

Pricing of Flexible Products: An Empirical Analysis at a Low-Cost Airline

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Abstract

The pricing of flexible products is a new price discrimination practice, which can enable firms to increase revenues under capacity considerations. A flexible product is defined as a good or service with at least one product attribute not fully specified at the time of the purchase, leaving the seller with at least two alternatives for finally designing the product and assigning consumers to one of the alternatives at a later date. Flexible products allow consumers to self-select according to their flexibility, thus enabling price discrimination for the seller. We empirically analyze the purchase behavior of flexible products based on a large field study at a low cost airline. We identify the drivers of purchase behavior by analyzing consumers' level of acceptable uncertainty in a number of important attributes such as notification wait time and number of potential flight alternatives that contribute to the quality of the travel product.

Keywords: Flexible products, opaque products, revenue management, interactive pricing, customized pricing

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