

## Product form bundling: Implications for marketing digital products

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### Abstract

The retailing of information media either in a pure digital form or bundled with the conventional form has become increasingly common in product categories such as books, newspapers, music, etc. A general problem with these media is that much of the content that they offer is common to both conventional and digital formats. This makes the media inherently substitutes, and limits the attractiveness to consumers of acquiring both formats. However, the electronic and print formats often have advantages over one another in specific usage situations. For example, a print book may be most suitable for casual reading, while an electronic version might be most suitable for locating specific passages. In this paper we investigate whether increased awareness of advantages that different forms may have over one another in different usage situations can increase demand for buying both items simultaneously. We do this through an experimental manipulation where participants are provided either with communications that emphasize using the different forms in different situations, or using the different forms in the same situations. Employing book and newspaper subscription categories, we find that the “different usage situation” manipulation does significantly increase intent to purchase both print and electronic forms as long as the second item is discounted. In addition, we provide evidence that communicating different usage situations and pricing the forms differentially are likely to be effective strategies in selling information product form bundles.

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### Introduction

With the advent of the Internet, it is possible to offer information products such as newspapers, books, music and movies in digital format together with the traditional physical format. For example, in addition to selling movies on DVD or VHS, retailers such as Wal-Mart and Amazon are offering the same movies as video downloads that can be purchased or rented for watching on digital players or computers at an additional price. With respect to books, Amazon recently launched the Amazon Upgrade program allowing customers who buy an eligible physical book to purchase immediate online access to the same book for a minimal price. Finally, the publisher of The Wall Street Journal is offering a yearly subscription to both the print and online versions of the journal for \$99 in addition to offering subscription to

the individual versions for \$79 each. In all the above examples, since the marginal cost of producing and distributing content online is negligible, the electronic form may bring considerable cost savings to retailers. However, since both the electronic and physical forms provide the same content, one would expect them to be close substitutes. Thus, consumers would be expected to buy one of the forms and not both. Further, if at least some consumers would buy both forms because one brings unique benefits not provided by the other, offering both forms as a bundle could create a valuable profit opportunity for the retailers.

As retailers often market both forms as a bundle, it appears that differential benefits may be present. Not much is known about what these added benefits are, or how to inform consumers of their presence. Venkatesh and Chatterjee (2006) showed that electronic offerings could be profit enhancing as a device for price discrimination, especially since modular offerings (single articles, single chapters) could be provided online. However, in order to demonstrate that it could be optimal to offer both forms even if the electronic and print versions were close substitutes, Venkatesh and Chatterjee (2006) assumed that consumers chose either print or electronic versions, but not both. They pointed out that a seller could make it attractive to buy both items by

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adding the right content and features, and stated that “the issue of what content and features to add – to make the online version complementary to the print version – is a new problem in the realm of product design that merits a new study” (Venkatesh and Chatterjee 2006).

We take a step toward solving this problem by focusing on three inter-related research questions. First, we focus on usage situations in which the forms have advantages over one another and how they might impact demand for the bundled forms. For example, if both the ability to read a newspaper at the breakfast table and the ability to look up old articles are important to consumers, they might subscribe to both the print and the electronic versions of a newspaper. We test this experimentally by contrasting choices of consumers exposed to advertisements emphasizing usage situations in which the two forms have differential advantages with those of consumers exposed to ads emphasizing usage situations in which both forms are equally appropriate.

Second, we examine the issue of pricing of the bundled forms. Throughout the paper we assume that both the print and electronic forms are available separately at an appropriate price. Given this, we focus on whether adding a bundle of both forms at an appropriate discount may create a viable profit opportunity. That is, we are focusing on whether mixed bundling – selling forms separately as well as bundled together – can enhance profits compared to only selling the forms individually. Because the forms share the same content and are thus inherently substitutes, this is a reasonable question to ask. We show that mixed bundling is viable if the forms have advantages over one another in different usage situations, and if consumers are aware of this.<sup>3</sup>

Third, we contend that the duplication of content and the low marginal cost of the electronic form make information goods different from items that are commonly bundled, such as consumer packaged goods (Foubert and Gijbrecchts 2007). To show this, we demonstrate that respondents are more receptive to buying different forms of packaged goods as a bundle than they are for bundles of information goods. Nevertheless, it is still possible to sell the different forms of an information good as a bundle if consumers are aware of their different uses, and if there is a sufficient bundle discount.

Given the explosive growth in different formats of information goods that are available for retail, our research questions have high contextual relevance. While it is well-known in the retail literature that conveying different usage situations can enhance demand (Dickson 1982; Wakefield and Barnes 1996; Yang, Allenby, and Fennell 2002), the link between usage situations and pricing is less well understood (Wakefield and Inman 2003). Though print and electronic versions of books and newspapers are often offered as a bundle, whether awareness of different uses for the forms would motivate consumers to buy the bundle, and what they would be willing to pay for the bundle, are not clear. These are the issues that we directly address in this study.

Our empirical results indicate that: (1) consumers’ perceptions of complementarity of forms can be increased by appropriate advertising messages; (2) if consumers are aware of the advantages of the forms in different usage situations, a discounted add-on electronic form can be successfully bundled with the physical form; (3) given awareness, mixed bundling is more profitable than offering only the individual forms. In addition, we develop tentative estimates of the magnitude of an optimal bundle discount for the items considered in our study. Our results are most directly applicable to the retailing of information goods with a common content, such as books, newspapers and movies that are sold in physical and digital form.

## Research background

Bundling has been defined as selling goods in packages (Adams and Yellen 1976), marketing products as a package at a special price (Guiltingan 1987), and selling products at a single price (Yadav and Monroe 1993). Examples abound for both durable and frequently purchased products: stereo receivers and speakers, washers and dryers, cameras and lenses, computers and monitors, hardware and software, cake mix and frosting, etc. (Kopalle, Mela, and Marsh 1999). Two common approaches to bundling are pure bundling whereby only the product bundle is offered, and mixed bundling, in which the bundled items are also sold separately. Distinction is made between *price bundling*, the sale of two or more products or services in a package at a discount without any integration, and *product bundling*, the integration and sale of two or more products or services at any price (Stremersch and Tellis 2002).

We define *product form bundling* as marketing two or more forms of the same product as a package. We also consider the differences between information products that may exist in digital or physical form (e.g., books, newspapers, maps, music), and storable products that are consumed (or depleted in content) as they are used (e.g., butter, coffee, soda), which we term conventional products.<sup>4</sup> In the context of product categories, we make a distinction between *information product form bundles* in which the same information is presented in different forms and the forms are bundled together (e.g., electronic book and print book), and *conventional product form bundles* consisting of different physical forms of the same product (e.g., stick of margarine and margarine tub). Information bundles tend to have some unique characteristics: the marginal cost of producing the electronic form in addition to print is generally negligible, and the individual products may be redundant – after reading the news online consumers do not benefit from the print newspaper to read the same news. In contrast, conventional bundles generally have positive marginal costs and often are not redundant – that is, can be used sequentially without any loss of value.

<sup>3</sup> As discussed in Chu et al. (2006), it is possible to construct a wide variety of different pricing schemes. However, these authors note that mixed bundling tends to be superior in many different settings.

<sup>4</sup> For our purposes, this definition applies mainly to items with relatively low inventory holding costs, such as packaged goods, that are consumed as they are used. It would not apply to expensive durables, such as automobiles, which have high holding costs and can be used repeatedly.

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