



An empirical analysis of multiple services and choices of consumer in the Swedish telecommunications market



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ABSTRACT

Received analyses state that firms can use a multiple services offering strategy to retain customers and capture new customers. Factors that determine the multiple services strategy include product discount, service provider and customer characteristics. Consequently, this study addresses the fundamental question: what are the key determining factors that explain the probability that a consumer buys multiple services? A generalized Poisson regression model is employed to examine whether the product discount, service provider, socio-economic variables and geographical location impact consumer decisions. Data from a national survey in 2009 commissioned by Post-och Telestyrelsen, the Swedish telecommunications regulator, are analyzed. The results clearly show that the discount, service provider and income of the consumer affect the consumer's buying decision. A consumer who receives a discount or has a high income is more likely to buy multiple services or select more services from the current service provider into his basket than a consumer who does not receive discount or has lower income. Service providers, cable TV operators and telecommunications carriers can also lock-in their consumer and expand their market position from one particular service to another using bundling service. Thus, this may be the time for the telecommunications regulator to consider the market definition.

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1. Introduction

The recent increase in technological convergence of voice, video, and data has facilitated a wide range of services, leading to fiercer competition on the market. To sustain the growth of telecommunications service providers, the firms are implementing a number of strategies to lock-in current consumers and attract new ones to the current and new markets. For example, offering a wide and deep range of telecommunication services or putting their services into a basket together with discount (bundling¹) rather than offering an individual service. These strategies aim to win consumer loyalty and also can be used for entry deterrence to maintain the market position of service providers (Bughin & Mendonça, 2007; Lee, 2009).

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¹ There are two types of bundling: pure and mixed. Pure bundling refers to the case in which different goods are sold together in fixed proportions and consumer can only buy a package or nothing at all. In contrast, mixed bundling occurs when a firm offers consumers the choice between a bundle and separate products or components (Motta, 2004, p.460).

Consumers can either buy several individual telecom services or purchase a bundling service. This is called multiple services. The combination of multiple services can be any combination of telecommunication services, including voice, television and Internet access from the same provider. The bundling can be seen as a subset of multiple services, which is a combined package offering more than one communication service from the same service provider at a single price. The most common multiple services and bundle service are the combination of fixed telephony and fixed Internet broadband access and a combination of fixed telephony, cable TV and fixed Internet broadband.

It has been observed among the EU27 countries that bundles have been adopted by a significant proportion of households in a number of countries since 2006. One-fifth of Europeans said that their households bought more than one communication services as part of a bundle at the end of 2006. By the end of 2009, on average, 38% of Europeans bought a bundle service (European Commission, 2007, 2010). This number indicates that bundle packages are becoming increasingly popular, with more than one-third of households on average subscribing to a package that includes two or more services. Two main reasons can explain why households purchase the bundle services: single billing and the fact that it is cheaper than paying separately for each service.

Most of the EU27 countries exhibited an increase in the adoption of bundling, and Sweden is no exception. Service providers in the Swedish communication market increasingly offered a combination of fixed telephony, mobile telephone, Internet and television in bundled packages for a single subscription before 2005. Sweden demonstrated the biggest percentage point increase (22%) between 2006 (21%) and 2009 (43%). There is also evidence that most countries with a high rate of broadband Internet access, including Sweden, have a high rate of bundling (European Commission, 2010).

Accordingly, this paper aims to investigate the determinant factors of buying multiple services from the same services provider in the Swedish telecommunications market. The multiple services can be either bundle² or any specific combination of individual telecommunications services. A generalized Poisson model is employed to examine empirically whether the service discount, service provider, socio-economic variables and geographical area have a systematic link to the choice decisions made by the consumer. The data from a national survey in 2009 commissioned by Post-och Telestyrelsen (PTS), the Swedish telecommunications regulator, are used for the analysis. The potential impacts of the variables, together with the policy recommendations, are discussed based on the findings.

The next section discusses the literature review, and the third section provides a snapshot of bundle services in Sweden. This is followed by a description of the data and method used in the analysis in the fourth section. The results and discussions are presented in the fifth section. In the last section, the conclusion is summarized together with its contribution to the telecommunications regulator.

2. A snapshot of multiple telecom services in Sweden

In the early years of bundling, the bundle package was offered as double-play, and it has been the most popular of the bundle packages. Double-play accounts for almost 60% of the bundle services. By mid-2010, more than 80% of double-play users had applied for fixed telephony combined with broadband Internet access.

Recently, triple-play, in particular fixed telephony, broadband and TV service, has also played an important role in bundle service. By mid-2010, four hundred thousand households used this package. It makes up more than 40% of the bundle services in contrast to quadruple-play, which is not yet a popular service. Only five thousand households used this service (Table 1).

There are many telecommunications carriers providing different kinds of telecommunications services in the Swedish telecommunications market. Not all telecommunications carriers provide bundle packages however. PTS reported that seven telecommunications providers offered bundle packages (see Table 2). Two of them provide all types of bundle packages. They are Bredbandsbolaget, or Telenor, and Telia. Tele2 and Com Hem supply double- and triple-play packages. AllTele, Bredband2, and Glocalnet only provide a double-play package. The rest do not offer bundle packages but sell individual services, even though they provide more than one service (see Table 2).

Telia was among the first telecommunications carriers to provide bundle services. Telia used its market position in the fixed telephony service for broadband Internet service by requiring end-users to have a telephone subscription for the provision of a broadband access line. PTS ordered Telia to stop this action from 2006 however (PTS, 2007). Telia started offering digital television combined with broadband from the last quarter of 2006. At the same year, Tele2, which is the second largest telecommunications operator and Com Hem, an incumbent in cable TV service started to offer a bundles service to the market. Tele2 started to use its fixed network by supplying a double-play package at the initial stage and began to provide triple-play, while Com Hem offered its customers a combination of broadband, fixed telephony and television (PTS, 2007). Later, Bredbandsbolaget started its business by launching an alternative broadband access network in the form of fixed Ethernet to be connected to households and corporations and has officially operated fully synergized with Telenor to offer all kinds of bundle services (PTS, 2000, 2006).

² The most common bundled package is double-play, which is a combination of fixed telephony and fixed Internet broadband. The second type of bundle service is triple-play, which offers a combination of fixed telephony, cable TV and fixed broadband in a service package. The last bundled service is quadruple-play, which offers fixed telephony, fixed broadband, cable TV and mobile telephony.

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