

The effect of pricing bundling capability on marketing performance: The mediating role of price value offerings

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ABSTRACT

This research intends to examine the effect of pricing bundling capability on price value offerings and marketing performance. It also tests the role of price value offerings as a mediating variable. Price building capacity develops from pricing capability to fill the research gap of its effect on marketing performance. Some studies prove that pricing capability affects performance. On the other hand, some found that it does not and recommend further research to improve this capability in line with the price strategy implemented by the company. Previous research on price strategy focuses on the consumers' perspective. This study concentrates on the producers' viewpoint. We collected data from 183 SME's restaurants' managers in Purwokerto using structured questionnaires. Structural Equation Model is used to obtain the aim of the research and analyze the measurement and structural model. The result suggests that pricing bundling capability positively affects pricing capacity on marketing performance and price value offerings. It also shows that price value offerings positively affect the marketing performance and that price value offerings mediate the effect of pricing capability on marketing performance. We suggest the SME's restaurants' managers pay attention to their pricing bundling capability to increase the price value offerings and marketing performance.

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1. Introduction

Resource-Based View of the firm is a theory of competitive advantage that focuses on how a company reaches and maintains its advantage through its resources and gains superior performance (Barney, 1991). In 1994, Day complemented this theory by initiating a capability-based view. It integrates events, actions, and processes in utilizing resources. Capability works as an adhesive of the company's entire resources and activities to gain profits. The adhesive is organizational capability. Organizational capability is a company's ability to employ its entire resources in its tangible and intangible activities to reach organizational performance (Amit & Schoemaker, 1993). In it, pricing capability as a dimension of marketing capability plays a role in establishing the right price for the product to increase sales and profits (Dutta *et al.*, 2003). Pricing capability is necessary for implementing a company's pricing strategy. A good pricing capability will generate good pricing decisions, makes it hard for competitors to imitate, and becomes a sustainable competitive advantage (Dutta *et al.*, 2002). Johansson *et al.* (2011) stated that effective pricing requires capability. Thus, a company should possess the capability to determine the price strategy to gain its marketing performance.

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The capability to determine the pricing strategy affects the company's performance, thus, it is crucial (Hinterhuber, 2018). Previous studies suggest that pricing capability increases organizational performance (Cabanero *et al.*, 2012; Liozu & Hinterhuber, 2013; Setiowati *et al.*, 2015; Argawal, 2017; Khan, 2017; Kamboj and Rahman, 2017; Pham *et al.*, 2017). Nevertheless, Liu *et al.* (2013) found that it does not influence economic and social performance in social enterprises in Japan. He adopted the capability construct used by profit-oriented companies and argued that the construct developed in the social enterprise context has bigger effects on performance. He recommended future research to develop a capability construct that specifically adjusts to the company and its environmental surrounding. It matches Dutta's (2003) argument that pricing capability is different in companies operating in distinct businesses. The difference in products, production process, customers, and competitors will also affect pricing capability. The construct of pricing capability needs to be developed in accordance with the company's condition by a pricing strategy the company applied. In this research, it follows the pricing strategy applied by SME's restaurants in Purwokerto.

One of the strategies is called prince bundling (Noble & Gruca, 1999). It has been applied many times in the hospitality industry (Ferreira & Antunes, 2019). The strategy is selling two or more products in one discounted price package, which means that they are cheaper than buying each of the products individually (Ferreira & Antunes, 2019). It is the strategy applied by restaurants (Heide *et al.* 2008; Kwon & Jang, 2011; Mattila & Gao, 2016). It is suitable in the food industry, an efficient one to promote sales and reduce store time (Fang *et al.*, 2018; Yan & Bandyopadhyay (2011) reviewed the literature on price bundling strategy from 1968 to 2010. It suggests that empirical studies have been conducted in consumers' standpoints, such as the effect of price bundling on values and transaction (Yadav & Monroe, 1993) and the evaluation of consumers' product bundling strategy (Mazumdar and Jun, 1993; Puri, 1998; Chuang & Serbu, 1999; Oppewal & Holyoake, 2004; Wappling *et al.*, 2010). After that, researchers like Myung & Mattila (2010), Kwon & Jang (2011), Lee *et al.* (2011), Harris & Blair (2012), Engeset & Opstad (2015), Agarwal (2017), Doha *et al.* (2017), Carroll *et al.* (2018) studied the customers' perception on price bundling strategy and its effect on buying decisions. Ahmetoglu *et al.* (2014) researched the effect of price bundling on consumers' behavior. Meanwhile, Ranawerra & Karjaluto (2017) had research on how price-bundling strategy affects customers' mouth to mouth communication. Li *et al.* (2018) examined the perceived fair price for consumers. Our research investigates price bundling from the producers' perspective, which fills the gap of research on the effect of price capability on organizational performance. It also evaluates price value offering as a mediating variable for both variables.

Companies achieve marketing performance by managing resources and capabilities to create value and achieve profitability. The process of creating value comes from the consumer's and the producer's perspective. In consumer behavior, customer value refers to the value perceived by customers. Value-in-use was the process of creating value that comes from the consumer's perspective. It was the value that consumers perceive based on the comparison between what they get and what they give. Whereas in strategic marketing, value offering refers to value created by firms for the customer. Value offering was the process of creating value that comes from the producer's perspective. It was the value created by the company for its customers, the value that the companies build in its market offering upon that the customer consumes, judges, and confirms in the value-in-use form (Ngo & O'Cass, 2009; O'Cass & Sok, 2013).

Companies believe that seeking customer satisfaction is not the final step in an aggressively competitive marketplace because satisfied customers will switch if the competitor offers them better value (Mittal & Sheth, 2001). Creating and offering customers value is one cornerstone of effective marketing programs (Caruana & Fenech, 2005). Price value offering is the value that firms build in a particular product, service, or brand in terms of pricing to outperform competitors (Ngo & O'Cass, 2009). According to Mittal and Sheth (2001) customers look for products that include pricing value, such as fair and beneficial prices. Companies must build price value space for the customer, the space that delivers great value for the customers.

Customers are concerned about a fair and reasonable price. Understanding consumers' perceived price strategies in terms of price fairness perception help companies design appropriate pricing strategies that satisfy and retain current consumers and lead to performance maximization (Srikanjarnak *et al.*, 2009). Kamboj and Rahman (2015) found only a limited number of studies on marketing capability and marketing performance by the Micro Small Medium Enterprises (MSMEs), specifically by the food and restaurant industry. Liozu and Hinterhuber (2013) stated that price is the main element of a company's profitability. Yet, only a few studies have examined it.

This study intends to investigate the effect of pricing capability on marketing performance and the role of price value offerings as a mediating variable. The result gives SMEs restaurants a better understanding on the importance of pricing capability to increase values in offering and marketing performance.

2. Literature Review and Hypothesis Development

2.1. Pricing Bundling Capability

Pricing bundling capability is a company's ability to determine its price bundling. It develops from the pricing capability concept. A research conducted by Cabanero *et al.* (2012) on family MSMEs found that it affects the stakeholders' satisfaction

and financial performance. It confirms the findings made by Liozu & Hinterhuber (2013), Haniff and Halim (2014), Setiowati *et al.* (2015), Khan (2017), Kamboj & Rahman (2017), and Pham *et al.* (2017).

Stremersch and Tellis (2002) define bundling as “the selling of two or more separate products into a package”. They have different markets because consumers can buy those products individually. Price bundling is the selling of two or more separate products in a discounted package. The reservation price for the bundled products is the sum of their individual prices. It is the maximum price a consumer willing to pay. Thus, bundling does not give added value to consumers. Discounts are offered to attract them.

Johanson *et al.* (2011) argued that often the company sets the price solely to respond to the market without having adequate resources and capability, which is a mistake commonly found in pricing. Price bundling strategy aims to increase sales by giving discounts and bundling the products at the same time (Arora, 2008).

Hypothesis 1: Pricing bundling capability has a positive effect on marketing performance.

2.2. Price Value Offering

Resource Based View (Barney, 1991) is a theory elaborating on the difference between resource-based company and capability performance. It states that companies use their resources and capability to achieve superior performance through consumers’ value creation. Grant (2005) argued that business is about value creation, which is its center. It consists of two perspectives, the consumers and the producers (Ngo & O’Cass, 2009). The one that comes from consumers (value in use) is the value obtained by consumers based on what they give and what they get. Meanwhile, the one the comes from the managers or companies (value in offering) is the value created by companies for their consumers.

Capability is an adhesive used to combine, develop, and change resources to create value offerings for customers (Day, 1994). The adequate capability enables companies to offer value for their customers, which in turn increases sales. O’Cass and Sok (2013) asserted that the capability to create superior values for customers is influenced by marketing capability. Therefore, pricing capability affects price value offerings.

The stimulus organism response theory states that stimulus affects consumers’ evaluation process and encourages them to respond (Jacoby, 2002). To increase their sales, companies have to provide stimulus in the form of price value, such as fair, accurate, beneficial, and right price (Ngo & O’Cass, 2009). Ryu *et al.* (2008) found that perceived value positively affects restaurants’ customer behavioral intentions. The same thing is proposed by Konuk (2019) who proved that price fairness and perceived value affect word of mouth and customer revisit. Hooley (1999) stated that companies give their consumers value through the lower price. The consumer will consider the accurate price in purchasing the product (Mittal & Sheth, 2001). Price fairness perception helps companies design appropriate pricing strategies that satisfy and retain current customers, while also enhances performance (Srikanjanarak *et al.*, 2009). Setting the right price can affect performance (Taghizadeh, 2017). In order to achieve marketing performance, companies must have the capability to offer true and rational product prices. Ngo & O’Cass (2009) found that pricing value has a positive significant effect on marketing performance.

Hypothesis2: Pricing bundling capability has a positive effect on price value offerings.

Hypothesis3: Price value offerings have a positive effect on marketing performance.

Hypothesis4: Price value offerings have mediated the effect of pricing capability on marketing performance.

Therefore, the research model is:

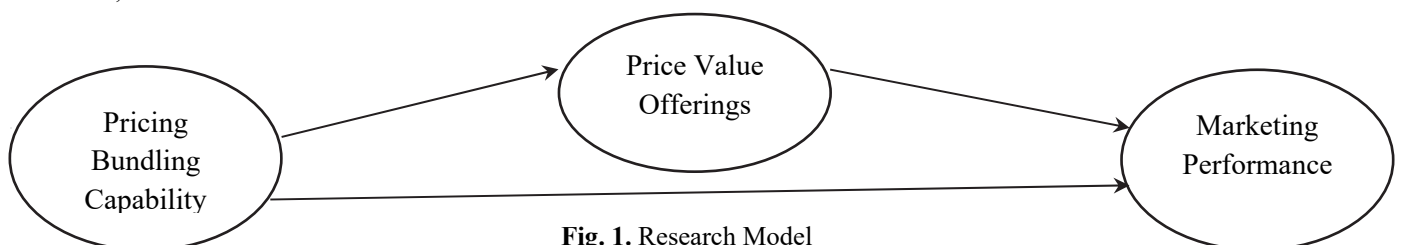


Fig. 1. Research Model

3. Method

Content validity test is necessary for pricing bundling capability variables. Hair *et al.* (2010) stated that content validity is also known as face validity. It is a subjective assessment of item suitability with the concept introduced by experts. We used the Content Validity Ratio to examine the content validity (Lawhe, 1975).

Content Validity Ratio (CVR) is calculated in the following formula:

$$CVR = (N_e - N/2)/(N/2)$$

In which:

CVR = Content Validity Ration

N_e = The number of experts giving assessment 3 (relevant/crucial)

N = The number of all the experts

To test the research framework and hypotheses, we chose SMEs restaurants in Banyumas regency, Central Java, Indonesia. The respondents for the current study were primarily managers from marketing and operations, and the total sample of this study was 138. A seven-point scale, where 1 represented strongly disagree to 7 represented strongly agree, was used to measure the responses. All of the constructs and items were adapted from the extant literature. The items related to pricing bundling capability are the adaptation of Dutta (2003) and Stremersch & Tellis (2002). The ones related to price value offerings were adapted from Ngo & O’Cass (2009), while the item related to marketing performance develops from Ottenbacher (2007) and Sin *et al.* (2005), SEM was employed as a statistical technique to analyze the collected data. We used the Sobel Test to evaluate the effect of mediation.

4. Result

The content validity of pricing bundling capability variable is calculated based on the questionnaires filled by 12 respondents. They are experts of marketing. The CVR values obtained are as follows:

Table 1

Content Validity of Pricing Bundling Capability

No	Indicator	CVR	Note
1	The capability to monitor the competitors’ prices (PBC1)	0.833	Valid
2	The capability to set the reservation price of focal product (PBC2)	1.000	Valid
3	The capability to set the reservation price of tie product (PBC3)	0.833	Valid
4	The capability to set the package’s discount (PBC4)	1.000	Valid
5	The capability to set the package’s price (PBC5)	0.670	Valid

The minimum score of Lawshe table for 12 respondents, according to Lawshe (1975), is 0,56. The CVR value is above the minimum score, which means the indicator is valid. Thus, the indicator of pricing bundling capability is also valid because its CVR is above 0,56.

This study examines the effect of pricing bundling capability on price value offerings and marketing performance, and the mediating role of price value offerings. Table 2 illustrates that, based on confirmatory factor analysis, all items of all variables have a loading factor greater than 0.5. According to Hair *et al.* (2010), an item with a loading factor less than 0.5, should be dropped from data analysis. However, in this study, the loading factor for all item constructs are found to be within an acceptable range.

Table 2

Loading Factor, Construct Reliability and AVE

Item	Loading Factor	Construct Reliability	AVE
Pricing Bundling Capability		0.880	0.597
PBC1	0.833		
PBC2	0.819		
PBC3	0.782		
PBC4	0.694		
PBC5	0.726		
Pricing Value Offerings		0.806	0.455
PVO1	0.596		
PVO2	0.686		
PVO3	0.656		
PVO4	0.671		
PVO5	0.754		
Marketing Performance		0.829	0.551
MP1	0.657		
MP2	0.812		
MP3	0.666		
MP4	0.819		

Convergent validity was used to assess the validity of constructs. All latent variables except price value offerings have the AVE above 0.5, indicating that good convergent validity has been achieved for all the variables investigated. Also, the construct reliability of all constructs was greater than 0.70, providing strong support for reliability.

In examining the discriminant validity, we employed the Fornell-Larcker criterion (Fornell & Larcker, 1981). We also compared the AVE values' square root with the correlations of other constructs. Discriminant validity of all constructs was supported as

the square root of the AVE for each construct was greater than its highest correlation with any other constructs (Table 3). It indicates that this study fulfills the construct discriminant validity.

Table 3
Discriminant Validity

	PBC	PVO	MP
PBC	0.773		
PVO	0.332	0.674	
MP	0.535	0.487	0.742

According to the path diagram, the model fit indices indicated a good fitting model ($\chi^2 = 74,851$, probability = 0.450, df = 74, CMIN/DF = 1,101, GFI = 0.929, AGFI = 0.900, TLI = 0.999, CFI = 0.999, RMSEA = 0.009)

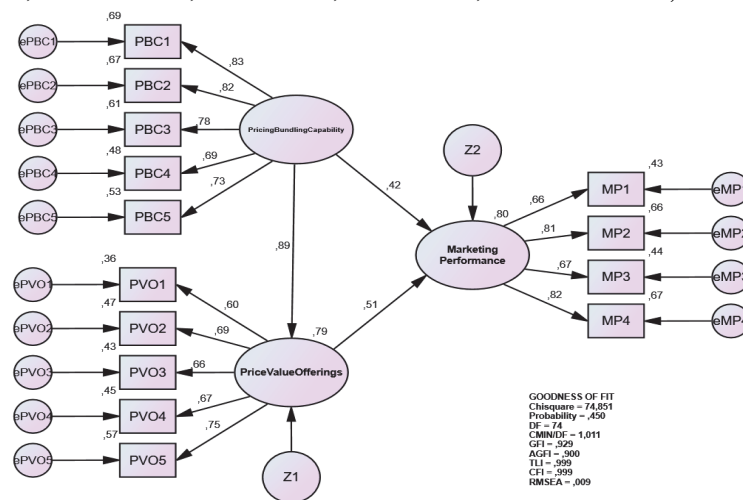


Fig. 1. Research Model

The structural equation of the measurement model is:

Marketing Performance = 0,42 Pricing Bundling Capability + 0.51 Price Value Offerings. The result in Table 3. shows that pricing bundling capability (CR = 7.753 and $p = 0.000$) has positive effect on price value offerings. Price value offerings (CR = 2.296 and $p = 0.022$) has positive effect on marketing performance. Pricing bundling capability (CR = 1,986 and $p = 0,047$) has positive effect on marketing performance. Therefore hypotheses 1, 2 and 3 are supported.

Table 4
Hypothesis testing

Hypothesis	CR	P value	Result
1 Pricing Bundling Capability → Price Value Offerings	3.076	.002	Supported
2 Pricing Value Offering → Marketing Performance	2.313	.021	Supported
3 Pricing Bundling Capability → Marketing Performance	4.115	***	Supported
4 Pricing Bundling Capability → Price Value Offerings → Marketing Performance		0,014	Supported

The Sobel test examines the mediating variable by testing the significance of the indirect effect. The result shows p value 0,014, smaller than 0,05. It means the value offerings mediate pricing bundling capacity effect on the marketing performance. Thus, hypothesis 4 is accepted.

5. Discussion

This research examines the effect of pricing bundling capability on marketing performance and evaluates the role of price value offerings as the mediating variable. The result suggests that the pricing bundling capability positively affects the price value offerings and marketing performance. Meanwhile, price value offerings have positive effects on marketing performance, and it mediates the effect of price bundling capability on marketing performance. The findings support the RBV, which states that companies use their resources and capability to create value for their consumers for enhancing their performance. Companies do this to achieve superior performance through consumers' value creation. The concept affirms that consumers' value creation

mediates the effect of a company's capability on its performance. When both do not generate value for the consumers, the capability cannot lift the company's superior performance.

This study tests pricing bundling capability in the company's context, but can also be explained using the empirical literature on consumers' price bundling. Myung & Mattila (2010), Kwon & Jang (2011), Lee *et al.* (2011), Harris & Blair (2012), Engeset and Opstad (2015), Agarwal (2017), Doha *et al.* (2017), and Carroll *et al.* (2018) researched the consumers' perception on price bundling and its effect on buying decision. It means that the better the pricing bundling capability, the better the marketing performance of the company. Ahmetoglu *et al.* (2014) found that price bundling increases consumers' behavior, while Ranaweera and Karjaluo (2017) studied the effect of price bundling strategy on consumers' direct oral communication. Pricing bundling capability enhances marketing performance. A study by Li *et al.* (2018) found that pricing bundling increases the perceived fair price. It suggests that better price bundling yields better value.

Ranaweera and Karjaluo (2017) stated that price bundling leads to price value and eventually increases word of mouth and sales. A company's better bundling strategy implementation offers better price value, which leads to improved marketing performance. The ability to sell separate products in one discounted package makes the price bundling cheaper than separate item purchase (Arora, 2008). Cheaper pricing bundling increases customer fairness perception (Li *et al.*, 2018). It means, better price bundling capacity increases the price value. However, value creation alone is not adequate to improve a company's performance. A company increases its performance by capturing the value of that creation. It is crucial in marketing performance. The marketing capability contributed to superior performance when a company can capture the created values (Nath, 2010). O'Cas and Sok (2013) confirmed the same thing. They asserted that the capability to generate superior values for consumers is affected by marketing capability. But it cannot achieve superior performance if it does not increase the company's value. Therefore, value creation must work on both sides, in the consumers and the company.

Companies use price capability to produce qualified products at a profitable price (Hooley, 1999). That is necessary because although they have created consumers' value, they cannot always gain profit when they are unable to capture or allocate potential profit. Price capability is crucial in allowing companies to have the created values by setting a reasonable price. Pitelis (2008) stated that value creation is not enough as the company needs to focus on value capture.

6. Conclusion

The overall findings indicated a significant positive effect of pricing bundling capability, price value offerings on marketing performance, and price value mediating the effect of pricing bundling capability on marketing performance. This study verifies that the capability to implement price bundling capability is a visible way for restaurant SMEs to offer the price value by setting fair and value price to achieve marketing performance. This research has several practical implications for restaurant SMEs. The findings have contributed to marketing management by providing valuable input to and awareness of the factors to consider concerning enhancing marketing performance. This finding illustrates that it is vital for firms to enhance their capability to monitor competitor prices, setting reservation price of focal product and tie product, setting the discount price, and communicating their price to the customer. In other words, to enhance marketing performance, companies must improve their pricing bundling capability and price value offerings.

This study has not holistically explored how pricing capability enhances marketing performance. Price value offerings are inadequate to explain the research gap. Further research should examine the price value capture as a mediating variable of the pricing bundling capability effect on the marketing performance.

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