How to price goods and service bundles

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For consumers with two left thumbs, purchasing a product that comes with installation included makes a lot of sense. But for retailers, the quandary is how to price the package in a way that's attractive to the buyer and profitable for the seller. Marketing Professors Jeffrey Meyer and Venkatesh Shankar posit a solution in "Pricing Strategies for Hybrid Bundles: Analytical Model and Insights." The article is forthcoming in the June 2016 issue of the *Journal of Retailing*.

Meyer, an associate professor of marketing at Bowling Green State University, and Shankar, Coleman Chair in Marketing at Texas A&M'S Mays Business School, analyze the different combinations of goods and services that can be offered in a hybrid bundle according to the variability of each element's quality and cost, as well as to the scalability of both the product being offered and the service guarantee. They then demonstrate that how these elements are combined have an impact both on consumer demand for the bundle and its separate elements and the retailer's profit. This calculus has become critical as retailers find that the market is increasingly receptive to such combination packages.

In one example of a failed hybrid bundle cited by the authors, Domino's Pizza offered a guarantee that its pizzas would be delivered within a certain timeframe (the service) or the pizza (the good) would be free. But Domino's failed to gain control over the delivery time, so "the cost of its service guarantees outstripped any incremental customer revenues that its service guaranty brought." In contrast, Romano's Macaroni Grill managed to control the quality of its service in a way that also improved staff efficiency and was thus able to attract more customers and enhance profits.

In setting hybrid bundle prices, the authors write, retailers must take into account the interaction between the scalability of the elements offered within a hybrid bundle and their marketability as standalone items. "When the service is less scalable than the good and when the service is available autonomously, retail managers should consider pricing the service higher to maximize profits. Increased scalability of the good generally leads to relatively lower prices for the hybrid bundle and the good."

More information: Jeffrey Meyer et al, Pricing Strategies for Hybrid Bundles: Analytical Model and Insights, *Journal of Retailing* (2016). DOI: 10.1016/j.jretai.2015.12.001

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