

Some Basic Facts About AIRLINE TICKET PRICING

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

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

He even compares buying these tickets to stealing music, and quotes Rav Yisroel Belsky's *p'sak* that such a thing is absolutely *assur*, and you must feel that it's wrong, and if you don't, you should seek help from someone. Amazingly, though, he neglects to mention that Rav Belsky himself said that these tickets are completely *muttar* to use. To equate these situations is so preposterous, it is mindboggling.

I'm shocked by the amount of *motzie sheim ra* and lack of *dan lekaf zechus* that have been spread by people who have not asked me for my side of the story or even the basic facts of the situation.

All I will attempt to do here is lay out some basic information that consumers can present to their *rov*, so that they will both have a fuller understanding of this scenario. Again, I am not writing any of this from a *halachic* perspective. I will just go into the basic technical details.

1. FUEL SURCHARGE

The El Al ticket glitch was a regularly priced ticket that did not include a fuel surcharge. There was no mistake in the ticket price, only in the collection of a fuel surcharge. This is an additional fee on top of the cost of the airfare. This is only charged by some airlines to avoid paying some government taxes on the actual airfare and to make their tickets look artificially cheaper in some countries. Whether the concept of *ona'ah* applies to a surcharge would be a question worth looking into. However, it is clear that a fuel surcharge is not an essential part of a ticket.

It's worth noting that when you use El Al miles for a "free" ticket, they tack on a massive fuel surcharge, but if you use American Airline mileage to book an El Al award ticket, they do *not* collect any fuel surcharge, so we see that the concept of flying on

El Al without paying a fuel surcharge already exists.

2. LOSSES IN A FIXED-COST BUSINESS

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

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

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

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

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

Are we not to buy any airline tick-

ets in the future if the sale is 16.7% off of what you would expect the airfare to be?

4. EL AL'S ACTIONS

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



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

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

Surveys have showed that most people have switched to the nonstop flight. El Al made these flights available with capacity controls put into place, with flights expected to sell out not being offered at all. With this system in place, there is practically no marginal cost of flying someone, and they were able to collect \$150 per person on top of the \$335-\$535 that people paid for the tickets in the first place. The \$485-\$685 is actually a nice profit on customers, many of whom would otherwise not have flown to Israel this winter, let alone nonstop on El Al as opposed to with any other airline or with miles.

Why doesn't El Al always charge \$485-\$685? Because there are lots of

people willing to pay far more than that to fly nonstop, but those people aren't the ones who were interested in this deal at all, and they'll still be buying full-fare tickets. If El Al always had this price for nonstop tickets, who would ever pay the big bucks? Basic economics shows that it's better for El Al to normally charge \$1,000-\$1,500 to fly nonstop and have a plane 80% full than it is to charge \$580 and fill a plane completely. However, it's even better than that for El Al to charge an average of \$585 and fill 20% of a plane while still charging \$1,000-\$1,500 to the folks who normally do pay extra to fly nonstop and fill the remaining 80% of the plane. This is, in fact, an ideal situation for them and quite brilliant of their CEO to devise and offer.

If you are feeling guilty about buying the tickets, then it would be better for El Al if you pay the \$150 upgrade fee rather than cancelling altogether and not flying to Israel this winter. The revenue from the original tickets plus the upgrade revenue paid for a seat on a capacity controlled flight for a seat that would likely have gone unoccupied is all positive for El Al's bottom line, not the opposite.

Airlines have sales and pricing rules that restrict people who normally pay full fare from getting a dirt cheap ticket, as they need a mix of people paying full fares *and* people paying dirt cheap to turn a profit. With either of those types of travelers alone (having only leisure or only business passengers), they could not make a profit. That is a fact and is the reason airline pricing is so crazy and changes by the minute. And that is why a one-way ticket from New York to Cleveland can cost anywhere from \$25 to \$1,400. In my opinion, as someone involved in airline pricing

for many years, there is simply no fixed market rate for airline tickets.

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

6. THE THIRD PARTY

El Al has publicly stated that it was a third party contractor who made the mistake when they filed the airfare. El Al will likely pursue them for liabilities, if there are any. To assume that El Al will be "losing millions upon millions of dollars" from this airfare sale is, with all due respect, not fully understanding the airline industry and how they price their tickets.

7. THE BOTTOM LINE

Rav Yisroel Belsky has *parkened* that there is no *halachic* problem with these tickets.

Rav Chaim Kohn of the Business Halacha Institute has said that "It's a strictly regulated industry, and it's their obligation to bear the responsibility. The price they offer is their obligation - from a pure *halachic* point of view, it's their problem."

Halachically, this is not a question according to them. My argument is that even *hashkafically*, there isn't a problem with these tickets. I'd love to see El Al's bottom line after their typically off-peak winter travel season. I'd wager that it will actually be better than otherwise forecast due to the fuller planes.

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