

Withholding Product Features: An Alternative Rationale for Sequential Product Introductions of Increasing Quality

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Abstract

In many markets, sellers frequently introduce new generations of products with advanced features that induce previous customers to trade up to a new-generation product. In this paper, we analyze a particular strategy of successive product introductions, whereby a seller withholds profitable product features from an earlier generation of the product in order to induce subsequent trade-up purchases by buyers of the earlier-generation product. We show that such a strategy can lead to a higher profit for the seller in the long run than one where the seller offers the early-generation product with the profitable product features. If there exists a secondary, lower-valuation market for used products, this strategy may also benefit the seller through indirect product discrimination. Interestingly, we show that the successive product introduction strategy that induces upgrades may be superior to direct product discrimination achieved through introductions of multiple product versions.

Keywords: *New Product Introduction; Game Theory; Marketing Strategy*

Track: Innovation Management & New Product Development