Why do airlines charge much more for tickets purchased at the last minute, while Broadway theaters follow the opposite practice? (Gerasimos Efthimiadis)

Theater fans who go to the TKTS window in New York’s Times Square in the afternoon can purchase half-price tickets to many Broadway plays performed the same evening. But someone who books a plane ticket on the same day as the flight can expect to pay a substantial premium, sometimes as much as 100 percent. What explains this difference?

People whose opportunity cost of time is high are unlikely to stand in line for discounts.

A seat that is empty when a flight takes off or when the curtain rises means a permanent loss of revenue. Both airlines and theaters face strong incentives to fill as many seats as they can. At the same time, filling a seat at a discount price will often mean losing an opportunity to fill that same seat with someone who would have been willing to pay full list price. So, as always, the marketing challenge is to fill as many seats as possible without taking too big a sacrifice in average revenue per seat.

In the airline industry, marketing executives discovered early on that business travelers are more likely than vacation travelers to change their flight schedules at the last minute. Business travel decisions are also known to be less sensitive to airfare than leisure travel decisions. The airlines’ strategy has thus been to charge full price to those who reserve at the last minute (disproportionately business travelers) and give discounts to those who reserve well in advance (mostly leisure travelers).
The balance of forces is slightly different in the theater industry. High-income persons are less sensitive to ticket prices than low-income persons, as in the airline industry, but high-income theatergoers are unlikely to buy tickets at the last minute. Buying half-price tickets at the last minute from the TKTS window confronts theatergoers with two hurdles. One is the need to stand in line, often for an hour or more. Few high-income persons are willing to do that just to save a few dollars. Second and more important, discount tickets are available for only selected shows, generally not the most popular ones. High-income persons have high opportunity cost of time and are more likely to want to spend a precious free evening watching only the shows they most want to see. Low-income theatergoers, who are much more sensitive to price, find both hurdles much easier to clear. Absent the option of standing in line at TKTS, they might not get to see a Broadway show at all.

Although the specific hurdles are strikingly different in the two cases, both have the effect of filling more seats—and hence of reducing the average cost per customer served—relative to what would have happened in the absence of these hurdles.

**FORCING BUYERS TO JUMP A HURDLE** in order to become eligible for a discount entails waste to the extent that effort is required to jump the hurdle. But in some cases, the discount hurdle is merely the need to possess a certain piece of information. Once you have it, you pay lower prices thereafter with no additional effort.