Bundling as a new product introduction strategy: The role of brand image and bundle features

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ABSTRACT

Marketers can bundle an unknown brand with a strong brand as a new product introduction strategy. Drawing upon the categorization theory and the elaboration likelihood model, this study examines how a new brand can benefit from bundling with a strong brand. The results of two studies indicate that consumers' quality perception of a new brand will be affected by the brand image of a bundle partner, and this effect is moderated by the bundle forms and the complementarity of bundle components. Academic and managerial implications of these findings are presented, along with suggestions for further research.

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1. Introduction

Bundling, the sale of two or more separate products in one package, is widely practiced in the marketplace (Guiltinan, 1987; Stremersch and Tellis, 2002). Software companies may bundle a variety of software. For instance, Microsoft Windows operating system installs a series of additions such as IE, outlook express, accessories, and so on in one package. Standard dinner packages may include soup, salad, and entrée, sometimes at discounted prices. Bundling practices have spawned extensive academic research from both the economic and the behavioral perspectives (for an extensive review, see Stremersch and Tellis, 2002).

Bundling can also play a critical role in new product introduction. A manufacturer can launch a new product on its own, or promote this new product through bundling with an existing product that carries a different brand name (Simonin and Ruth, 1995). For instance, LG launched its new Voyager phone by bundling exclusively with Verizon Wireless in 2007 in the US market. Bundling products with different brands can also be practiced by a retailer. For instance, in an electronics store, you may see a bundle featuring a Sony TV and a Haier DVD player, where Sony is strong and Haier is not as well-known in the US. In the service industry, bundles with different brands are even more common. For instance, a travel plan generally consists of an airline, a hotel, and a rental car (e.g., Delta Airline + Sleep Inn +

Hertz Rent a Car). As an effective marketing strategy to exploit consumer surplus, bundling provides retailers opportunities to increase both sales and profits.

The wide practice of bundling has generated substantial interest in investigating how consumers evaluate bundles in the marketing literature. Gaeth et al. (1990) investigate the influence of quality of a tie-in product on bundle evaluations. Harlam et al. (1995) propose that bundles composed of equally priced goods or related components will result in higher purchase intentions. Johnson et al. (1999) find that consumer evaluations of an offer increase as component price information is bundled. In a similar vein, Mazumdar and Jun (1993) investigate the effect of aggregation or segregation of price increases, finding that consumers will respond more unfavorably to multiple price increases than to a single price increase of an equal amount. Yadav (1994) proposes a weighted-additive model to formulate the cognitive process in which consumers evaluate a bundle. Other researchers have studied the influence of price discount framing on the evaluation of a product bundle (Janiszewski and Cunha, 2004; Yadav, 1995), and purchase contextual effects in a bundling setting (Suri and Monroe, 1995). Using a survey of prices, Estelami (1999) finds that on average, consumers save about 8% by purchasing bundles, and the savings may be affected by bundle characteristics such as the number of items in the bundle and the level of variation in the value of bundled items.

However, the existing research on bundling primarily focuses on consumers' evaluations of the bundle, and has generally ignored the effects of bundling, especially the characteristics of bundled items, on consumer perceptions and evaluations of individual bundle components (Simonin and Ruth, 1998). As an exception, Sheng et al. (2007) investigate the impact of price

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discounts on consumer evaluation of the discounted product in a bundle. Simonin and Ruth (1995) examine the effect of bundling on consumers' reservation prices for the bundle and its components (the primary and tie-in products).

Despite the prevalence of product bundles in the marketplace, surprisingly little is known about how the bundling strategies as well as features of a bundle affect consumer evaluations of the individual brands in a bundle, especially the evaluation of the new brand in a bundle. In the current study, we will address this research gap by investigating how a bundling context influences consumer evaluations of a new brand in the bundle. Furthermore, we examine how features of a bundle, such as the complementarity of bundle components and bundling form, interplay in consumers' evaluative process. Overall, this research draws upon the categorization theory and elaboration likelihood model (ELM) to address the following questions: (1) Will a new brand benefit from being bundled with a strong brand? If so, how? (2) How does the complementarity of bundle components influence the evaluation of a new brand? (3) How does the bundling form influence consumer evaluations of a new brand? Answers to these questions are important because they will provide valuable insights into the bundling strategy from both a theoretical and practical standpoint.

This article is organized as follows. First, on the basis of the categorization theory and ELM, we propose a categorization mechanism to understand bundling effects in new product introduction. This categorization mechanism is shaped by the elaboration process in which consumers evaluate the bundling stimuli. Then we formulate a set of hypotheses, followed by two studies designed to investigate the bundling effects as well as the underlying mechanisms. Finally, we discuss the contributions and managerial implications of the study, and suggest directions for future research.

2. Categorization theory, ELM, and bundling

The categorization theory describes the organization of information in memory as well as the processing of new information. It suggests that people group objects and events into categories based on perceived similarity and resemblances. These categories contain information about their elements, including knowledge of the elements' features and interrelationships, expectations about members of categories, and positively and negatively evaluated information concerning the members. People use categories to structure and simplify their world, storing, and retrieving information in memory around a set of category expectations, and improving cognitive efficiency (Cohen and Bas, 1987; Fiske, 1981; Rosch, 1975; Rosch and Mervis, 1975).

Sujan (1985) suggests two evaluative strategies consumers use to process information. In a piecemeal-based process, consumers reach judgments through assessing each piece of information available from a decision-making context. Products are evaluated on an attribute-by-attribute basis. Consumers integrate information of all attributes, or of the most important attributes to determine the overall value of a product. An alternative approach is categorization-based. The major premise of the categorization-based approach is that people divide the world into categories, enabling an efficient understanding and simplification of the complicated environment. If an object or stimulus can be grouped as a member of certain category, then the affects associated with the category can be transferred to the new object (Cohen, 1982). In the categorization-based approach, affects, attitudes, or judgments are cued by the categorization process instead of a constructive evaluation of multiple attributes of a product. Generally, the typicality (match or mismatch) of a new object or

product to the existing category determines the selection of evaluative approaches. It also determines the probability of a product being included in a consumer's evoked set and its evaluation (Loken and Ward, 1990). The existing research suggests a product's typicality, and thus its membership of a category is determined by its physical features (Rosch and Mervis, 1975; Tversky, 1977). However, categorization is also altered by context cues instead of product features (Henderson and Peterson, 1992). We will examine how the external cues in a bundling context influence categorization of a new object in the current study.

Categorization research has conceptualized two levels of categories, superordinate and subordinate, based on their levels of inclusion or abstraction. Superordinate categories are more inclusive whereas subordinate categories are less. Members of a subordinate category may be more concrete and imaginable, and may have more common concrete attributes than members of a superordinate category (Goldberg, 1986; Sujan and Deklava, 1987). For example, a subordinate category of "fast food restaurant" may be represented by specific fast food restaurants including McDonald's, KFC, Burger King, Wendy's, and so on, which are classified by concrete attributes of the type of food served by the restaurants. However, a superordinate category of "good restaurant" may be represented at the abstractive level by restaurants frequented or recently experienced by an individual. It is classified by more abstractive attributes, like "good food," "nice atmosphere," and/or "friendly waiter" of the restaurants instead of concrete features of food. In the current study, we focus on superordinate categories, indifferent to the concrete physical features of category members. For instance, in a bundle consisting of a Sony TV and a DVD player, we are more interested in consumer perceptions of these two products as "reliable or quality products," rather than a basic-level category of "electronics" or "home theatre electronics." This categorization is based more on abstractive attributes, such as brands or prices, than on physical features.

Though first proposed more than 20 years ago, the ELM (Petty and Cacioppo, 1986) is an information processing theory, which helps explain how consumers process persuasive messages. The ELM distinguishes between two routes to persuasion: the central route and the peripheral route. The central route to persuasion, also labeled as central processing, involves high elaboration or careful scrutiny and thinking about an argument and its merits, to arrive at an evaluation of the advocated message. On the other hand, the peripheral route processes do not involve elaboration of the message through extensive cognitive processing of the merits of the actual argument presented. These processes often rely on environmental characteristics of the message to arrive at an evaluation of a message. The two factors that influence which route an individual will take in a persuasive situation are motivation and ability. A person with greater motivation and ability is more likely to engage in high elaboration and central processing when he evaluates a message. In the context of evaluating a bundle, the features of bundle components may determine a consumer's level of elaboration and his motivation to process information, and hence influence the result of the evaluation.

3. Research hypotheses

3.1. Enhancement effect in bundling

Strong brands are valuable assets that can be utilized through brand alliances, including co-branding, ingredient branding strategies, and advertising alliances (Keller, 2002). Marketers are increasingly bundling a new brand with a strong brand as a new