Analysis of Bundling Homogeneous Content Product in Different Formats: The Case of the Online Book Industry

Li Chen, Fayetteville State University, Fayetteville, USA

ABSTRACT

Content digitalization brings products with homogeneous content but in different formats (digital format and physical format) together. Recently retailers in the online book industry started bundling programs such as Amazon Matchbook, giving print book buyers a free or deeply discounted e-book version. While this bundling strategy is attractive to consumers, it potentially allows consumers to resell the print book in the bundle, which might cannibalize retailers’ sales. Consequently, it will influence all participants in the industry including the publisher, the retailers, and the consumers. Using a two-period model, the authors investigate the impacts of this strategy under both monopoly and competition. The authors compute the equilibrium outcome for both scenarios. The findings show that (1) under monopoly, both the publisher and the retailer sell at a higher rate; consumers also see higher total surplus; (2) under competition, the retailer who provides bundling will gain a competitive advantage. This study indicates that the bundling model yields a win-win strategy.

KEYWORDS

1. INTRODUCTION

Content digitalization has given rise to products with homogeneous content but in different formats (digital format and physical format) in e-commerce (Lambrecht et al. 2014). Examples include print books and e-books, print and online magazines, print and online newspaper, physical music CD and online music albums, etc. Consequently, retailers have expanded space of bundling strategy such as whether to provide bundle of products in digital format and physical format to maximize their benefit (Venkatesh and Chatterjee 2006). In this study, the authors focus on the online publishing industry, in which e-books gain wide popularity after the giant book retailer Amazon introduced its e-book reader Kindle in November 2007 (Jiang and Katsamakas 2010). Now, millions of consumers read e-books on reading devices such as Amazon Kindle, Barnes & Noble Nook and Kobo e-reader as well as on smart phones and tablets. In general, along with the trend of increasing IT-Investment (Rasheed and Rasheed 2015), the digital sales in online book market will steadily increase (Ingram 2014).

From the point of view of consumers, both print books and e-books have their own advantages (Chao et al. 2013). While some consumers like the pleasant experience of holding and reading a print book and keeping them as souvenirs and art objects, some other consumers enjoy the convenience of choosing and reading an e-book from a personal e-book library stored in the e-book reading device (Wingfield 2013). They may also enjoy the value-added services such as automatic bookmark, advanced search functions, and the lending of e-books to friends, etc.

DOI: 10.4018/IJISSCM.2018100104

Copyright © 2018, IGI Global. Copying or distributing in print or electronic forms without written permission of IGI Global is prohibited.
Then consumers often raise a common question: Can I have both of them? This current study is inspired by the practices of online book retailers’ strategy of bundling both print books and e-books. Russ Grandinetti, Amazon’s vice presidents of Kindle content told the media that Amazon received frequent request from their Kindle consumers to get both print and Kindle book libraries (Wingfield 2013). As a response for consumers’ request, Amazon has recently started a new program Amazon Matchbook which allows consumers who had bought a print book from Amazon back to 1995 to buy the e-book version of the same book at a price from $0-$2.99 (Textbooks available for $9.99 or less). Amazon says publishers such as HarperCollins have agreed to participate and the program has already included thousands of books (Wingfield 2013). Another online book retailer, Barnes & Noble also started a similar program Sync up in 2014 under which consumers of Barnes & Noble can buy discounted e-books after they have purchased the print books.3

Programs like Amazon MatchBook are considered as a new type of bundling model in e-commerce practice which bundles products with homogeneous content but in different formats: print books (physical format) and e-books (digital format). From the perspective of retailers, the strategy of bundling brings two effects, i.e. the expansion effect and the substitution effect. On one hand, this new business model enables the retailers to attract consumers who are interested to have both print books and e-books, especially those consumers who have high valuation on e-books (Ripley 2013). In another word, this strategy makes book readers happy (Wilk 2013). On the other hand, this strategy allows resale of print books in the market which might cannibalize retailers’ sales. Pagnozzi (2009) reported that when there is a resale market after the auction market, bidders might purchase items from auctions first and then resell them, which will lower sellers’ revenue. Hendel et al. (2014) pointed out that consumers can purchase items with lower marginal cost and then resell them. Similar to the case studied in secondary market of used books (Waldman 1997), rational consumers can purchase the bundle and then resell the print book if they find that resale can increase their utility. For example, a consumer can first buy the bundle of print book and e-book version under Amazon Matchbook program for $20. If his valuation for the e-book version is $7, he can resell the print book for $15 while keeping the e-book version for just $5. This resale activity realized his utility. However, it might reduce the retailer’s print book sales. Please be aware that the print books in the resale can be new items, which occurs frequently in the market. For example, resellers often label the items as “new item” on e-commerce platforms such as eBay, Craigslist and Amazon, etc. Zhao et al. (2014) showed that resellers on eBay.com often emphasize that the items are new in the description to attract buyers. Therefore, a retailer surely wants to know whether this bundling strategy will truly benefit him.

Additionally, the retailer’s strategy of bundling will also influence other participants in the publishing industry including the publisher and the consumers. The publisher might have higher revenue because the retailer’s bundling strategy expands the market by attracting more consumers who probably will not buy without the bundling program. However, he needs to face the potential cannibalization which arises from the consumers’ resale of print books as mentioned above. As for consumers, they now have an option of buying e-books with discount, which will increase their utility. In addition, they might get higher consumers’ satisfaction as Bodily and Mohammed (2006) explored in the digital music industry. That said, they may face the risk that the price of the print books will change.

Retailers’ strategy of bundling products with homogeneous content in different formats will bring potential opportunities and challenges in e-commerce. However, there is a lack of rigorous theoretical research on the benefits and risks of this new business model. The current study aims to investigate the impact of retailers’ strategy of bundling print books with their e-book versions on the publisher, the retailers, and the consumers in the online publishing industry. In particular, the authors want to provide normative guidelines in response to the following research questions: (1) What are the impacts of this bundling strategy as a new model on publishers, retailers and customers? (2) What is the optimal pricing strategy for the publisher and retailers under the bundling case? (3) What will
Exploring the e-Supply Chain of Information Products
www.igi-global.com/article/exploring-supply-chain-information-products/71950?camid=4v1a

A Supplementary Framework for Evaluation of Integrated Logistics Service Provider
www.igi-global.com/chapter/supplementary-framework-evaluation-integrated-logistics/38439?camid=4v1a