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Bundling of services

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1 Introduction

Bundling of products and services are a very common tactics to win and tie up new customers for a longer period, e.g. sales of a maintenance contract together with a computer, a mobile phone together with a subscription, a transportation services together with storage and administration services and leasing of car where maintenance, car wash and free parking is included in the fee etc.. The use of bundling is very common among companies but has expanding in recent years especially into consumer services where you can find weekend packages including lodging and meals at special prices or airlines who bundle air travel, car rental, some meals and lodging as an example. This paper will just briefly touch the phenomenon bundle with some minor example where it's prevalent.

2 Definition mixed price bundling

2.1 Definition

Where a firm offers its existing- or potential customer the choice of buying a product or services individually or of buying a service together with other services or products at a special discount. Bundling is very common in the Telecommunication industry and more known as Tie-in sales where the customer sign up for a contract during a specific timeframe.

3 Telecommunications

3.1 Bundling

3.1.1 Background

The development of Telecommunication services have changed dramatically during the last years. In the past customer was satisfied just making a call or sending a text message. Customer paid a fixed fee for the subscription and a fee for making a call "cost per minute" a phone was mostly included free of charge when signing up for a fixed monthly contract during a specific period. In recent years new technique has made it possible to transmit data in high speed which have opened up a new arena for marketing and sales of services through a smart phone as an example. It's very common that Telecom enterprises offer an attractive package where the subscription is bundled with services e.g. free storage of data, music services, an insurance and a Smart Phone free of charge or with a price discount, all at fixed monthly fee and a prerequisite that you sign a contract for specific time period "Tie-up sales".

3.1.2 Bundling

A challenge when products and services are bundled is to follow the price development of a specific service. The bundling often has one price and it is difficult to know if a price change is coming from a change of quality of the services included or if it's a real price change. If a Telecom service is bundled with a Storage service, an Insurance and some hardware it will contain a mix of products and services from different CPA's.

CPA 61.2	The contract "subscription"
CPA 62	Storage services "Cloud services"
CPA 63.11	Streaming services "Spotify"
CPA 65	Insurance
CPA 46.522	Hardware "SMART-phone"
CPA 26.3	Communication equipment

The price collection often includes a mix of services e.g. the subscription, a storage service, streaming services an insurance and some hardware. Specific prices per service might be available but only as list price. The index calculated will contain input from a mix of CPA's.

3.2 Classification

The services included in the package from the example are covered by the CPA, however there is no unique CPA-code for bundled services. It could be an idea to create CPA's which covered the most frequent bundles, but the best solution is if firms could split the turnover and report price per service and hardware. However this is not possible due to limitation in the firms IT-systems.

3.3 Turnover

A majority of the largest firms in the survey report the turnover on the CPA 61.2 bundled services included. The firms claim problem to allocate turnover between the CPA's due to limitations in IT-systems.

3.4 Deflator

National Accounts uses the Service Producer Price Index from CPA 61.2 to turnover.

4 Transportation

4.1 Bundling

There is also common among enterprises to bundle different support services with transportation services in order to win customers. A prevalent bundle often includes transportation-, storage-, cargo handling- and supply chain management services, the price reported by companies is often one price for all services included. When a price change occur it's often difficult to valuate if the price change is related to a quality change or a change in price.

4.2 Classification

There's no unique CPA code for the bundle, the companies often report on one of the CPA's below. It could be an idea to create CPA's code for the most frequent bundling's.

- CPA 49.41 Freight transport services by road
- CPA 52.1 Warehousing and storage services
- CPA 52.24 Cargo handling services
- CPA 52.29 Other transportation support services

4.3 Turnover

Most of the companies report the turnover on one of the CPA's e.g. CPA 49.41 all bundled services included. Since the contract often includes all service as a package companies claim problem to split the turnover among the different CPA's. It's also problem for them to specify a specific price per service.

4.4 Deflator

National Accounts uses the Service Producer Price Index from CPA 49.41 to deflate the turnover.

5 Summary

Bundling of products and services are not a new, it's well known from marketing theory where enterprises bundle products and services in order to win new customers. From a price statistician point of view it's a challenge since a bundle only are available for a limited period and just have one price regardless of how many services or products included in the bundle. It's difficult to adjust for change in quality since the products and services in a bundle often don't have a fixed price. The turnover/output reported to National accounts is also reported on one of the CPA's from the bundle while the input is coming from the CPA's included in the bundle.