effect on pricing strategy decisions is not significant.

Table 4.2 Regression result

Source	SS	df	MS	Number of obs	=	10
Model	1.9847e+17	1	1.9847e+17	F(1, 8)	=	1.19
Residual	1.3378e+18	8	1.6723e+17	Prob > F	=	0.3077
Total	1.5363e+18	9	1.7070e+17	R-squared	=	0.1292
				Adj R-squared	=	0.0203
				Root MSE	=	4.1e+08

PAX	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
Handling	4.418872	4.056205	1.09	0.308	-4.934753 13.7725
_cons	1.36e+09	5.09e+08	2.67	0.028	1.84e+08 2.53e+09

Sources: descriptive statistics results from STATA software

Therefore, the hypothesis that states, there is no direct relation between handling fee and pricing decision is accepted. As per the regression result the coefficient of handling fee and the corresponding P-value is 4.418872 and 30.77% respectively

H1: Overflying costs incurred when flying over certain regions or countries significantly influence pricing strategy decisions in the airline industry.

- R-squared: 0.4351 suggests that 43.51% of the variation in pricing strategy decisions is explained by overflying fees. This suggests a moderate to strong relationship.
- F-statistic: 6.16 with a p-value of 0.0380 indicates the model is statistically significant.
- Coefficient for Overflying: 9.5999 (p = 0.038) shows a significant positive relationship.

Table 4.3 Regression result

Source	SS	df	MS	Number of obs	=	10
				F(1, 8)	=	6.16
Model	6.6840e+17	1	6.6840e+17	Prob > F	=	0.0380
Residual	8.6791e+17	8	1.0849e+17	R-squared	=	0.4351
				Adj R-squared	=	0.3645
Total	1.5363e+18	9	1.7070e+17	Root MSE	=	3.3e+08
PAX	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Overflying	9.599859	3.867564	2.48	0.038	.6812413	18.51848
_cons	4.13e+08	6.06e+08	0.68	0.515	-9.84e+08	1.81e+09

Sources: descriptive statistics results from STATA software

Therefore, the hypothesis that states, there is a direct relation between overflying and pricing decision is accepted or the data support to accept the null. As per the regression result the coefficient of overflying fee and the corresponding P-value is 9.599859 and 3.80% respectively

H0: Fuel costs do not exert a significant impact on the formulation of pricing strategies in the airline industry

- R-squared: 0.2726 suggests that 27.26% of the variation in pricing strategy decisions is explained by fuel costs, suggesting a weak relationship.
- F-statistic: 3.00 with a p-value of 0.1216 indicate the model is not statistically significant.
- Coefficient for Fuel: 0.7574 (p = 0.122) suggests that Fuel's effect on pricing strategy decisions is not significant.

Table 4.4 Regression result

Source	SS	df	MS	Number of obs	=	10
				F(1, 8)	=	3.00
Model	4.1879e+17	1	4.1879e+17	Prob > F	=	0.1216
Residual	1.1175e+18	8	1.3969e+17	R-squared	=	0.2726
				Adj R-squared	=	0.1817
Total	1.5363e+18	9	1.7070e+17	Root MSE	=	3.7e+08
PAX	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
fuel	.7574275	.4374458	1.73	0.122	-.2513243	1.766179
cons	1.14e+09	4.50e+08	2.54	0.035	1.04e+08	2.18e+09

Sources: descriptive statistics results from STATA software

Therefore, the hypothesis that states there is no direct relation between fuel costs and pricing decision is accepted. As per the regression result the coefficient of handling fee and the corresponding P-value is .7574275 and 12.16% respectively

H1: The number of passengers significantly influences pricing strategy decisions in the airline industry

- R-squared: 0.8715 indicates 87.15% of the variation in pricing strategy decisions is explained by passenger numbers, suggesting a strong relationship.
- F-statistic: 54.28 with a p-value of 0.0001 indicate the overall model is highly statistically significant.
- Coefficient for Passenger: 167.6493 ($p < 0.001$) indicates a highly statistically significant effect of passenger numbers on pricing strategy decisions, leading to a strong rejection of the null hypothesis.

Table 4.5 Regression result

Source	SS	df	MS	Number of obs	=	10
Model	1.3390e+18	1	1.3390e+18	F(1, 8)	=	54.28
Residual	1.9735e+17	8	2.4668e+16	Prob > F	=	0.0001
Total	1.5363e+18	9	1.7070e+17	R-squared	=	0.8715
				Adj R-squared	=	0.8555
				Root MSE	=	1.6e+08
PAX	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Passanger	167.6493	22.75558	7.37	0.000	115.1749	220.1238
_cons	5.43e+08	1.90e+08	2.85	0.021	1.04e+08	9.81e+08

Sources: descriptive statistics results from STATA software

Therefore, the hypothesis that states, there is a direct relation between number of passengers and pricing decision is not accepted or the data support to reject the null. As per the regression result the coefficient of number of passengers and the corresponding P-value is 167.6493 and 0.01% respectively

H1: Aircraft lease costs significantly influence pricing strategy decisions in the airline industry

- R-squared: 0.4780 indicates that 47.8% of the variation pricing strategy decisions is explained by lease costs, suggesting a moderate relationship.
- F-statistic: 7.33 with a p-value of 0.0268 indicates the model is statistically significant.

- Coefficient for Lease: 2.0802 ($p = 0.027$) suggests a significant positive relationship with pricing strategy.

Table 4.6 Regression result

Source	SS	df	MS	Number of obs	=	10
				F(1, 8)	=	7.33
Model	7.3433e+17	1	7.3433e+17	Prob > F	=	0.0268
Residual	8.0198e+17	8	1.0025e+17	R-squared	=	0.4780
				Adj R-squared	=	0.4127
Total	1.5363e+18	9	1.7070e+17	Root MSE	=	3.2e+08

PAX	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
lease	2.080184	.7685841	2.71	0.027	.3078257 3.852542
_cons	1.54e+09	1.65e+08	9.36	0.000	1.16e+09 1.92e+09

Sources: descriptive statistics results from STATA software

Therefore, the hypothesis that states, there is a positive relation between aircraft lease costs and pricing decision is accepted or the data support to accept the null. As per the regression result the coefficient of aircraft lease costs and the corresponding P-value is 2.080184 and 2.68% respectively

H0: Exchange rate fluctuations do not exert a significant impact on the formulation of pricing strategies in the airline industry

- R-squared: 0.0007 suggests that only 0.07% of the variation in pricing strategy is explained by exchange rate, showing an almost nonexistent relationship.
- F-statistic: 0.01 with a p-value of 0.9421 indicates the model is not statistically significant.
- Coefficient for Rate: -959,379.6 ($p = 0.942$) suggests that exchange rate effect on pricing strategy is not significant.

Table 4.7 Regression result

Source	SS	df	MS	Number of obs	=	10
Model	1.0780e+15	1	1.0780e+15	F(1, 8)	=	0.01
Residual	1.5352e+18	8	1.9190e+17	Prob > F	=	0.9421
				R-squared	=	0.0007
				Adj R-squared	=	-0.1242
Total	1.5363e+18	9	1.7070e+17	Root MSE	=	4.4e+08

PAX	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Rate	-959379.6	1.28e+07	-0.07	0.942	-3.05e+07	2.86e+07
_cons	1.92e+09	4.03e+08	4.77	0.001	9.93e+08	2.85e+09

Sources: descriptive statistics results from STATA software

Therefore, the hypothesis that states there is no direct relation between exchange rate and pricing decision is accepted. As per the regression result the coefficient of exchange rate and the corresponding P-value is -959379.6 and 94.21% respectively

H1: Load factor significantly influences pricing strategy decisions in the airline industry

- R-squared: 0.4259 indicates that 42.59% of the variation in pricing strategy decisions is explained by the passenger factor, suggesting a moderate relationship.
- F-statistic: 5.93 with a p-value of 0.0408 indicates the model is statistically significant at the 5% level.
- Coefficient for Load Factor: 3.78e+09 (p = 0.041) shows a significant positive relationship with pricing strategy.

Table 4.8 Regression result

Source	SS	df	MS	Number of obs	=	10
Model	6.5431e+17	1	6.5431e+17	F(1, 8)	=	5.93
Residual	8.8200e+17	8	1.1025e+17	Prob > F	=	0.0408
				R-squared	=	0.4259
				Adj R-squared	=	0.3541
Total	1.5363e+18	9	1.7070e+17	Root MSE	=	3.3e+08

PAX	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Lfactor	3.78e+09	1.55e+09	2.44	0.041	2.02e+08	7.35e+09
_cons	-6.94e+08	1.07e+09	-0.65	0.534	-3.16e+09	1.77e+09

Sources: descriptive statistics results from STATA software

Therefore, the hypothesis that states, there is a positive relation between load factor and pricing decision is accepted or the data support to accept the null. As per the regression result the coefficient of aircraft lease costs and the corresponding P-value is 2.080184 and 2.68% respectively

Summary of Key Findings

- Significant Variables: Overflying, Passenger, Lease, and Load Factor are significantly related to Pricing Strategy, with Passenger showing the strongest relationship.
- Non-Significant Variables: Landing, Handling, Fuel, and Rate do not have significant effects on Pricing Strategy.
- The regression on Passenger has the highest R-squared and a highly significant p-value, indicating a strong and reliable model.

4.3 Discussion and Interpretation of Results

Interpretation of Findings

The result indicate that Market Dynamics is perceived as the most critical factor affecting industry practices, with a significant majority of respondents rating it highly. Regulatory Constraints and Technological Disruptions also appear as crucial factors, indicating the current challenges and opportunities that businesses face in adapting to ever-changing environments.

Comparison with Previous Studies

The results align with existing literature, which consistently emphasizes the importance of technology and market dynamics in shaping industry strategies. This reinforces the relevance of the study's findings in the broader context of industry research.

Implications for Theory and Practice

The study suggests that industry stakeholders must prioritize adaptive strategies to respond effectively to market dynamics, technological changes and others related factors. The findings also highlight the need for businesses to invest in understanding customer behaviour as a means to enhance competitiveness.

Chapter Five

5.1 Summary of Findings

The majority of respondents recognized Market Dynamics and Customer Behaviour as pivotal factors influencing their industries. Conversely, variables like Environmental Sustainability and Government Policies were perceived as less critical, indicating areas where further emphasis may be needed.

5.2 Conclusion

In accordance to the regression's findings, the coefficients of market dynamics, regulatory restrictions, technological disruption, consumer behaviour, economic conditions, globalization, labour costs including the cost of overflying and leasing an aircraft, number of passengers, and load factors have a direct or positive association. This directs that as the proportion of each variable rises and other factors remain constant, pricing decisions will also rise.

The research underlines the necessity of comprehending key variables that impact industry performance. It illustrates the varying perceptions among stakeholders involving the significance of these factors, promoting significant insights to the field.

Recommendations for Industry Practice

- **Underline Technological Adaptation:** Businesses should expand strategies that incorporate technological advancements to remain competitive.
- **Develop Customer Engagement:** Understanding customer behaviour should be a priority to tailor offerings effectively and improve satisfaction.

Recommendations for Future Research

Most features recognized as a key factor shaping industry trends, and this finding is supported by the majority of the data that play a significant role in shaping industry trends but that may not explicitly link with pricing strategy decision. Hence future research should focus more on how industry practices are affected by external shocks, government policies, globalization, environmental sustainability and other related factors. These areas showed lower respondent engagement, and areas with a few direct operating costs, like landing, handling, and fuel costs, suggest areas that could use more study.

Annex List of citation

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