

Effect of bundling of new telecommunications service:
A customer life cycle perspective

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Abstract

Providing bundled services is a growing competitive initiative in the telecommunications service industry. The proliferation of choices had provided customers with a wide array of options, but at the same time, the inconvenience of having services from many different services providers. Hence, there has been a drive in the telecommunications industry towards bundling in order to better serve customers. However, few studies are available regarding the effect of bundling on the firm's performance.

In the past, telecommunications companies had a product-focused view, and transactions with its customers were treated as discrete activities. To improve profitability, firms focused on cost reduction and market stimulation. In fact, customers

were generally not on the radar screen. The customer-focused view that *customers* generate revenues resulting in higher profitability was not evident in the decision making process within firms [Jain and Singh, 2002]. However, deregulation, intense competition, and shrinking margins have led firms to recognize the importance of customer loyalty, and customer-focused approaches are thus being adopted in the formulation of a business strategy.

A customer life cycle concept is the approach that treats customers as assets and focuses on both acquiring and retaining customers. In the telecommunications service industry, it is necessary to view customer as an asset to build relationships over its life rather than an object of one time transaction. Especially when new services are introduced, a strategy needs to be developed from the customer life cycle concept.

In this paper, the effect of bundling of a new telecommunications service was analyzed from the customer life cycle perspective. To understand the impact of bundled services, statistical analyses were performed for a new bundled service in a major telecommunications service company. It is a service that provides both local, local toll, and LD service as a bundle at a cost of \$49.95 for their unlimited usage.

Several analyses were performed on the effect of the bundled service. First, we analyzed their payment behavior and delinquency status for the new customers who subscribed during a month of June 2003. Second, for the same customers, we identified the customer status at the end of the six months post subscription. Third, for the customers who cancelled the service, we studied their comments through text classification analysis approach to understand their reasons for cancellation. Finally, we compared the attrition behavior and their business impact with those of the accounts without bundles. Those analyses provide a perspective and insights into which customers to target, how to handle delinquency problems, and how to keep customers in the buying cycle using the service bundling strategy.

Reference:

Jain, D. and Singh, S. Customer lifetime value research in marketing: A review and future directions. *Journal of Interactive Marketing*, Spring 2002, Vol. 16, No. 2, pp. 34-46.