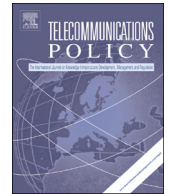


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Telecommunications Policy

URL: www.elsevier.com/locate/telpol

Bundling of telecom offerings: An Empirical Investigation in the Turkish market

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ARTICLE INFO

Available online 23 January 2015

Keywords:

Bundling
Telecommunications
Turkey
Regulation
Consumer preferences

ABSTRACT

Bundling has become a popular marketing strategy in the telecommunication sector as telecom service providers all over the world have been offering various bundle types in order to increase customer loyalty and revenues. Yet our knowledge of exactly which profile of consumers reacts to bundles of service providers, and whether they would like to purchase bundle without explicit discount information, is limited. These two research questions are addressed in the present article. We examine current bundle choices and future intent of consumers through an empirical investigation, in the context of the Turkish market, one of the most dynamic and sizeable telecom sectors in the world. We build upon the extant theoretical work with empirical evidence, especially in the context of the heavily regulated Turkish market. Findings of this study can assist service providers develop and implement business strategies to expand the subscriber base.

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1. Introduction

The telecom industry exhibits unique characteristics within the utilities sector as the output of this sector has become varied considerably compared to that of water and energy sectors during last decade. Especially with the emergence of the Internet, a large number of new services over telecommunications networks have been developed. Paradoxically, some of these services (OTTs¹ such as WhatsApp, Facebook, Viber etc.) have been challenging legacy telecom products.

Apart from OTTs; reducing prices, increasing competition and heavy regulatory environment also challenge telecom operators. Consequently, telecom operators are in rush to sell as many as services to their customer base. For this purpose, bundling is becoming a very popular strategy for telecom operators to adopt, in order to gain new customers from competitors while retaining their current customer base (Srinuan, Srinuan, & Bohlin, 2014; Zaballos, 2013). For example, in Europe bundle ownership of households has reached to 45% (Special Barometer 396, 2013). Meanwhile, with bundling, customers enjoy a single point of contact and discounted services if available.

In telecommunications, bundling can be considered as an evolutionary process since new telecom services are developed one after another. The evolution of bundling began with-dual play (fixed voice and fixed internet), then triple-play (adding

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¹ Over-the-top content (OTT) refers to delivery of audio, video, and other media over the Internet without the involvement of a multiple-system operator in the control or distribution of the content (Wikipedia).

TV services), and finally quadruple-play (adding mobile services). Utilization of current telecom infrastructure is enhanced by bundling where all telecom services are delivered over same copper or fiber cables.

When it comes to a formal definition of bundling, a universally accepted definition does not exist (Stremersch & Tellis, 2002). In this study, we prefer to use the following definition for telecommunications sector, as synthesized from literature and current bundle practices of operators: *'buying at least two products from one single provider in one single invoice with or without discount.'*

Regulatory restrictions imposed on Turkish telecom operators make this study especially interesting and timely: the Turkish telecommunications sector has a distinctive regulatory burden that major Turkish telecom operators (fixed incumbent operator and mobile network operators) cannot offer bundle offers. We elaborate on this below.

The telecoms have an ongoing relationship with the consumer. The relationship between the consumer and telecom operator is built on the "subscriber" concept, which, at first sight, seems a very beneficial loyalty factor for service providers as telecom services are billed to consumers on a monthly basis.² However as regulatory authorities enabled easy switching of service providers, consumers can churn fast with the help of attractive competitor offers. Therefore, having long-term contracts with consumers is highly critical for service providers³ as an attempt to retain customers.

The purpose of the present investigation is to empirically explore bundling preferences of consumers in the Turkish telecommunications market through a large-scale survey. In spite of the popularity of bundling in the telecommunications sector, scholarly or even non-academic research⁴ on this subject is generally absent. In the context of Turkey, a rapidly transforming emerging market, this research is intended to assess the current level of bundling habits and future intentions of residential consumers in the sector. The game field of telecom operators in Turkey is narrowed under a tough regulatory regime. The present behavior and clues for future attitudes of consumers can provide broader understanding to telecom operators while developing their bundling strategies.

Our specific objectives in the present investigation are twofold: (i) Do customers bundle or not? (Bundle choice); and (ii) If yes, which customer segments prefer the bundle? By addressing these questions, telecom operators can target appropriate customer segments that are most likely to bundle, reduce customer demand heterogeneity, and create value by product integration.

This research is, to our knowledge, the first formal study of bundling in the telecommunications sector in Turkey. The quality of sample has been enhanced by seeking respondents who are real decision makers (current or potential subscribers) – who have signed the subscription contract with service provider on behalf of their households. They have been randomly chosen from telecom sales and customer services offices during their regular visits.

The remainder of this article is organized as follows. We begin with a review of the extant literature, and then offer an overview of the Turkish telecommunication sector with its challenges for bundle offerings. We then reveal the design of study, and formulate the research questions. We conclude with a discussion of findings and implications.

2. Extant literature: What do we know?

Initial work on bundling was addressed largely in the economics literature in terms of whether the firm should bundle or sell items separately (Sharpe & Staelin, 2010). In the present investigation, we focus largely on the marketing literature. Though the topic of bundling has been discussed by scholars, there is no consensus on the definition of bundling in the literature (Stremersch & Tellis, 2002). According to Guiltinan (1987) bundling is defined as the practice of marketing at least two products in a single package for a special price. However, the package does not always include a discount. Some recent literature focused on 'service bundling' where the bundle is composed of services only – quite meaningful in the telecom sector (Andrews, Benedicktus, & Brady, 2010; Srinuan et al., 2014).

Prior research paid considerable attention to understanding why firms bundle. Bundling is used as a competitive strategy to enhance the demand for the product portfolio of a firm (Monroe, 1990). Firms tend to differentiate their products from competitors and gain competitive advantage (Lawless, 1991). Bundling can enable service providers to gain competitive advantage by preventing churn rates, having upsell opportunities and getting new subscribers, in addition to reducing marketing and operations costs (Andrews et al., 2010).

Switching operators – termed as churn – has been threatening various industry sectors. Annual churn rate of European mobile operators is between 20% and 38%, which is very destructive to operators as cost of churn is measured billions of dollars in the sector (Lemmens & Gupta, 2013). Naturally, telecom operators aim to reduce churn rate and keep their subscribers from other telecom operators' attacks (Kisioglu & Topcu, 2011). High level of competition in the telecommunications sector induces telecom operators from acquiring customers to retaining customers (Ahn, Han, & Lee, 2006). Bundling can be a critical solution for telecom operators in order to minimize customer churn since bundles would increase switching costs for consumers. Complex structure of bundle by increased number of products, increased value by complementary products, and higher cancellation fees for longer term of contracts, could make churn less attractive in telecoms. As an example, a competitor can try to offer similar type of triple-play (voice, internet, TV), however, it is not easy

² Prepaid consumers, especially in mobile sector, are not mentioned.

³ Service providers are interchangeably used for telecom operators.

⁴ Turkish NRA (named as BTK) does not hold any type of statistics about bundling in the sector at its quarterly market reports.

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