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The Internet and Product Bundling and Unbundling.

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ABSTRACT: *The Internet revolution having produced a reduction in the phenomenon of "asymmetric information", many suppliers of slightly differentiated products or services, are no longer in a position to earn more than a "normal" profit.*
With customers now better aware of the available options in products and prices, marketers must often align themselves to the lowest common denominator in order to remain competitive. This in turn creates a situation, somehow similar to the commodities markets.
Obviously the traditional competitive strategies of better cost efficiencies or more valuable product differentiation remain effective.
In this paper, it will be shown that marketers in those circumstances might use strategies of "unbundling" their offer or "bundling" several products or services together. This could sometimes be done in conjunction with the transformation in loss leaders of the core products they provide or its accessories.
Keywords: *Marketing, Internet, Unbundling, Bundling, Loss Leader*

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I. INTRODUCTION.

For the last two decades, the world has witnessed the so-called Internet Revolution. Among other consequences, people are, all over the world, inundated with immediate and easily available information. This phenomenon has been exacerbated by the spread of the Smartphone which in combination with the Internet allows consumers to examine products and price options, anytime and anywhere. It is quite common today for a substantial number of customers to go to a particular store and, while considering the displayed goods, check this store's competitors' products and prices. If they see a discrepancy, they might either leave to obtain the better offer, or request from the seller a lower price. In any case the profit of the store owner will decrease.
This increased consumer power, subject of numerous studies (Chlebisova & Svobodova, 2010; Degeratu et al. 2000; Granados et al. 2012; Hoffman & Novak, 1996; Kucuk & Krishnamurthy, 2007; Labrecque et al., 2013; Pitt et al. 2002; Rezabakhsh et al. 2006 etc.), is a consequence of the reduction of "asymmetric information" that describes the traditional gap (especially for consumers' goods), existing between a supplier's knowledge about competitors' prices and products and that of its customers.

The consequence of this phenomenon has been the necessity, for a multitude of marketers of only slightly differentiated products or services, to align their prices to the lowest common denominator, bringing, therefore, a deep erosion of their profit margins, a situation that is more typical to the commodities markets. This has particularly affected the retail industry.

The traditional, and probably best long-term response to the, inherent to perfect competition, "normal profits" problem, is a competitive strategy based either on greater costs efficiencies or valuable product differentiation (Porter, 1980).
However, in some circumstances product "Bundling" or "Unbundling" might provide for some relief.

II. PRODUCT BUNDLING, UNBUNDLING.

Product "Bundling" has been defined as "When more than one item is included in the Price", while "Unbundling" occurs "When products previously sold as a bundle are then sold separately" (Maxwell, 2008).
The issue of Bundling has triggered a lot of interest, particularly among economists, starting with Stigler (1963) and many followers (Adams & Yellen (1974);Scamalalensee (1984); McAffee et al. (1989);)Armstrong (1996); Venkatesh & Kamakura (2003);Hitt, Chen (2005); Walker (2008); Li & Dinlersooz (201), Min-Seok & Etzion (2012) etc…). Those works have been dealing primarily with the relationship between Bundling on the one hand and marginal costs, price discrimination, consumer utility, and antitrust regulation, on the other.

Social scientists have also considered the effect of Bundling on consumer's evaluations and choices (Drumwright (1992); Yadav, Monroe (1993);Harlam et al. (1995); Sorman & Gourville (2001); Chakravati et al. (2002) etc..)

This paper will deal more specifically with the strategic advantages of Bundling or Unbundling in the context of the increased consumer power due to the spread of the internet as described above. In order to better understand this link, the concept of Loss Leader has to be introduced.

III. LOSS LEADER.

A Loss leader is a product sold with minimal profit margin or even at cost or below cost, by a marketer whose intention is to make its profits on the sales of complementary products.

The classical example is the Gillette Company that traditionally sold its safety razors almost at cost, making its profits on the sale of the razor blades that it also manufactures, and which were the only fitting blades to its razors. People attracted by the low price of the Gillette razor, were later on paying for this “bargain” in purchasing the highly priced Gillette blades, which were a necessary complementary product.

There are different variations of loss leaders.

In the first category, as in the Gillette case, the producer of the loss leader has a monopoly on the complementary product, so the consumer is captive. That is also the case with many printers, in which case the profits are made on the ink sales.

In the second category, the consumers know they could buy the complementary product at another supplier, but it would be inconvenient for them to do so. This explains why many movie theaters make their profits, mostly on the sales of candies, beverages or popcorn that are sold with a huge margin. Similarly, supermarkets’ customers, attracted by “specials”, tend to buy other items, in order to avoid the trouble of going to another store. Some high class restaurants make much of their profits on the sale of wine, alcohol, and coffee, rather than on the main dishes.

In the third category, marketers are fully aware that their potential customers know very well what are the different competitors’ models and prices in a certain product category. But, that often applies only to the core product and not its accessories. As a consequence, those suppliers offer the core product at very competitive prices (which leads to low profit margins), but realize their earning through the sale of accessories, that could have been easily bought elsewhere, for a cheaper price, by the core product’s customer .The main difference between this third category and the previous one, is that while, in the second category the customer knows that he could avail himself with a cheaper alternative for the complementary product, but chooses not to do so for convenience reasons; here, the customer is unaware that those alternatives do exist. As an example a bicycle buyer, who after much homework decides to buy a certain model at a precise price, in a particular store, will very often end up buying additionally, a padlock, an helmet, lights … at higher prices than at other places, simply because of his or her lack of awareness of alternative options.

Most car dealers do not count on new automobiles sales for profits, since it is very difficult, today, to sell them for a higher price than the cheapest competitor, but their net income is derived mainly from used cars sales (a very unstandardized type of product), trade-ins, and car servicing and repairs.

It is this phenomenon that is often the basis of Bundling or Unbundling strategies by marketers faced with knowledgeable customers.

IV. BUNDLING STRATEGIES.

Faced with a knowledgeable customer, a bundling strategy will consists, for a supplier, in augmenting the core product with accessories that are not generally included by competitors and take a large profit premium on the full bundle. This strategy works when the customer is not very familiar with the seller’s competition prices for those accessories. Examples of this strategy are stores automatically offering longer than usual guarantees on the core product that results in a higher price for the bundle, than for what is offered separately by competitors. Some cruise companies that have to align themselves to competition, as far as the cruise price is concerned, offer land excursions packages to their clients, at a price that exceeds by far what they would have paid, had they booked those tours from other companies. This is only possible, because many of the travelers are unaware of the competition options and prices.

A variation of this strategy exists, even though the customer could be quite familiar with the different options regarding the accessories, and is therefore not linked to a loss leader policy.

It works by offering a bundle that is less expensive than each of its components, but which would rarely have been purchased in its entirety if the items had been sold separately. So operate some restaurants offering packages (like “lunch specials” or “two for 50% more”) that do consist, pricewise, in a reasonable deal for the customer, but would probably have rarely been bought separately. Likewise, cable television networks often provide packages including a lot of channels that all of them would not have been necessarily purchased by most of their customers.

V. UNBUNDLING STRATEGIES.

For an unbundling strategy, aimed at solving the problem of low profitability when consumers are well informed of other options; it is again possible to combine it with a loss leader policy or not.

The general principle of this strategy is for marketers to unbundle their product into separate item: the core product, and the accessories.

The most visible example is the airlines industry where the competition by low cost flyers is more and more intense, and makes it difficult for more traditional airlines to compete, since a large part of the market will pick up the cheapest alternative. As a consequence, many airlines are now charging separately their customers for services previously included (like registered luggage, meals, drinks etc...).

As a result the price for the core product (a seat in an airplane) is closer to what their low cost competitors charge for, but the customer has to pay for the previously included goodies.

This, by the way, is not always properly understood by passengers, complaining about the decreasing service quality offered by those airlines, dreaming with nostalgia about the good old days, while forgetting that they are paying today a much lower relative price for the same trip.

Similarly, a flight ticket bought through a human travel agent will now cost more than if bought directly through the internet. The customer is being charged for the additional value provided by a personal service. In other words the total service has been unbundled, and the client is now paying an additional fee for a previously "bundled product".

Many furniture store charge now separately for delivery and assembly, and some restaurants started to charge for accompanying bread.

In an unbundled strategy, the core product is not necessarily a loss leader, although it often is the case, (airlines make large margins on the sale of food and drinks during flights). This happens when consumers are well aware of the prices demanded by the different competitors for the core product, but not for all the elements that used to surround it and were previously included in the price. Nevertheless, the basic premise may be more, to make customers aware, that the possibility of getting the core product offered by low price competitors is also provided by a specific marketer at a similar price, while the possibility of receiving additional services is still available. The businesses that follow this strategy are, in essence trying to reach several market segments by offering different product options (differentiated marketing strategy).

VI. CONCLUSION.

The massive dissemination of information caused by the internet technology, has indeed created a situation in which the possibility of realizing more than "normal" profits on many products or services that are only lightly differentiated, has substantially diminished. However, this paper has attempted to show that by cleverly manipulating strategies of loss leading, product bundling or unbundling, marketers find ways to remain profitable.

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