

THE EFFECT OF BUNDLE FRAME ON PURCHASE INTENTION AND CUSTOMER'S RESERVATION PRICE

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Abstract

This paper examined the influence of bundle frame, the presentation format of products within the bundle, on customer's purchase intention and reservation price. The results from a laboratory experiment indicated that purchase intention was higher when the bundle price was presented in segregated form than an integrated one. However, presenting discounted price in segregated form posed negative impact on customer's reservation price. In a segregated price framing, the discount prices of individual products are unambiguous resulting in customer's inference that the product is cheap, thus, they will decrease the price that they are willing to pay (or reservation price) for the products in the future. On the other hand, in the integrated price framing, there is an ambiguity about the cost of each individual product, the inference that the price of individual product is low will not occur. Thus, the reservation price of customers who are presented with the segregated price framing is lower than those with integrated price framing.

INTRODUCTION

Bundling, the sale of two or more separate products in a package (Stremersch & Tellis, 2002), is a widespread phenomenon in today's market. Firms in a number of industries have used such a strategy to increase sales and profits. For instance, in the service industry, hotels bundle lodging, meals and activities within one package. In the restaurant industry, several restaurants offer set menu combining main course, drink and dessert. In consumer product industry, a bundle of toothbrush and toothpaste, a bundle of shampoo and conditioner, and a bundle of soft drink containing six cans of the product in a package are prevalent in the market.

Bundling strategy has received attention in the economic and marketing literature since the 1970s. Most of the literature has examined how customers evaluate the value of products within a bundle (e.g. Adam & Yellen, 1976; Chakravarti, Krish, Paul, & Srivastava, 2002; Cready, 1991; Dolan & Simon, 1996; Gal-or, 2004; Guiltinan, 1987; Hanson & Martin, 1990; Janiszewski & Cunha; 2004; Kalwani & Yim, 1992; Kalynaram & Little, 1994; MaAfee, McMillan, & Whinston, 1989; Naylor & Frank; 2001; Salinger, 1995;

Schmalensee, 1982, 1984; Venkatesh & Kamakura, 2003; Yadav & Monroe, 1993; Yadav, 1995) and how the presentation format of a product bundle, namely the bundle frame, can influence customer's perception of value (e.g. Chakravarti et. al, 2002; Harlam, Krishna, & Mela, 1995; Heat, Chatterjee, & France, 1995; Stremersch & Tellis, 2002; Yadav, 1995).

Although the issues of bundling frame are widespread in the economic and marketing literature, there is no universal classification and definition of the bundle's frames. Moreover, while several researchers (Chakravarti et al., 2002; Harlam et al., 1995; Stremersch & Tellis, 2002; Yadav, 1995) agreed that different bundle frames affect customer's perception and purchase intention differently, a conflict still exists as regards to a certain frame providing higher purchase intention. Harlam et al. (1995) showed that presenting a single bundle price (integrated price framing) resulted in higher purchase intention than presenting the price of each product in a bundle separately (segregated price framing). However, Chakravarti et al. (2002) found that presenting the price of product bundle showing separated price is more favorable to consumer rather than presenting a single bundle price. Since there is an inconsistency in the previous research, this paper attempts to examine