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BEYOND THE FARE

The Economics of Travel

Airline Pricing, Revenue Optimisation and Institutional Procurement

AIRLINE PRICING | **INFORMATION ASYMMETRY** | **TRAVEL PROCUREMENT**

EVIDENCE.
INSIGHT.
BETTER ECONOMIC DECISIONS.

JOSEPH COX
Managing Partner
Joseph Cox & Associates Limited

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Beyond the Fare

The Economics of Travel

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Joseph Cox
Managing Partner, Joseph Cox & Associates Limited
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Executive Summary

Airline pricing has evolved into a sophisticated system of revenue optimisation in which advertised fares increasingly represent only part of the economic cost of travel. Dynamic pricing, differentiated ticket conditions, ancillary charges and data-intensive distribution systems enable airlines to segment demand and maximise returns from available capacity. The emergence of surveillance pricing, through which personal and behavioural information can be used to estimate individual willingness to pay, introduces a further dimension to the information asymmetry between sellers and purchasers. Although these practices differ in their mechanisms and prevalence, they underscore the growing sophistication of airline commerce and the corresponding challenges confronting consumers and institutional purchasers.

For Caribbean economies, these developments intersect with thin routes, limited frequencies, geographic fragmentation and seasonal demand. This Note examines the economics of airline revenue optimisation and argues that organisations undertaking recurring travel should evaluate professional travel management through three potential benefits: preferential commercial arrangements, purchasing and information efficiencies, and administrative economies. For governments, the proposition also concerns public financial management, especially where centralised travel authorisation coexists with fragmented purchasing. The appropriate institutional response must nevertheless reflect organisational scale, specialist skills, administrative capacity and political economy constraints.

Key Findings

1. **Fare availability is not seat availability.** Airline revenue-management systems control access to different fare categories according to anticipated demand and remaining inventory. Consequently, an aircraft may have unsold seats while lower-priced fares are unavailable. This distinction is particularly consequential on Caribbean routes characterised by limited frequencies, seasonal demand and restricted alternatives.

2. **Ancillary revenues complicate price comparisons and aviation taxation.** In 2025, US airlines collected US$7.4 billion in baggage fees, equivalent to 2.9% of their US$252.6 billion operating revenues. Qualifying separately charged baggage fees fall outside the 7.5% US federal excise tax on domestic airfares. Across CARICOM, separately charged baggage fees similarly fall outside taxes assessed on basic airfares, allowing additional airline revenue without corresponding increases in airfare-based taxation.

3. **Fragmented institutional purchasing can conceal avoidable expenditure**. Professional travel procurement offers three distinct sources of economic benefit: preferential commercial arrangements, improved purchasing and information efficiency, and

administrative economies. These benefits extend beyond negotiated discounts to include better itinerary comparisons, reduced transaction costs and recovery of unused ticket credits. Their value depends on realised net benefits rather than purchasing volume alone.

4. **Effective travel procurement requires capability, not necessarily a dedicated unit.** Established reservation and distribution systems, including Amadeus and Sabre, can support more systematic purchasing, expenditure monitoring and booking controls. However, technology must be accompanied by specialist expertise and appropriate institutional procedures. Smaller organisations may obtain these capabilities through existing procurement functions or external travel-management providers rather than creating separate administrative structures.

5. **The illustrative procurement model demonstrates the importance of net savings.** On a hypothetical US$1 million annual travel budget, negotiated supplier arrangements, booking controls and unused-ticket recovery generate US$172,000 in gross benefits. After US$30,000 in incremental management costs, the model produces US$142,000 in net benefits, equivalent to 14.2% of the baseline budget. These results are illustrative, not empirically estimated savings.

6. **Centralised travel authorisation does not establish purchasing efficiency.** Governments may exercise central control over whether official travel is approved while leaving ticketing, accommodation procurement and expenditure information fragmented across institutions. The resulting policy challenge is to strengthen professional purchasing capability without undermining legitimate approval authority, operational flexibility or public accountability.

1. Airline Pricing and the Economics of Information

The conventional understanding of an airline ticket as a standardised transportation service is increasingly inadequate for evaluating the economic cost of travel. Airlines frequently separate basic transportation from checked baggage, seat selection, flexibility and other amenities. Consequently, the advertised fare may bear only a partial relationship to expenditure ultimately incurred. Two itineraries serving the same destination can differ materially in ancillary charges, connection risks, cancellation provisions and ground transportation requirements. The economically relevant comparison is therefore between total journey costs, adjusted for conditions and risks, rather than between initial fares alone.

Airlines and passengers do not possess equivalent information. Carriers have detailed booking histories, demand forecasts, inventory positions and revenue-management systems, while purchasers generally observe only the fares and conditions presented through available channels. This asymmetry is not inherently evidence of unfair conduct; it partly reflects the different commercial roles of sellers and buyers. Nevertheless, it can influence how economic benefits are distributed, particularly where purchasers lack the expertise or systems needed to compare offers comprehensively.

Caribbean air transport markets introduce additional complications. Geographic fragmentation creates substantial dependence on aviation, while relatively small markets and limited flight frequencies constrain substitution on some routes. Travellers whose schedules are determined by business commitments, official engagements or family obligations may be less price-responsive than leisure passengers with flexible itineraries. These conditions become pronounced during Christmas and New Year, when outbound travel by Caribbean residents coincides with diaspora arrivals and stronger winter tourism demand. Capacity cannot necessarily expand correspondingly, allowing fares to reflect the economic value of scarce seats to travellers with different requirements.

2. Revenue Optimisation, Ancillary Charges and Aviation Taxation

Airlines operate with perishable inventory: an unsold seat loses its revenue-generating potential once the aircraft departs. Revenue-management systems balance the benefit of selling capacity immediately against the prospect of obtaining higher returns from subsequent purchasers. Carriers manage access to fare categories according to demand forecasts, booking patterns, remaining capacity and time to departure. The objective is not necessarily to fill every seat as early as possible, but to maximise expected revenue from available inventory.

This incorporates elements of price discrimination, although conventional dynamic pricing need not identify individual customers. Passengers accepting restrictive conditions or inconvenient schedules may obtain lower fares, while those requiring flexibility or travelling at peak periods may pay substantially more. Differentiation can improve utilisation and expand access for price-sensitive travellers; where competition is limited, however, it can also enable airlines to capture more of the economic value passengers attach to a journey. Physical seat availability should not be confused with availability at a particular fare. An aircraft with unsold capacity may have few seats offered in its lowest categories, while agency and tour-operator allocations under commercial agreements can further affect inventory displayed through other channels.

Ancillary revenues complement this strategy by unbundling services historically included in ticket prices. Passengers without checked baggage may benefit from a lower entry price, while those needing multiple bags, preferred seats or flexibility may incur substantially higher expenditure. According to the US Bureau of Transportation Statistics, American airlines collected approximately US$7.4 billion in baggage fees in 2025, equivalent to about 2.9% of operating revenues of US$252.6 billion. At illustrative charges of US$55 for a first checked bag and US$75 for a second, a family of four travelling with two checked bags each would incur US$1,040 in round-trip baggage charges if the charges were identical in both directions. A higher advertised fare incorporating baggage may therefore offer better value than a lower base fare.

The growing importance of ancillary revenues also complicates Caribbean debates over aviation taxation. Government charges are frequently identified as a principal explanation for expensive air travel, but analysis must distinguish fixed passenger charges, taxes calculated as percentages of fares and commercial charges determined by airlines. Many passenger taxes and airport charges are fixed amounts. Although these can weigh disproportionately on short-distance journeys, their nominal value does not automatically increase when airlines raise fares. Across CARICOM, separately charged baggage fees fall outside taxes assessed on the basic airfare, allowing airlines to generate additional revenue without corresponding increases in airfare-based taxation. In the United States, qualifying separately stated baggage charges are excluded from the 7.5% federal excise tax generally applicable to domestic passenger transportation. This does not mean ancillary revenue escapes every form of taxation.

Tax incidence must also be distinguished from statutory liability. Charges formally imposed on passengers can influence demand and pricing, while taxes imposed on airlines may be reflected partly in fares. Pass-through depends on competition, demand elasticity and route characteristics. Neither the existence of substantial government charges nor the growth of ancillary revenues alone establishes who ultimately bears the economic burden. Meaningful assessment of

Caribbean airfare competitiveness requires transparent decomposition of final prices into airline-controlled charges, ancillary services and government-imposed taxes and fees.

3. Algorithmic Pricing, Surveillance and Consumer Welfare

Digital distribution has increased the sophistication of pricing and raised questions about the information used to determine offers. Conventional dynamic pricing responds primarily to inventory, market conditions and anticipated demand. Surveillance pricing instead uses information about individual consumers to estimate willingness to pay and potentially personalise prices or offers. Such information can include browsing histories, location, previous purchases and account activity. The distinction matters because increasingly granular price discrimination could enable sellers to capture more consumer surplus by estimating individual reservation prices.

The welfare effects are not necessarily uniform. Personalised pricing could lower prices for some purchasers while raising them for others, and may change the quantity of services purchased. More fundamental concerns involve transparency, personal-data governance and the ability to compare competing offers. Research published by the United States Federal Trade Commission in January 2025 identified the use of detailed consumer information by pricing intermediaries to support individualised offers across digital commerce. That finding does not establish that airlines routinely increase fares because travellers repeatedly search for particular flights. An observed increase may instead reflect changing inventory, demand forecasts or fare availability. A rigorous assessment must distinguish the existence of technological capabilities from evidence of their deployment in specific airline transactions.

The policy question therefore extends beyond clearing cookies or using private browsing. It concerns the collection and commercial use of behavioural information, disclosure of personalised pricing and the adequacy of consumer protection. Artificial intelligence offers a possible counterweight: AI-assisted research can compare routes, airports, baggage allowances, ticket restrictions and ground transportation, helping purchasers evaluate total journey costs. A cheaper flight into a distant airport may cease to be attractive once onward travel, arrival times and disruption risks are included. AI should nevertheless support rather than replace verification and purchasing controls. Travellers can use agents to research options without disclosing payment credentials or authorising purchases; institutions can integrate similar capabilities with established reservation systems subject to data-security and accountability requirements.

4. Institutional Travel Procurement: The Economics of Centralisation

If airline pricing has become increasingly sophisticated, have institutional purchasing arrangements evolved sufficiently to respond? Businesses, governments, universities and professional associations incur recurring travel expenditure, yet reservations may remain dispersed across departments with limited coordination or consolidated information. Fragmentation can weaken negotiating capacity, duplicate administrative effort and conceal avoidable costs. For private enterprises, the consequences appear in operating expenditure, profitability and management time; the significance of restrictive tickets, late bookings or unused credits becomes clearer when costs are aggregated across departments and accounting periods.

The economic case for professional travel management rests on three complementary sources of benefit: preferential commercial arrangements, purchasing and information efficiencies, and administrative economies. Consolidating expenditure can strengthen negotiating leverage with airlines, travel management companies and accommodation providers, potentially securing corporate fares, better booking conditions or reduced transaction fees. Coordinated systems also facilitate systematic comparisons, recovery of unused credits, management of cancellations and more reliable expenditure intelligence, while reducing duplicated administrative work. These benefits are not limited to organisations large enough to negotiate discounts: smaller enterprises may gain from better information and lower transaction costs.

Preferential pricing is not synonymous with lowest cost. A negotiated fare may be inferior to an available market offer once baggage, flexibility, cancellation provisions and service fees are considered. Nor does centralisation necessarily produce savings: approval delays, supplier dependence and operating overheads may exceed the benefits. The appropriate economic test is expected net benefit, including the value of staff time and operational flexibility. Smaller enterprises may need only a designated purchasing officer and consistent travel policy; organisations with recurring travel may justify an external travel management provider; larger purchasers may benefit from an integrated internal function. Purchasing volume and complexity, not institutional ownership alone, should determine the model.

For governments, these commercial considerations acquire an additional public financial management dimension. Official travel serves legitimate diplomatic, administrative and technical functions, but is subject to public accountability. Where overseas travel requires Cabinet approval, a potentially significant institutional inconsistency arises: authority to incur expenditure may be centralised while the expertise needed to minimise its cost remains dispersed. Approval establishes that travel is authorised; it does not necessarily establish that reservations represent the most economical arrangements consistent with the approved purpose.

Jamaica illustrates the fiscal significance. The Government's Estimates of Expenditure 2026/2027, for the financial year ending 31 March 2027, provide approximately J$11.45 billion for travel and subsistence, equivalent to about 0.8% of the J$1.44 trillion central-government expenditure envelope. Although the allocation extends beyond airline tickets, it demonstrates the scale of recurring travel-related expenditure. For illustrative purposes, if the entire J$11.45 billion travel and subsistence allocation were assumed to represent air travel expenditure, efficiency improvements of 1%, 3% and 5% would yield savings of J$114.5 million, J$343.5 million and J$572.5 million, respectively.

These are sensitivity scenarios, not forecasts; achievable savings depend on expenditure composition, implementation costs and the measures adopted. The objective is not to reduce legitimate subsistence entitlements, often already relatively modest, but to improve commercial purchasing and administrative efficiency.

Illustrative procurement scenario — notional assumptions

Consider a large public institution with a hypothetical annual international travel budget of US$1 million, comprising US$600,000 in airfares and US$400,000 in accommodation. The following assumptions illustrate the potential interaction of negotiated purchasing, booking controls and credit recovery:

Procurement mechanism / assumption	Annual benefit (US$)
Airfare: 60% of budget × 80% compliance × 12% discount	57,600
Accommodation: 40% of budget × 80% compliance × 25% discount	80,000
Advance-booking/policy controls: 20% non-preferred spend × 10%	20,000
Unused airline credits: 4% of airfare spend × 60% incremental recovery	14,400
Total gross savings	172,000
Less incremental annual management cost	(30,000)
Net annual benefit (14.2% of baseline budget)	142,000

The model is illustrative rather than empirical. It assumes that negotiated discounts represent realised reductions against comparable available rates, that policy savings do not overlap with preferred-supplier discounts, and that recovered credits would otherwise have been lost. Actual results would require verification through a controlled procurement pilot.

5. Institutional Design, Regional Practice and Implementation

Institutional travel management should reflect the purchasing organisation's scale and capability. Private enterprises seek expenditure efficiency while preserving flexibility; governments must additionally accommodate procurement rules, delegated authority and public accountability. Both require sound itinerary comparisons, reservation management, expenditure controls and reliable information. Established global distribution systems such as Amadeus and Sabre, both used by the CARICOM Secretariat, demonstrate that professional reservation technology is already employed within a Caribbean institution. Access can also be obtained through licensed travel management providers; independent ticketing operations are not always necessary.

Existing regional practice, however, illustrates a distinction between arranging travel and managing expenditure strategically. Many organisations rely on travel agencies, while others leave staff to book directly. In externally financed activities, including development programmes and technical assignments, funds are also routinely transferred to travellers' personal accounts, leaving individuals responsible for transportation, accommodation and related arrangements. These models can provide flexibility and relieve sponsors of transaction-level administration, but do not automatically generate consolidated purchasing intelligence, preferential commercial terms or systematic monitoring of total costs. Agency use is not equivalent to a coherent procurement strategy, and direct disbursement may shift exposure to fare movements, cancellations or exchange-rate changes towards travellers, depending on reimbursement rules. The solution need not prohibit agencies or direct booking; it should establish purchasing policies, oversight and expenditure reporting suited to the financing arrangement.

For governments with substantial travel volumes, a Travel Management Unit within the Ministry of Finance could coordinate purchasing and negotiate commercial arrangements without displacing Cabinet or ministerial authority over travel decisions. Yet smaller CARICOM administrations face material constraints. Limited transaction volumes may not justify dedicated posts; public-service establishments can be inflexible; and specialist skills in fare construction, reservation systems, procurement analytics and contract management may be scarce or difficult to retain. Assigning responsibilities to an existing procurement function, supplemented by competitively selected external expertise, may yield better value than establishing a separate

unit. The choice should follow a workload and cost-benefit assessment rather than a standardised staffing prescription.

Political economy considerations are equally relevant. Ministries and agencies accustomed to controlling reservations may resist surrendering purchasing discretion; established supplier relationships and concerns about responsiveness can reinforce existing practices. Not all resistance is self-interested: some departments have legitimate scheduling or confidentiality requirements that rigid standardisation may not accommodate. Successful reform requires clear administrative sponsorship, transparent supplier selection, appropriate delegations and evidence that new arrangements improve outcomes. Because fares can change while approvals are pending, the process must distinguish preliminary itinerary assessment, spending authorisation and timely ticket issuance, including exceptions for urgent travel.

Centralisation also creates risks of supplier concentration, administrative bottlenecks and sensitive-data exposure. Auditable transactions, segregation of duties, competition among providers and periodic performance reviews are essential. Implementation should begin with baseline expenditure analysis and a limited pilot, measuring total journey costs on recurring routes, negotiated benefits actually realised, booking lead times, change and cancellation costs, unused ticket credits, administrative processing costs and compliance. The decisive question is whether demonstrable purchasing gains exceed the financial and institutional costs of achieving them.

Conclusion: From Airline Pricing to Purchasing Intelligence

Airline revenue optimisation has altered the information requirements confronting purchasers. Dynamic pricing, ancillary charges and differentiated ticket conditions mean advertised fares frequently provide an incomplete measure of travel costs, while emerging surveillance-pricing capabilities raise further questions about information asymmetry, consumer welfare and data governance. The response should not be an automatic expansion of administrative structures, but a proportionate investment in purchasing capability where expected benefits justify the costs.

For Caribbean enterprises and public institutions, professional travel management can create value through preferential commercial arrangements, improved information, administrative economies and stronger expenditure controls. Its feasibility depends on institutional scale, skills, procurement incentives and implementation discipline. The central lesson is that the sophistication of institutional purchasing must keep pace with the sophistication of airline pricing: the issue is not merely who books a ticket, but whether the organisation manages the economics of travel.

Glossary of Key Terms

Ancillary charges. Charges for services beyond the base fare, such as checked baggage, seat selection and ticket changes.

Advance-booking controls. Institutional rules encouraging sufficiently early reservations to improve fare availability and cost control.

Airline revenue management. Use of demand forecasts, inventory controls and pricing decisions to optimise revenue from limited seat capacity.

Dynamic pricing. Adjustment of prices as demand, remaining capacity, booking time and other market conditions change.

Fare fences. Conditions attached to different fares, including refundability, change restrictions and advance-purchase requirements.

Information asymmetry. A situation in which one party possesses materially more relevant information than another.

Institutional travel procurement. The organised purchase and management of travel services on behalf of an organisation.

Net procurement savings. Verified reductions in comparable travel costs after deducting additional management and implementation expenses.

Preferred-supplier compliance. The proportion of eligible travel purchases made through suppliers covered by an institution's negotiated arrangements.

Price discrimination. Charging different prices for comparable services where differences are not explained solely by supply costs.

Surveillance pricing. Personalised pricing or offers informed by data about a consumer's identity, behaviour or inferred characteristics.

Unused-ticket credits. Residual value from cancelled or unused airline tickets that may be available for later travel, subject to applicable rules.

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