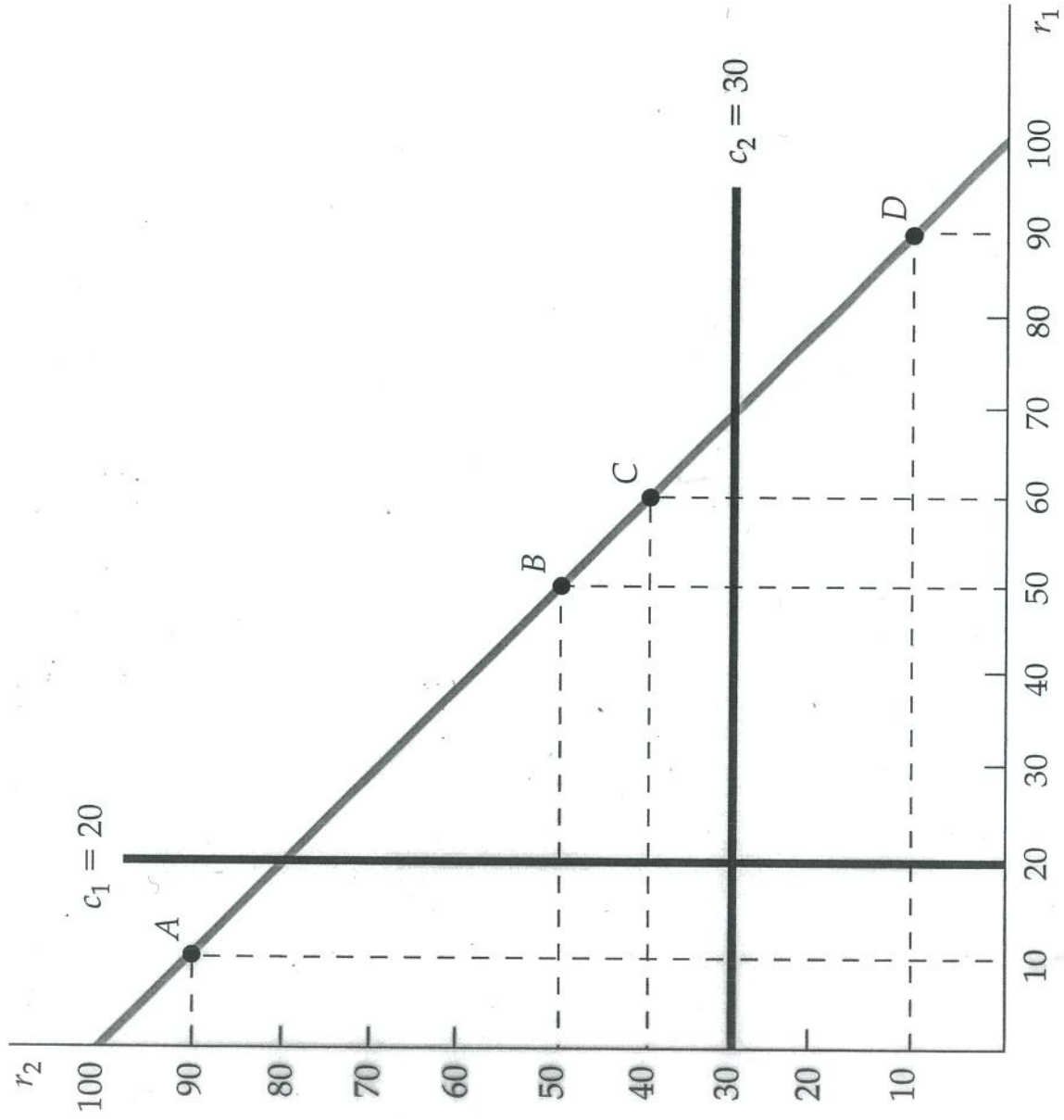


PRICE DISCRIMINATION NO. 2 (BUNDLING)

Bundling: the practice of selling two or more products as a package.

- **Examples:** a package of two DVD's
- **Bundling makes sense when consumers have heterogeneous demands and when a business firm cannot price discriminate.**
- **Question:** Why is bundling more profitable than selling the goods separately?
- **Answer:** Because the relative valuations of the goods are reversed.
- **The two goods are negatively correlated i.e. consumers will pay more for the one good than for the other good.**
- **If the goods are positively related i.e. consumers are prepared to pay more for both goods, the TR will be higher.**
- **Mixed Bundling:** The practice of selling two or more goods both as a package and individually.
- **The firm would offer the two goods as a package below the sum of the individual prices.**
- **Mixed bundling is often the most profitable strategy.**
- **Fig 11.7 shows:**
 - **Although demands are perfectly negatively correlated, there are significant marginal costs (MC).**

T-209 Figure 11.17



T-204 Figure 11.12

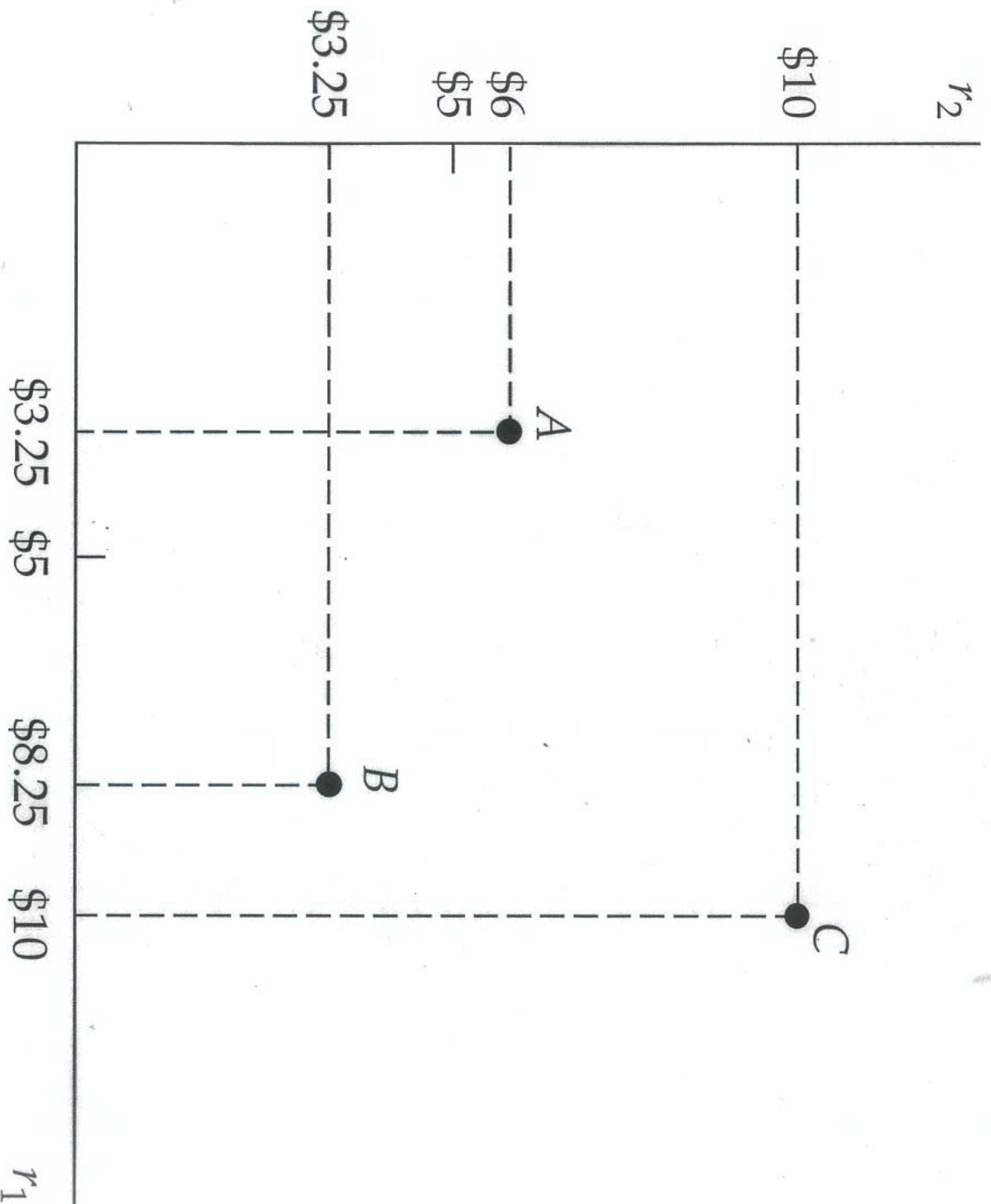


TABLE 11.4 Bundling Example

	P_1	P_2	P_B	<i>Profit</i>
Sell separately	\$50	\$90	—	\$150
Pure bundling	—	—	\$100	\$200
Mixed bundling	\$89.95	\$89.95	\$100	\$229.90

- If there are 4 consumers labelled A, B, C & D
- Comparing the three strategies:
 - Selling the goods separately at prices of $P_1 = R50$ and $P_2 = R90$
 - Selling the goods only as a bundle for a price of R100
 - Mixed bundling whereby the goods are offered separately at prices $P_1 = P_2 = R89.95$ or as a bundle for R100

- The profit could be shown as follows:

	P_1	P_2	P_3	Profit
Sell separately	R50	R90	-	R150
Pure bundling	-	-	R100	R200
Mixed bundling	R89.95	R89.95	R100	R229.90

- Note:
 1. Mixed bundling is most profitable strategy
 2. Even though the demands are perfectly negatively correlated mixed bundling is the best strategy for profits.
 3. Pure bundling is better than selling the goods separately.
 4. Total profit is R229.90 made up as follows:
 - consumer D buys only goods for R89.95
 - consumer A buys only goods 2 for R89.95
 - consumer B and C buy the bundle for R100
 - Total profit is $(R89.95 - R20 + R89.95 - R30 + 2(R100 - R20 - R30)) = R229.90$
- Bundling is used very often – in the purchase of new motor cars where a package is offered for “full house” such as power steering, central locking, CD player and motor plan