> pay the lowest available price. Under this new policy, by September 14, we had refunded to 6,896 customers an average of $3.10 as a result of the DVD random-price test.

This incident raises an interesting question: How can airlines get away with charging different prices to different customers while Amazon.com had such trouble doing, at least on the surface, the same thing? Certainly, the range of prices that airlines typically charge is much more than the range Amazon.com charged for its DVDs. (The highest ticket price can be ten times more than the lowest price on some flights.)

There are several explanations. For one, airline prices come with restrictions, so the products are in fact differentiated by sale conditions (even though the physical product is the same). Also, unlike in Amazon.com's case, customers self-select what airline fare they want to pay (second-degree price discrimination), whereas Amazon offered discounts to selected customers only (third-degree price discrimination). And while airline fares change over time as allocations close down, at any given point in time, everyone is given the same choices, and no one is treated differently. Airlines, moreover, do not control sales by changing fares directly; they change the allocation of capacity to each fare. So rather than prices rising, discounts "sell out," which seemingly creates a more acceptable perception among customers. Airline customers have also grown accustomed to frequent price changes based on many years of experience. In contrast, dynamic pricing in retail is a more recent practice, so it may take time before customers accept it. Finally, dynamic pricing is often perceived of as an irritating practice for low-priced items because the search cost for customers is high relative to the value of the item. In contrast, for expensive items like airline tickets or automobiles, customers are more willing to spend time and effort to shop around for a bargain. Jeff Bezos, the CEO of Amazon.com, acknowledged as such in a subsequent press statement.[12]

This list of differences should give a clue to what customers may or may not find acceptable about RM. If customers perceive that there is a tangible reason for price differences, they tend to be more accepting. Examples include early bird or advance-purchase discounts, volume discounts, a price that is related to dwindling or excess capacity (clearance sales), or prices related to the distress of the firm (going out of business sales). In short, if customers can "rationalize" the price differences they see, they are more accepting.

[12]Reuters news report, September 27, 2000.