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SERVICE PACKAGES – ATTRACTIVENESS HAS MANY FACES†

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Abstract

This article is an attempt to identify the impact of the customer age (especially the Baby boomers generation and the X and the Y generation) on the assessment of incentives to buy service package. Belonging to different age generations seems to be important for the effectiveness of service packages sales – the entrance by the consumers in subsequent phases of the life cycle is related to their perception of the market offer. The starting point for the empirical part of the article was to analyze the different average scores attractiveness of the ten packages service features (incentives to purchase). Then, using multidimensional scaling authors determined the similarity or dissimilarity data on a set of applied incentives to use service packages. Visible differences indicate a different perception of the attractiveness of packages representatives of the Baby boomer generation and Y generation. Managerial implications and directions for future research are discussed.

Keywords: Bundling, Service, Price Bundling, Attractiveness, Incentives

1. Introduction

Bundling strategy is becoming increasingly popular in both the material goods market and service market. There is not a new marketing solution, but it still needs improvement in terms of incentives for use by the consumers and their remain with the supplier. The main objective of bundling strategy implementation is to increase the profitability of customer, their loyalty and retention in effect. Naturally consumers also can take advantage of such a solution, but their perception of various incentives is not the same. To adapt the service package to the expectations of different consumers segments is, without a doubt, the vital challenge for service packages providers.

2. Literature Review

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

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products (Sheikhzadeh and Elahi, 2013). This strategy is a form of nonlinear pricing (Venkatesh and Mahajan, 2009) and is an important tool for companies that serve customers with heterogeneous preferences. When explicit price discrimination is not possible, companies must rely to a great extent on pricingand design policies in order to maximize their profits (Bitran and Ferrer, 2007). Finney *et al.* (2008) identify the role of a bundling strategy – the encouragement multi-item purchases in buyer groups that would normally purchase fewer products than those included in the bundle. In turn, Cao *et al.* (2015), based on the literature, identify two reasons why a company bundles: bundling results in better price discrimination against consumers and bundling serves as an effective competition tool. Researchers agree that the fundamental objectives for both goods and services bundling are to increase shareholder value, attract new customers, and develop stronger relationships with existing customers (Legarreta and Miguel, 2004). Bitran and Ferrer (2007) explain the main idea of bundling effectiveness – a customer's reservation price for a bundleis the sum of all individual reservation prices of the bundle's components. Since the reservation prices for individual components vary 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. While Park and Seo (2008) pay attention to informational effect of bundling – the effect of information aggregation becomes increasingly important in product market competition, whenpotential entrants have difficulty estimating the profitability of target markets.

In order to classify and relate various bundling strategies Stremersch and Tellis (2002) identify two key dimensions of bundling: first – the focus of bundling (whether on price or product), and the second – the form of bundling (whether pure or mixed). These dimensions encompass a rich set of bundling strategies that have substantially different characteristics and implications. The nomenclature and interpretation presented by them were repeatedly cited by many later researchers of this issue. Thus, the general difference between the price bundling and product (service) bundling resides in the connection between package elements. Price bundling refers to the sale of two or more separate products (services) as a package at a discount, without any integration of the package elements whereas product bundling relates to the integration and sale of two or more separate products (services) at any price (Stremersch and Tellis, 2002). 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. According to Smith (2012), the integral architecture of a feature bundle is itself a source of value. 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. Wuebker *et al.* (2008) as well as Basu and Vitharana (2009) notice some mutual advantages of price bundling. From provider's perspective there are: fully exploit willingness to pay, cross-selling, increased competitiveness, cost reduction; and from customers' perspective there are: price rebates, convenience, reduction of transaction cost, solution-oriented, non-product oriented. As a result, this leads to a greater customer satisfaction and stronger customer relationship. Prince and Greenstein (2014) investigate that bundling strategy also has a positive effect on customer churn in case of recurrent service industries.

As Guiltinan (1987) almost three decades ago noted that one major choice available to decision makers (at least in theory) is whether to employ pure or mixed bundling. In the former case, the services are available only in bundled form – they cannot be purchased separately. Mixed bundling, in contrast, enables the consumer either to purchase one or more of the services individually or to purchase the bundle. Mixed bundling is a form of second degree price discrimination (Prasad *et al.* 2015). Naturally, there is a third option – unbundled (individual sale), under the pure components (or unbundling) strategy, the seller offers the products separately (but not as a bundle). Hitt and Chen (2005) trying to find a "middle ground" that both preserves the benefits of pure bundling and offers the flexibility of individual sale, have analyzed the concept of customized bundling. Researchers defined this strategy (it is a consumer's right to buy a choice of up to M goods from among a larger set N for a fixed price p) and determined the conditions of its attractiveness. Another bundling modification is this noticed by Wu *et al.*

(2008) so-called “the full mixed-bundling problem” – 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 price, which is the consumer’s maximum willingness to pay for each component (Ferrer *et al.* 2010).

Andrews *et al.* (2010) claim that bundling strategy has been study subject for several decades but prior research about the topic of bundling does not focus on services. Shugan and Radas (1998) have already noticed the usefulness of bundling strategy to balance the current service availability with demand. Instead of just shifting demand from peak to off-peak, they show that bundling can be very profitable when managing demand by combining peak and off-peak service delivery. Thus, unquestionably, bundling strategy is not new to the field of marketing (Guiltinan, 1987). Researchers drew attention to some incentives to acquire service packages rather than individual services. According to Andrews *et al.* (2010), the convenience of a single bill is a powerful incentive that generates switching intentions that appear to be comparable to free upgrades and discount incentives. Also the scholars during their previous research have found 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 (Bondos and Lipowski, 2015). Marketers should also carefully weigh their options when promoting service products so as not to offer unnecessarily expensive incentives. Moreover, framing the offer as a valuated incentive is important for impacting value perceptions but not for switching or search intentions (Andrews *et al.* 2010). Framing effects refer to how the price of the bundle is presented to the consumer. Gilbride *et al.* (2008) show that when the prices of items in a bundle are itemized, some consumers are more likely to compare prices separately to their reference prices in order to evaluate the attractiveness of the deal, but this actually reduces the probability of purchasing the bundle. Also Janiszewski and Cunha (2004) note the importance of framing, they claim that constructing attractive bundle offers depends on more than an understanding of the distribution of consumer preferences. Consumers are also sensitive to the framing of price information in a bundle offer. According to some researchers bundling is a value-based pricing method (Rautio *et al.* 2007). Main argument for such reasoning is strong dependence the effectiveness of bundling on the value which is offered to buyers of products or services combined in one package. Cram (2006) claims that price bundling is one of the forms of smart pricing and it can move customers up the revenue ladder. But at the same time the author indicates the effectiveness of distinguishing from competitors commonly using bundling – it may be clever to move in the opposite direction.

Yan *et al.* (2014) pointed out that many previous papers studied the product bundling from the different perspectives, such as price segmentation, price discrimination, product range restrictions, reduced classification or processing costs, and scope economies. In their own study of the bundling strategy effectiveness they have included the issue of advertising. Their results show that the bundling strategy with advertising can help firm achieve higher performance than the bundling strategy without advertising. However, the price discount to the identical products must be attractive to customers and the degree of product complementarity to the complementary products must be large enough, and then the bundling strategy with advertising can obtain a success in the market. Furthermore, when the degree of the complementarity between two products increases, firm should invest less on advertising to promote the bundled products. However, as the market demand’ size increases, the bundling strategy with advertising always becomes more valuable to a firm who expects to achieve a higher profit.

Another important issue is the legality of bundling. Researchers recommend caution with bundling strategy because of the legal pitfalls involved (Stremersch and Tellis, 2002). Also Marshall and Johnston pay attention to potential dark side of price bundling. In their opinion in some industries it can become unclear just what the regular, or unbundled, price is for an individual component of a package (Marshall and Johnston, 2010). The spirit of law rules is that a bundling strategy should not harm consumers by limiting competition. Under one group of rules (per se rule), bundling has been ruled illegal when it is pure bundling, of separate products, by a company with market power (market power means that the bundling firm can force a consumer to do something that he would not do in a competitive market), when a substantial amount of commerce is at stake (Smith, 2012). Under the more stringent rule of reason, bundling has been ruled illegal under the same conditions as mentioned above if two further conditions exist: the bundle poses a threat that the bundling company will acquire additional market power over at least one of the elements that is bundled with tying product, and no plausible consumer benefits offset the potential damage to competitors.

For researchers it is clear that companies with dominant market power should avoid pure price, because such a type of bundling for them is illegal at all times, and pure product bundling may be legal if the bundle offers substantial added value to consumers that cannot be achieved when firms sell the bundled products separately. Stremersch and Tellis (2002) pay special attention to the term "separate" in general definition of bundling. According to these authors, this word has enormous implications for understanding the legality and optimality of the phenomenon, so it merits precise definition. They define separate products as products for which separate markets exist, because at least some buyers buy or want to buy the products separately. These authors suggest that, faced with important legal constraints, companies with dominant market power may find it optimal to resort to value-added product bundling for long-term benefits rather than to short-term price bundling to gain market share.

It can be concluded that bundling is generally a legally accepted practice, but there are some infrequent but noteworthy examples, when there is huge possibility for negative legal consequences. In addition to legality, price bundling should also be assessed from the perspective of ethical issues (Bondos, 2014). No other area of managerial activity seems to be more difficult to depict accurately, assess fairly and prescribe realistically in terms of morality than the domain of price (Nagle and Holden, 2002).

This article is an attempt to identify the impact of the customer age (especially the generation of baby boomers, the X and the Y generation) on the assessment of incentives. To the best of authors' knowledge, no previous research has analyzed the effectiveness of service bundles incentives in the context of customers' age understood in this manner.

3. Research Methodology

3.1. Research Sample

The research sample was determined by quota-random method, quotas due to age and gender and the nature of the place of residence (city provincial, city other than provincial, village) – the structure of sample was preserved at the regional level. This means that we set the number of interviews for each province proportional to the share of the population, then we set the number of interviews to conduct in the type locality (city provincial, city other than provincial, village), the number of interviews also reflected the number of inhabitants for the province. Then, from the address database starting points were drawn, their number was due to the number of interviews to conduct. The interviewer guided the drawn address and chose household using random route method. The interviewer's task was to visit in every second premises. If it was closed, the interviewer went to a sequential number, and if he had there an interview, he walked two numbers on to the next premises. Within the drawn household there was invited to interview a person who has recently celebrated a birthday, and as the realization of interviews and pursue its attempts, a person belonging to the quotas (by gender – the structure of the Polish and by age – structure imposed because of the research objectives–generations comparison).

The study was conducted in September-November 2015 on a group of 1103 respondents including 357 from a Baby boomers generation, 390 from the X generation and

356 from the Y generation. CAPI (computer assisted personal interview) method was used with a standardized questionnaire. Questions about the service package attractiveness have been scaled using a seven-point Likert scale (1–strongly disagree; 7–strongly agree). The characteristics of the study sample are presented in Table 1.

Table 1. Characteristics of the study sample

Characteristics		Number of respondents	Percentage of sample
Gender	Female	565	51.2
	Male	538	48.8
Generation	Baby boomers (1946-1964)	357	32.4
	X (1965-1980)	390	35.4
	Y (1981-1996)	356	32.3
Employment status	Full time employed	608	55.1
	Part time employed	82	7.4
	Entrepreneur	74	6.7
	Not employed	123	11.2
	Retired	185	16.8
	Other	51	2.8
Number of people in the household	1	108	9.8
	2	329	29.8
	3	323	29.3
	4	245	22.2
	5 or more	98	8.8

3.2. Research Questions

The authors of the study tried to answer the following research questions:

RQ1. What factors influence the perception of service packages attractiveness?
RQ2. Does the perception of the incentives to purchase the service package is different between the generations?
RQ3. What differences in assessing the services package attractiveness exist between the generations?

In order to find answers to these questions scale consists of 10 statements was developed. Statement begins each time with "service package is attractive if:

a) it has a lower price than the sum of the prices for the same services buying separately–sign Q1;
b) for the first three months it has a lower price–sign Q2;
c) it gives the opportunity to buy the device to the service at a lower price–sign Q3;
d) the contract extension results in lower package prices–sign Q4;
e) it is possible to cancel the contract on a single service at any time without financial consequences–sign Q5;
f) it is possible to cancel the contract on the whole service package at any time without financial consequences–sign Q6;
g) it is possible to change some components of service package before the end of the contract–sign Q7;
h) the duration of the contract is short–sign Q8;
i) it is cheaper than the same offer in competition–sign Q9;
j) it is sufficiently clear for what services and how much you have to pay–sign Q10.

All of scale achieved Alfa Cronbach's coefficient at the level of 0.917. Factor analysis (CFA) has classified all the statements to one factor (Kaiser-Meyer-Olkin measure of sampling adequacy 0.947) which confirmed homogeneity and accuracy of measurement. None of two statements were more closely correlated to the value of Alfa Cronbach's coefficient.

3.3. Results

The most important factors determining the attractiveness of the package are indicated by designation Q6 (average 5.57), Q10 (average 5.55), Q4 (average 5.53), Q9 (average 5.52), Q7 (5.51). But statistically significant differences in respondents' evaluation of the variables t-test for dependent samples show only in the case variables Q6 and Q7 (t-2,135, p-0.033). For respondents the most important in evaluating the service package attractiveness is: lack of financial consequences in case of resigning from a service package, customer's justified belief for what and how much it should be paid and the possibility of lowering the package price upon renewing the contract. According to respondents, variables Q2 (average 5.20), Q1 (average 5.29) and Q8 (average 5.33) have proved to be the least important. These variables relate to price promotions at the beginning of the agreement, a lower price for the package as a service purchased separately and the attractiveness of short-term contract. Despite the statistical difference in the test average grade, it is worth noting that the evaluation of the respondents are very similar –are within the range +/– 0.4 point.

Assessments of individual elements incentives to buy bundled services are clearly different between the generations Baby boomers, generation X and generation Y. All the variables assessment of the service package attractiveness measured by ANOVA (Scheffe post hoc test) or Games-Howell (in case of significant differences in the variances compared groups) was lower for the Baby boomers generation than for X generation and Y generation. In the case of the last two generations, there were no statistically significant differences in the case of any of all assessed factors (Figure 1). The largest differences in average variables rating relate to Q9 and Q4. Incentives to buy bundled services in the form of a cheaper package than the competitors' offer and the possibility of lowering the price upon renewing the contract were evaluated worse by older people (50-70 years old) than younger generations.

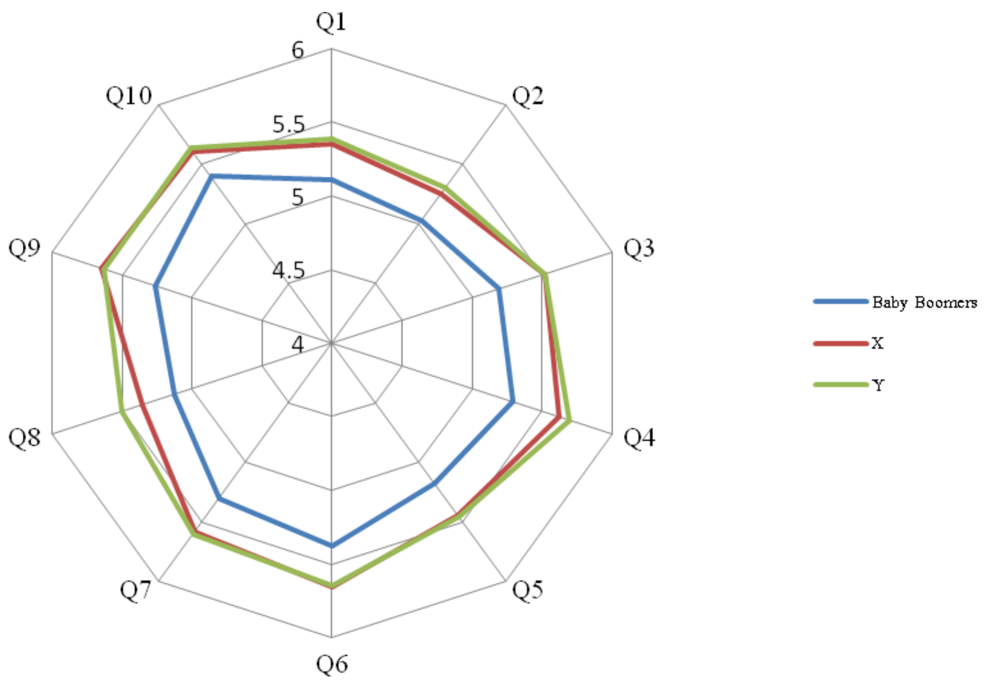

Figure 1. Assessment of incentives to buy service package by three customer generations (Baby boomers, X, Y)

The reason for observed differences in the assessments may be that the service packages are targeted primarily at households where several services are used by a few people. These are often people of the X Gen (35-50 years old) or the Y Gen (19-34 years old) who have already households with children or those with Gen Y who continue living with their parents. The biggest difference assessment between generations X and Y concerns short-term of the agreement, however, even in this case the differences evaluations are not statistically significant.

Similarities and differences in the impact of various incentives for the most distinct from each other Baby boomers and Gen Y were imaged using multidimensional scaling. It is a technique for the analysis of similarity or dissimilarity data on a set of objects. Both the R-squared value (close to 1.0) and the value of the stress coefficient justify the interpretation of the results of this method.[1]

In the two-dimensional space defined dimension 1 – the basis of incentives (time and price) and dimension 2 – the reference point for incentives attractive (competitors offer and suppliers offer). In the case of Baby boomers (Figure 2) it can be seen a separate location factors Q1 (package have lower price than the sum of the prices for the same services buying separately), Q2 (lower price of package for the first three months), and Q8 (short duration of the contract). This means that these three factors are seen as different incentives for consumers of Gen Baby boomers. And very close location of incentives Q3, Q4, Q7 (the opportunity to buy the device at a lower price; the contract extension results in lower package prices and customer's freedom in composing package during the contract term). In this case, those indicated three incentives are seen in a similar way and may affect in the same way on consumers.

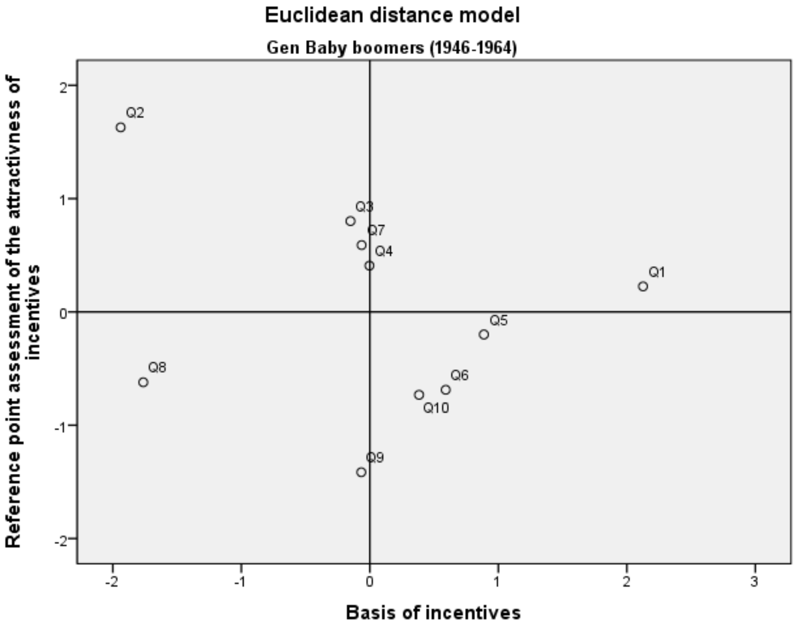

Figure 2. Multidimensional scaling (Alscal) – Baby boomers generation
Notes: Stress = 0.17, RSQ = 0.86.

For comparison, in the case of Y Generation (Figure 3) are similarly situated individual factors Q1 and Q2 but Q8 does not create a separate incentive and is close to Q7 (term of the contract compensate the freedom in composing package during the contract term). Additionally

[1] Borg and Groenen (2005) suggest the following benchmarks for the *stress* coefficient used to evaluate the fit of the k-dimensional representation of data in multidimensional scaling: 0.20–poor, 0.10–fair, 0.05–good, 0.025–excellent, 0.00–perfect.

clearly separately it is located factor Q3 – the opportunity to buy the device to the service at a lower price. Probably the younger people pay more attention to the device used (in particular the telephone) using a number of its functions and demonstrating own status in the peer group.

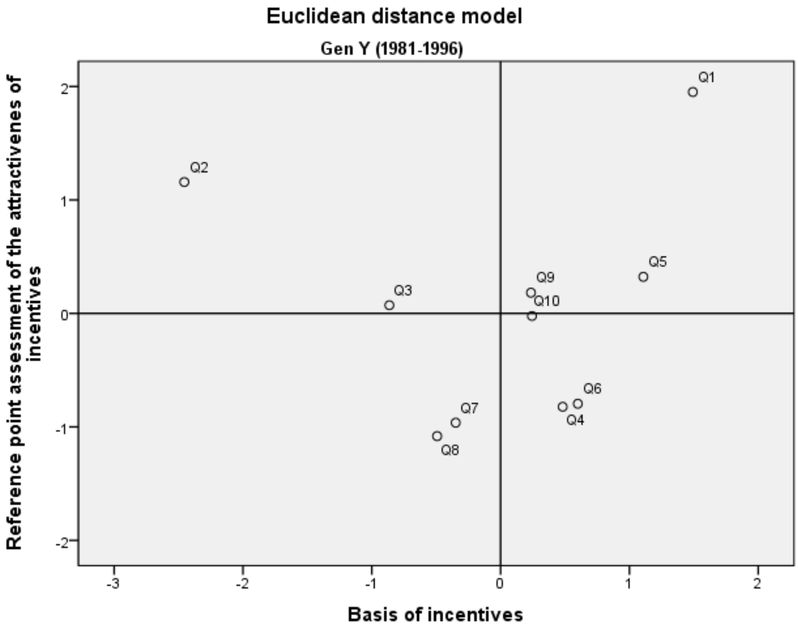

Figure 3. Multidimensional scaling (Alscal) – Y generation
Notes: Stress = 0.12, RSQ = 0.94.

4. Conclusion and Managerial Implications

The results show that companies encourage consumers to buy bundled services should pay special attention to the following issues: the offer transparency, the price of individual services in the package, improving the package attractiveness while renewing a contract, mitigating the consequences arising from termination of the contract by the consumer before the agreed date.

There are some significant differences in encouragements effective for the young consumers and the older ones. To encourage the purchase service package is more difficult for consumers from the older generation (50 years old or more). However, this group of consumers can be encouraged using the factors of relatively minor importance, such as price promotions at the beginning of the contract, the lower price for services anyway buying separately or shorter contract duration. While, for customers with Gen Y, from one hand, less important will be the contract duration but on the other hand, price reduction on the device purchased together with service package will be more important and attractive.

Due to the possibility of contact with customers afforded by ICT service providers are able to offer not only a homogeneous packages, but also heterogeneous – packages that cover telecommunications services (such as a landline phone, mobile phone, Internet, pay-TV), as well as the services of another type (financial services, electricity).

Customers, in their declarations, do not want long-term contracts on packages and expect a significant offer transparency (they want to know how much they pay and for what). In the authors' opinion particular importance for the successful customer acquisition and their retention may have the lack of limitations on the contracts duration. It is common practice nowadays to force consumer's loyalty for a certain period of time (often two years). However, in fact the majority of services purchased in packages are used continuously by the buyers, therefore the decision to purchase a number of services from a single provider can reinforce the future retention of these customers.

5. Limitations and Further Notes for Research

This study has some limitations. The main one concerns limiting the application of the presented conclusions with regard to services for households. It is also difficult to determine the amount of services that consumers will be willing to buy in the package from one supplier.

It seems that this research direction should be particularly developed due to the existing relationship between changes in the range/type of services sold in a package and attractiveness of various incentives for the purchase of services in one company. This issue, however, seems to be interesting and vital that the authors will make further attempts to study the phenomenon of bundling services.

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