

# **Bundled Services Evaluation: Using Leading Edge Techniques in New Product & Service Evaluation**

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## **ABSTRACT**

This paper will examine an attempt to determine which of 21 products and services, from five different categories of service types, residential customers would most prefer to bundle. The national research project described also evaluated the preferred provider of such services and customers' "ideal" bundle of products and services, along with price sensitivity and preferred payment options, special offers, and type of telephone customer service. Further, the research developed demographic and psychographic segmentation profiles of the residential customer base in relation to the offered products and services, and obtained media consumption information to facilitate target marketing. The research was conducted in two phases, one qualitative using a hand-held wireless "response meter," the Perception Analyzer™ (PA), and one quantitative, using a phone-mail-phone methodology utilizing choice-based conjoint analysis.

## **Introduction**

The unfolding convergence of products and services in the energy industry brings unique challenges to potential providers of such offerings. First, there is the elemental challenge of determining which of these products and services, if any, customers would be most likely to bundle. Second, the issue of customers' predisposition toward potential providers of such offerings needs to be accounted for. Finally, what attributes of the product and service bundles are most preferred, and by whom?

This paper examines such a situation. The client, an energy services provider, posed the following question: "Can we assess consumer interest in a variety of potential product and offerings, and identify and profile those segments that are pre-disposed to purchase such bundles?"

The following discussion will evaluate the two-step process used to answer this and other questions posed by the client.

## **Research Objectives**

The research objectives were as follows:

- Examine current usage, as well as past and anticipated switching behavior, for a variety of products and services that are used in the home (including present utilization of "bundled" products and services).

- Explore a number of different types of consumer perceptions, including current service providers, deregulation issues, preferred and least preferred providers of “bundled” services, and the reasons for these preferences.
- Assess consumer interest in a variety of potential offerings along a number of different dimensions, including a specific product/service “bundles,” billing and payment options, customer service options, special incentives and pricing options.
- Identify and profile segments that are pre-disposed to purchase “bundles” of these products and services and determine the price sensitivities of consumers to these alternatives.
- Evaluate consumer preferences for – and consumption of – a variety of media sources.

## Qualitative Research

The qualitative research consisted of a series of 10 focus groups in various parts of the United States. In each selected city, two focus groups were conducted.

### Recruiting & the Perception Analyzer™

As a result of using the PA, it was not necessary to recruit homogenous segments for the focus groups. The PA facilitates the capture of categorical, attitudinal, trade-off and continuous read “data” (not used in this instance – applicable for moment-by-moment evaluation of an ongoing stimulus such as advertising), although the data collected is still considered qualitative. Such data is a supplement to open-ended discussion. In a typical two hour focus group, the participants will dial for approximately 30-45 minutes, at various times throughout the session, and will discuss the topic at hand for the remaining 75-90 minutes.

The administration of batteries of demographic and attitudinal questions permit analysis of the qualitative data collected, since data tables are produced much in the same manner as for quantitative studies. In this way, there is no requirement for an *a priori* hypothesis needs to be drawn on target homogenous characteristics, although if there is such a hypothesis, traditional homogeneous recruiting is still recommended in addition to the use of the PA.

One advantage of using the PA is that unexpected sub-groups may emerge in a way not easily determined in traditional focus groups. The other advantage is that substantial ground may be covered. In a normal focus group setting, it would not be possible to evaluate 21 products and services, and combination bundles, in a meaningful way. These focus groups provided an opportunity to evaluate and cull down the original 21 products and services, and to help determine which broad groups of products and services customers were most likely to bundle together – a key aspect of facilitating the design of the choice-based conjoint survey used in the next phase of research.

### Focus Group Session Protocol

The participants were welcomed to the focus group in the traditional manner, with the moderator explaining the facility, format and ground rules. Each participant introduced himself/herself. Then, the moderator explained the PA dials, which were placed at each participant’s

position prior to the session. The participants were told that no discussion would be permitted, and that sidebar comments and visual reactions to questions and stimuli were discouraged, during PA dialing modules within the session.

**Perception Analyzer™ profiling.** The participants then answered a series of questions using their dials. The questions and response codes were indicated by a large-size data monitor in the focus group room (the client monitor in the viewing room displays responses for the group as a whole and for selected sub-groups).

The first questions addressed demographics: a session identifier, gender, number in the household, age, education and income

Then the participants indicated ownership or subscription to a series of products and services: natural gas, cable television, satellite dish, long distance carrier (for “stay” or “switch” propensity), cellular phone, pager, home security systems, carbon monoxide detectors, home PC with modem, Internet service, extended warranties, and other household services.

Then participants indicated some profiling information:

- Do they own a home-based business?
- Does someone in their home telecommute?
- What is their adoption of products and services (early, middle or late adopter, with description of each)?

Next, the participants indicated their favorability toward a number of companies (rotated to mitigate order bias): local telephone company, long distance company, Internet service provider, cellular provider, electric company, natural gas company, cable television company, and satellite TV company.

Finally, the participants indicated a PA response to the following question: **“Thinking about these types of companies, which do you think is most capable of going beyond what they do today, and perhaps provide a single point of contact for products and services across these categories of companies (that is, ordering, billing, payments)?”** (Qualitative highest rank answer: 38% say their local phone company; see quantitative result later in this paper.)

**Product and service ratings.** The participants then put down their dials and were handed the 21 product and service descriptions on color-coded cards (color-coded by broad category type: entertainment, energy, telecommunications, home services, repair services). The participants were given time to privately review each card, and were asked to write down a number, from 0-100, their likelihood to purchase or subscribe to each product or service (a scale was provided to allow for a common frame of reference for subsequent dialing). Once all participants were completed writing their responses, they dialed their responses for each product/service card.

**Category interest.** Next, the participants indicated, using their dials, their level of interest in purchasing products and services from within each of the five broad product/service categories.

**Category bundling.** Then the participants indicated which of the five product/service categories, if any, they would be likely to buy from a single company. All 16 possible combinations (up to three categories were bundled together) were evaluated.

**Company suitability.** Next, the participants indicated ratings for various companies' (e.g., local telephone company, long distance company, cable company, electric company, cable company, etc.) suitability for offering bundled products/services in these categories.

**"Ideal" bundles.** The participants then took time to develop their own personal "ideal" bundle of products and services. They were instructed to put together between two and ten cards – of at least two different colors (i.e., product/service categories) to avoid bundling within a single category – into an "ideal" bundle for their own preference. (While this "forced" bundle might imply that all customers are indeed interested in bundling such products and services, in the qualitative phase it was intended only to insure that a sufficient sample size of "ideal" bundles was obtained. The choice-based conjoint exercise in the quantitative phase dealt with the "no buy" option.) The participants were instructed to then indicate the company type they would most prefer to receive their "ideal" bundle from, choosing from their local or long distance phone company, electric or gas company, cable company, or an Internet service provider. The "ideal" bundles and preferred providers were collected by paper and pencil exercise, and open-ended discussion followed.

**"Ideal" energy company bundle.** Next, the participants were told to assemble an "ideal" bundle, now assuming that the offering company was an energy utility company. (The intent here was to determine the gap, if any, between the "ideal" bundle where no company was specified, and the "ideal" bundle where the company was specified as an energy utility company.) The participants were given the option to obtain their "ideal" energy company bundle from an electric company, natural gas company, or combination company. Again, the responses to this exercise were taken by paper and pencil exercise, and open-ended discussion ensued to discuss the bundles chosen and the rationale for selection of bundles and preferred providers.

**Special offers.** In the final module of PA dialing, a series of "special offers" were evaluated. The client wanted to know which, among a series of special offers, were most valued by customers. The PA has a trade-off option that permits a series of paired comparisons to be rated. In each trade-off, one special option is assigned a pole (i.e., either zero or 100), and the participants are instructed to dial away from 50 (i.e., preferring neither over the other) toward the pole (i.e., special offer) of their preference. The further they dial away from 50, the more they prefer the special offer toward which they dial. Given that all combinations of special offers are ultimately paired against each other, and are not offered in singular fashion (thereby creating a potential bias, that all special offers may be liked or disliked), the participant cannot "figure out" the exercise. Ultimately, an adjusted mean score is created for each special offer, which permits the "quantitative" evaluation of the special offers when pitted against one another.

## **Focus Group Findings**

**Group profile.** The focus groups produced PA "data" and open-ended discussion, which, when analyzed together, facilitated the development of the choice-based conjoint exercise (see following section).

Without revealing proprietary client information, the following reflects some of the rank order of customers' qualitative profiles and preferences:

- The groups had an almost even split by gender and age above and below 40.
- There were slightly more total households with incomes below \$60,000 than above \$60,000 (a plurality were in the \$40,000 to \$60,000 income group).
- Almost two-thirds described themselves as “middle” adopters of products /services, while the remainder were “late” adopters.
- Almost one-third either telecommute or have a home business.

**Product/service elimination.** Two products and services were eliminated from further consideration because of their performance in the focus groups. These were not the two lowest rated individual services, but rather from the category least desired to be bundled (“home repair services), which demonstrates that the use of the PA is not “quantitative” – that is, the two lowest rated products/services were not eliminated – but rather supplementary to open-ended discussion. Open-ended discussion suggested that repair services such as these are considered to be stand-alone services.

**Preferred provider.** Customer comments in the focus groups suggested that long distance companies, in general, are perceived to be most capable of providing a wide range of services (due to their national scope, perceived financial and technical resources), and that electric companies, in general, are perceived to have superior customer service capabilities. Cable companies are criticized for having poor performance in both reliability and customer service, and natural gas companies are not seen as “leading edge” enough to provide the types of products and services evaluated. Internet companies are seen as “leading edge” in technology, but not strong in financing, stability or infrastructure.

Customer concerns about an electric company offering a range of products and services include that basic accessibility of customer service may be degraded, and that this may put further pressure on accessibility. Also, customers do not generally perceive electric companies as having “leading edge” technology capabilities.

**Table 1.** Preferred Provider of Bundled Products & Services

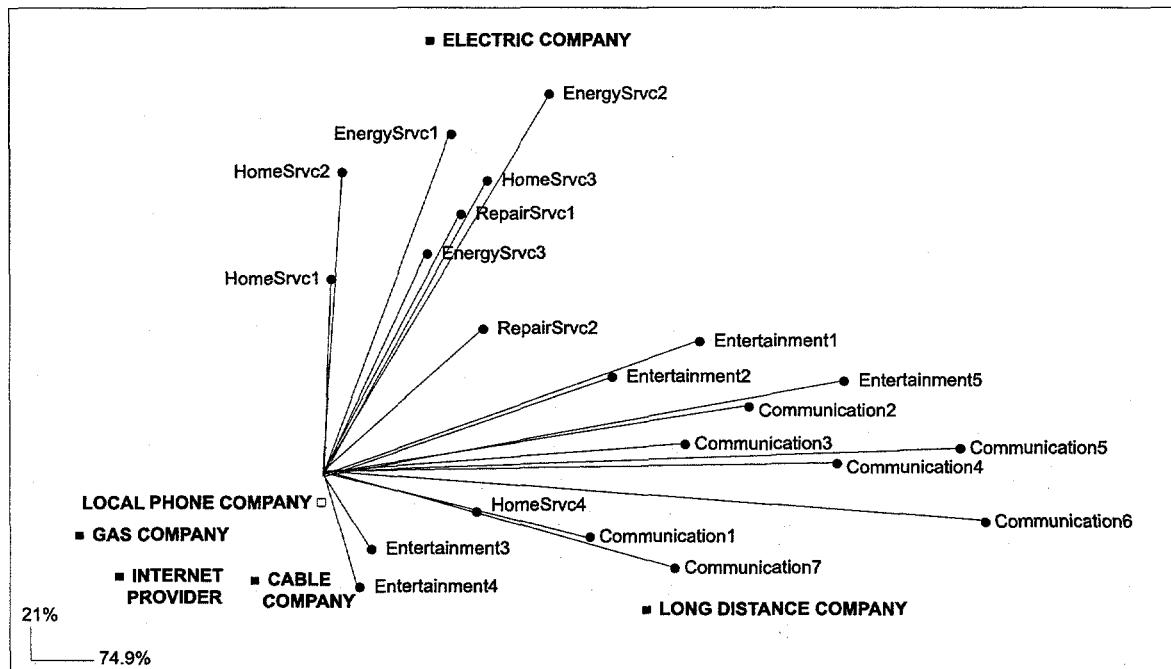
<b>Company Type</b>	<b>Rank order (pre-exposure ability to provide products &amp; services beyond what they do today)</b>	<b>Rank order (post-exposure ability to provide the products and services evaluated)</b>
Local Phone	First	Third
Cable Company	Second	Fourth
Long Distance	Third (tie)	First
Internet Provider	Third (tie)	Fifth
<b>Electric Company</b>	<b>Fifth</b>	<b>Second</b>

**Perceptual maps.** Two perceptual maps were prepared based. Figure 1 looked at the selection of products and services in the initial “ideal” bundle exercise, in which the participants could choose their preferred provider. Figure 2 is the “forced ideal” in which the preferred providers were limited to energy companies. (See following pages.)

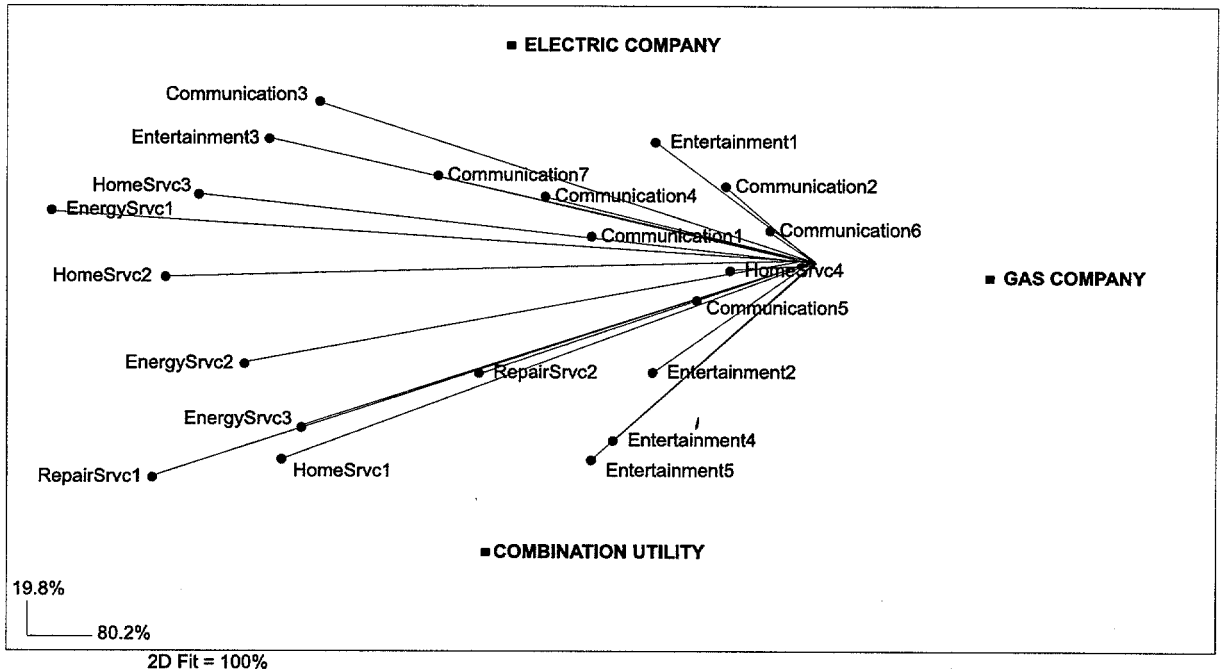
A comparison of the perceptual maps demonstrate is that electric companies – devoid of any marketing activities – are perceived to be most capable of providing billing, appliance and energy

related products and services, with a type of home security included (Figure 1). Local and long distance phone companies are perceived to be more capable of providing telecommunications, entertainment and information services (including Internet). When restricted to energy companies (Figure 2), information services and telecommunications are perceived to be closer to the competencies of electric (only) companies, while repair services are more closely associated with a combination utility. Natural gas companies are not closely aligned with any of the products and services.

**Figure 1. Perceptual Map –All Providers**



**Figure 2.** Perceptual Map –Electric, Gas or Combination



## Quantitative Research

The quantitative research consisted of a phone (pre-recruit), then mail (conjoint package and incentive mailed), and then phone (survey and data collection) process. A total of 1,000 randomly dialed participants were pre-recruited, and 500 follow-up telephone interviews were completed. The interviews were conducted in each of the four major census regions (Northeast, Midwest, South and West), in rough proportionality to population distribution. The overall sampling error of the survey was +/- 4% based on a 50:50 distribution at the 95% confidence level.

## Survey Design

The choice-based conjoint analysis (CBCA) package utilized permitted up to nine “bundled” product and service combinations to be evaluated. Given that there are several hundred thousands of possible “bundled” combinations given the original 21 products and services, the qualitative research findings were essential to the formulation of a workable conjoint exercise in the quantitative phase. Purchase interest in the individual products and services, general interest in the broad product categories, and willingness to combine certain categories together were all examined, along with customers’ open-ended comments about their rationale for wanting (or not wanting) services “bundled.” The process of selecting the nine bundles turned out to be fairly easy, using business judgement, common sense and the qualitative customer comments and “data” generated by the PA.

**The Nine Product/Service Bundles.** Without identifying the specific underlying products and services, the nine product/service bundles were broadly classified as:

- The “Home Essentials” plan (telecommunications based)
- The “Satellite/Cable” plan (television based services)
- The “Make My Phone Life Simple” plan (combined telecom services)
- The “Personal Computer” plan (electronics and support)
- The “Renewable Energy” plan (“green power”)
- The “Home Office” plan (telecommunications and PC)
- The “Home Safety and Security” plan (security based)
- The “Bill Security and Stability” plan (billing options)
- None of these (a “no buy” option)

**Price.** Five price levels were reflected in the conjoint exercise, compared to the existing, unbundled prices of the underlying products and services. The price levels were:

- 5% premium (assuming that the bundling would bring an advantage)
- No change in prices
- 5% savings
- 10% savings

**Payment option.** Customer comments from the focus groups indicated that a major concern of customers in considering a “bundled” combination of products and services is “sticker shock.” One way to mitigate this effect, the groups suggested, would be to offer new payment options that facilitated such a bundling of monthly bills. Four payment options were offered:

- Current due date
- Pay twice a month
- Pay electronically by funds transfer (EFT)
- Pick your own due date

**Special offer.** Four levels of special offer were shown in the conjoint:

- One month free service of your choice
- \$50 off the product of your choice
- \$25 gift certificate
- No special offer

**Phone service.** Two levels of phone service were offered:

- Toll free personal service
- Automated phone system (with an option to speak with a person at all times)



## Pre-Recruiting Incentive

In order to reduce the normal attrition rate (60%-75%) for phone-mail-phone residential surveys without incentives, an incentive was offered. In this case, a pre-paid 30 minute long distance calling card was mailed together with the conjoint mail package. The use of this incentive reduced the attrition rate to 50% in this study.

## Mail Package

The mail package to the participants in this study included four main items:

- 1) A “thank you” cover page, giving the participant a toll free phone number to call to set up an interview time (pre-recruited participants were also called back without waiting for them to call) or to call with any questions.
- 2) Instruction sheets carefully outlining the major “activities” of the mail package.
- 3) Activity 1: a zero to ten interest in purchasing scale for each individual product/service. A description of each product/service was included, along with a zero to ten scale for them to circle (captured on the phone survey).
- 4) Activity 2 (the conjoint): each participant received 20 pages of conjoint options (with numerous different versions of the conjoint spread over the survey). Each page contained four columns, the first three of which had a **bundle**, a **special offer**, a type of **phone service**, a **payment option** and a **price**. The fourth column was “**None**. I wouldn’t buy any of these.”

The critical factor in developing effective conjoint materials that will not intimidate survey participants is clear and concise instructions. In this case, each activity was color-coded. Each activity had its own instructions and a brief introduction. The conjoint portion was presented in such a way as to be easy to assimilate. All of the pieces were interactive, in that the participant could easily complete the tasks at hand.

These step-by-step instructions facilitated the easy capture of the individual product/service interest and conjoint information (e.g., “Now turn to the Activity Two, the yellow pages. Starting with page 1 of the yellow pages, read to me the number of the column you circled.”). This, in turn, facilitated the administration of batteries of questions on: deregulation (to determine attitudes toward deregulation *vis a vis* the unfolding energy industry restructuring); media consumption (to facilitate target marketing); extensive current product and service ownership (including long distance switching propensity); and bundling pre-disposition (and current bundling patterns),

The follow-up survey averaged approximately 27 minutes in length. Despite this length for a residential survey, the level of involvement and commitment from the participants (who on average spent 8 minutes in the pre-screening telephone survey and 20 minutes in completing the mail package activities), combined with a survey which varied in topics and scales, led to a survey in which participants were enthusiastic throughout. Aggressive monitoring of the follow-up telephone survey led to the conclusion that these participants were engaged, involved and interested.

## Quantitative Findings

In all, there were five broad market segments identified:

- “Content with the status quo” (27%) – derived from the “no buy” options
- “Entertain me” (23%) – focused on entertainment services
- “Safety conscious” (17%) – interested in security and protection services
- “Environmentally focused” (17%) – “green power” targets
- “Communications intensive” (16%) – heavy users of telecommunications

**Technology adoption cycle.** Overall, three percent (3%) of these participants describe themselves as the “first on the block” to buy new products and services. More than four in ten (44%) say they are “not the first on the block, but not too far behind.” A majority, 52%, say they are among those who “wait until the price goes down or technology improves” before buying new products/services. Each of the products and services and combination bundles were evaluated in the context of customers’ adoption cycles.

**Churn rates.** The rates of changes in subscription to long distance providers, Internet providers and cellular companies, and likely switchers of local phone service and electric and natural gas providers (when available), was obtained, to provide a profile of actual and potential “switchers.”

**Favorability.** Overall, more than three-quarters of the participants (77%) are favorable toward their electric company (in contrast, favorability with cable companies is 57%). Favorability with long distance companies is 83% (local phone company: 78%). **Perceptions of deregulation.** Almost seven in ten (69%) agree with the statement “Being able to buy many in-home services from one company will offer the convenience of paying one bill,” while one in four (26%) agree with the statement “The quality of service generally suffers when an industry is deregulated.” Nine such statements were evaluated in the context of interest in the products, services and bundles.

**“Best” provider of bundled services.** The reader may recall that 38% of the focus group participants rated an electric utility as the provider most capable of going beyond what they do today. In the quantitative survey, 23% of participants say that an electric company would be the best provider of such bundles (asked after the administration of the conjoint exercise), ranked first among the company types evaluated, and the second best provider by another 22% (overall rating of 45% first or second best, ranking first; second most capable was the local phone company with 21% “best” and 20% “second best” ratings). The reason most cited for choosing the electric company as the “best” provider was that electric companies offer the “best service.” Those who cite a phone company or other cite “best equipped” (in terms of technology). Reasons for not choosing an energy company are that they are specialized and should “stick to the knitting” (16%, top mention) or that they “don’t have the experience/expertise” (15%, second mention). The least capable providers are perceived to be natural gas companies (23% cite them as the “least capable”) and cable companies (18% “least capable”).

**Pricing preferences.** While lower prices were preferred, share of choice simulations were prepared for each product/service bundle to see the trade off between price and potential share of choice. In most instances, this led to conclusions that the low price was not optimal for maximum profitability, and that sufficient market share could be maintained with mid-range and in some cases even premium pricing.

**Payment preferences.** The current due date was preferred by 29%, while another 29% would like to pick their own due date for bundled services. More than one in five (21%) want electronic funds transfer, and another 21% would like to pay twice a month.

**Phone preferences.** A even split was found, with 51% preferring the toll free personal service option, and 49% preferring the automated phone system option (with access to a person at all times).

**Interest in individual services.** Interest in purchasing/subscribing to individual services ranged from a low of 8% to a high of 55%, when looking at 6-10 ratings on a 0-10 scale.

## **Conclusions**

Using the Perception Analyzer™ in focus groups and choice-based conjoint analysis in the quantitative phase, potential markets for various product/service bundles were identified and quantified. Barriers to entry, including predisposition toward potential providers and perceptions of deregulation, were uncovered. Target marketing vehicles were identified for each product/service bundle. Demographic and psychographic profiles of five distinct market segments were developed. This information provided important input into the client's business and marketing planning processes.