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## A Model Approach for Taxation Management : A Case Study In Airline Industry, Turkey

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### Abstract

Taxation management is applicable only if there are perishable goods. Perishability is considered as a time value item depending on the definite time for example for airlines departure time for hotels a night reserved to customers. After due date the good is lost forever. So up to due date it is tried to be accepted more high priced customers' reservations. Market segmentation is important property for the taxation management. The study contains simple basic concepts that are used in taxation management are mentioned. Preconditions, ingredients, boundaries, environment of taxation management are explained. At the end of the first part the contribution of operations research is explained and an illustrative problem about 'taxation management' ability to adapt other sectors is showed for a simple examination.

Taxation management in Turkey is applied more effective in Y airline Company. In this study, Y airline company had been the model that is tried to be focused on. The study result tried to be adapted in other sectors' applications field and taxation management's effect on the profit is investigated.

*Keywords:* Airline , Market segmentation , Taxation management, Industry, Strategy

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### 1. Introduction

Airlines sector is one of the basic foundation stone of economy because of effective influence on world trade and tourism. Continual rivalry conditions in the world market place drives airlines to be more effective in renewal. Taxation management technique makes segmentations by using the historical data by adding species of price changeability. This technique makes seats sold and tries to maximize income as possible as much. Today exactly all airlines use this technique.

In Turkey, Taxation management has been used for no longer. The only airline in Turkey that use cost management tool in its operations is Y Airline firm. The Nowadays much news about airline rivalry is heard in local market in Turkey. Y airline firm and other local firms are always in a competition in the local market. Local market is not only

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the single market that Y Airline firm must compete within, but also foreign market is more important market place for Y Airline firm. To do this Y Airline firm is forced to include taxation management in its operations. In the study, simple basic concepts that are used in taxation management are mentioned. Preconditions, ingredients, boundaries, environment of taxation management are explained. At the end of the study, the contribution of operations research is explained and an illustrative problem about taxation managements' ability to adapt other sectors is showed for a simple examination. Taxation management is examined in a wide area of applications in airlines sector. Deregulation in the sector, fundamental features of service, basic concepts, relationship among Taxation management with price, demand, and reservation systems, and tools of taxation management subjects are mentioned.

Basically, descriptions may be made such below;

Taxation Management (TM) is a management technique being utilized by an increasing number of service industries in order to maximize the effective use of their available capacity and ensure financial success. It is extended that the model to incorporate the diversion of passengers to lower-priced fare products as a result of their ability to meet the additional restrictions imposed by airlines, and then demonstrate how seat inventory control can be used to induce diverting passengers to 'sellup' to higher-priced fare products by applying booking limits.

-More specifically Donaughey (1998) mentioned that in the airline companies, TM can be considered to be the income or yield per passenger mile, with yield being a function of both the price the airline charges for differentiated service options (pricing) and the number of seats sold at each price (seat inventory control).

The airline firms are constrained by capacity, since unsold capacity cannot be stocked, it is lost forever. TM is just selling an inventory unit of a piece of time. Taxation Management is often associated with income maximization because of the inconsequential level of variable costs.

TM is used in industries which are capital intensive services which equate yield as maximization because of the nature of high fixed costs.

## **2. Literature Review And Hypotheses**

### *2.1. Market Segmentation*

A basic premise in the development of yield management has been that the differentiated fare products offered by airlines are targeted to distinct segments of the total demand for air travel in a market, each of which compete for space on a fixed capacity aircraft.

### *2.2. Historical Demand and Booking Patterns*

The application of booking limits on the number of seat availability at different prices on the same flight allows airlines to increase incomes. Effective seat inventory control by an airline depends on forecasts future booking. The cost and taxation values associated with each fare type, and an ability to make systematic trade offs between booking requests so as to maximize total flight incomes.

Most airline yield management seat allocation models require inputs of the expected demand by fare class, the variance of this demand, and income value associated with the bookings expected in each class.

### *2.3. Pricing Knowledge*

Kimes (2000) describes that in order to stimulate demand in periods of low demand, capacity constrained organizations can offer discounted prices whereas during periods of high demand low rates can be closed off. If airlines price their inventory incorrectly, they can end up with too few customers or too many customers of the wrong kind. The optimization problem is to find, at each point in time, the optimal subset of fare classes to offer.

It is the purpose of this project to examine one of the most significant concepts taken from the finance literature, option pricing, to explore pricing strategy for services that have a fixed availability and expiration date (perishable). The abandonment option literature provides an opportunity to integrate the finance and marketing concepts into a model for the pricing of perishable services

### *2.4. Overbooking Policy*

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