

Chapter 7

Bundling Strategy in the IDM Marketplace

Goh Kok Min
Info Sys, Singapore

Kelvin Tan Yuean Soo
Info Sys, Singapore

Wang Geng
Info Sys, China

ABSTRACT

In recent years, many local telecommunication firms are selling their interactive digital media (IDM) services such as broadband and Pay Television in the form of a bundle to their customers. On the other hand, many IDM firms (e.g. Apple iTunes) have chosen to sell their IDM services to customers in an unbundled manner. This chapter studies the effect of bundling and unbundling of any type of information goods which can be digitized. We will discuss the four factors which encourage IDM firms to choose either bundling or unbundling strategy in their marketing of digital goods. The four factors are customer, environmental, firm, and product. This chapter concludes by emphasising that bundling or unbundling might not be necessarily good or bad. The choice boils down to the market segment – the value that customers perceive from the products. It is also important to take into account the overall marketing strategy that the firm is embarking on and to also consider the market situation at the point in time.

INTRODUCTION

Singapore's telecommunication sector is entering into a more competitive phase. SingTel has been leveraging on its paid TV segment and uses a bundling strategy to stay ahead of M1 and StarHub. It appears that SingTel has a head start

based on its latest financial results. SingTel reported a 24-per-cent rise in its 2009 third quarter net profit to \$991 million, which was driven by strong performances in its Singapore, Australia and regional associates. In order to make better profits, carriers would need to bundle services and cross-sell. SingTel and StarHub are better positioned to bundle services for the consumer market compared to M1, said Mr Foong King

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Yew, research director for Carrier Operations & Strategies at Gartner (TodayOnline, 2010).

On the other hand, the unbundled age seems to be ushering its way in. The latest sign of this comes from Kevin J. Martin, the chairman of the Federal Communications Commission, who suggested that consumers might be better off if they could buy cable television fare channel-by-channel – instead of cable packages. Although cable providers are not happy about this, Charles F. Dolan, the independent-minded chairman of Cablevision Systems, supported the idea. Broadband Internet connections and companies like Apple Computer are already making it possible for consumers to download one television show at a time. Another form of unbundling is found within record albums. Sites like iTunes from Apple offer music song by song, and many users are cherry-picking their favourites. Again, this can be seen in books in which they are being unbundled. Google is digitizing mountains of books and including them in its search engine, allowing users to read modest segments online. In addition, Amazon.com says it will start selling access to some books a page at a time. Currently, Amazon users are allowed restricted viewing of book pages. (The New York Times, 2010)

With this distinct phenomenon, this chapter aims to understand what contributed to bundling and unbundling of digital information goods for SingTel and iTunes respectively. The next section will set the context of the discussion of this chapter by providing the definitions of the key terms used as well as providing two literature reviews, which will provide knowledge on bundling and unbundling of digital information goods based on past research.

BACKGROUND

Bundling has been adopted by many enterprises for a long time, but there have been no consensus among scholars on the definition of bundling.

Literatures reviewed in this area had revealed that bundling have two types, namely broad, and narrow. Broad bundling refers to two or more products or services being sold together. For example, earlier studies on bundling done by Adams and Yellen (1976) defined bundling as ‘goods sold in the form of the number of packages’. Guiltinan (1987) defined bundling as ‘special pricing to the overall sales of two and more products and services’. Yadav and Monroe (1993) defined bundling as ‘selling two or more products or services at one price’.

Narrow bundling on the other hand is two or more different products or services are sold together in one price. For example, Stremersch and Tellis (2002) defined bundling as “the combine sales of two or more independent products” and “Independent Product” is defined as “each individual product has existence in the market”.

As the theme of the paper circles around bundling of information goods, it is important to understand the characteristics of information goods. Information goods are anything that can be digitised – a book, a movie, a record, a telephone conversation etc. Information goods have three general characteristics. Firstly, it provides an experience. You must experience information good before you know what it is. Secondly, it returns to scale. Information typically has a high fixed cost of production but a low marginal cost of reproduction. Thirdly, information goods are public goods. Information goods are sometimes non-rival and sometimes non-excludable. (Hal R. Varian, 1998).

Literature Review 1: Economies of Aggregation

Millions of digital information goods can be distributed at almost zero cost via emerging information infrastructure today. By bundling and aggregating these large numbers of unrelated information goods, which are increasingly available on the Internet and selling them on a fixed price

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