

# **1. Introduction:**

## **1.1 An overview on service sector in Malaysia**

In the past decades, service industry has gone through massive growth and gradually emerges as a key contributor to the Gross Domestic Product (GDP) of Malaysia. This emerging role of the services industry in the Malaysian economy is progressed in tandem with the economical transformation that happens decades ago in developed nation such as our neighboring country Singapore in which the services industry account for a majority part of Gross Domestic Product comparing to the manufacturing centric which Malaysia use to emphasize on (Monetary Authority of Singapore, 1998).

In light of the increasing contribution from the services sector, Malaysia has moved into the third stage of economic development. Base on the press release from the governor for Coalition of Services Industries Malaysia (CSIM), Yasmin Mahmood, economic growth for the third stage of economic development required equal contribution from all sectors within the economy. Thus, a good balance between manufacturing and service sector is pivotal to a sustainable economic growth in the long run (Bernama.com, 5/January/2010).

In general, the services industry can be further divided into 2 distinctive sector namely intermediate services and final services. Logistic, warehousing, communication, finance and real estate are some of the examples on intermediate services (Asian

Development Bank, May 1994). On the other hand, utility, retailing and hospitality industry can be considered as the core sector for final services.

Judging from the increasing contributions of service industry on Gross Domestic Production, employment opportunity and surplus in national current account, it is worthwhile to pay more attention on service sector in return for an in-depth understanding on key issues concerning the industry.

### ***1.1.1 High and Stable Growth in Services***

The growth of service industry in Malaysia is comparable to the manufacturing sector and deserved more incentive and attention from the federal government. From year 1980 to 2005, on average, the services sector recorded a decent growth of 8.3% per annum (manufacturing: 9.1 per cent per year) and surpassing growth in the gross domestic product (GDP) of 6.5% per annum (**Table 1**). In light of the growing role of service sector in Malaysia economy, this research paper will take a focus on the service industry in particular.

Table 1  
Malaysia: Growth of GDP, Services and Manufacturing Sectors, 1980-2005e

	Average Growth Rate (%)			
	1980-1989	1990-1999	2000-2005e	1980-2005e
GDP	6.5	7.2	5.4	6.5
Services	8.8	9.2	6.1	8.3
Manufacturing	9.4	10.0	7.1	9.1

Note: e Estimate

(Source: Department of Statistics, Malaysia, [www.statistics.gov.my](http://www.statistics.gov.my))

## 1.2 An overview on Price bundling

In general, price bundling simply refers to the combination of two or more products tied together and sold at a lower price (Guiltinan, 1987, Pg 74). Stremersch and Tellis (2002) considered price bundling as a strategical pricing option that either take the form of Pure bundling or Mixed bundling. In addition to Stremersch et al (2002), Papandrea, Stoeckl, and Daly (2003) is of view that a Pure bundling is a pricing practice whereby customer can only choose the bundle product or service and has no option in buying the bundle component individually. In contrast, customer has the luxury in buying any of bundle component with any combination that they prefer in a mixed bundling. (Guiltinan, 1987, Pg 75)

Based on Stremersch et al (2002) interpretation, *price bundling* is the sale of two products as *a bundle with discounted price with no integration of product* while in product bundling the bundle can be sold at any price with certain degree of product integration (Diagram 1.1). Stremersch et al (2002) cited the example of an Italian restaurant which offers its customer a fixed price menu of appetizer, entrée and dessert at discounted price as price bundling. Contrary, Steve Job's strategy in selling the Macintosh computer and Mac operating system in a bundle is considered as product bundling strategy since the two components is integrated with each other.

## A Classification of Bundling Strategies

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Focus Form	Price	Product
<b>Unbundling</b>	X Y	●
<b>Pure bundling</b>	●	(X ⊕ Y) ●
<b>Mixed bundling</b>	(X, Y) ● X Y	(X ⊕ Y) ● X Y

***Diagram 1.1 Classification of bundling strategies***

*(Source: Stremersch et al 2002)*

Similarly, a more recent article from the Harvard Business Review (Shankar, Berry, and Dotzel 2009) has approached the bundling strategy from a more contemporary perspective whereby the bundling is differentiated according to the benefits that the bundle offers.

Shankar et al (2009) further added that almost everything is a bundled product and cited that a car is a bundle of chassis, engine, steering wheel, electronic control, car seat, and etc. Since the company is at a better position to assemble the products or services more efficiently and effectively than the customer, it make more sense for them to combine individual items into a bundle and sell it to the user as a new offering .

Over the decades, there are numbers of research on price bundling strategy which can be categorized into three streams: 1) economic analysis of price bundling (Stigler 1968; Adams and Yellen 1976; Telser 1979); 2) marketing research about the optimality of price bundling using an applied economic approach (Guiltinan 1987; Eppen, Hanson, and Martin 1991); and 3) behavior research in consumer evaluations of bundles (Yadav and Monroe 1993; Johnson, Herrmann & Bauer 1999). In the context of this research paper, *the author would like to contribute on the behavior research in consumer evaluation of service bundles to complement on the existing research* by Yadav et al (1993) and Johnson et al (1999).

It is noteworthy that in marketing, application of the above mention economic research streams is limited for two main reasons: (1) inadequate attention to individual buyer behavior and (2) the analytical frameworks have been subjected to little empirical verification. Hence, *the author intend to explore further on buyer behavior and perception using an empirical tested conceptual framework* featured in the Chapter 3 to add value to the existing price bundling literature.

### **1.3 Problem statement:**

#### ***1.3.1 Bundling and the service industry.***

In the past 10 years, the Malaysian market has witnessed a widespread of price bundling strategy in the service industry such as the satellite TV, telecommunication, aviation sector just to name a few.

For instance, both airline companies in Malaysia are currently offer bundle service within their product line, particularly in the leisure traveling segment. Air Asia and Malaysia Airlines normally combine their core product such as the flight together with ancillary products namely the in flight meal, accommodation and tour guide under a service bundle. Even the flight ticket alone can be regarded as a combination of various services such as luggage, travel insurance, in flight entertainment and the transportation from point A to point B.

Similarly, due to homogeneous nature of the financial services provided by various financial institutions, selling supplementary services in a service bundle is an ideal avenue for differentiation against competitors and also opportunity for service provider to increase revenue. For example, AAM motor assurance offers supplementary benefits such as limited life insurance coverage, discount card on accommodation, discount card on accommodation, discount on car rental and etc.

### ***1.3.2 Difficulty in pricing service***

Lovelock (1996) explained that relative to manufacturing firms, it is more difficult for service providers to determine which fixed and operating costs are associated with a particular service. If a marketer does not know the average cost of producing a unit of service, it is hard to determine the selling price. Hence, it is necessary for service marketers to consider their pricing policy from a different perspective and price bundling can be a potential alternative for this issue.

In addition, pricing decisions have long been dominated by cost based and "follow-the-leader" approach, even when marketing managers have a key role in the decision making process. Zeithaml, Parasuraman, and Berry (1985) found that cost was reported as the dominant basis for pricing in their study on services firms. Similarly, the competitor-oriented pricing approach is another mainstream pricing strategy in service industry and is common practice in many service sectors, including airline travel, movie theaters, and banking (Guiltinan 1987). However, these simplistic pricing approaches will be less effective for two reasons.

Guiltinan (1987) noticed that as the number of services offered increases, the opportunities for differentiation are enhanced and the utility of follow-the-leader approaches is reduced. Secondly, the high ratio of fixed to variable costs that characterizes service businesses makes average costing increasingly arbitrary, because indirect cost allocations will change as the product mix changes. (Guiltinan 1987)

### ***1.3.3 No stocks for service***

Kotler and Keller (2009) has characterized service as "a deed or performance, rather than a tangible item that customer keeps, it is perishable and cannot be held as stocks". The resources are wasted if there is not enough demand for the service. When demand exceeds capacity, customer may be sent away and a potential business is loss as no stocks are available for backup. Thus most service marketers face challenges to find a way of smoothing demand levels to match capacity and it is crucial to identify a

feasible alternative strategy to boost the sales performance that will keep the utilization rate of the firm's resource to the fullest without initiate an aggressive price war.

#### ***1.3.4 Intangibility nature of service***

Since services are intangible in nature, consumer is unable to experience it prior to purchase and this lead to greater perceived risk toward the services and Sarin, Sego, and Chanvarasuth (2003) have suggested that the perceived risk can be mitigated through bundling strategy.

#### ***1.3.5 Rationale for bundling in the service industry.***

Consumer surplus represent the trade off between the perceived value that consumer willing to pay and the actual price to acquire the service. Base on Koderisch, Wuebker, Baumgarten, and Baillie (2006) interpretation, the uncapture consumer surplus (or better known as willingness-to-pay) can be transferred from one product to another product. For instance, a mobile service provider can enhance the appealing of its post paid mobile service through price bundling together with ancillary services such as dataline services and caller ringtone. In the event that the core product is highly desirable, this mobile service bundle will increase the sales of other ancillary services since the untapped consumer surplus can be relocated to other services within the bundle.



From their empirical research, Koderisch et al (2006) found that the number of segment will reduce when service provider implement pure price bundling strategy, and hence it is easier to manage the business with simple market structure. For instance, for financial service provider, there are four market segments under separate pricing (customers and non-customers of saving account and fixed deposit account) compare to two segment in pure price bundling (customers and non-customers of the service bundle which include saving/fixed deposit account under one roof). This will benefit the service provider through better efficiency in managing their product line and divert more attention on new product development. Koderisch et al (2006) regarded price bundling strategy as an invisible price discrimination tool that capable to leverage on product with high consumer surplus to compensate for another product with low consumer surplus within the bundle.

In Koderisch et al (2006) point of view, the price bundling strategy has provided an avenue for service provider to monetarize a lot more of the consumer surplus which cannot be captured through single product and this ultimately lead to better profit. On top of that, service marketers can better plan their demand by selling multiple service within a single bundle offering which can ultimately ease the possibility in overcapacity and under capacity which commonly faced by service organization as discuss earlier.

**In light** of the above mentioned characteristics, *the author* is of view that there will be a good strategic fit between the service industry and price bundling strategy as the price bundling provide advantages that are capable of mitigating weaknesses that naturally associated with service product. We will go into further details on these issues in Chapter 2 and 3.

#### **1.4 Research objectives:**

There are three main objectives that the *author* would like to explore in this dissertation:

- 1) To review the nature of service marketing and price bundling strategy.
- 2) To critically analyze price bundling as a marketing strategy.
- 3) To evaluate the underlying factors influencing consumers' intention to purchase a service bundle.

#### **1.5 Research questions:**

There are three research questions that will act as a blueprint to spearhead this research paper:

*Q 1) What is the nature and relevance between the service industry and price bundling strategy.*

This research question aim to provide basic understanding on service industry in Malaysia and price bundling strategy as a whole. The *author* will attempt to pinpoint the characteristics of service and explain how the price bundling strategy can help in mitigating some of the weaknesses associated with service product. This is covered in Chapter 1 (section 1.3 mainly), Chapter 2 and Chapter 3.

*Q 2) What are the major contributions of price bundling strategy and issues associated with it?*

This research question intends to explore the rationale for service provider to adopt price bundling strategy and the setbacks of price bundling strategy on the society in term of monopoly and antitrust which will be discussed in Chapter 2.

*Q 3) What are the contributing factors for the purchase intention of a service bundle?*

This research question aim to study the underlying variables that influence the buyer's perception and their intention to purchase a service bundle. There will be a background study on this area under Chapter 3 and further validate with the quantitative hypothesis testing featuring in Chapter 5.

### **1.6 Scope of study:**

The scope of this research project mainly study the population within the Klang

Valley region since more than 45% of the service providers and activities are concentrated within the KL and Selangor region (refer to Chapter 4). In addition, more variety of services are available within the KL/Selangor area which expose the consumers to latest trend in servicing industry and this will provide the research project with abundance of well-informed respondents. In light of all these factors, sample from this geographical segment will provide adequate representation on the actual population.

### **1.7 Constraint of the research:**

Results are drawn from the urban population within Kuala Lumpur and Selangor state and thus it might not provide a good representative on the Malaysian population at large. Similarly, the sample size of 200 respondents may lead to limited generalizability of the research findings and further research with a bigger sample size is needed in order to improve the generalizability of the results.

In addition, this study employed great number of undergraduate students as respondents in a paper-and-pen questionnaire. The use of undergraduate respondent may hinder the generalizability of this research study since Peterson (2001) has discovered that there is a difference in student's response compare to overall population in his second-order meta analysis. Therefore, to further validate the results of this study, it is recommended that future study should assess whether the results of this research paper extend to non student samples as well.

## **1.8 Organization of the research:**

This research paper is subdivided into six chapter and the readers will benefit from the distinctive insightful critical analysis which follow the sequence below:

**Chapter 1** - In this first chapter, the *author* will illustrate the introduction on the research area, problem statement, research objective, research question, research scope, contribution and constrain of the study.

**Chapter 2** - The chapter 2 contains literature review on previous price bundling studies and issues related to price bundling strategy. It reviews various price bundling research conducted by other researcher from the marketing and economic stream. This will enable the reader to understand price bundling from a broader view and the literature review also functions as a guideline for development and construction of the theoretical framework.

**Chapter 3** - In the third chapter, the focus is on the development of conceptual framework, detail description on all the proposed variables and the hypothesis development.

**Chapter 4** - Discussion on research design, data collection technique, research approach, survey instrument. This chapter mainly focuses on how the primary data for the study is collected.

**Chapter 5** - This chapter discuss the research findings such as the respondent demographic and the outcome from various analysis namely the normality test, descriptive analysis, reliability and validity test, multiple regression analysis, independent t-test, ANOVA . In addition, the *author* also checks for violation of multiple regression using parameters such as step-wise regression, tolerance and VIF.

**Chapter 6** - The final chapter of the research paper includes a comprehensive discussion on the research findings, managerial implication of the study, recommendation, limitation of study, and wrap up with some additional recommendations on future study.