

Abstract

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Essays on Strategic Price Bundling in Retail Banking

The empirical motivation of this dissertation is the retail banks' need to become more conscious about the profitability and pricing of their activities in a successively harder competitive environment. One of the largest threats for the retail banks has become the changed customer behaviour resulting in an increased split-banking and bank switching. In this dissertation we focus on examining how price bundling, which is a selling approach of two or more services at a special price, would counteract the enhanced customer disloyalty and improve the strategic customer relationship management against any competitive forces. The theoretical motivation in this dissertation refers, at this time, to incomplete knowledge about long-term pricing issues with specific concern to price bundling.

The main aim in this dissertation is to develop principles for effective price bundling strategies, and to empirically examine the way in which price bundling is already utilised by the retail banks. This main aim is divided into four sub-aims that are consecutively dealt with, in five essays, in an attempt to obtain a comprehensive understanding of the research issue. The findings from these five essays form a base for how the principles are developed and illustrated.

Essay 1 presents *two principal frameworks* in order to analyse the applicability of price bundling strategies in retail banking. The first analysis looks at the components that add value when services are sold together (price bundling) compared with an individual selling strategy for both the bank and the customer. The second part of the paper shows how price bundling can be applied strategically, in the long term, in order to acquire new customers, to cross-sell new services to existing customers, and to retain customers in retail banking. Six basic price bundle segment strategies are proposed based on the customers' current and future profitability.

In Essay 2 Guiltinan's (1987) normative framework for price bundling is used to *develop price bundling principles for a customer retention strategy*. In addition, a practical example of price bundle models, loyalty bundles, applied by the Finnish and Swedish retail banks is shown and compared with the principles developed for customer retention. Lastly, a model to assess the profitability of the mixed-retention bundling strategy is presented.

Essay 3 presents the results from an *empirical study of price bundling strategies in Southern, Central and Northern Europe*. Three core price bundling models are defined: cost efficiency bundling, cross-selling bundling and loyalty bundling. There are geographical differences in the price bundling application but common to all the markets is the threat of customers switching, which was identified as the main driving force in competition.

Essay 4 and 5 are interconnected. Essay 4 investigates the Swedish retail banks' application of price bundling in order to *attract new customers* -students. The conjoint analysis results show that the students had relatively heterogeneous preferences, and four distinguishing segments could be found among them, namely a) plain banking, b) cheapest banking, c) modern banking, and d) traditional banking. The central factor in attracting students is the choice of services that are included in the bundle, and not the price. In Essay 5 the issue of the *customer retention* is studied. Students' preferences concerning some basic retail banking services, type of price reduction, and choice of bank are examined by using conjoint and cluster analysis. Price bundling offers many opportunities to improve customer retention in retail banking through a demand based choice of services and a price discount model that creates incentives to stay through time.

The *main conclusion and contribution* in this dissertation is a set of three *principles for "strategic price bundling"* that is presented in the concluding discussion. Strategic price bundling principles aim to develop customer loyalty by considering the totality of the seller-customer relationship, and by sharing the mutual benefits when a customer's business is concentrated.

Key words: price bundling, retail banking, strategic planning, effectiveness, relationship management, competitive advantage, conjoint analysis.