Companies can create compelling value propositions that boost sales, improve price realization, and cement customer loyalty by putting together multiple products, or products and services, to be sold as a package. A powerful example of a successful combination of standalone offerings into a leading package is Microsoft’s Office Suite. In the early 1990s, Microsoft put together word-processing, spreadsheet, and presentation programs—three applications that had relatively uncorrelated demand—into an integrated package that was broader than anything then offered by the company’s leading competitors. This move forced competing players to form alliances and lower their prices. Microsoft then enhanced the value of its package by including object linking and embedding (OLE) technology, which allows the transfer of objects between programs. Since then, Microsoft has continued to expand the breadth of its offerings and now commands leading share positions across a wide range of categories.

Of course, Microsoft is far from alone in profiting by packaging products into a coherent offering. Across many industries, we have observed companies undertaking a wide range of bundling strategies. They typically take four forms:

- Bundling products with after-sales services, such as cars with maintenance-related parts and services
- Bundling products with parts or consumables, such as mining equipment with spare parts
- Bundling complementary products, such as HVAC controls with building control systems
- Bundling alternative products or services, such as faster and slower forms of shipping

Although the logic of Microsoft’s masterful competitive move seems clear in hindsight, bundling decisions are rarely self-evidently wise or unwise in advance. Like all strategic choices, they should be based on as much solid information as possible. Far too often, however, we have seen businesses make key strategic decisions on the basis of merely anecdotal...
al evidence suggesting that customers might welcome bundled purchases.

A far more prudent approach is to take a thorough look at the company’s markets and the factors that typically move customers to choose a bundled purchase over standalone purchases. This approach leads to a much more informed perspective on the opportunity—or risk—that bundling presents.

In the course of our work on go-to-market strategies with clients in numerous industries, we have found three market factors that affect customers’ willingness to choose bundled offerings over standalone products and services, as well as two factors related to the customers themselves that affect that choice. In addition, we have developed some analytical approaches to help companies think about the strategic opportunity or threat associated with offering bundled products and services.

**Market Conditions That Influence Bundling**

The key factors in the market that determine the desirability of bundling are the degree of product differentiation, the presence of competitive alternatives, and the vendor’s competitive position with respect to the customer.

**The Degree of Product Differentiation.** The degree to which products are similar to or distinct from one another has a noticeable impact on bundling. Customers are likely to purchase bundles of products that are less differentiated and more substitutable because of the relative ease with which they can switch from one vendor to another. For example, customers more readily purchase bundles of commodities—such as oil filters, engine lubricants, and other maintenance, repair, and operations (MRO) products—than of highly specialized equipment, such as industrial control systems.

**The Presence of Competitive Alternatives.** The availability of viable alternative bundles increases the likelihood that customers will purchase bundled offerings. To put it another way, customers are less likely to choose bundled products if only one out of ten competing vendors is offering a bundle than if three out of four vendors offer bundles. The prevalence of bundling options in a market segment contributes to customers’ expectations.

**The Vendor’s Competitive Position with Respect to the Customer.** The vendor’s share of a given customer’s wallet plays an important role in the opportunity to bundle. The larger the vendor’s share of the customer’s spending, the more likely the customer is to bundle additional purchases, particularly if those purchases represent only a small incremental increase in spending. This type of “tuck in” bundling can present a significant opportunity for large, diversified suppliers—and a threat to niche businesses.

**Customer-Related Factors That Influence Bundling**

Both the customer’s perception of a bundle’s value proposition and the amount that the customer spends in the category can affect decisions about bundled products. Taken together, these parameters help determine which customers or segments within a market are more likely to respond to a bundled offering.

**The Customer’s Perception of a Bundle’s Value Proposition.** Customers typically benefit from bundling in three ways: through direct cost savings, efficiency gains, and the facilitation of purchasing and subsequent relationships with vendors.

The most common benefit, *direct cost savings*, occurs because customers often receive discounts when they consolidate their purchases with a single vendor. Generally, the more a customer spends with a supplier, the greater the discount, in percentage terms.

The *efficiency gains* that bundled purchases frequently provide arise from the fact that bundled products and services are designed to work together or can be used more conveniently and effectively together than separately. An example is the bundling of building control systems, HVAC controls, and security systems.

Finally, for many customers, consolidated purchasing has significant benefits in terms of the *facilitation of purchasing and subsequent relationships with vendors*. Bundling gives customers just one vendor to negotiate with, just one bill to pay, and—perhaps most important—just one “throat to choke” if something goes wrong. For instance, an area in which bundling services facilitates purchasing is transportation and logistics, including third-party logistics.

**The Customer’s Spending in the Category.** The disparity in a customer’s spending on two products in the
same category can affect its willingness to buy those products as a bundle. Customers tend to focus disproportionate attention on products on which they spend more and are then inclined to toss in items on which they spend less. So if spending on one product is considerably higher than on the other, the customer is more likely to bundle the second one into purchases of the first than if the spending is more balanced.

**Systematic Approaches to Bundling**

To prevent companies from relying on merely anecdotal evidence in making decisions about bundling, we have developed some basic approaches to evaluating the opportunities and risks. These approaches can help companies make informed, realistic strategic choices. In these approaches, we analyze the degree of overlap between products and the relative shares they command in various market segments.

**The Degree of Overlap Between Products.** Companies can gain a clear perspective on the potential for bundling by looking at the degree of overlap between products in terms of spending, those who make purchasing decisions, and final users. It is important to look at purchasing overlaps from both directions because customers that purchase product A may be more likely also to purchase product B than the other way around.

Exhibit 1 shows such a one-way overlap. Eighty-five percent of the customers that purchase product A also purchase product B; in contrast, only 25 percent of those that purchase product B also purchase product A. In addition, this analysis shows that the same decision maker chooses to purchase both product A and product B 70 percent of the time and that the same user uses both product A and product B 50 percent of the time. This analysis suggests that there is a strong potential for bundling product B with product A for sales to purchasers of product A, but not for bundling product A with product B for sales to purchasers of product B.

**Relative Share in Various Market Segments.** An analysis of a product’s market share in various customer segments can shed some useful light on the amount of bundling that is already taking place. For example, in Exhibit 2, the company portrayed has leveraged its strong position with product B in industries that purchase large quantities of this item to gain share over time in sales of product A.

In this situation, a company that provides product A but not product B faces a considerable threat of losing market share among customers that purchase a lot of product B. Very likely, these customers will migrate to competitors that sell both products.

**Responding to Potential Bundling Opportunities or Threats**

Let’s say that a company has explored its markets for the conditions that commonly drive bundling and has concluded that the markets will be susceptible to a move toward bundled products. The question is, what to do? Possible strategies range from doing nothing at all to developing a bundled offering.
**Doing nothing.** Although inaction may not seem like a strategic response, it can be prudent to do nothing if the potential bundled offering would generate lower profits or lower returns than the unbundled products. The wisdom of this choice depends on the inherent attractiveness of entering a new space and on how much of the company’s core business is at risk from the actual or potential bundled offerings of competitors.

**Developing a focused response.** Frequently a threat from a competitor with bundled offerings does not apply equally across customer segments. In these situations, it’s important to understand the relative profitability of segments in which bundling is more and less prevalent. When the segments in which bundling is prevalent are less profitable than others, it makes sense to focus on the more profitable segments rather than on bundling.

**Increasing differentiation.** As discussed above, one of the key drivers of bundling is a relatively low level of differentiation among the products of competing suppliers. Where a lack of differentiation contributes to the threat of a competitive bundle, companies can respond by increasing the differentiation of their core products. Customers are less likely to switch from a product with uniquely useful features than from one that looks pretty much like all the others.

**Bundling.** The fourth strategy is for the company to bundle its products (or products and services). We have identified two general approaches to bundling, each appropriate to a specific set of conditions: choice bundling and value-added bundling.

In **choice bundling**, the most common form, the seller offers bundles of products while also selling the component parts of each bundle individually. The key motivator for the seller is the ability to lower prices for the price-sensitive portion of the market while maintaining higher, unbundled prices for less price-sensitive customers. This type of bundling delivers direct cost savings. Developing fixed-price packages of equipment or features is a classic form of choice bundling. The auto industry has long used it in option packages, some of which include features that are readily available in the aftermarket. We encourage businesses to consider choice bundling when their various customer segments have different price sensitivities and when they can create bundles that are more appealing to price-sensitive customers than to others.

In **value-added bundling**, the seller offers bundles that combine a core product with additional services or features while also selling the core product on a standalone basis. The key motivator for the seller is the ability to provide additional value to the value-sensitive portion of the market. Airlines’ offerings of tour packages that combine air travel and lodging are a straightforward example of lowering overall prices for the value-sensitive segment (in this case, leisure travelers) while maintaining higher prices for the less price-sensitive segment (in this case, business travelers). We encourage businesses to look at value-added bundling when some customer segments are more interested in additional services or are more value-sensitive than others.

### Next Steps

To understand whether it makes sense to dig deeper into the opportunity or threat that bundling may present to your company, consider the following questions:

- Do you have a rigorous sense of the risk or opportunity that bundling represents for you?
- Are you confident that you’ve never lost customers because of the breadth or configuration of a competitor’s offerings?
- Have you explored all four of the common types of bundling?
- Do you have a sense of which type of bundling you could offer most profitably?

If you can’t answer yes to most of these questions, perhaps it’s time to undertake a rigorous assessment of the pros and cons of bundling in your markets. By taking a more comprehensive look at bundling, you can move appropriately to defend your positions and capitalize on the opportunities.

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