

## 15.567 Reading Guide

### Session 4: Bundling and Aggregation

How, why and where do bundling and aggregation work? How are revenue models for content online similar to the revenue models offline, and how are they different?

#### Required Readings:

Bundling, HBS Case 9-191-177

Bakos, Yannis and Erik Brynjolfsson "Aggregation and Disaggregation of Information Goods: Implications for Bundling, Site Licensing and Micropayment Systems," in Varian and Kahin, Eds. *Internet Publishing and Beyond: The Economics of Digital Information and Intellectual Property*, MIT Press, 2000.

Albanesius, "If Sirius-XM Can Offer A La Carte Programs, Why Can't Cable?" PC magazine, July 30, 2008. <http://www.pcmag.com/article2/0,1895,2326817,00.asp>

#### Optional:

Bakos and Brynjolfsson (2000) "Bundling and Competition on the Internet" *Marketing Science*, Volume 19, Number 1 (Winter 2000), pp. 63-82

Bakos and Brynjolfsson. (1999) "Bundling Information Goods" *Management Science*, Vol. 45, No. 12 pp. 1613-1630.

#### URLs:

Here are some interesting content sites to visit – check out the pricing pages of each one. For content which is available both online and offline, what differences do you notice?

Comcast pricing: <http://www.comcast.com/shop/buyflow/default.ashx>

Sirius pricing:

<http://www.sirius.com/servlet/ContentServer?pagename=Sirius/CachedPage&c=Page&cid=1065475754240>

Apple TV Pricing <http://www.apple.com/appletv/>

Consumer Reports: <http://www.consumerreports.org> or Wall Street Journal online: <http://www.wsj.com>

Here's an interesting blog post about iTunes and Bundling:

<http://elidourado.com/blog/itunes-bundling/>

## Study Questions

Please think about the following questions as you do the readings.

1. Visit a few content sites and note the similarities and differences of the sites and approaches. What other examples of subscriptions, bundling, per-unit pricing and advertising can you identify? What patterns do you observe?
2. Bundling unrelated goods is relatively uncommon for physical goods, but much more common for information goods. Why?
3. Why haven't "micropayments" caught on more widely on the Internet?
4. How are the economics of site licensing and subscriptions similar to the economics of bundling? What characteristics of the Internet make aggregation more or less attractive?
5. What's the future of content? What will be the revenue models in 5 years?

### **Required Assignment: Bundling Exercise**

Please submit your answers to the four questions below the day before Session 4.

#### **Questions:**

Please refer "The Concert Series" example from the short HBS Bundling Case in the course pack and answer these two questions:

1. What price per concert maximizes revenue if you are *only* selling individual tickets per concert and do not offer a series price? (Hint: 4 Groups (everybody in this case) would pay at least \$5.00 for either concert  $4 \times 5 \times 2 = \$40 =$  Total revenue for the two concerts at per concert price of \$5.00.)
2. What price maximizes revenue for the series if you are *not* offering individual tickets and offer the customer only the "buy the series or nothing" option? (Hint: The "Romantic" group would pay \$60 for a series (bundle) of the two concerts, but the "Sophisticate" group would not pay that much for the series.)

Please refer the "Multiproduct Pricing" example from the short HBS Bundling Case in the course pack and answer these two questions

3. If, in this population of 10,000 potential buyers, the willingness-to-pay for product A was *perfectly correlated* with the willingness-to-pay for product B, what would the demand curve look like for a bundle of A and B? (Perfect correlation means that every person with a \$100 value for A also values B at \$100, while those who value A at \$99 will value B at \$99, etc.) What is the price that maximizes total profits in this case?
4. What is the demand curve like and what is the optimal price if willingness-to-pay were perfectly **NEGATIVELY** correlated (i.e. WTP for A=\$100 implies that the WTP for B=\$0, etc)?

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