Competitive Bundling and Counter-bundling with Generalist and Specialist Firms: Research Note

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Abstract

Bundling, which is the practice of selling two or more products or services in a package, is a pervasive marketing practice and is often used as a strategic competitive tool. However, there has not been enough consideration of competitive bundling situations where exit of a competitor is not a concern. In this paper, we address this issue by identifying conditions under which strategic competitors may or may not resort to bundling when competitor exit considerations are absent. We study competition between a multi-product generalist firm and two single-product specialist firms in two product categories, one of which has undifferentiated products while the other has differentiated products. In our model, the specialist firms can form an alliance to bundle their products in competing with the generalist firm. In contrast to the previous literature, we find that concurrent bundling by competitors, if it occurs in equilibrium, is profitable. We also find that when one competitor bundles and the other does not, the bundling firm gains a greater share of customers and makes a higher profit. However, when conditions favor counter-bundling by a competitor, such counter-bundling helps the competitor retain its customers. Finally, we note that under other market conditions, concurrent bundling by competitors escalates price competition to the extent that retaining customers through bundling is not profitable. In such a case, we show that strategic competitors are better off having asymmetric product lines with one competitor bundling and the other selling unbundled.