

VIEWPOINT

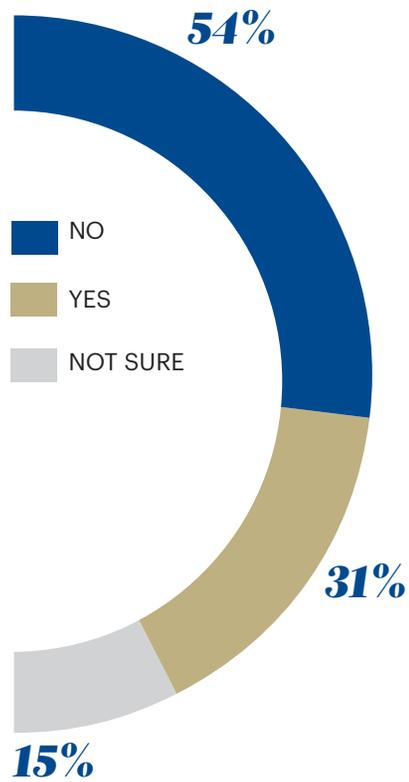
Triad Business Journal welcomes letters to the editor

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► BUSINESS PULSE SURVEY

WE ASKED

DO YOU THINK THE PROPOSED MULTIPURPOSE STADIUM IN HIGH POINT WILL GENERATE ENOUGH ATTENDANCE TO BE SUCCESSFUL?



THIS WEEK'S QUESTION

How much money does it take for you to be bumped from a flight?

VIEWPOINT

Auctions in the air: How airlines should value tickets and time

Earlier this month, business travelers watched in horror as video surfaced of a passenger named David Dao being dragged off a United Airlines flight in Chicago. The details of the man's injuries, United's apology, and the airline's public-relations disaster are now well known.

Commentators used the incident to talk about such issues as airline monopolies, the practice of overbooking, and the general unpleasantness of flying. What I found interesting was a bit of economics in action. Prior to Dao's ejection, the flight crew started – but did not finish – an auction.

As you may recall, United needed to free up four seats on the fully booked flight, not for passengers but for four of its own personnel. The flight crew offered \$400 United travel vouchers to passengers who gave up their seats. No one took the offer. The crew got the same result when they raised the offer to \$800.

Federal law required United to raise the offer to \$1,350 before ejecting passengers, but for some reason the crew stopped the process at \$800. They selected passengers at random and forced them to leave. Three people agreed to go. Dao refused.

Some pundits noted disapprovingly that no one thought \$800 was enough to give up their seats. What was wrong with them? But what mattered was how people on that flight valued their



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time and travel plans, just as what matters in an auction is how the bidders value the items up for sale.

In the case of an overbooked flight, the auction is in some sense reversed. The airline doesn't offer to sell antiques or livestock; it offers to buy a seat. The bidders aren't buyers; they're sellers.

The overbooked-flight auction is a version of what's known as an open ascending auction. In a regular such auction, the auctioneer gradually raises the price until only one person is willing to pay that much for the item. For an overbooked flight, the airline is the auctioneer, gradually raising the offer until enough people are willing to sell their seats.

Won't passengers simply hold out for more and more money? They can try, but competition among bidders

places a brake on price. In a regular auction, a given bidder wants a low price, but so does everyone else. On an overbooked flight, a given passenger wants a high price, but keeping quiet in hopes of driving the price up risks letting another passenger jump in and take the current offer.

The amounts paid on overbooked flights have risen. I'm old enough to remember people selling their seats for \$100 vouchers. Not only has there been inflation since then, but time has become a scarcer commodity, especially for people who fly.

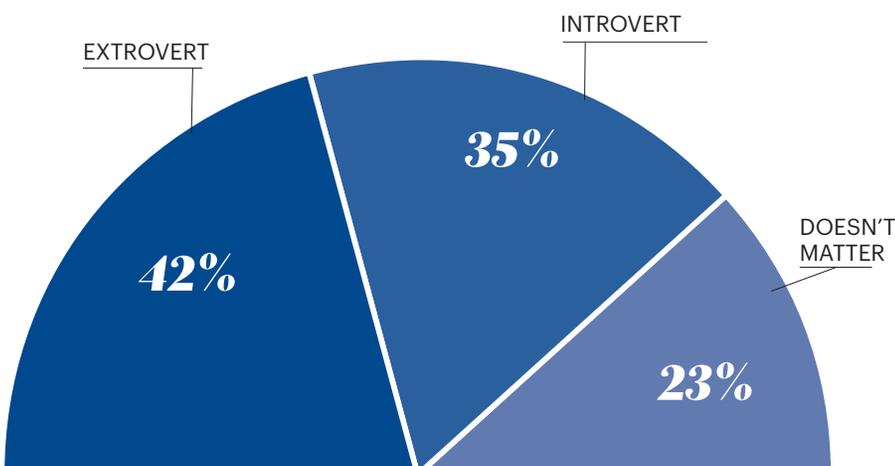
If you have a business meeting in St. Louis tomorrow morning, \$800 can't compensate you for missing it. If you have only five days for a family vacation, \$800 isn't enough to justify changing your plans and shortening your trip.

United didn't understand this, but it appears that Delta Airlines does. In the wake of the United fiasco, Delta instructed its supervisors to pay up to \$9,950 to people who give up their seats. Gate agents may now offer up to \$2,000.

The solution to overbooked flights isn't to end overbooking (and it certainly isn't to drag passengers off planes!), but to induce passengers to sell their seats. The United crew in Chicago started down the right path by starting an auction. It would have been much cheaper for United if they'd let it continue.

► SURVEY SAYS

WHICH TYPE OF BOSS WOULD YOU RATHER HAVE: AN EXTROVERT OR AN INTROVERT?



► YOU SAID IT



"I'm not looking at a legacy, but instead am looking to do everything I can while I'm alive to shift the culture. Right now, that is around helping people live with less stress, more resiliency and without burning out – that's really what I'm focusing on."

ARIANA HUFFINGTON, in an interview with TBJ sister paper Atlanta Business Chronicle