The Effects of Mixed Bundling on Consumers’ Inferences and Choices

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For product categories such as cars, computers, and vacation packages, consumers usually choose options for the product in addition to the product itself. In this research, we examine how the option presentation format – bundling options together and labeling the bundles – affects consumers’ inferences and choices among options. First, we demonstrate that options offered both individually and in bundles are perceived as more important and are more likely to be chosen than options offered only individually. Second, we show that the bundle label affects consumers’ choices by shaping their inferences about the perceived fit between the options and their needs.

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EXTENDED ABSTRACT

For several product categories like cars, computers, vacation packages, and new homes, consumers choose not only the product itself, but also various options for the product. When sellers offer such products to consumers, they make decisions about presentation format. For example, a computer manufacturer like Dell can offer different models of computers featuring different options, or they can offer a base model and give consumers a choice of options (Huffman and Kahn 1998). Further, if the seller offers a base model with options, the options can either be offered individually or in bundles of multiple options (Venkatesh and Mahajan 1993).

Economic theory predicts that when bundles are not discounted, consumers’ option choices should be the same regardless of whether options are presented individually or in bundles. However, this prediction assumes that consumers’ reservation prices for individual options do not change across presentation formats. Empirical evidence suggests that consumers’ valuations for options can be influenced by the presentation format (e.g., Huffman and Kahn 1998; Park, Jun and MacInnis 2000). In this paper, we examine how cues such as whether the options are offered as part of an option package and how the option package is labeled, affect consumers’ inferences and choices.

While there is a substantial body of research considering incentives for sellers to bundle products and options, and optimal bundling strategies in various situations, there is much less research considering consumers’ inferences when they encounter bundles of options. For example, suppose that a computer manufacturer offers Microsoft Office software, a modem, an extended warranty and a printer as an option package in addition to offering these options and other options individually. If customers can purchase the bundled options individually, and the options in the bundle are not discounted, then offering the bundle does not materially change the consumer’s choice set. However, we argue that as consumers evaluate an offer, they make inferences about the options that are offered based on various cues, such as whether certain options are bundled together into option packages, and how these option packages are labeled. Consumers may infer that these options are bundled together because they are more important or because the package was designed to target certain groups of consumers. Such inferences are argued to change consumers’ valuations for the bundled options.

We test our predictions in a series of three studies. Study 1 shows that offering an option as part of a bundle significantly increases the likelihood that the option is chosen relative to otherwise similar options that are not part of the bundle. Participants were more likely to choose options that had been included in the bundle than options not included in the bundle. Providing evidence for the robustness of this effect, the same pattern was replicated for three different products categories.

The description of the option package further affects consumers’ valuations for options that are bundled together. For example, if an option package is labeled “Collegiate Package” instead of “Option Package,” consumers are likely to infer that college students–but not necessarily other consumers–would find these options particularly useful. Therefore, this label is expected to increase the number of college students who purchase at least some of the options in this bundle, but decrease the number of non-college students who purchase options included in the bundle.

Studies 2 and 3 demonstrate that the way an option package is labeled can change consumers’ perceptions of the appropriateness of the bundle for them, resulting in changes in the purchase likelihoods for options in the bundle. Consumers draw inferences about the value of the options to them based on the presence of the bundle and the label of the bundle, and these inferences influence their choices. The results of studies 2 and 3 suggest that the label of the bundle moderates the effect of presenting options as part of a bundle that was shown in study 1. Moreover, we show that study 1’s effect is not due to anchoring or salience, because the inferences and the labels given to the bundles affect the options selected.

Our findings from these three experimental studies underscore the importance of the presentation format in influencing consumers’ choices of options for products. Because consumers make inferences based on cues such as whether certain options are bundled together into option packages, and how these option packages are labeled, these cues can systematically affect their choices. These inferences may explain why consumers continue to encounter many examples of mixed bundling even when online ordering and flexible manufacturing reduce the costs of customization.