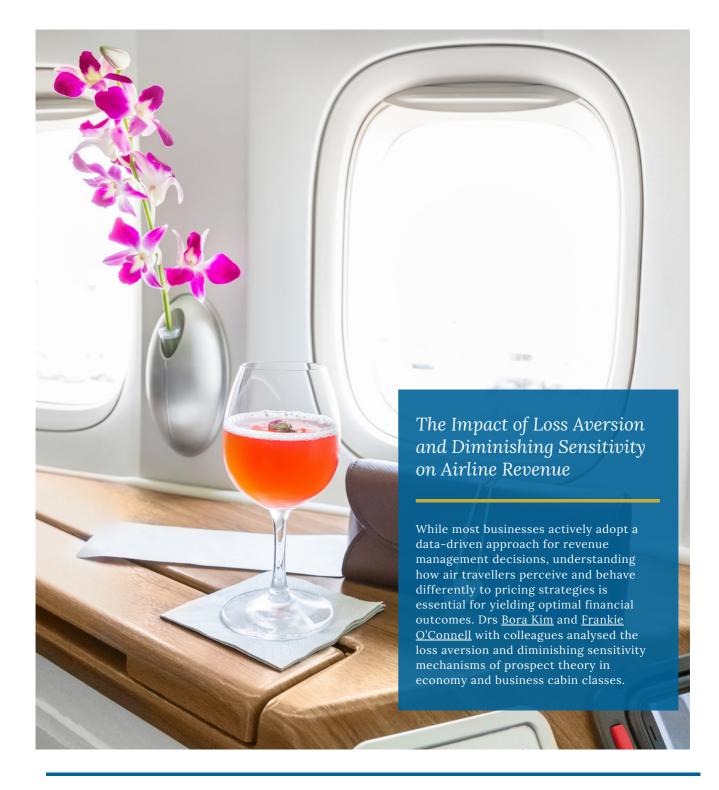
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The Impact of Loss Aversion and Diminishing Sensitivity on Airline Revenue: Price Sensitivity in Cabin Classes

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Affecting consumers' travel intention and behaviour in addition to the global financial crisis, the COVID-19 has created a more competitive environment where airline companies need to develop and implement sophisticated revenue management practices to remain relevant and competitive in the market post-pandemic. The main purpose of this study is to investigate the effect of loss aversion and diminishing sensitivity on airline revenue and the moderating role of product and consumer characteristics that are reflected in cabin class. The results show that air travellers encode lower-than-expected airfares as gains and obtain them, positively contributing to airline revenue while they register higher-than-expected tickets as losses and avoid them, imposing negative effect on airline revenue.



When the effect of loss-coded and gain-coded tickets were compared, the extent to which passengers avoid losses (vs. welcome gains) had greater impact on revenue, supporting the loss aversion mechanism in the airline revenue for business cabin class. This phenomenon is manifested differently in each cabin class due to different reference points on which passengers of each cabin class base their evaluation and different sensitivity to the quality of the in-flight services. This study contributes to the further refinement of prospect theory by showing that the loss aversion and diminishing sensitivity mechanisms manifest differently in each cabin class.

Further Reading:

Nicolau, J. L., Shin, H., Kim, B., & O'Connell, J. F. (2022). The impact of loss aversion and diminishing sensitivity on airline revenue: Price sensitivity in cabin classes. *Journal of travel research* Link: <u>bit.ly/3Q1mO0o</u>