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The role of complementarity and partner brand price level in new product introduction strategy using bundle offers: A study on the quality perception of bundle components



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ABSTRACT

The quality perception of a new brand improves when it is bundled with a product having a strong brand image, moderated by the level of complementarity between the bundle components. This study takes this research forward with the help of two experiments. The first experiment uses anchoring and adjustment process to conclude that the quality perception of a new brand further strengthens if bundled with a strong brand of a higher price category than itself. The second experiment concludes that the quality perception of the strong brand can also deter if bundled with a new product of uncertain quality.

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1. Introduction

Tellis and Stremersch (2002) described bundling as a sale of two or more separate products together in the market. Bundles are created to maximise extraction of consumer surplus when reservation prices for the bundle components are asymmetric and variable. Bundling can be used to introduce a new product or clear obsolete inventory (Simonin and Ruth, 1998). A new product is able to gain extra attention if it is associated with a popular brand. Therefore, bundling also helps to induce a trial purchase of a new brand. Furthermore, associating a new brand with a strong brand helps the new brand in attaining a positive evaluation (Sheng and Pan, 2009).

Researchers have tried to understand how consumers evaluate bundle offers. Yadav (1994) suggested the anchoring and adjustment process. Individuals evaluate a bundle by selecting an anchor, which is perceived as the most important item in the bundle. Overall bundle evaluations are then adjusted in the direction of the evaluation of the succeeding item. The overall evaluation of the bundle is done by assigning weights to individual items such that the anchor gets the maximum weight. Therefore, the overall bundle evaluation is done by a weighted-average method. Further, Yadav (1995) studied the framing effect in order to point out that the assignment of discount to the anchor will have a positive impact on the overall bundle evaluation when compared to assigning the same discount to an item that is not perceived to be an anchor.

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Sheng et al. (2007) explored the bundle evaluation process using the functional relationship between bundle components as a moderating variable. They demonstrated that complementary bundle components lead to comprehensive mental accounting. However, non-complementary components lead to topical mental accounting. Therefore, in the case of complementary offers, a discount assigned to a particular item is perceived to be distributed to the overall bundle offer. However, in the case of non-complementary bundle offers, a discount assigned to a particular item is not perceived as an overall bundle discount. Hence, the discount is perceived to be assigned to a single item which can hamper its quality perception (Rao and Monroe, 1989).

Most of the previous research on bundling is focused on the manner in which consumers evaluate the entire bundle offer. However, consumer perception of individual bundle components has not been studied to a great extent (Simonin and Ruth, 1998). As an exception, two studies have focused on the consumer perception of the individual bundle items. Firstly, as discussed earlier, Sheng et al. (2007) focused on how price discounts influenced consumer perception of the discounted bundle component. Secondly, Sheng and Pan (2009) showed that a strong brand image of the bundle partner enhances the quality perception of the new product. Further, this effect magnifies in the presence of complementary bundle components. However, they did not study the impact of different prices of the strong brand on the quality perception of the new brand. This study, primarily, aims at addressing this research gap.

Despite extensive research in the field of bundling, the impact of bundle features on consumer evaluation of individual bundle components has not been studied in detail. In this study, I attempt

to understand the impact of bundle features on the perception of, both, the new as well as the old brand. The prime focus of this study is to examine how bundle features such as complementarity of the bundle components and price of the strong brand influence consumer evaluation. This research will use the enhancement effect and the categorisation theory to answer the following questions: (1) how does the complementarity of the bundle items impact consumer evaluation of a new brand which is bundled with a strong brand? (2) How does price of the strong brand impact the evaluation of the new brand? (3) Will the strong brand's image be impacted by the quality perception of the new brand? (4) Will the complementarity of the bundle components further influence it? Addressing these questions will help managers design effective bundling strategies that can positively impact the evaluation of all the bundle components.

The literature review will begin by discussing previous research on bundle evaluation. It will cover the anchoring and adjustment process, which consumers resort to while evaluating a bundle offer. It then covers categorisation heuristics and the enhancement effect which dominate evaluation of the new brand in the bundle. Finally, the role of functional relationship between the bundle components on the evaluation of the individual bundle items is studied.

The literature review will help in understanding the hypotheses formulated. These hypotheses are tested with the help of two separate studies. The final sections discuss the results of the research and the implications arising out of it.

2. Bundle evaluation

Adams and Yellen (1976) theorised that the overall utility of a bundle is the sum of individual utilities of its components. Gaeth et al. (1990) theorised that the monetary worth may not be the best indicator of bundle evaluation as there are other parameters that can be assigned a greater weight. These parameters could be the attributes or the consumer perception of the bundle items. Further, Yadav (1994) proposed that consumers resort to heuristic processing in order to simplify the complex task of bundle evaluation. This is referred to as the anchoring and adjustment process (Tversky and Kahneman, 1974).

The anchoring and adjustment process consists of three stages (Yadav, 1994). The first stage is the scanning process in which consumers examine individual bundle components without evaluating them. The second stage consists of the anchoring process where consumers identify the anchor which is the item possessing the most perceived benefit. Finally, consumers take the anchor as a reference and evaluate other components with respect to the anchor's attractiveness. The remaining bundle components are evaluated in a decreasing order of importance. The overall bundle evaluation is adjusted upwards or downwards depending on the evaluation of individual components.

However, anchoring and adjustment can lead to a biased bundle evaluation due to insufficient adjustments (Yadav, 1994). After evaluating the anchor, consumers evaluate the remaining components by adjusting the overall evaluation as per the evaluation of the current item. But they, often, do not evaluate every item in the bundle as it is a tedious task. Therefore, the overall bundle evaluation can get biased in the direction of the anchor's evaluation.

In case a consumer finds an excellent anchor then the presence of a subsequent moderate bundle item leads to a downward adjustment in the bundle's overall evaluation. However, the tendency to adjust the evaluation upwards, in case of a poor anchor (and an excellent subsequent item), is less due to the insufficient adjustment heuristic (Yadav, 1994). Therefore the overall bundle evaluation will be higher when an excellent anchor is followed by a

moderate add-on item when compared to a moderate anchor being followed by an excellent add-on item.

Evidently, a positive evaluation of the anchor is necessary for a positive evaluation of the overall bundle. The insufficient adjustment heuristic will lead to a better evaluation of the entire bundle if consumers highly value the anchor. Therefore, managers can focus on emphasising the anchor's quality to ensure a higher overall bundle evaluation. A reputed brand name or a high price can serve as an efficient signal to indicate the quality of the anchor (Rao and Monroe, 1989). Once the quality of the anchor is established, the enhancement effect and the categorisation process take over the evaluation of the remaining bundle items (Bodenhausen and Wyer, 1985). I explain these phenomena in the next section.

3. Categorisation theory and enhancement effect

Sujan (1985) proposed that new objects can also be judged by evaluating and adding the utilities of their individual attributes. However, this process is tedious as it requires excessive cognitive resources to process the information systematically. To avoid such complex processing, consumers resort to the categorisation process (Cohen, 1982).

Consumers tend to categorise objects which appear similar to each other. If a piece of information about a new object is perceived to be similar to an existing object in the memory, then that new object is grouped together with the existing object. This heuristic method of categorisation helps consumers to judge new products and determine their credibility (Cohen and Basu, 1987).

Once objects are considered to be a part of the same group, categorisation leads to a new member being attributed with the characteristics of the old members (Gilovich, 1981). Evidently, if a new product is categorised with a strong brand then its quality perception can be enhanced (Loken and Ward, 1990). This phenomenon is called the *enhancement effect* (Sheng and Pan, 2009). In the context of bundle evaluation, bundling a new brand with an existing brand can lead to a categorisation of the new brand with the older brand.

Consumers take bundling as a peripheral cue and tend to engage in low elaboration (Sheng and Pan, 2009). Therefore, they resort to categorisation heuristics for judging the attractiveness of the new product without processing the product information systematically. They might perceive the new product to be of the same category as the old product (Bodenhausen and Wyer, 1985). Therefore, bundling a new product with a strong brand can enhance the quality perception of the new brand. Furthermore, the evaluation of the bundle's components can be influenced by their functional relationship (Sheng et al., 2007). Therefore, it is imperative to study the impact of this phenomenon.

4. Complementarity and categorisation

Complementary products are functionally inter-related as they can be used together to perform an activity (Sheng et al., 2007). Greater complementarity between the components of a bundle results in a congruity between them, leading to an increased affect transfer (Meyers-Levy and Tybout, 1989). Therefore, highly complementary products will be categorised with one another, resulting in a greater enhancement effect.

However, non-complementary products are not functionally related to one another. This results in an incongruity between the bundle components requiring a higher level of information processing to resolve (Meyers-Levy et al., 1994). Therefore, consumers thoroughly evaluate specific attributes of the new brand without

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