



# Bundle UP!

## Is Price Bundling Right for Your Organization?

By Mark Mitchell, Michael Collins, & Taylor Damonte

Here's a new look at collaboration as a way to increase your bottom line.

**P**rice bundling is the practice of offering two or more products or services for a single package price. Bundling can increase your proceeds by generating greater revenues per transaction or raising the frequency of transactions.

“Find partners in your community to create a localized bundle.”

A good example is the nonprofit living-history museum Colonial Williamsburg, which partners with other groups to create irresistible bundles for potential customers. How does it work?

Let's consider a family planning a vacation to Williamsburg, Virginia. Preparing to buy tickets for Busch Gardens amusement park, they see a Bounce ticket option: seven days of unlimited access to Busch Gardens, Water Country USA (a water park), and Colonial Williamsburg. They also notice a similar deal: seven days of unlimited access to nearby Jamestown Settlement and the Yorktown Victory Center. By buying access to all these attractions at once, they save 20%.

It's a good deal for the family and also for the nonprofit organizations involved. The Colonial Williamsburg Foundation has partnered with nearby Busch Gardens and Water Country USA to offer a price-bundled experience for family travelers. Their neighbors (Jamestown Settlement and Yorktown Victory Center) offer an additional (but separate) bundle. While all the nonprofit organizations sell individual tickets, they've teamed up with other groups to attract more visitors to their community and increase the number of people who experience their presentation of American history (a core part of their missions).

### Common Price Bundling Strategies

If you decide to try bundling some of your services and products, there are several options you can consider:

- With a **pure bundling strategy**, products and services are available only as a package.
- A **mixed bundling strategy** lets consumers purchase products or services individually or as a package.

We can then break down mixed bundling into two options:

- With **mixed-leader bundling**, you offer a discount on an additional product or service when a specified product or service is purchased at the regular price. For instance, someone buys admission to the museum and later receives a discounted price on the IMAX movie.
- With **mixed-joint bundling** you provide a single, discounted price when multiple products or services are purchased *simultaneously as a package*. So, the museum and IMAX are offered as a package at the time of first purchase.

With all these options, customers may end up purchasing things they might not have bought without the bundle. Our museum patron

may elect to buy the combination ticket (museum and IMAX movie ticket) because the bundled price is lower than the combined price if purchased separately. For some buyers, the museum is their real interest. But, IMAX makes a nice add-on at the reduced price. We can think of this action as the buyer transferring the “consumer surplus” to another item. The consumer surplus is the difference between what consumers were willing to spend to enter the museum and what they actually spend to do so. If consumers believe they got a great deal on the museum, they’re more willing to then buy the bundle to include IMAX.

Our vacationing family may not have planned to visit the Colonial Williamsburg museum but decided to buy the bundle and use Colonial Williamsburg as a day away from the theme and water parks. And if the kids don’t seem interested in history that day, Mom and Dad won’t regret the price of the tickets, because they see it as a bonus received in addition to their planned trip.

Revenue may be negatively impacted if the number of visitors stays constant but the bundling partners realize lower revenue per person as a result of bundled sales. It’s important to monitor these traded or “cannibalized” sales when following a price bundling strategy. Ideally, the bundling strategy will let you reach new groups of consumers and increase both per-transaction and total revenue.

## Two Approaches to Price Bundling: Targeted or Broad Selections

CityPass and Smart Destinations are two companies that provide discounted access to bundled attractions (see Table 1 on page 24 for a comparison of the two in the San Francisco area). CityPass provides five to 10 attractions for one low price. Smart Destinations offers a wide cross-section of attractions for a higher price, and consumers choose the attractions they want. Nonprofits, government entities, and for-profits are all included in these bundles, as Table 1 shows.

## Moving Ahead with a Price Bundling Strategy

If you’d like to use bundling to increase the number of people visiting your organization or purchasing your products and services, there are a number of ways to do so. You may be able to reach more people (and generate more revenue) by partnering with for-profit organizations such as Smart Destinations. Or you may elect to find willing partners in your community to create a localized bundle. For example, visitors to the Minneapolis area can buy the “Big Ticket” and gain access to the following attractions for three consecutive days:

- Nickelodeon Universe (indoor amusement park at the Mall of America)
- Sea Life Aquarium
- Water Park of America
- Science Museum of Minnesota (nonprofit organization)
- Minnesota Zoo (nonprofit organization)
- Great Clips IMAX Theatre

Again, notice the effective bundling of for-profit and nonprofit groups. By the way, the Bloomington Convention and Visitors Bureau (a nonprofit organization) serves as the bundler.

The timing may be right for you to move forward with bundling, perhaps with a variety of local nonprofits. Here are four steps to take:

“Could you attract more people if your offering was part of a package?”

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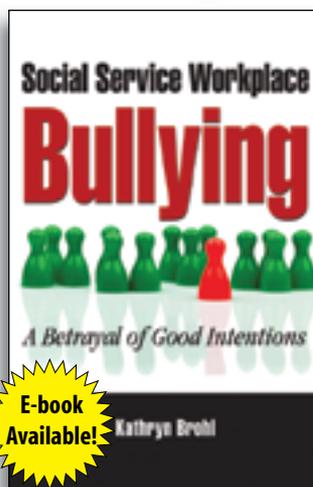
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**TABLE 1: A COMPARISON OF TWO BUNDLED APPROACHES: TARGETED SELECTIONS (CITYPASS) AND BROAD SELECTIONS (SMART DESTINATIONS)**

CITYPASS PROGRAM		SMART DESTINATIONS PROGRAM	
Inclusions	Price	Inclusions	Price
1. Muni & Cable Car Passport 2. California Academy of Sciences 3. Blue & Gold Fleet Bay Cruise 4. Aquarium of the Bay 5. Museum of Modern Art 6. de Young Museum or Exploratorium	<u>9-Day</u> Adult = \$69 Child = \$39 (4-12) Cost if Purchased Separately: Adult = \$132 Child = \$84	More than 46 attractions included. The top 10 highlighted attractions: 1. Aquarium of the Bay 2. Golden Gate Bay Cruise 3. Wine Country Tour 4. California Academy of Sciences 5. Trolley Hop-On Hop-Off Tour 6. The Wax Museum at Fisherman's Wharf 7. S.S. Jeremiah O'Brien 8. Historic Cable Car Ticket 9. Asian Art Museum 10. Six Flags Discovery Kingdom	<u>1-Day</u> Adult = \$54.99 Child = \$39.99 <u>2-Day</u> Adult = \$79.99 Child = \$56.99 <u>3-Day</u> Adult = \$104.99 Child = \$73.99 <u>5-Day</u> Adult = \$139.99 Child = \$94.99 <u>7-Day</u> Adult = \$164.99 Child = \$109.99

## 1. LOOK FOR PARTNERS.

Start by taking a critical inventory of bundling partners in your community.

- **If you want people to visit your organization**, look at tourist attractions, especially those that are currently underserved.
- **If you'd like to bundle your services or products with others in your area**, consider both for-profit and nonprofit groups with related offerings.

Focus on cross-selling potential for all partners. If you provide training, for example, what groups might want to bundle their books, coaching services, or similar products and services? Could you attract more people if your training was part of an educational package?

## 2. KNOW YOUR MARGINAL COSTS, AND PICK YOUR PRICE POINT.

When your fixed cost of operating is high, the marginal cost of serving another person is often negligible. You must maintain the animals at a zoo regardless of the number of visitors. You must provide security for a museum no matter how many people come.

A good handle on your fixed and variable costs will help you determine if price bundling is right for your organization and at what price point. If you run an art museum, you want to promote the importance of the arts. So you want lots of traffic in the museum. But, you've got to cover your costs and thus must be sensitive to admissions revenue and its impact on your operating budget. Ideally, a price bundle will attract more people to you and enable you to raise total revenue. Yes, this may mean lowering the price for each person. But you may be able to increase the volume of people experiencing your unique offering. That's a mission-driven outcome.

## 3. ESTABLISH AN ACCOUNTING SYSTEM.

Participants in a price bundle must have total confidence in the data provided by the bundler (or aggregator). The use of an outside bundler means that someone else is collecting revenue and allocating your portion to you. You want to be confident in the numbers (and

“Not all buyers will buy everything in the bundle.”

dollars) you receive. A local chamber of commerce or arts council bundling a variety of related offerings may fill an important role in bringing partners together. But only trust will keep them together. A transparent accounting system is essential for maintaining this trust.

## 4. DETERMINE A PAYOUT SCHEDULE AND METHOD.

Not all bundle buyers will use everything in the bundle. So you need to decide how to distribute total revenue to bundle partners. There are two possibilities:

- **Are partners paid a fixed amount** for each bundle sold?
- **Or are they paid only if a package buyer actually uses** their product? If those numbers differ (100 bundles were sold, but only 75 people used your product), who keeps the difference (known as “package breakage”)?

Both approaches can work. But it's best to spell out such matters before moving forward. Also, detail the schedule for payment transfers. We all have cash-flow needs. So we all want to be paid sooner rather than later. Bundling can introduce time lags in such payment. Clear communication will be key. 

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“Only trust will keep bundling partners together.”