

Research Article

# Bundling Pricing Model

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**Abstract:** Bundling pricing is a strategy employed by businesses to offer several products as a package and sold as a single unit for one price. In today's competitive environment, the bundling pricing has gained traction in all types of businesses. It has become an effective method in boosting profits while enhancing overall customer experience, especially during economic downturn where customers are more skeptical about price. However, it is crucial to create bundles with products that consumers genuinely need and set reasonable prices. Price bundling becomes an effective task if a business is armed with real-time pricing knowledge. This study proposes a framework to determine the bundling pricing by taking into consideration the most relevant aspects such as consumers' preferences, production costs, company characteristics and also the market competitiveness. It is built on the idea of consumer surplus which indicates the difference between what the customer pays and what the customer was willing to pay and crafted the bundling price in an ever-evolving process that takes plenty of real-world factors into account. This innovative model can be adopted by all businesses especially the small and medium enterprise in effectively tailoring their bundling pricing strategy.

**Keywords:** Bundling pricing; Pricing Strategy; Product Bundles.

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## 1. INTRODUCTION

Price is always the most important differentiator for consumers and is one of the most notable sections in enhancing competitive capability of the firm in the market (Rafiei et al., 2013). Bundling pricing is appealing to customers as it offers the benefit of a single, value-oriented purchase of complementary offerings. In fact, it had been long proven that bundling pricing serves as an effective way to conquer downturn economic downturn (Docters et al., 2004). Indeed, more recent studies indicate that bundling pricing strategy has significant influence toward purchasing decision (Musa, 2017) and that the bundling pricing strategy is best known for its effectiveness as one of the advanced marketing strategies (Prasad et al., 2015; Shaddy & Fishbach, 2017). Since then, the bundling pricing strategy has attracted attention of academicians and practitioners in a growing manner (Ettl et al., 2020; Seele et al., 2021; Lin et al., 2022; Liu et al., 2022; Neubert, 2022). In a competitive market, price is decided upon factors from market and customers, including market share, customer willingness to pay, and competitors' power. The development and evolution through pricing have made this field a promising one for the academicians and practitioners. Subsequently, it is vital to offer prices that

makes the customers feel like they have obtained the best deal possible. The Bundling Pricing Model is developed and designed to assist the businesses in determining the bundling price as an effort to increase sales and profits. It enables businesses to monitor the competitor rates and receive pricing suggestions based on demand flows. It is envisaged that this innovative Bundling Pricing Model will capture more customers' surplus and eventually boost the sales. This is exceptionally true during this bad time as most of the people are suffering from a decline in income and seek for a better deal in spending.

## 2. METHOD & MATERIAL

Crafting the prices is not a one-and-done task but rather an ever-evolving process that must take plenty of real-world factors into account. This Bundling Pricing Model crafts the bundling price in an ever-evolving process that takes plenty of real-world factors into account. It determines the bundling pricing by taking into consideration the most relevant aspects including the production costs analysis (Lucas & Rafferty, 2008; Dolgui & Proth, 2010; Huang et al., 2013), competitor's analysis and customer demand (Hinterhuber & Liozu, 2014; Le & Lei, 2018; Hinterhuber et al., 2021). In addition, this model also incorporates useful tools like SWOT analysis of the firm (Lancioni, 2005; Komari et al., 2020), customer's feedback analysis (Goedegebure et al., 2020; Mourtzis et al., 2018; Christian & Utama, 2021) and also product popularity data analysis (Schulte-Holierhoek et al., 2017; Qian et al., 2022) to enhance the effectiveness of the results. It is envisaged that the Bundling Pricing Model developed will not be just more appealing to the customers but more profitable to businesses as well.

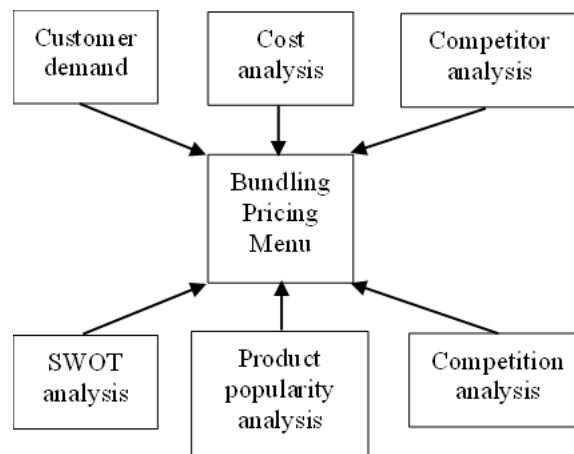


Figure 1. Bundling Pricing Model.

A seafood restaurant was selected to be the pioneer study of the application of this Bundling Pricing Model. The findings based on the Bundling Pricing Model suggested the adoption of mix-and-match bundling technique to the restaurant. The bundling pricing strategy includes a few main dishes for the customers to choose from and they can create their own custom bundle from the options available. This strategy helps the customers feel that they are in direct control of what they want to buy, thereby increasing the perceived value of the item. This is the perfect method for encouraging the customers to buy products in bulk without forcing them to buy items which do not favour them. In the price setting, it is proposed to bundle up the menu with Charm Pricing strategies. For example, shell out combo have different prices such as having a set of meal along with beverages. Via bundling, this price can give beneficial to business such as more customers will come to their restaurant and order set of combos. This also increases their efficient in the business because most customers will see the prices before they order it. It therefore boosts the sales and profits and assists the business to grow bigger.

A survey aims at eliciting views from new and returning clients was carried out. Random sampling of 62 respondents were invited to answer the questionnaire via Goggle Form. Respondents were asked to answer a total of nine questions aiming at gauging their perception and opinion on the budling pricing menu. Descriptive analysis was performed to analyse the results. The findings provide insights into whether this Bundling Pricing Model is effective in boosting a business sales and profits.

### 3. FINDINGS

Table 1 exhibits the results of the survey. The results obtained were analysed descriptively to reveal how many percent of the respondents were agreed with the statement.

Table 1. Descriptive results of the survey.

No.	Item	Yes	No
1.	Do you favour the bundling pricing offering?	100%	0%
2.	Do you think that the bundling pricing menu is reasonable?	89%	11%
3.	Would you order the bundles pricing menu as proposed?	98%	2%
4.	Do you think that the bundling pricing will become the attraction to customers?	100%	0%
5.	Do you think that the bundling pricing menu offers a better deal?	98%	2%
6.	Do you think that the bundling pricing menu worth the value?	100%	0%
7.	Do you think that the bundling pricing menu is suitable for all categories of customers?	95%	5%
8.	Do you think that the bundling pricing will capture bigger market share?	100%	0%

All the respondents are in full support to have bundling pricing menu. Their support towards the initiatives to offer bundling pricing might draw in more new clients. While 89% of the respondents perceived that the pricing is reasonable, there is however 11% of the respondents think that the price of the proposed menu is expensive to them. This suggests that the promotion activities should target at middle and high levels income groups who have more purchasing power.

Besides, the result is encouraging as 98% of the respondents indicated that they will order the bundles pricing menu as proposed. A high rate shows that the bundling pricing is effective in attracting the customers as they could have foods and drinks in bundles and the most important, they have the right to choose and match their own bundles.

This is further supported by the finding that all the respondents think that the bundling pricing will become an attraction to customers while 98% of the respondents are in the opinion that the bundling pricing menu offers a better deal. This is extremely essential to yield the customer surplus in which the respondents perceived that what they pay is greater than what they are willing to pay.

This is further proven when all the respondents agree that the bundling pricing menu worth the value. As for the question pertaining whether the bundling pricing menu is suitable for all categories of customers, it is not surprise that 5% of the respondents said no as seafood is considered more expensive and not everyone could afford it. Nevertheless, all the respondents cited positively on this bundling pricing menu in capturing a bigger market share.

As for the sales and profits, the restaurant recorded a remarkable upsurge as compared with the figure before adopting the Bundling Pricing Model. Table 2 shows the comparison of the monthly sales and profits in the first three months (December, January and February) as compared with the month prior to the adoption of the Bundling Pricing Model (November).

Table 2. Comparison of Monthly Sales and Profits (based on November 2022).

Month	Sales	Profits
December 2022	+24%	+18%
January 2023	+35%	+26%
February 2023	+32%	+24%

#### 4. DISCUSSION

The creativity of this model embarks on internal analysis including the SWOT analysis, cost analysis and product popularity analysis while the external analysis takes into account the customer's demand and competition analysis. This is proven by the results that the bundling pricing menu is not just more appealing to the customers but more profitable as well. It is also to highlight that this Bundling Pricing Model is practically sound as it employs Competitor-based Pricing Tool that allows a business to gain insight into how competitors craft their pricing tiers, what strong points they emphasize and the core value metric used. This allows a business to elaborate his own pricing more effectively. This is supported by the findings that the Bundling Pricing Model is much welcomed by the customers. The customers are satisfied and crave to try on the bundling menu set at affordable price. By implementing this bundle pricing menu, it does not only introduce the customers to multiple products at once, but also increase the sales of related food items. This has enabled the restaurant to stand out from the four close competitors which are just located next to each other. As a result, the restaurant has yielded a remarkable increase in profits in the first three months after implementing the bundling pricing strategy proposed.

#### 5. CONCLUSION

The pioneer study had proven the effectiveness of the Bundling Pricing Model in helping the business in setting the optimize pricing, increase sales and profit while providing more value to consumers. In terms of Novelty, to our knowledge, this is the first project that built on the idea of Consumer Surplus in setting the bundling pricing for businesses. We envisage that bundling pricing takes advantage of the fact that the variation in bundle valuation is typically smaller than variation in the valuation of individual components, thus allowing the business to extract consumer surplus more effectively.

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