Practice Article

Variable opaque products in the airline industry: A tool to fill the gaps and increase revenues

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ABSTRACT This article presents a new airline product class termed variable opaque product, VOP. What distinguishes a VOP is that the passenger self-selects the travel product based on how much uncertainty she is prepared to accept in one or more product attributes: for example, to which destination she wishes to fly or for which dates she requires the outbound and inbound flights. VOPs have been tested at two airlines in dissimilar markets and geographic regions and it was found that, in each case, the VOP made a significant increase in revenues and there was no competitive response to its introduction (Mang *et al*, 2009). This article extends on this previous research and presents a pricing heuristic that maximizes the incremental revenues from a VOP.

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INTRODUCTION

It is proposed that an airline customer's flexibility of flight itinerary is related to her willingness to pay (WTP). If a link can be established at an individual level between the need to fly and the WTP[1] for that travel solution, then this would offer airlines a range of marketing options not available to them previously. The interactive nature provided by the Internet allows marketers to collect much richer data at an individual level, which was not available in the past. It is believed that these data can provide insights into individual need-to-fly and that a much better estimation of individual WTP can be established. This article provides airline revenue and pricing managers with a method for how prices can be calculated for flexible airline customers.

It is generally recognized that it is extremely difficult for airline managers to create sustainable and attractive profit margins (Doganis, 1996, 2001). One strategy that an airline has at its disposal to generate extra revenues and improve profitability is to effectively apply revenue management techniques. However, another strategy is to exploit new market segments.

