

DETERMINANTS OF BUNDLED SERVICE USERS' RETENTION

Ilona Bondos
Maria Curie Skłodowska University, Poland
ilona.bondos@poczta.umcs.lublin.pl

Marcin Lipowski
Maria Curie Skłodowska University, Poland
marcin.lipowski@umcs.lublin.pl

Abstract:

Option of purchasing a service packages is relatively new on the Polish market, so it is a new phenomenon not only for customers but also for researchers. In the theoretical part of the article were used the achievements of world literature in the field of bundling strategy, while in the second part of the article authors have presented the results of their quantitative research (sample of 250 respondents, survey implemented in 2014). Authors tried to answer three research questions connected with service bundling strategy. The main research goal was to identify these factors which determine customers (service bundling users) retention. It turned out that these are (by order): satisfaction with services, confidence in the provider, low price the following services, price reduction compared to the standard offer. Authors also pay attention to the relationship between the probability of changing by the consumer's his/her service provider and two issues: degree of exploitation of services from package and the number of invoices for services from a single provider. The correspondence analysis confirms the relationships that have practical significance for the service suppliers who are constantly focused on reducing the loss of profitable customers.

Keywords: service bundling, customer retention, service package, customer satisfaction

1. SERVICE BUNDLING AND CUSTOMER RETENTION - THEORETICAL BACKGROUND

1.1. Bundling strategy on service market

Bundling is the sales of two or more separate products or services in a package, alternatively, it can be viewed similar to volume discount where the volume is based on aggregate sales across products (Sheikhzadeh & Elahi, 2013, pp. 209-222). This strategy is a form of nonlinear pricing (Venkatesh & Mahajan, 2009, p. 232). Bundling has been studied for several decades but prior research about the topic of bundling does not focus on bundles of services (Andrews et al., 2010, pp. 71-76). The role of a bundling strategy is to encourage multi-item purchases in buyer groups that would normally purchase fewer products than those included in the bundle (Finney et al., 2008, pp. 925-932).

It is worth emphasizing the differentiation between the price bundling and product (service) bundling - the difference lies in the connection between package elements. The first term refers to the sale of two or more separate products (services) as a package at a discount, without any integration of the package elements and the second term relates to the integration and sale of two or more separate products (services) at any price (Bondos, 2014, pp. 427-436). Product (service) bundling is also referred to as feature bundling and in that type of bundling different features of and benefits of different products are combined into a single multifunctional product. Feature bundling delivers additional value over pure price bundling by combining multiple features of separate products into a single bundled product. T.J. Smith claims that in this case the integral architecture of a feature bundle is itself a source of value (Smith, 2012, p. 215). It is beneficial both for customers - they would receive a higher value, and company - it can achieve higher price with a feature bundle than with a customer buying separate products. Regarding price bundling, both academics and practitioners agree to the fact that it offers a variety of benefits. From provider's perspective the are: fully exploit willingness to pay, cross - selling, increased competitiveness, cost reduction; and from customers' perspective there are: price rebates (incentives), convenience, reduction of transaction cost, solution-oriented, non-product oriented. As a result, this leads to a greater customer satisfaction and stronger customer relationship.

Bundles can adopt one of three strategic forms: pure, mixed, and unbundled (individual sale). Under the pure components (or unbundling) strategy, the seller offers the products separately (but not as a bundle), under the pure bundling, the seller offers the bundle alone, under mixed bundling, the seller offers the bundle as well as the individual items (Stremersch & Tellis, 2002, pp. 55-72). Hit and Chen (2005, pp. 1481-1493) tried to find a "middle ground" that both preserves the benefits of pure bundling and offers the flexibility of individual sale, and they analyzed the concept of customized bundling, a pricing mechanism whereby consumers may select a fixed number of goods (which they choose) (N) out of the total goods available (J) for a fixed price (P). Wu et al. (2008, pp. 608-622) pay attention to so-called "the full mixed-bundling problem" - this is a more complex mixed-bundling strategy and it occurs when a firm, in addition to selling each product separately and the full bundle, also sells other bundles that consist of different subsets of products. Some authors showed that it is more profitable for a firm not only to offer a "pure" bundle but also to offer its components separately, if the market is made up of both, asymmetrical consumers as regards to their tastes and of consumers with homogeneous preferences. They also concluded that the more adequate pricing strategy, pure or mixed, strongly depends on the reservation prices, which are the consumer's maximum willingness to pay for each component (Ferrer et al., 2010, pp. 197-208). Bitran and Ferrer (2007, pp. 93-108) claim that since the reservation prices for individual components varies from customer to customer, bundles allow companies to capture more consumer surplus from the buyers because excess consumer surplus is transferred from one component of the bundle to another. In this way, companies implicitly price discriminate.

1.2. Customer churn and customer retention

In customer relationship management, consumers' retention rates can be a salient determinant to evaluate consumers' long-term performance. In addition, this metric is directly associated with consumers' lifetime monetary value (Park & Han, 2013-2014, pp.81-71). According to Best (2013, p. 21) businesses that lack a market orientation see customers as individual purchase transactions. Whereas a market-based management business sees them as lifetime partners. The higher the customer retention rate, the greater the profit impact. In the short run, this to be true on the basis of

increased profits from retained customers, reduced losses from defecting customers, and the subsequent lower cost of attracting new customers to maintain the customer base. But higher levels of customer retention also have a long-term positive impact on profits because a higher rate of retention lengthens the average life of customers, increasing their lifetime value. In marketing, customer lifetime value (CLV) has been a well-defined, long-term customer profitability metric that effectively calculates an individual customer's worth as a monetary value (Park & Han, 2013-2014, pp.81-71). Neslin et al. (2006) note, that customer retention strategies can be divided into two fundamental approaches: the untargeted and the targeted. The first strategy focuses on strengthening brand loyalty through service improvement and mass advertising. The second strategy relies on giving special incentives, such as reduced pricing or customized solutions, to those customers who have a high probability of churning away from the company. This targeted approach can be useful in retaining price-sensitive customers or those who need special services from the service provider. Wong (2010, pp. 2261–2271) claims that customer retention is considered as one of the important factors driving superior business performance in service industries. To maintain their competitive position and market share, service providers should pay close attention to the planning and execution of customer retention initiatives. Studies show that companies implement different kinds of programmes and activities to improve customer retention, such as customer complaint management, customer satisfaction programmes, and customer loyalty programmes. Undoubtedly it is crucial because defections are often associated with negative word of mouth that drives further defections. What is more, it is widely accepted that negative word of mouth has a relatively stronger effect than positive word of mouth (Nitzan & Libai, 2011, pp. 24-38). According to Kim and Yoon (2004, pp. 751-765) the first step in minimizing outbound churn and building up loyalty of the existing customers is to understand the causes of churning. Siu et al. (2013, pp. 675-686) note that dissatisfied customers are in the endangerment phase of the customer relationship life cycle. To stabilize the endangered relationship, an effective service recovery policy is necessary as a part of customer retention strategies.

Customer churn has become a significant problem for firms in publishing, financial services, insurance, electric utilities, health care, banking, Internet, telephone, and cable service industries. Customer churn figures directly in how long a customer stays with a company and, in turn, the customer's lifetime value (CLV) to that company. A way to manage customer churn is to predict which customers are most likely to churn and then target incentives to those customers to induce them to stay (Neslin et al., 2006, pp. 204-211). Managing customer churn is of great concern to global telecommunications service companies and it is becoming a more serious problem as the market matures. According to Ahn et al. (2006, pp. 552-568) the annual churn rate ranges from 20% to 40% in most of the global mobile telecommunications service companies. Customer churn adversely affects these companies because they stand to lose a great deal of price premium, decreasing profit levels and a possible loss of referrals from continuing service customers. Furthermore, the cost of acquiring a new customer can substantially exceed the cost of retaining an existing customer. In order to be successful in the maturing market, the strategic focus of a company ought to shift from acquiring customers to retaining customers by reducing customer churn (Ahn et al., 2006, pp. 552-568).

Nitzan and Libai (2011, pp. 24-38) note, that the importance of customer retention stems mainly from its close connection to a firm's bottom line, retention typically serves as a mediator in the satisfaction–profitability link. Numerous studies have attempted to examine retention drivers. According to these authors several drivers of retention emerge as especially prominent: customer satisfaction, usage pattern, customer tenure, personal characteristics. Authors also pay attention to the fact that absence of research on social influence as a defection driver is evident. Their scientific goal was to present the nature of the social effects on customer retention. It was possible to investigate a few factors: tie strength, homophily, degree of connectivity, and the effect of time. In turn, Kim and Yoon (2004, pp. 751-765) indicate some additional determinants of customer churn - level of satisfaction with various (alternative-specific) service attributes of that service supplier (among others quality and brand image), customer's income level, and duration of cooperation with the service provider. Whereas, Stahl et al. (2012, pp. 44-63) pay attention to the positive impact of brand knowledge (familiarity) on both acquisition and profit margin. According to these authors, in terms of retention current customers have adapted to a product and thus learned to value its attributes, they also will be more confident in their future judgment of the product. While Towler et al. (2011, pp. 391-406) pay attention to the connection between the service climate and customer retention - in authors' opinion when organizations foster a climate that rewards employees for their attention to customer service, customers will be more satisfied and more likely to return to the organization.

As already indicated, in the light of literature satisfaction is one of the customer retention determinants. However, some authors associate satisfaction with much greater importance and they argue that customer satisfaction is the key to customer retention (Ferrell & Hartline, 2011, p. 371; Henning-Thurau & Klee, 1997, pp. 737-764). Fully satisfied customers are more likely to become loyal customers, or even advocates for the firm and its products. Satisfied customers are less likely to explore alternative suppliers and they are less price sensitive. Therefore, satisfied customers are less likely to switch to competitors. Satisfied customers are also more likely to spread positive word of mouth about the firm and its products. However, the way that customers think about satisfaction creates some interesting challenges for marketers. Ferrell and Hartline claim that there are several things that marketers can do manage customer satisfaction and leverage it in their marketing efforts (Ferrell & Hartline, 2011, p. 377-378).

Although customer satisfaction can be conceived in a number of ways, it is typically defined as the degree to which a product meets or exceeds the customer's expectations about that product (Ferrell & Hartline, 2011, p. 371). One of the definitions connecting elements of different approaches is that satisfaction is the consumer's fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or overfulfillment (Lemon et al., 2002, pp. 1-14). In other publications satisfaction is defined as the 'central mediator of post-purchase behavior, linking prochoice product beliefs to post-choice cognitive structure, consumer communications, and repurchase behavior' (Siu et al., 2013, pp. 675-686). According to Wong customers' dissatisfaction on pricing is found to be a major churn determinant in the service industry (Wong, 2010, pp. 2261-2271). Best (2013, p. 20) notes, that in markets where relatively few choices are available - such as water service, electricity service, and hospital care - customers stay even when they are dissatisfied. Businesses that have no or limited competition have high levels of customer retention even if they have low levels of customer satisfaction. In highly competitive markets, however, even high levels of customer satisfaction may not prevent customer defection. Undoubtedly, it is also important to appreciate the contribution of Lemon et al. (2002, pp. 1-14) who propose that current models of customer retention which focus on the influence of customer satisfaction on the decision can be enhanced by incorporating the effects of the customer's future considerations as well. Specifically, authors advance the notion that when deciding whether to continue a product or service relationship, consumers not only consider current and past evaluations of the firm's performance (e.g., overall satisfaction, service quality, perceived quality) but also incorporate future considerations regarding the service. Accordingly, Lemon et al. analyze two consumer-anticipated future states—the consumer's anticipation of future benefits and the consumer's anticipation of future regret.

Customer satisfaction and retention are important linkages to a market-based strategy and to profitability. The ultimate objective of any marketing strategy should be to attract, satisfy, and retain target customers. If a business can accomplish this objective with a competitive advantage in attractive markets, it will produce above-average profits (Best, 2013, p. 21).

2. SERVICE BUNDLING - RESEARCH APPROACH

2.1. Aim of the paper and methodology

Due to the market tendency to offer customers services bundling despite separate product, authors try to reveal what cause that people using services bundling do not decide to change services provider. Customer churn is the one of the main problem for services providers. According to Office of Electronic Communications in Poland 4% mobile phone users changed service provider in 2014 (UKE, 2014, p. 10). But the percentage of customers who decided to change provider decreased rapidly during last few years. There is no doubt that offering bundled services rather than a single service is one of the customer retention strategy. Bundling strategy has both advantages and disadvantages for the provider. Customer decision about changing provider causes resign from several services at once and the more he/she buys in the package of services the more attractive he/she is for competitors.

Authors tried to answer the following research questions:

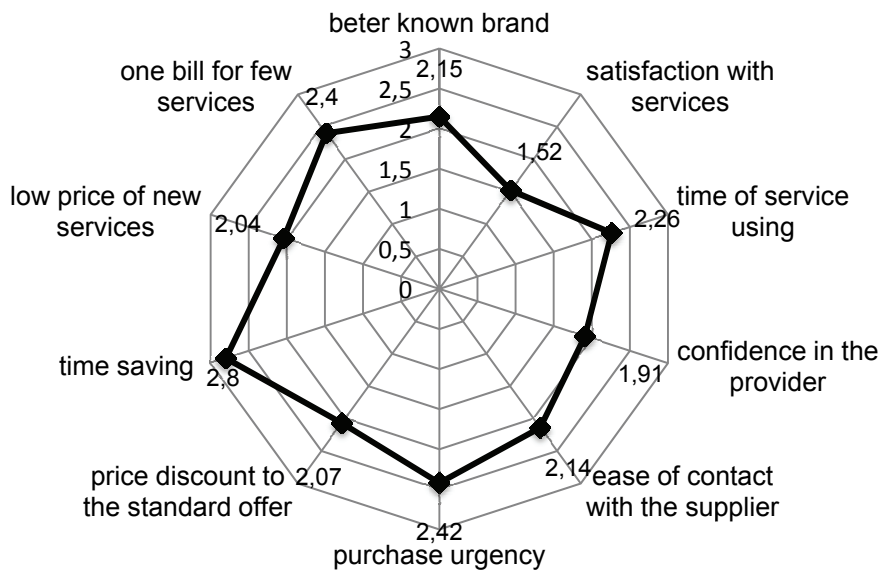
1. How do customers buy many services from a single provider?
2. What encourages customers to purchase multiple services in one company?
3. How to increase retention of customer – buyers of service packages?

In order to data collection questionnaire and PAPI method were used. The questionnaire consisted of sixteen questions and five demographic questions. For the sample have been deliberately chosen persons remaining in the household that uses more than one service from the same supplier. During the study, information was collected from 250 respondents. Most of them were graduate students or a member of their households. The data were collected in the fourth quarter of 2014.

2.2. Research results

Taking into account the literature analysis regarding purchase multiple services from a single provider it may take the form pure bundling, mix bundling or unbundling strategy. The majority of respondents declare that few people in close family bought the different or the same few services from one provider as a separate product and they are used it in one household. This strategy for the service purchasing from a single provider declare almost 41% of respondents. More than 28% of them claim that they buy another service to those already possessed. This kind of offer is often better offer than this one which is proposed to new customers. In fact this customers who buy more than one service from one provider become service packet users. It may be a strategy to build bundling selling step by step - by matching new service to meet changing needs of the household. Pure bundling was accepted by the 20% of respondents. According to 10% of respondents there are other reasons for buying few services from one provider. Another reasons for complete few services in one providers was transfer services from another provider or mergers and acquisitions previously independent companies. For the purpose of the text, authors have found that service package's users are those who have acquired a package at one moment or those who gradually buy additional services or moving services already available to the same supplier. Analysis of the propensity to purchase another services in the current provider reveal that the key factors are satisfaction with services and trust to provider. The answers respondents presents Figure 1.

Figure 1: Factors influence intention to purchase new services from the current provider [Likert scale 1 – definitely agree, 5 – definitely disagree]



Source: own research.

According to data it is worth pointing out that possibility to get the price discount in comparison to standard offer is the fourth success factors. The importance of this factor is similar to the weight of the level of knowledge of the supplier's brand. In the same case, the cost of time to search for and purchase additional services are relatively smallest. When we compare answers people buying few single offer from the same provider in one household with this which buy bundled services it turns out

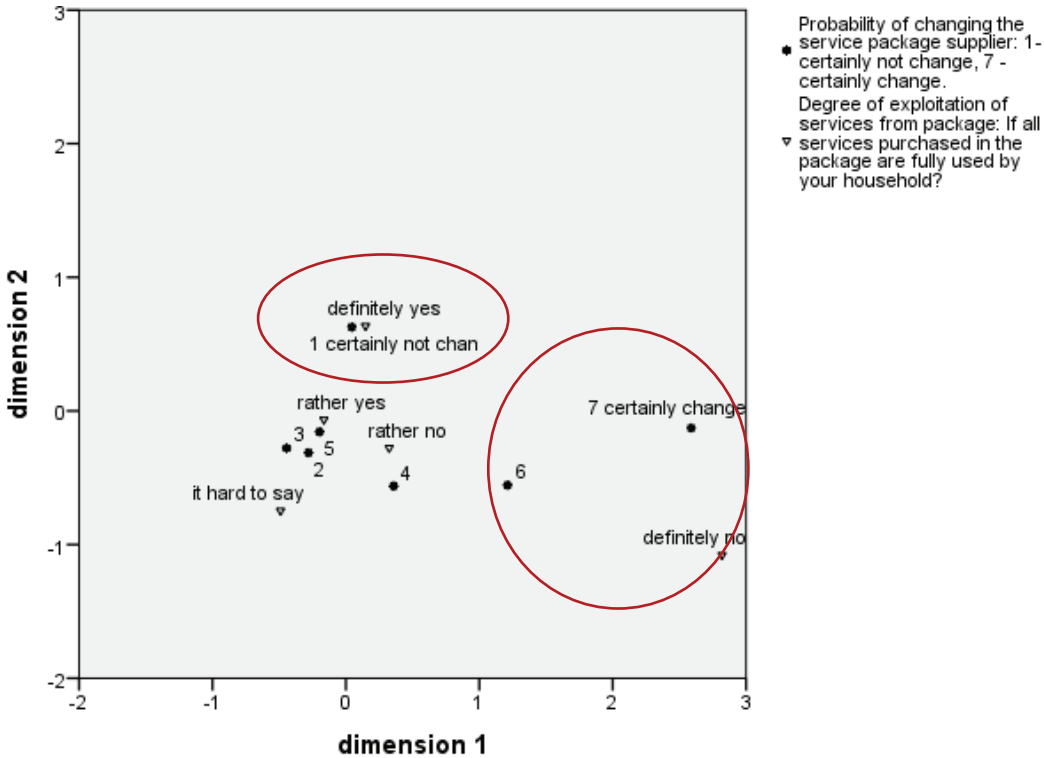
that customers bundled services have a greater tendency to purchase another service from the same supplier because of low price additional service, long term cooperation with supplier, purchase urgency and one bill convenience. In case of these factors difference between scores consumer bundled and unbundled services are statistically significant (t-test for independent samples).

The next step of the analysis was to investigate the relationship between the probability of changing by the consumer's his/her service provider (within the next 12 months) and two issues:

- degree of exploitation of services from package (figure 2),
- the number of invoices for services from a single provider (figure 3).

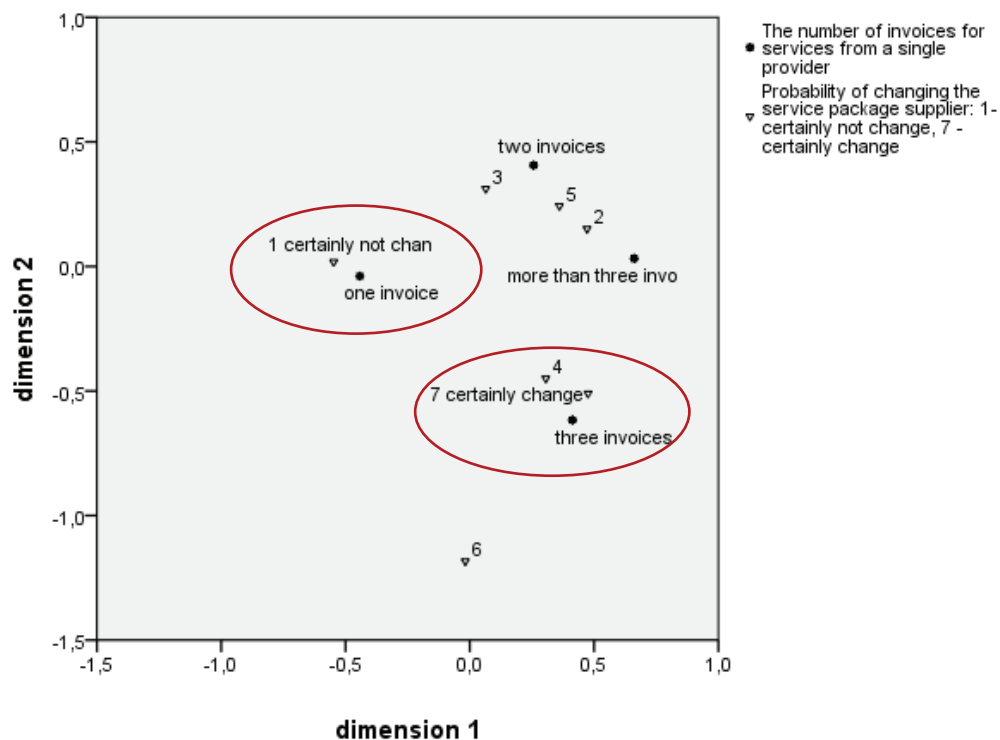
For this reason correspondence analysis (ANACOR) was used. It is easy to notice that fully exploitation of services from package and one invoice for all services from a single provider are key factors to minimize probability of customer churning. Thus, these factors should be regarded as important for customer retention. This means that companies which offer service packages should not add to the package these services that are unnecessary to the customer, because the lack of full exploitation of the services from package is a factor associated with a tendency to abandon the package. In turn, the strategy of adding new services to the package according to the changes in the real needs of the consumer (e.g. when household entrances in the next phases of its life cycle) can effectively linked the customer with a service provider.

Figure 2: Customer churn and degree of service exploitation – ANACOR



Despite the fact, that one bill convenience was one of the less important factors tending to buy multiple services from one provider (in the consumers' declarations, figure 1), in the ANACOR analysis a fact of receiving one invoice for all services is apparently associated with a low probability of resignation from services. In turn, greater number of invoices for services received from the same supplier is associated with a strong customers' tendency to change their service provider. It is difficult to assess whether, in this case, the fact of receiving one bill from a supplier is a positive motivation (one bill convenience) or exit barriers (difficulty in resigning from the individual components of the package without changing the conditions of providing other services).

Figure 3: Customer churn and number of invoices for services - ANACOR



2.3. Findings and discussion

Authors are aware of using relatively simple statistical analysis, the reason for that was low reliability of the composite measurement scales used in the questionnaire. According to the authors the low reliability of the results was caused by simplify of the sampling process as well as by the research problem. Many of the services purchased by the customer in the package are used by several people in his or her household and packages are created gradually through buying another services (e.g. TV to stationary Internet). What is more, customers sometimes deliberately refrain from buying services in the package and decide to get a new (separate) contract with the supplier due to the preferential prices for new customers. Option of purchasing a service package is relatively new on the Polish market, services previously acquired separately are replaced by the offer with the same services but forming a one package.

To buy multiple services from a single provider the following factors tend customers in the greatest extent (by order): satisfaction with services, confidence in the provider, low price the following services, price reduction compared to the standard offer. Relatively less price important than satisfaction and trust in services providers may result, according to the authors, in the low transparency of services' price which are sold in packages, individual services and the whole package of services. Hence the crucial importance of subjective customer's feelings connected with services received and trust to the supplier (e.g. customer belief that after 3 months, she or he will not be force to pay more than she or he originally thought). The confirmation of the importance of satisfaction with the services is the linkage between respondents' willingness to stay with the supplier and exploitation of various elements of the service package. In terms of payment accumulation in one day one invoice for all services is not a problem for customers, it is rather a barrier of resignation or confirmation of customer satisfaction.

From the service providers' perspective, it is important, therefore, to create flexible service packages that are tailored to the real needs of customers and not to offer additional (sometimes free) services but unnecessary to customer. In this strategy it is also worth paying attention to the option of one bill for all services included in the package, but of course the overriding issue is to build confidence in the company and to analyze customer's satisfaction.

REFERENCE LIST

1. Ahn, J.H., & Han, S.P., & Lee, Y.S. (2006). *Customer churn analysis: Churn determinants and mediation effects of partial defection in the Korean mobile telecommunications service industry*. Telecommunications Policy, 30(10-11), 552-568.
2. Andrews, M.L., & Benedicktus, R.L., & Brady, M.K. (2010). *The effect of incentives on customer evaluations of service bundles*. Journal of Business Research, 63(1), 71-76.
3. Bitran, G.R., & Ferrer, J.C. (2007). *On Pricing and Composition of Bundles*. Production and Operations Management, 16(1), 93-108.
4. Best, R.J. (2013). *Market-based Management*. Boston: Pearson, 552p.
5. Bondos, I. (2014). *Price and service bundling – an example of the telecommunications market in Poland*. Proceedings of MakeLearn Conference, Portoroz 2014, 427-436.
6. Ferrell, O.C., & Hartline, M.D. (2011). *Marketing Strategy*. Mason: South-Western CENGAGE Learning, 744p.
7. Ferrer, J.C., & Mora, H., & Olivares, F. (2010). *On pricing of multiple bundles of products and services*. European Journal of Operational Research, 206(1), 197-208.
8. Finney, R.Z., & Lueg, J.E., & Campbell, N.D. (2008). *Market pioneers, late movers, and the resource-based view (RBV): a conceptual model*. Journal of Business Research, 61 (9), 925–32).
9. Henning-Thurau, Th., & Klee, A. (1997). *The Impact of Customer Satisfaction and Relationship Quality on Customer Retention: A Critical Reassessment and Model Development*. Marketing & Psychology, 14(8), 737-764.
10. Hitt, L.M., & Chen, P. (2005). *Bundling with Customer Self-Selection: A Simple Approach to Bundling Low-Marginal-Cost Goods*. Management Science, 51(10), 1481-1493.
11. Kim, H.S., & Yoon, Ch-H. (2004). *Determinants of subscriber churn and customer loyalty in the Korean mobile telephony market*. Telecommunications Policy, 28(9-10), 751-765.
12. Lemon, K.N., & White, T.B., & Winer, R.S. (2002). *Dynamic Customer Relationship Management: Incorporating Future Considerations into the Service Retention Decision*. Journal of Marketing, 66(1), 1-14.
13. Neslin, S.A., & Gupta, S., & Kamakura, W., & Lu, J., & Mason, Ch.H. (2006). *Defection Detection: Measuring and Understanding the Predictive Accuracy of Customer Churn Models*. Journal of Marketing Research, 43(2), 204-211.
14. Nitzan, I., & Libai, B. (2011). *Social Effects on Customer Retention*. Journal of Marketing, 75(6), 24-38.
15. Park, S.H., & Han, S.P. (2013-2014). *From Accuracy to Diversity in Product Recommendations: Relationship Between Diversity and Customer Retention*. International Journal of Electronic Commerce, 18(2), 51-71.
16. Sheikhzadeh, M., & Elahi, E. (2013). *Product bundling: Impacts of product heterogeneity and risk considerations*. International Journal of Production Economics, 144(1), 209-222.
17. Siu N.Y.M., & Zhang, T.J.F., & Yau, Ch.Y.J. (2013). *The Roles of Justice and Customer Satisfaction in Customer Retention: A Lesson from Service Recovery*. Journal of Business Ethics, 114(4), pp.675-686.
18. Stahl, F., & Heitmann, M., & Lehmann, D.R., & Neslin, S.A. (2012). *The Impact of Brand Equity on Customer Acquisition, Retention, and Profit Margin*. Journal of Marketing, 11(1), 44-63.
19. Smith, T.J. (2012), *Pricing Strategy*, Mason: South-Western Cengage Learning, 344p.
20. Stremersch, S., & Tellis, G.J. (2002). *Strategic Bundling of Products and Prices: A New Synthesis for Marketing*. Journal of Marketing, 66(1), 55-72.
21. Towler, A., & Lezotte, D.V., & Burke, M.J. (2011). *The service climate–firm performance chain: the role of customer retention*. Human Resource Management, 50(3), 391-406.
22. UKE 2014 (Urząd Komunikacji Elektronicznej – Office of Electronic Communications), *Preferencje konsumentów rynku telekomunikacyjnego w latach 2011 – 2014*, UKE, Warsaw 2014.
23. Venkatesh, R., & Mahajan, V. (2009). *The design and pricing of bundles: a review of normative guidelines and practical approaches*, (in:) Handbook of pricing research in marketing, ed. V.R. Rao, Northampton: Edward Elgar, 593p.
24. Wong, K.K.-K. (2010). *Fighting churn with rate plan right-sizing: a customer retention strategy for the wireless telecommunications industry*. The Service Industries Journal, 30(13), 2261–2271.

25. Wu, S., & Hitt, L.M., & Chen, P., Anandalingam, G. (2008). *Customized bundle pricing for information goods: a nonlinear mixed-integer programming approach*. *Management Science*, 54(3), 608-622.