

Cable Services: Combination and Offering

Verizon first started its cable services in Television industry on seeing the huge potential in this market as the number of households having television is increasing at an incredible rate of 32% per year. Also, the number of channels is growing at an incredible rate, which might create network effect, leading to increase in number of customers subscribing to cable services. With the boom in the television industry, the cable service providers have gone through a phase of good fortune and Verizon is one of them. It is a national level company which created its cable network across the country. Verizon earned hefty amount of profits from this service.

With time the telephone services also emerged as a thriving sector. Verizon saw it as a compelling opportunity to pursue. Because some part of the cable bandwidth was idle and this unutilized capacity can be easily used for providing telephone services over the network. In this way, without incurring much cost, Verizon earned substantial profits from its services. As the time passed by, the trend of customization of service plans according to the needs of customers increased. As a result, different prices were charged to different customers. A customer has many buying options like either buying cable Tv service and telephone services plans separately or buy a combo pack of both. In order to increase the revenues, the company offers discounts to the customers buying the combo packs.

After these two waves of changes, the next great hit was internet services. With the increase in the number of personal computers, people started looking for internet services. Again, Verizon took it as a great opportunity to further expand its reach. This time also it leveraged its established cable and telephone network to reach the customers, which led to less cost. Now Verizon is managing the portfolio of three types of services. This led to an increase in number of possible combination packs of services and their customizations. Moreover, the variance in the payments made by the customers for these services increased because the customers have a different amount of willingness to pay. For example, one of the customers is willing to pay \$3.50 pm for internet, \$7 per month for TV service and \$3.50 pm for cell phone services. But other one is willing to pay \$70 for internet, \$70 for Tv and \$140 for cell phone services.

As the number of offerings has grown, Verizon cannot afford to price the services differently because it is not scalable to keep a variety of prices for a large base of customers. Also, the number

of competitors have emerged in the market offering similar services. With less switching cost, customers can choose any of them. This led to a price war in the market. Therefore, Verizon wants to assign price tags to every service and their combo packs. Government has put a bar on the highest price to be charged for these services at \$100. Also, it is mandatory provision that the company cannot charge more price for an individual service than the price combo pack. If any of the company is found doing otherwise then the penalty associated with this is \$500 for \$1 reversal in price. Mr. Sailesh Gupta, the Marketing manager, is unable to decide the optimal prices for services because charging less would compromise the profits while charging high may lead to loss of customers to competitors and penalty imposition. He asked for the data(phone.xls) of some of its customers, to check the possible price tags for services. He is about to launch next marketing campaign within a week, so cannot delay the pricing decisions more than that. He wants to advertise fixed price tags for the services in this campaign.

What are the possible combinations of service offerings? Decide the best price for each of them to maximize the revenues?