What is Dynamic Pricing?

Dynamic pricing is a strategy where businesses change prices of their services based on supply or demand.

This strategy is used by every major airline, hotel, Lyft, Uber, and most other transportation providers in the US.

Supply can be the availability of vehicles or drivers, hotel rooms, or seats on an airplane.

Demand is how many people are requesting the service on a particular date or time.

- Higher Demand / Short Supply = Higher Prices
- Lower Demand / Big Supply = Lower Prices

For example, most transportation companies charge more on major holidays and other high demand days like Christmas, Christmas Eve, New Years Eve, Thanksgiving, the Superbowl, PGA Tour in Phoenix, Nascar Championships in Phoenix, etc.

We also lower pricing during slow times like recessions, COVID scares, etc. based on actual bookings. The goal of dynamic pricing is to improve profitability.

One common example is the last seat on a plane or the last room in a hotel is generally the most expensive. Generally this is done when there is 80%, 90%, or 95% occupancy.

Uber and Lyft do surge pricing up to 200% last minute during high demand days and special events like Concerts, Football Games, Basketball Games, Baseball Games, Boxing, UFC Fights, etc. They also do surge pricing late at night and on holidays when drivers are in short supply (because they don’t want to work at night or on major holidays).

These incentives also encourage drivers to work when they would prefer to be unavailable.