Bundling Strategy: How It Helps Lower Consumers' Perceived Risk Associated with a New High-Tech Product Purchase

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Abstract

Convincing consumers to buy a new product is always a challenge for marketers of a high-tech firm because consumers usually perceive a new high-tech product as risky. With this doubtful feeling, consumers tend to delay or cancel a product purchase reflecting in a high failure rate for a new product. This study aims to explore whether bundling strategies help lower consumers' risk perception associated with a purchase of a new high-tech product. We develop a theoretical framework to explain how bundling strategies help consumers feel more confident to buy the product. We also explore the factors influencing this feeling. Based on an extensive review of the literature, we suggest five related factors influencing consumers' risk perception. The results of this study not only help marketers formulate specific strategies for successfully introducing new high-tech products into today's dynamic market, but also help consumers make their decision to buy new high-tech products easily with less time, effort, and anxiety.

1. Introduction

High level of risk perception has been known as an impediment that delays consumer acceptance of a product [1]. In high-tech environment, many consumers experience high risk from either market uncertainty or technology uncertainty [2]. For example, most consumers are concerned whether a new product will perform as advertised, have reliable functions, or offer sufficient after sales services. When faced with the purchase of a new high-tech product, especially in the absence of complete or reliable information, consumers tend to either delay product purchase [3], or rely upon external cues such as brand name, store reputation, and price [4]. To be successful and to have high rate of new product adoption, marketers need to develop strategies for lowering consumers' perceived risk [5].

In general, marketers develop various strategies to reduce perceived risks and increase levels of consumer awareness and product acceptance [6,7]. These strategies include brand extension, advertisement, or warranty with trial period. However, the effectiveness of these strategies is often compromised because they require consumers engage in more information search and product/price/brand comparisons from a better deal making the decision process even more time- and effort-intensive.

Research on cognitive dissonance suggests that when the best choice is not obvious, consumers feel anxious and hesitant. Previous research on bundling indicates that bundling not only helps decrease consumers' effort and anxiety, but also increases consumers' feelings of confidence by convincing them to make risk-return tradeoffs [8]. This leads us to believe that consumers may feel more confident to buy high-tech products offered in a bundle because the benefit provided by a whole bundle cancel or exceed the inherent risk perceived in a new product.

2. Research Objectives

The purpose of this study is to examine whether marketers can use bundling as a viable strategy for marketing new high-tech products. Two specific research questions are addressed:

1. Is consumers' risk perception of the new high-tech product lower when the product is sold as a bundle as opposed to a stand-alone product?
2. What specific kinds of bundles help lower consumers' risk perception?

To answer the second question, we also examine factors that make one bundle of products more attractive to consumers than another. Based on an extensive review of the literature, the following factors reflecting the choices usually found in the market have been identified:

1. Type of presentation (bundle vs. stand-alone product)
2. Position of a new product in a bundle [anchor (main product) vs. tie-in (secondary product)]
3. Brand of a new product and existing product in a bundle (well-known vs. less-known)
4. The level of a new product innovation (high vs. low)
5. Discount of a bundle purchase (low vs. high)

3. Conceptual development

Perceived risk is one of the most predictive variables of product adoption and diffusion of innovation [9,10]. It is defined as the possibly negative consequences of a consumer's actions [1]. In other words, risk represents the buyer's personal assessment of the consequences of making a purchasing mistake. Perceived risk may take several foms including: financial, performance, psychological, physical, and social [11]. For most high-tech products, the sources of innovation resistance are financial, performance, and/or psychological risks. A high price may result in financial loss, while complex product performance, technical uncertainty, and unreliability of services associated with product purchases may result in performance and psychological risk. These undesirable characteristics increase consumers' perceived risk. Since most consumers are risk averse, they tend to delay a future purchase or wait and see the result from others who can afford the financial risk [3]. The wait-and-see situation is a sign of a new product failure [12].

Bundling is the practice of offering two or more products together as a single unit for a special price, which is lower than the price of purchasing each product separately [13]. Research has shown that consumers achieve greater value by purchasing the bundled products; feel more confident that all items in a bundle work well together; and are able to make buying decision with less time, effort, and anxiety [8]. With bundling strategies, marketers are able to persuade consumers to buy more products in exchange for the greater value delivered, resulting in successful introduction of the new technology products to the market. Prior studies also indicate that bundling strategy can be used to convince consumers to make risk-return tradeoffs [8,13]. We argue that the feeling of gains attached to a bundle cancels or exceeds the feeling of risks inherent in a new product. Based on the risk-return tradeoffs, marketers could bundle their new high-tech products perceived as high risk with well-known products/brands and offer the package at a small discount. The value of the dis count, together with the halo-effect of being bundled with an established brand/product, could reduce consumers' perceived risk, enhancing its acceptance. Therefore, bundling may be an effective tool for marketers to attract consumers to buy new high-tech products. To create a successful launch strategy, marketers need to know what factors influence consumers' perception of risk as well as their intention to buy. These factors are discussed below:

3.1 Type of presentation (bundle vs. stand-alone)

Prospect theory suggests that people avoid risk when faced a sure gain and accept risk when faced a sure loss [14]. When gains and losses are combined resulting in an overall positive outcome, people prefer products that are offered in a bundle. Conversely, when a combination of gains and losses results in an overall negative outcome, people prefer products that are offered separately [15,16]. Based on this concept, most consumers prefer to purchase a new high-tech product offered in a bundle over a stand-alone form. One reason is that consumers cancel uncertainties inherent in a new high-tech product with benefits from a whole bundle. In addition, the elements of the bundle enhance one another in terms of quality and assurance [13], resulting in an overall positive outcome. That is, as compared to a stand-alone offer, bundling helps lower consumers' perceived risk associated with the purchase of a new product. Moreover, a bundle usually offers consumers a better value (e.g., discount, saving), as well as an easier way to make decision (e.g., optimized components with proprietary interfaces, one-stop shopping) [8,17]. Therefore, bundling strategy is an effective tool for a new high-tech product introduction.

3.2 Position of a new product in a bundle (anchor vs. tie -in product)

Consumers evaluate bundling by using anchoring and adjustment heuristics [18]. The main product or anchor is usually examined first and then used as a standard for secondary product or tie-in product evaluation [19]. This implies that consumers may give more value as well as awareness on the anchor than the tie-in product. Therefore, placing a new high-tech product perceived as risky as a tie-in product in a bundle with an existing main product may help lower the risk. Consumers may feel more confident to buy a new product because they trade off the risk inherent in a new high-tech product with the benefits from an existing main product.

3.3 Brand of a new product and another product in a bundle (well-known vs. less-known)

Consumers often rely on extrinsic cues such as brand name when evaluating product because they want to feel secure in product performance [4]. Purchasing a well-known brand with a quality reputation is a consumer risk-reduction strategy especially when intrinsic cue information is deficient and prior experience is limited [7,20]. The amount of risk perceived by consumers in considering the purchase of an innovative product is found to be related inversely to their perceptions of the product innovator's reputability. Since most consumers fear the possibly negative consequences of high-tech product purchases, they may prefer to buy a new product offered under well-known brand to ensure the reliability and product quality. This phenomenon is called halo effect [24], which is a tendency to evaluate specific attributes according to the general impression (e.g., well-known brand) of the object being rated [25].

Existing research has shown that marketers can successfully market products by using the role of brand alliance which is one brand are transferred to or affected by the impressions of the other brands which it is strategic linked [21,22]. The transference of effect between allied brands occurs because consumers assume that a high-quality product will ally itself only with other high-quality products in order to avoid damaging product's reputation [23]. Therefore, bundling a new high-tech product with another existing product offered under well-known brand can lower consumers' perception of risk due to the halo effect of the well-known brand.

3.4 The level of a new product innovation (high vs. low)

The notion of product innovation to consumers has often been identified as a perception of product uniqueness or superior product advantage [26]. An advantage refers to the degree to which an innovative product is perceived to be superior to those that preceded it [27]. Previous research has reported that consumers response positively to the product innovation but negatively to the risk perception. The reason is that many consumers are risk averse. The higher the risk perceived by a consumer, the higher the resistance to the innovation [28]. A high-risk innovation will generally ensure greater deliberation prior to adoption. A slow rate of adoption in the beginning and a snowball effect later on due to word-of-mouth communication defer the adoption process. On the other hand, a low-risk innovation coupled with relative advantage of a new product expedites new product adoption. These support the idea that offering a low innovation product could help lower consumers' perceived risk associated with the purchase of new high-tech products.

3.5 Discount of a bundle purchase (low vs. high)

Adoption of innovations can be influenced by economic constraints. This economic constraint forces consumers to wait and see material resulting from the adoption of a new product by others who can afford economic risk [29]. Most bundles are priced to provide a discount to the buyer. Discount may enhance consumers' needs and reduce their financial risk [7]. Since most buyers feel uncertainty about high-tech products and are afraid of making a purchasing mistake, they may prefer high discount to low discount. This can be explained by the notion of transaction utility presented by Thaler (1985) who suggests that the probability of purchasing a product is affected by the attractiveness of the transaction or deal. Each consumer selects the product that maximizes his surplus [30]. A high discount obviously provides consumers a better value with lower financial risk.

4. Conclusion

The perception of risk has become part of the standard inventory of the consumer behavior in the literature on the marketing of high-tech products. Based on prospect theory and transaction utility concepts, this study explores the use of bundling strategies for lowering the perception of risk associated with the purchase of new high-tech products. In addition, this study provides a way to formulate specific strategies for successfully introducing new high-tech products into today's dynamic market. We offer a better understanding of the linkages among the following areas: bundling strategy, risk reduction, and new product introduction/launch.

To date, bundling has been viewed primarily as a pricing issue. Our study proposes a different, more strategic, perspective on the use of bundling as a risk-reduction tactic. Bundling a new technological product with an existing product forces the buyers to make risk-return tradeoffs. Perceived losses inherent in a new high-tech product are canceled by perceived gains from a bundle discount and halo effect. This tradeoff allows buyers to feel more confident about the purchasing decision in the absence of perfect information, resulting in an increase of new product adoptions.

Although we argue that marketing new technology in product bundles is always likely to lower consumer risk, as compared to offering the same product in a stand-alone form, some types of bundles are more likely to be successful than others. Specifically, bundles with the new product as a tie-in rather than the anchor, bundles with well-known brand rather than less-known brand, bundles with incremental rather than radical new innovations, and bundles with deeper discounts are more likely to be successful than other bundles.

With specific knowledge of factors that effect consumer risk, marketers can design bundling strategies for launching their particular high-tech products. For example, this study can help managers decide which firms/brands will make more effective alliance partners for the bundle, what specific levels of new product innovation will be more appropriate, and finally what level of bundle discount will be more attractive for their high-tech product.

5. Limitations and directions for future research

This research proposes a theoretical argument for the use of bundling strategies for reducing consumers' perception of risk associated with the purchase of new high-tech products. The lack of empirical validation is the biggest limitation of this study. However, this limitation also provides avenues for future research on this subject, which could empirically test the hypotheses proposed in this study using conjoint analysis and analysis of variance. Factorial designs could be created with scenarios, in which a new product is offered in either a stand-alone form or a bundle. Subjects can then be asked to rate their perception of risk and willingness to buy a new product based on each new product profile presented to them. More complicated experimental designs could be used to include other factors that make one bundle more attractive to consumers than another. Empirical testing using a variety of stimuli in different contexts should provide some measure of the reliability of the findings and the robustness of the underlying theoretical underpinnings.

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