priceff

Pricing lessons from the ferry and bus industries

Get more revenue from every departure

Practical lessons from ferry, ship and bus operators

Among the ferry, ship and bus industries there is one truth that never changes: once a departure has gone, there is no way to affect the revenue it brought in. An unsold seat cannot be stored or sold next week. Capacity is limited, and every departure is its own opportunity.

Yet most companies still price in ways that do not react to real demand. Cruise lines rely on staircase models or a forecast-based revenue management systems. Bus companies use fixed or lightly tiered pricing. Both share the same underlying problem. The price is set in advance, and nothing accounts for demand behaving differently than expected.

Seats on a popular departure sell too cheaply, because the system does not react to rising demand quickly enough. Seats on quiet departures stay empty, because the price is not lowered even though it would attract more passengers.

This guide brings together the main lessons and best practices we have gathered over years of working with ferry, ship and bus companies.

The key points

- Most companies set the price in advance, and after that it does not react to how demand actually develops.
- It costs in both directions: popular departures sell too cheaply, and quiet ones run half empty.
- With Priceff, every product class moves at its own pace. Passenger tickets, vehicle spaces and cabins have different demand, so they are priced separately.
- Competitor monitoring is part of the picture, but a competitor's price tells you about their situation, not yours.
- The goal is a full departure at the best possible price. A fast sell-out usually means the price was too low.
- Demand-based pricing finds that balance automatically and is up and running in just a few weeks. Priceff works alongside your existing booking system, which makes implementation fast and smooth.

1

Static pricing costs more than you think

Most ferry, ship and bus companies know there is room to improve in their pricing. The question is usually just how much. Here we go through the most common ways static or lightly tiered pricing eats into revenue every day, often without showing up in any report.

Whoever books early always pays too little

In staircase models the price rises as the occupancy rate climbs. The logic is understandable: whoever buys late pays more, because there is little capacity left. The problem lies in what happens at the start.

When sales open for a popular departure, the first bookers get the lowest price. The staircase model cannot yet sense how quickly demand is developing, so it sells at a low price even though bookings are already coming in fast. By the time occupancy and prices have risen, a large share of the capacity has already been sold too cheaply. On the most popular departures, money is left on the table systematically, departure after departure.

The staircase model only works upward. The price rises as occupancy grows, but it does not fall if occupancy is at risk of staying weak. For quiet departures there is no automatic mechanism to attract more passengers with a lower price. When Friday afternoon's departure is full and Tuesday morning's run is half empty, both are priced by the same logic. A lower price would likely bring Tuesday more passengers, but the model does not react to it. An empty seat is always a loss that cannot be recovered afterwards.

"An unsold seat cannot be saved and sold later. That is why the price should adapt to demand in real time, not just rise along with the occupancy rate."

Thomas Gräsbeck
Business Consultant, Priceff

The forecast-based model is always a step behind

A traditional revenue management system builds a forecast from historical data and prices accordingly. If history repeats itself, it works reasonably well. The problem arises when something unexpected happens.

A new event along the route, a competitor's campaign, an unusual weekend or a sudden change in weather does not show up in the forecast. The system reacts only once the change has already appeared in the history, when it's already too late. In the meantime the price is wrong, and correcting it requires manual work.

These problems are not exceptions or a sign of bad pricing. They stem from how the pricing models are built.

2

What happens when pricing starts to work properly

Passenger tickets, vehicle spaces and cabins move at different speeds

The same departure, but three different products with three different demand profiles. Vehicle spaces are usually booked well in advance. Passenger tickets come in closer to departure. Demand for cabins depends on the length of the trip, the day of the week and the season.

When each product class's price reacts only to its own occupancy and not to how quickly demand is developing, the price is wrong exactly when it matters most. Vehicle spaces may in practice be sold out weeks before departure, while there is still plenty of room among the passenger tickets. If the system does not recognise this difference, both are priced according to the same situation.

Priceff's demand-based pricing measures each product class's demand independently and reacts to them separately. In practice that means a vehicle space can rise in price at the same moment a passenger ticket falls, if demand calls for it.

The pricing strategy varies from one company to the next, and that is a good thing

Some companies want to maximise ticket revenue, others the total revenue on board, in which case a cheaper ticket can be the more profitable choice if the passenger spends more on the ship's services. At bus companies, some want to maximise occupancy, others a better margin on certain routes.

There is no single right way to price. What matters is that the pricing logic follows the goals of the business, not just what the system does by default. Priceff's value lies in the fact that it can be configured to work according to each company's own goals, one departure at a time.

ECKERÖ LINE

When Eckerö Line adopted Priceff's demand-based pricing, both passenger volume and the average ticket price rose noticeably.

Competitor monitoring is part of the picture, not a substitute for your own data

Many companies are in the habit of following competitors' prices and adjusting their own accordingly. That is a sensible starting point, but only part of the full picture.

A competitor's price tells you about the competitor's situation, not yours. If a competitor has a lot of empty capacity and lowers their price, it does not mean you should lower yours too, if your own departure is filling up well. We have seen many situations where monitoring competitors has led the whole industry to sell tickets unnecessarily cheaply, as each competitor tries to be the cheapest.

Competitor data is a valuable signal for setting the limits of pricing. At Priceff, competitor monitoring works exactly like that: it sets the price limits within which the demand-based algorithm operates.

3

The opportunities of demand-based pricing in the ferry and bus industries

Demand-based pricing is usually known for two things: revenue grows and occupancy improves. Here are three things that come up almost every time a company has used demand-based pricing for a while.

A sold-out departure is not always a sign of success

This observation surprises most people. When a departure sells out quickly, it feels good. In practice it almost always means the price has been too low.

"A departure that sells out in record time is not a success, but a sign that the price was too low from the very start."

Kim Martesuo
CEO, Priceff

The best possible situation is one where the departure fills up at the best possible price, to say 90–95 percent occupancy. Too fast a sell-out means a large share of capacity has been sold cheaper than it needed to be. When pricing reacts to demand in real time, this balance is found automatically.

The pricing strategy is a choice, not a default setting

Different companies have different goals. Some ship operators want to maximise ticket revenue, others to fill the ship as full as possible, because passengers spend money in restaurants, bars and shops. In bus traffic the run is driven in any case, so the goal is simple: fill the seats at the best possible price.

Different strategies are right in different contexts. The problem is that without demand-based pricing the strategy is very hard to carry out in practice. The price is fixed or governed by a staircase model, and it does not react to what companies actually want to achieve. A demand-based system can be configured to support exactly the goal that matters most to each company.

Automation frees up resources for something other than chasing prices

Many companies have people whose daily work is in practice manual pricing: following, updating and monitoring competitors' prices. That is time taken away from more strategic work.

When pricing is automated, this resource is freed up. At the same time the company can more boldly build new product variations and capacity classes, because the daily pricing work no longer burdens anyone. The better the products, the more chances to find a suitable option at the right price for every passenger.

Demand-based pricing is not a way to just raise prices, it is a good way to even out demand.

Demand-based pricing brings to mind, for many, rising prices and irritated customers. Experience says otherwise.

When the price moves in both directions, demand starts to spread out more evenly. Price-conscious passengers shift to quieter departures where the price is lower. On popular departures, room opens up for those who are ready to pay more. No customer is forced to pay more, but everyone finds an option that suits them. Prices always stay within reasonable, predetermined limits, so no one has to pay unreasonably high prices. The overall result is better revenue for the company and a better experience for the customer.

Our experience from the industry shows that demand-based pricing often does something widely considered difficult: passenger numbers and the average ticket price grow at the same time. The price increase on the most popular departures does not reduce total volume, because a lower price on quieter departures attracts more passengers.

"When pricing starts reacting to demand for real, a company often learns something new and valuable about its own operations too."

Kim Martesuo
CEO, Priceff

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Implementing Priceff

Automated demand-based pricing can sound complicated, but for the company it is the opposite: very easy to adopt and to use day to day.

The partnership begins with a mapping

Before a single price is calculated, we go through the customer's current situation. What is being priced, how pricing works today and what is being aimed for with it. Does the company want to maximise ticket revenue, seek volume for quiet departures or something in between? These goals guide how the system is configured.

Weeks 1–2

Mapping and configuration
We go through the current pricing, the goals and the historical sales data. The system is configured to match your specific operations. It is often wise to start with one product, gather experience and expand from there.

Weeks 3–4

Test run
The system calculates prices but does not yet take them to sale. We look together at how the prices appear and make the necessary fine-tuning.

Week 4 onwards

Pricing goes live
In the early stage we hold short weekly check-ins, which become less frequent as we learn the setup.

Ongoing development

Once or twice a year we hold a broader workshop, where we go through the results and develop the strategy further.

At the same time we carry out an analysis of the historical data. We go through the customer's sales data over several years and identify demand patterns: seasons, variation between weekdays, and differences between departures and capacity classes. This groundwork ensures that the system understands from the very start what kind of environment it is working in.

The system is up and running in a few weeks

Implementation usually takes two to four weeks. The integration is done alongside the existing booking or ticket-sales system, which lets us avoid large and slow IT projects.

Before launch, a test run of a few days is carried out, where the system calculates prices but does not yet take them to sale. This gives the chance to see how the prices look in practice and to make the necessary fine-tuning before anything is published.

"Every customer has their own starting point in their business. Our job is to make sure the system serves your goals specifically."

Thomas Gräsbeck
Business Consultant, Priceff

The system works in the background

Once the system is running, it calculates and updates prices continuously according to demand in real time. Every departure, every capacity class and every ticket type is priced separately. The company sees the full picture in our app, which shows where you are ahead or behind, and why.

The company always sets price limits, a minimum and a maximum price, within which the algorithm operates. These limits ensure that pricing stays commercially sound and does not produce surprises in either direction.

In the early stage we hold short weekly check-ins, where we go through the situation, answer questions and suggest changes as needed. Over time the meeting rhythm thins out, as the system finds its balance and the company learns to read the data it produces.

Development continues

Once or twice a year we hold a broader workshop, where we go through the past period's results and make the necessary changes for the next one. Where did we gain more revenue, where more volume, and what can still be improved?

Demand-based pricing is not a one-off project. It is an ongoing process that is refined as data accumulates and the business develops.

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Thomas Gräsbeck | Business Consultant, Priceff

Let's look at your situation together

I have helped build working pricing strategies for ferry and bus operators. Every one is different, but the same question comes up almost every time: how much money is left on the table because pricing does not react to what is actually happening?

Book 30 minutes in my calendar, and we'll go through your situation and see together what demand-based pricing could bring to your routes and departures.

Book a call »