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# Bundling as competitive strategy

Jeff MacKie-Mason

SI 646

Do you want to see...

Gone With the Wind?

...well, then you  
also gotta pay  
for...

Getting Gertie's Garter?

Loew's "block booked" its movie  
backlist for licensing to TV.

Why?

Suppose GWTW worth \$10K,  
GGG worth \$0K

Can't get any more from  
block-booking than from  
separate booking.

		Content	
		GWTW	GGG
Network	ABC	\$12,000	\$3,000
	NBC	\$10,000	\$4,000

-max separate prices?

\$10,000 for GWTW

\$3,000 for GGG

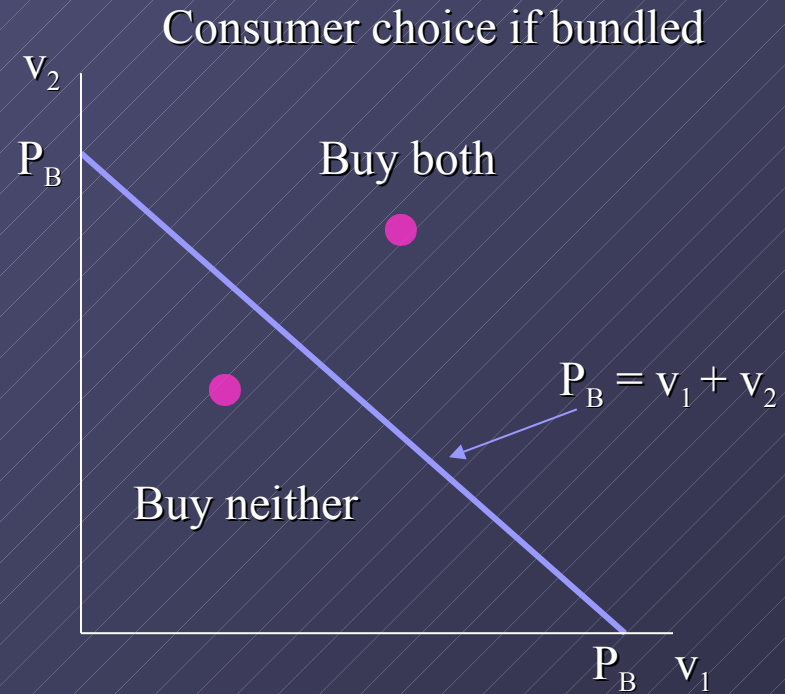
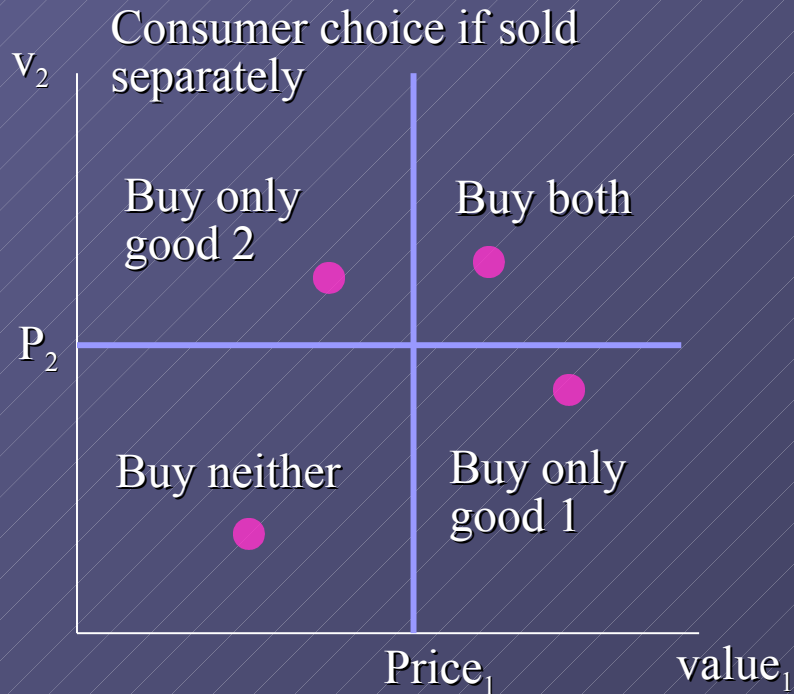
Revenue = \$26,000

Bundle price?

\$14,000

Revenue = \$28,000

# Consider selling two goods to many consumers with different valuations.

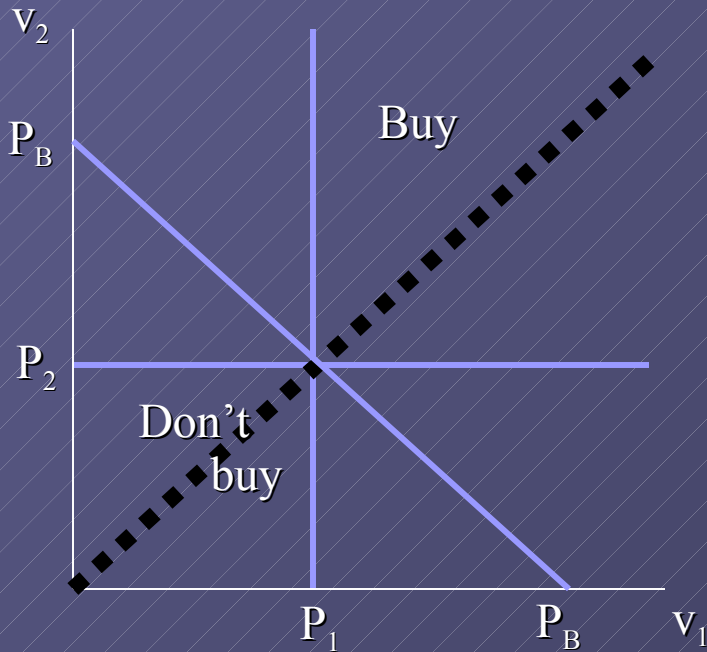


So, best strategy depends on number of customers in each region.



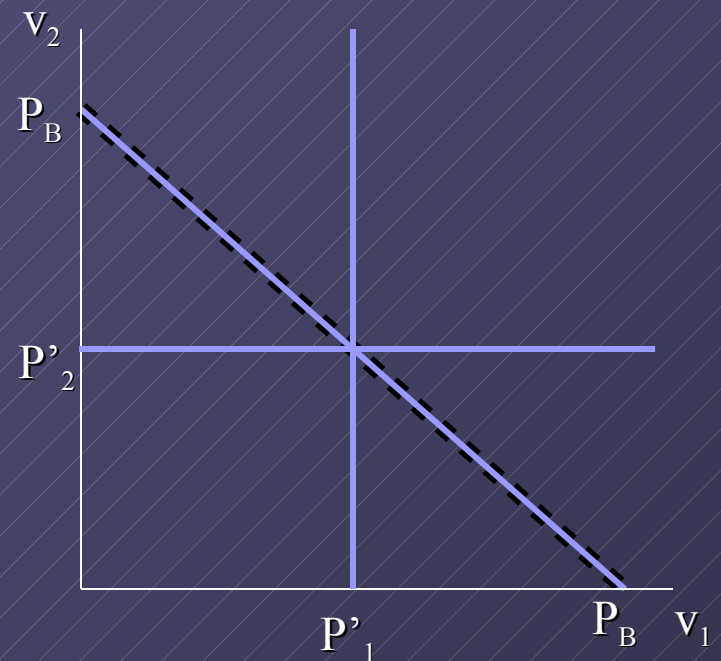
# When is bundling effective?

Perfectly positively correlated valuations



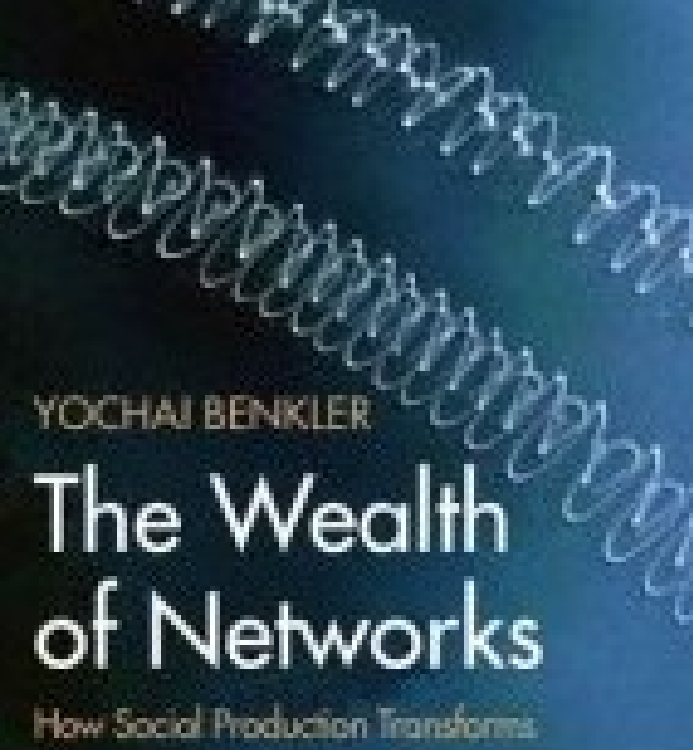
No gains from bundling  
( $P_1 = P_2$ ,  $P_B = P_1 + P_2$ )

Perfectly negatively correlated valuations

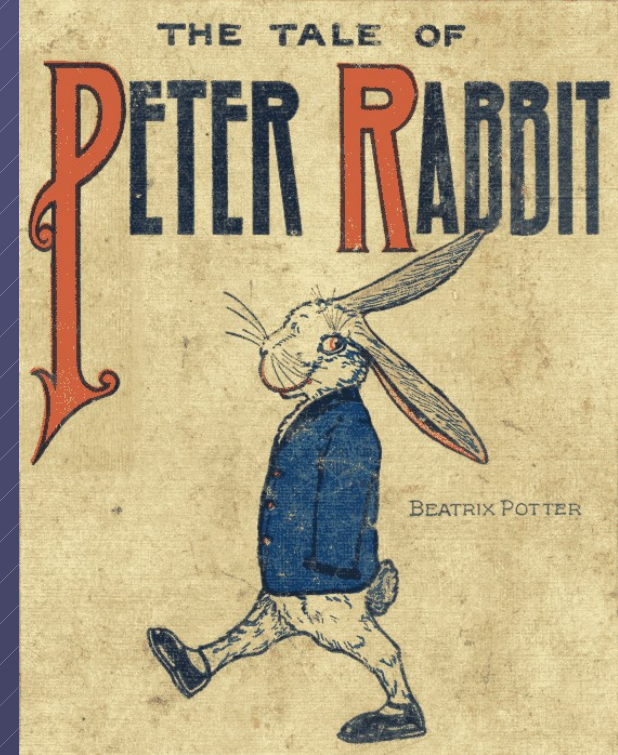


Complete surplus extraction  
from bundling

# Bakos & Brynjolfsson on bundling information goods



# Bundling paperback books



$$p_b = 1.3, \pi_b = 0.3$$

$$p_l = 1.0, \pi_l = 0.5$$

Sources:

Image on left: CC BY-NC-SA Yochai Benkler (Wealth of Networks) <http://creativecommons.org/licenses/by-nc-sa/2.5/>

Image on right: <http://www.gutenberg.org/etext/14304>

**Prop 2: If MC large enough,  
bundling will be unprofitable.**

Bundle will include some goods with  $v > MC$ ,  
some goods with  $v < MC$ .

If MC high enough, paying so much for  
unwanted goods that it outweighs benefit  
of demand averaging

# Economies of scale in distribution favor bundling.

The Internet reduces distribution economies, can induce unbundling.

Why consider only bundling monopolists? Info products usually face some competition.

Fay & MacKie-Mason: With some imperfect competition, most demand aggregation profit competed away. Consumers keep surplus.

PD: charge different prices

**Bundling is alternative to price discrimination when demand heterogeneous.**

Bundling: average across goods

**“Even information commodities  
can be successfully  
differentiated if you exploit  
the unique features of the  
Internet.”**

**(S&V p. 26)**