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Collaborative relationship bundling: a new angle on services marketing

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Abstract *This article proposes a new approach to bundling for both the marketing of services and relationship marketing. Reviews the literature on both bundling and relationship marketing and puts forward a new theoretical approach. Uses the case method as a means of defending the argument and justifies its use in this specific research project. Demonstrates that collaborative relationship bundling can constitute the strategic core of a company; at least, if the firm's primary goal is to maximise the opportunities of attracting valuable customers within competitive markets. Research bears out some results from previous studies, while it finds other results to be questionable. Shows that the strategic implications of bundling are only partially explained in terms of a price or product focus, which was what previous research had concentrated on. A specific price bundle can have more strategic implications than a different specific product bundle, due to the associative power of bundling and its interactive capacity. As an essential part of this approach, a company must define bundling through an in-depth appraisal of the actual contextual experience of the customer, rather than focusing solely on reservation prices, which is where previous literature had laid its main emphasis. Calculates the lifetime value of the average customer attracted through bundling as compared to that of the average customer in the sector studied, and thus is able to demonstrate that the customer attracted through bundling is of greater value. The case method provides an in-depth explanation but the results it provides may not necessarily be generalised into other contexts. Develops therefore a model to identify the factors that explain the success registered in the case selected for analysis. Puts forward 11 propositions suitable for comparative application in other contexts.*

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Bundling definitions

Bundling does not have consistent, universally accepted definitions (Stremersch and Tellis, 2002). Adams and Yellen (1976, p. 475) define bundling as "selling goods in packages". Guiltinan (1987, p. 74) defines bundling ("broadly defined") as the selling of two or more products/services "in a single package for a special price". Yadav and Monroe (1993, p. 350) define it as the selling of two or more products/services "at a single price". Other authors, meanwhile, use a broad concept of bundling. For example, Koschat and Putsis (2002, p. 262) define bundling (audience bundling) as "a magazine's bundling of demographically diverse readers".

Recently Stremersch and Tellis (2002, p. 56) have developed a new approach to bundling. They define bundling as "the sale of two or more separate products in one package". The authors' definition does not necessarily imply the application of a single or special price. They define separate products as products for which separate markets exist, since at least some buyers buy or want to buy the products separately.

Mulhern and Leone, 1991, p. 66) introduce the concept of implicit price bundling as "the pricing strategy whereby the price of a product is based on the multitude of price

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effects that are present across products without providing consumers with an explicit joint price". The authors thus imply that retailers who decrease the price in one category must consider potential sales increases or decreases in other categories:

> For example, the practice of advertising price discounts on selected items is designed to draw consumers into the store and stimulate sales of other, non-promoted goods. Once a consumer is in a store, the actual costs of buying merchandise in that store are lower than the costs of buying the same merchandise in competing stores because the consumer would incur travel and search costs to buy the same items at a different location (Mulhern and Leone, 1991, p. 65).

It has been said that this extension of the meaning of bundling runs the risk of increasing ambiguity about the concept and its domain, without enhancing understanding of the core concepts and principles of bundling (Stremersch and Tellis, 2002). However, we consider that this concept is key within the context of the marketing of services, at least insofar as concerns the dynamic inter-relation between price and the package of products acquired by the consumer; for where bundling is expanding most is precisely in the services marketing field, and within consumer services in particular (Guiltinan, 1987). A bank, for example, maintains a schedule of separate charges for a cheque account, savings account, home mortgage, car loans, and fixed term deposits. The banker, in an effort to cross-sell more bank services to the customer, offers special prices if the customer takes a set of services (Kotler *et al.*, 2002). The banker does not offer a closed package of products and prices. The banker and the customer negotiate and build the package of products and price conditions in a collaborative context. We call this process collaborative relationship bundling. As Mulhern and Leone (1991) maintain, the bank's strategy could consist in promoting the price of one of the products, whilst selling the rest at its regular prices.

We consider this concept to be an enlargement and reconsideration of Stremersch and Tellis' definition, in the context of relationship marketing and the marketing of services. In order to classify and relate various bundling strategies, these authors identify two key dimensions of bundling: the focus of bundling, that is to say, either on price or product; and the form of bundling, that is, either pure or mixed. They define price bundling as the sale of two or more separate products in a package at a discount, with no integration of the products. They define product bundling as the integration and sale of two or more separate products or services, regardless of price. This integration generally provides at least some consumers with added value. Stremersch and Tellis (2002, p. 57) consider that:

> [...] the distinction between price and product bundling is important because it entails different strategic choices with different consequences for companies involved. Whereas price bundling is a pricing and promotional tool, product bundling is more strategic in that it creates added value. Managers can therefore use price bundling easily, at short notice, and for a short duration, whereas product bundling is a more long-term differentiation strategy. In the case of physical goods, product bundling requires a new design, research to optimise design, and retooling to manufacture the product bundle. In the case of services, product bundling requires redefinition of services, optimisation of the interfaces within the services, and the redesigning of service delivery processes. Managers frequently approach product bundling from a (new) product development perspective, involving the R&D and manufacturing departments.

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On the other hand, there are three forms bundling may adopt: pure, mixed, or unbundling (Adams and Yellen, 1976). Unbundling is a strategy in which a firm only sells the products separately, not the bundle. Digital technology allows companies and customers to unbundle as well as to bundle market offerings. For example, a customer can buy a particular song of his or her choice rather than an entire album, or an article or chapter from a book instead of the whole book. Mixed bundling is a strategy in which a company sells both the bundle and all the separate products in the bundle separately. Table I presents a tabular view of these terms. Table II presents some relevant examples in the context of financial services.

The focus of bundling is along the horizontal axis, that is, on either price or product. The form of bundling is along the vertical axis, that is to say, none, pure, or mixed. Table I considers a general case with two products, X and Y. Combinations of X and Y represent the terms of the sale. Thus, (X, Y) represents the sale of a price bundle, (X/Y) represents the sale of a product bundle, and X and Y without parentheses represent the sale of separate products. When the products are sold separately, the strategy is unbundling and remains the same for the price and product columns (cell 1). Banks sell money transfers unbundled. Cell 2 represents a case of pure price bundling. In this case, a firm bundles the two products for one fixed price, without integrating the products or offering them separately. Banks offer a loan only to customers who open a cheque or savings account. Cell 3 represents a case of mixed price bundling, where the firm sells the separate products (unchanged) in a price bundle and also sells the

	Focus			
Form	Price		Product	
Unbundling	X Y		1	
Pure bundling	(X,Y)	2	(X/Y)	4
Mixed bundling	(X,Y) X Y	3	(X/Y) X Y	5

Source: Stremersch and Tellis (2002, p. 58)

Table I.
Classification of bundling strategies

	Focus	
Form	Price	Product
Unbundling	Money transfer Foreign transfer	
Pure bundling	(Loan, current account)	(Salary paid into account/ some advantages/a gift/ a commitment)
Mixed bundling	(Personal loan, life insurance) (Fixed term deposit, a guaranteed deposit or fund) (Mortgage loan, salary, bills, cards, insurance, . . .)	Unit link = (life insurance/ investment fund)

Source: Authors' work based on Stremersch and Tellis (2002, p. 58)

Table II.
Some relevant examples of bank bundling strategies

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products separately at the regular prices. We can find many examples of mixed price bundling in the context of the banking sector, since banks need to look for profitability within the relationship, rather than in one isolated product. This can be seen in such examples as a new fixed price product composed of a fixed term deposit (with a very high remuneration) and a guaranteed investment fund or a deposit plus a personal loan with a life insurance policy incorporated. Banks sell personal loans and life insurance separately as well as one package at a special price. Cell 4 represents a case of pure product bundling. In this case, the company physically integrates the products and sells only this integrated product bundle. Some banks offer a special integrated product to customers who transfer their salary directly into their account ("payroll or salary bundle"). The product may include salary advances, no commission charges, a credit card without charge during a one-year period and a relevant gift (the gift may be, to cite a real case, a DVD reproducer and 24 films to be delivered monthly over two years. Bank and customer sign a contract that guarantees the bank's profitability). Cell 5 represents a case of mixed product bundling. The firm sells an integrated product bundle at one price and also sells the separate products at their regular prices. A bank can sell a linked unit that includes an investment fund and a life insurance policy, thus creating a new product with its own special characteristics combining the advantages of both its component parts. The bank also sells both products separately.

On the other hand, a bank can sell a bundle of a mortgage loan, salary paid into account, some standing orders, a debit card, a credit card, multi-risk insurance and life insurance ("mortgage bundle"). According to Stremersch and Tellis' (2002) definition, this offer can be considered as mixed product bundling or mixed price bundling. Product bundling requires redefinition of services (including, for example, increasing instalment loans, revolving loans or very long term loans), optimisation of the interfaces between the services (including, for example, loan instalments paid on receipt of salary into account), and the redesigning of service delivery processes (including, for example, a new centralised and specialised team to process loans more efficiently).

Collaborative relationship bundling

We identify two additional key dimensions of bundling in the context of the marketing of services that are key for strategic success (in competitive markets) and had not been taken into account in previous literature on bundling: the associative power of bundling, whether transactional or relational; and the interactivity of bundling, whether predefined or collaborative (see Table III).

We define relational/transactional bundling as the sale of a package of services that are/are not essential for the creation of an association between the consumer and the particular business. We consider that the distinction between transactional and relational bundling is key to understanding the strategic relevance of bundling and the consequences for companies. Whereas transactional bundling is a promotional tool, relational bundling is more strategic in that it greatly facilitates the building of a long-term relationship with customers. Three relevant examples of transactional bundling are as follows:

(1) The sale of an integrated product composed of a fixed term deposit plus a guaranteed fund (mixed price bundling). The bank wishes the customer to focus

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on the higher remuneration of the deposit in order to sell a more profitable and less transparent guaranty fund.

(2) The sale of a personal loan plus life insurance (mixed price bundling). The bank aims to obtain an additional guarantee for the loan, since in the event of the customer's death the loan is paid off with the money received from the insurance. Similarly, in such a case, the consumer derives benefit from the fact that the insurance policy and not his or her family is responsible for clearing the loan.

(3) The sale of a linked unit (mixed product bundling). The bank concentrates on the best features of both products by integrating them, thereby creating a product that gives greater value to the consumer. The customer is interested in the fiscal advantages.

The common denominator in all these cases is that the bank sells just one bundle and it may be in the consumer's interest to keep up his or her core relationship with another bank. The sale of the above-mentioned "salary and mortgage bundles" gives us two examples of relational bundling. When customers have their salary paid directly into their account or take out a mortgage loan with the bank, it is much more convenient for them to maintain their core relations with this bank (matching income and payments). Relational bundling is not necessarily product bundling. A bank may use the price of certain particularly associative products such as a salary arrangement or a mortgage loan to build a relationship without changing anything else. But it is also true that success in building a relationship is more likely when a bank uses the redefinition of services, optimisation of interfaces between services, and redesigning of service delivery processes, and when it approaches relational bundling from a (new) product development perspective.

Therefore we expect the following core proposition (CP):

CP1. The greater the capacity for the leader product to create a relationship, the greater the strategic success of the bundle.

On the other hand, because of its interactive nature, there are two kinds of bundling: predefined and collaborative. We consider it necessary to include the concept of interactivity in this framework. The growing power of the consumer makes dual-track communication with the consumer, at least in the services sector, a major precondition for strategic success, and even more so when the aim is to win new customers. Kotler *et al.* (2002) refer to the roles that customisation, customerisation and collaboration play in preparing market offers. Customisation occurs when companies offer solutions in

Table III.
A relational perspective of bank bundling strategies: some relevant examples

	Focus	
Form	Transactional	Relational
Predefined	(Fixed term deposit, guaranteed deposit or fund) Unit link = (life insurance/investment fund)	(Salary paid into account/ some advantages/a gift/ a commitment)
Collaborative	(Personal loan, life insurance)	(Mortgage loan, payroll, bills, cards, insurance, . . .)

Source: Authors' work

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response to unique demands, as when a doctor cures a sick patient. In this case the company takes the lead in designing the offers. Customerisation describes situations in which the customer, rather than the company, takes the lead in designing an offer. Dell computer's online configuration tools allow customers to design their own computers. Collaboration occurs when a company and its customers actively dialogue and work together in co-customising the offerings. Many companies use extranets to dialogue with important suppliers and customers. In many situations in the service sector, bundling is co-designed between the account manager and the customer in a depth and breadth dialogue. The shift of power from sellers to buyers in the digital economy has given rise to the phenomenon of reverse marketing, where customers cease to be product and price takers and become co-creators of product and price. When a consumer needs a home mortgage loan, s/he enters into negotiation with the account managers of various banks concerning the price and commissions on the loan and the quantity of products and conditions that will be included in the bundle. Bank and customer will negotiate and build the bundle of products and its conditions in a collaborative way. We call this collaborative bundling. When the price conditions are determined beforehand we call that predefined bundling. The aforementioned payroll bundle is an example of predefined bundling.

Therefore, we expect that:

CP2. The greater the collaboration between company and consumer in bundle design, the greater the strategic success.

Factors mediating the relationship between CRB and strategic success: literature review

Designing bundling

According to Kotler *et al.* (2002), companies can deepen value for the customer by individualising market offers to match the individual customer's contextual experience (see also Prahalad and Ramaswamy, 2002; Seybold, 2002). Understanding the customer's life context is the key to preparing a differentiated market offer. In particular, the purchase and financing of a home is an especially difficult and important contextual experience for the consumer. In that unique context the price factor acquires special relevance since, for cultural reasons, consumers are taking on a significant economic commitment. They may, therefore, be ready to check out conditions in other banks and transfer their account from their usual bank to a new one. Another relevant difference between payroll or salary bundles and mortgage bundles is to be found in the contextual experience of the customer. When a customer needs a mortgage loan, s/he is prepared to change bank in order to do so. Although banks make many promotional efforts to attract customers through salary bundles, valuable customers are not likely to be persuaded to leave their old bank.

Therefore, we expect that:

P1. When the bundle design adapts to particular, complex contextual experiences, there is a corresponding expansion of the strategic success of the bundle.

Gaeth *et al.* (1991) demonstrate how evaluations of bundled products are consistent with an averaging model (Anderson, 1981) whereby component ratings are balanced or averaged into an overall evaluation. Yadav (1994) argues that buyers evaluate product bundles using an anchoring and adjustment model. His research shows that consumers

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tend to anchor on the most important item in a bundle and adjust their evaluations by taking into account less important items.

In the economic literature on bundling a tying product is a separate product bundled together with other separate products, while tie-ins are secondary products bundled in with the primary product (Chen, 1997; Dansby and Conrad, 1984; Martin, 1999; Salinger, 1995; Bernheim and Whinston, 1990).

Guiltinan (1987) identified three conditions for success in a bundling strategy similar to the CRB (he called it "customer acquisition/mixed leader"): the demand for the primary (leader, tying) product is elastic; the rest of the products (tie-ins) acquired are complementary to the primary (leader) product; the consumer assigns far more importance to the primary (leader) product. Therefore, we expect that:

P2. The greater price sensitivity in demand for the leader product, the greater the strategic success of the bundle.

P3. The more complementary the rest of the products accompanying the leader product are, the greater the strategic success of the bundle.

P4. When the consumer attaches far more value to the leader product than to the accompanying products, the strategic success is greater.

Bundling as a relationship marketing tool

Many firms have invested substantial resources in customer retention strategies based on the premise that improving customer retention rates leads to significant increases in profits (Buchanan and Gillies, 1990; Dawkins and Reichheld, 1990; Hammond and Ehrenberg, 1995; Reicheld and Sasser, 1990; Reichheld, 1996; Rosenberg and Czepiel, 1984). However, the strategies are appropriate when: industry retention levels are high, segments differ in value, components of long-term customer value are favourable and individual customer lifetime value can be determined (McDougall, 2002). Therefore, we expect that:

P5. The higher the industry retention rates, the greater the strategic success of the bundle.

P6. When some consumer sectors are evidently more profitable (valuable) than others, there is a corresponding expansion of the strategic success of the bundle.

P7. The more cross-buying there is in the industry, the more successful the bundle.

Bundling as a strategic tool

Bundling has become a popular marketing strategy (Dolan and Simon, 1996; Eppen *et al.*, 1991; Guiltinan, 1987; Krishna *et al.*, 2002). The fundamental rationale behind the bundling of products is the increasing of shareholder value, attracting new valuable customers and developing relationships with valuable clients. This is brought about by enhancing customer benefit, greater efficiency in production and marketing, protecting and enhancing customer goodwill, and through strategic positioning (Demsetz, 1968; Dansby and Conrad, 1984; Eakin and Faruqui, 2000).

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There are a number of reasons why customers can directly benefit from bundling value-added services. Customer benefits arise from the complementary nature of the products, the convenience and lower search cost of one-stop shopping, introduction to new services and, not insignificantly, the perception of added value. The target is to focus services with strong demand growth expectations that are within the core competency (Eakin and Faruqui, 2000). Therefore, we expect that:

P8. The stronger demand expectations for the leader product, the greater the strategic success of the bundle.

P9. When the products (especially the leader product) are within the core competency, there is a corresponding expansion of the strategic success of the bundle.

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Research method

The research method followed is based on:

- A review of published material exploring bundling and relationship marketing.
- Extensive observations concerning this field by one of the authors in his capacity both as consultant and bank marketing director.
- The use of secondary and primary data sources. We obtained the primary data through our consulting and managerial experience. In addition, we used secondary sources, selected from those highlighted by FRS Ibérica/INMARK (FRS). This company has been researching the personal banking market for the last two decades (see "The financial behaviour of personal banking consumers in Spain"; annual research sold directly by the company). FRS collects data from a random sample of 8,000 consumers (sample error: $1.1\%/g = 95.5\%/p = q = 0.5$).
- The adoption of a case study research strategy. Over the course of ten years, one of the writers was involved in a real case, which we use to show an example of a mortgage-loan-based bundling strategy that has also been pursued by other banks with low and medium market share in Spain.

The deductive and inductive methods constitute two of the major approaches to the building and testing of theory. The deductive approach represents the positivist paradigm and the inductive approach represents the phenomenological paradigm. Because CRB is a contemporary, pre-paradigmatic and on-going phenomenon, it must be investigated within its real-life context. According to the inductive method, there is an external reality that can be reached by collecting observable and unobservable phenomena. Yin (1994) argues for using case studies to investigate the "how" and "why", while Stoecker (1991) suggests that the case study method should be used for research projects that attempt to explain the dynamics of a certain historical period of a particular social unit from a holistic perspective. The case study method also focuses on understanding the dynamics present within single settings (Eisenhardt, 1989), in this case the dynamic of CRB practices. Uniquely, the method obviates the necessity of pre-selecting the context type variables to be included in the research. Instead, the researcher observes the contextual variables impinging on the phenomenon under analysis over a period of time (Neuman, 1997; Punch, 1998; Yin, 1994). Finally, findings are evaluated for reliability and validity (Hunt, 1991; Leplin, 1986; Perry, 1998).

The case method provides an in-depth explanation but the results it provides may not necessarily be generalised into other contexts. That is why we have developed a model in which we identify the factors that, in our view, explain the success registered in the case we selected for analysis. Likewise, we put forward eleven propositions suitable for comparative application in other contexts.

CRB strategy: the case of R Bank

Our research examines the results of a regional bank, chosen because of its pioneer position in the field and for which we had access to all the necessary quantitative data. Nevertheless, we have qualitative evidence at our disposal to show that this strategy has also been applied with success by other small and medium-sized banks.

Case presentation and context

In the early 1990s, R Bank was a small regional Bank. In spite of the fact that it was almost one hundred years old, its market share comprised only 2 per cent of its regional market. Moreover, it obtained its market share from a small concentrated group of big clients. In the personal banking sector its customers' market share stood at 1.2 per cent. On the other hand, the relationship with many of its personal clients was limited to the placing of fixed term deposits. Many of its clients maintained the day-to-day core of their relationship with other banks or saving banks. The bank obtained profits, but they were not sufficient to create shareholder value.

The bank initiated a strategic planning process in which the previously mentioned weaknesses were detected and in which individuals with high and medium-high income were defined as a target group. But how is possible to attract clients from this group? The bank had to develop and communicate an attractive proposal of value. From the customer's perspective, the value obtained from a specific purchase can be described as follows: customer value = utility of market offering + value of brand + value of relationship − cost of market offering − cost of time (Kotler *et al.*, 2002; Rust *et al.*, 2000). Consequently, the bank had to base its proposal on the characteristics of the product and on its cost (cost of market offer and cost of time), given that its brand and relationship values were low. Moreover, it did not possess the resources required to advertise its brands and products with sufficient impact. And the fact that it was a small bank made it difficult to situate the utility of its market offers higher than those of its competitors.

Another way of attracting new clients was to use price. However, there were two reasons why the bank did not want to do this:

(1) If the bank offered new clients better prices, its current clients would ask for that too. The increase in value contributed by the new clients might not compensate for the loss of margin with long-standing customers.

(2) When a client begins to relate to a bank because of price alone, s/he might always demand the best going price as a precondition for maintaining or broadening the relationship. In addition, the bank was impeded by its size from obtaining a position of cost leadership.

Nevertheless, the bank organised seven focus groups in order to go into this option in depth: one with its area directors, one with the directors of the head offices, two with

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some of the branch directors, plus two more involving some of the account managers. Four main ideas emerged from these groups:

(1) High price offers on fixed term deposits.

(2) Returning to consumers a part of the commission collected on credit cards in form of points, money or gifts. (On average the bank obtained 2.5 per cent on total purchases.)

(3) Offering low prices on personal loans.

(4) Offering low prices on mortgage loans. This proposal proved the most popular.

The bank set its new CRB strategy in motion. It enlarged its mortgage product line, including increasing instalment mortgages and 25 and 30 year loans, improved interfaces between services (for example, mortgage instalments paid on receipt of salary into account) and redesigned the service delivery processes, centralising the mortgage loan back office. The bank also set up meetings with all its branch directors and account managers in order to provide training regarding the consumer profile the bank was looking for; a client who, in general, sought convenience, but in this concrete contextual experience was interested in price. The bank also wanted consumers who currently enjoyed medium-high or high incomes or would do so in the future. On the other hand, the bank wanted consumers willing to leave their present bank and transfer all (or almost all) their operations. Consumers, that is, who were prepared to buy a broad mortgage package. The branch directors and account managers knew that they could offer these clients a price that would mean they began to work with the bank. There was not a definite price. First a minimum differential of 1.5 per cent over the LIBOR (the most frequent spread in the market, 2 per cent per cent minus 0.5 per cent) was established. The price was defined in an interactive dialogue between the consumer and the account manager, and between the latter and the person responsible for prices in the central office. Each operation had its own price that depended on the lifetime value estimated for each consumer.

CRB core propositions: case results

CP1. With the mortgage bundle (relational bundling), R Bank gained customers with a high degree of association and whose relationship with the bank continued over time. This produced a firm base of stable customers for the bank, with a high lifetime value (see section on strategic success). The relationship-building power of the mortgage bundle is fundamentally rooted in the high amount and the time period of the mortgage loan and in the pull effect this product exercises on the rest of the products in the package. The purchase of a home is the most significant investment many families ever make. Consequently, consumers feel it is reasonable to take out a multi-risk insurance policy on their home and on their loan payment (life insurance). Furthermore, the mortgage loan payment occupies a high percentage of net monthly salary, making it more convenient for customers to have their salary paid directly into a current or savings account they have opened with the bank. Once they have taken this step with their income it is a logical step for them to have their bills and debit and credit cards paid by direct debit.

The R Bank experience tells us that customers are fundamentally concerned about negotiating the conditions for their mortgage loan (commissions, interest rates, instalments, interest rate ceilings and such like). Once these conditions and others of

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less significance have been agreed upon, they see it as natural to purchase a broad mortgage bundle and establish long-term relations with the bank.

In fact, when R Bank sold transactional bundles (e.g. the sale of an integrated product composed of a fixed term deposit plus a guaranteed fund), quite the contrary occurred and it scored only a passing success. It obtained the kind of opportunist customer who is always on the lookout for the best market offer and then leaves the bank as soon as a better offer comes up.

CP2. With each consumer, R Bank negotiates a mortgage bundle that is different from the deal purchased by other consumers in terms of product and price composition. The packages, however, are very different with regard to the features that are of special importance for each specific consumer. Let us look at some examples: one consumer may not wish to pay an opening commission on a mortgage loan, even though this may mean she pays a higher interest rate during the first year; another consumer may not want to take out an insurance policy with a bank and yet not be concerned that the price of the mortgage loan is, consequently, a little higher; and yet another may ask to be remunerated through his current account.

Then again, R Bank does not have to make the same effort to attract each potential customer. A bank is liable to be more flexible over the price of a mortgage when the buyer is prepared to associate with the institution by acquiring other related products and when the consumer does not ask for excessive credit volume in relation to his/her salary; for in these circumstances it can be predicted that this person will become a future consumer of savings products, such as pension plans and investment funds, and will be likely to maintain a healthy balance in his/her current account.

In the experience of R Bank, the consumer negotiates at the same time with various banks and, as a result, there continues to be interaction with the customer and a capacity to adapt to his or her needs in a profitable fashion proves to be crucial, as was demonstrated in the case analysed. The case shows that without fluid, interactive, flexible dialogue between the consumer, office/commercial manager and the central team responsible for analysis and final decision making, with the consequent customisation of the offer in terms of products and price conditions, the strategy would not have been successful.

If R Bank had gone for a closed package where the composition of its products and its economic conditions were concerned (predefined bundling), it would have lost many valuable customers, even if the closed package had been particularly aggressive in price terms.

Factors mediating the relationship between CRB and strategic success: case results

P1. Both direct salary crediting and mortgage loans have the power to create a relationship. Nevertheless, one relevant difference between payroll or salary bundles and mortgage bundles is to be found in the contextual experience of the customer. The purchase and financing of a home is a particularly important contextual experience for the consumer. In this special context the price factor is of great significance, as the consumer, due to the predominant cultural preference for home ownership, is prepared to make a big economic commitment. When a customer needs a mortgage loan, s/he is prepared to change bank in order to do so. Nevertheless, although banks make many promotional efforts to attract customers through salary bundles, valuable customers are not likely to be persuaded to leave their old bank.

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R Bank managed to test out in practice that many new clients who buy a mortgage package had previously been customers of the same bank for many years. They are not opportunistic consumers out on a hunt for the best offer. These are valuable customers who are prepared to exchange one relationship for another in this singular contextual experience. On occasions they are customers who were dissatisfied with the bank they had been with, but had not been ready to take on the costs of changing until that moment arose.

P2. The high sensitivity of the consumer to the price of the mortgage loan proved to be the determining factor in the success of R Bank's strategy, since price was the main instrument for attracting consumers to the bank. R Bank has discovered that many valuable consumers are not sensitive, for instance, to a 0.25 per cent differential in a fixed term deposit or to whether or not their current account is remunerated. Nevertheless, they certainly are sensitive to very small differentials when it comes to the price of a mortgage loan.

Throughout this process R Bank was not certain if it was obtaining the best possible price for the mortgage loan or, to put it another way, if its account managers were negotiating efficiently or could have achieved better prices for the loans offered. This proved a controversial issue when the Bank showed its prices to the main shareholder. The main shareholder observed that the entry prices were lower than those of the market average and that there was very little dispersion around the medium price. Therefore, on three occasions between 1994 and 1999, the bank increased the minimum margin it had established so that it was higher than the average differential it was obtaining (see Table IV). It became apparent that there was a marked price-sensitivity amongst consumers. Furthermore, when the bank reacted and reverted to applying the initial floor price, it took months to recover the previous

	p	p increasing	q	q decreasing	Price sensitivity (%)
Year 1994. Previous average spread obtained by the bank: 0.9 per cent New floor spread established by the bank: 1.25 per cent over 7 months	0.85	0.35	1.42	0.93	220
Year 1997. Previous average spread obtained by the bank: 0.75 per cent New floor spread established by the bank: 1.0 per cent over 5 months	0.75	0.25	1.67	1.17	374
Year 1999. Previous average spread obtained by the bank: 0.6 per cent New floor spread established by the bank: 0.75 per cent over 3 months	0.6	0.15	1.58	1.18	830

Notes: p = (average spread); p increasing = (floor spread − average spread); q = (average number of loans/branch/month over the previous six months); q decreasing = (decreasing on the average number of loans/branch/month over the months during which the new floor spread is applied. First month considered = month of the measure + 2, last month = come back month + 2). Price sensitivity = (q decreasing/q/p increasing/p)
Source: Authors' own work based on R Bank figures

Table IV. Price sensitivity: empirical impact of three actions of increasing the floor spread established

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rate of client capture, since they no longer regarded it as a bank to consult and ceased to check its prices until "word of mouth" once more came into operation.

P3. R Bank did not find it particularly complicated to assure a significant association with its new clients. One vital explanatory factor is that the products in a mortgage bundle are perceived as complementary by customers. The complementarity of the rest of the products accompanying the leader product reinforces the pull effect produced by the leader product (see comments accompanying *CP1*).

P4. The experience of R Bank allows us to affirm that consumers concentrate on the features of the mortgage loan and its price. This enabled R Bank to sell the rest of the products at its normal prices. In this way the bank managed to capture profitable clients in spite of the low price of the mortgage loan (Table V).

P5. In R Bank's experience, the customers who have been attracted are kept, exceptions apart. This was to be expected, if we bear in mind that the industry retention rates are high, as the following data reveal (FRS Ibérica/INMARK, 2002): 66.4 per cent of bank customers have never left a bank. Only 3.3 per cent of customers declare they have left a bank during the previous year. The average relationship of customers with their banks lasts 11 years.

Furthermore, a client's profitability increases as time passes, even though this is only due to the proportionately lesser weight of the mortgage loan (purchased at a low price) within the global profitability of the customer.

P6. In the banking sector important differences exist between the different client segments because of income level. Some segments of consumers are clearly more profitable (valuable) than others (the average ordinary margin – gross margin – of a completely associated high and medium-high income R Bank client is more than three times higher than that of the lowest income-earning and double that of the average client).

Indeed, the price of a mortgage loan for medium and high-income customers has a fairly insignificant impact on their customer lifetime value. The case of R Bank shows

Table V.
Profit before tax from the average R Bank client

	Euros		
	Amount per client	Margin (%)	Income
Deposits (current accounts, FTDs, . . .)	14,243	3	356
Investment (loans, credits, . . .)	94,959	0.65	617
Investment funds	7,091	1.0	71
Pension funds	1,292	1.5	19
Services			
Deposits of securities	5,529	1.5	83
Multirisk insurance	104	20	21
Life insurance	207	30	62
Credit and debit cards	1,550	2.5	39
Other services (transfers, account, . . .)			24
Total income			1,292
Operating costs			711
Profit margin			581
Credit provision			95
BAI (profit before tax from average bank client attracted by bundling)			487
ROI (%)			78.82

us that medium and high-income consumers repay their mortgage loans very quickly, maintain high balances in their current account, make frequent use of their credit cards, and so on. The same cannot be said of low-income customers, for whom the price of the mortgage loan impacts far more on their lifetime value. R Bank has concentrated its strategy on medium and high-income customers.

P7. Bank consumers buy an average of 6 products from their banks. And bank customers work with only 1.5 banks on average. In fact, 58.6 per cent of clients work with only one bank; 30.11 per cent work with two banks and just 11.1 per cent with three or more (FRS Ibérica/INMARK, 2002). Moreover, when the consumer works with various banks, one of them acts as the main bank while the rest have a marginal role. This circumstance may have something to do with the long tradition of universal banking in Spain.

The existence of high cross-buying in the industry reinforces the impact of mortgage bundle product complementarity. The consumer considers it to be beneficial to buy the products that complement the leader product (complementarity) and, in addition, finds it convenient to do this with the same bank. As a result, R Bank has not generally encountered difficulties in selling a broad mortgage bundle. An exception must be mentioned here. In some cases it has proved more complicated to carry out sales of insurance, as it has not traditionally formed part of cross-buying in the sector and some consumers see this item as more appropriate to insurance companies.

P8. R Bank concentrated its strategy within a market experiencing strong growth. This was due to the following reasons: there is a long tradition of home-ownership in Spain; tax incentives in Spain for home purchases are more significant than in nearby countries; the baby boom of the 1950s and 1960s affects house purchases.

Consequently, R Bank has managed to maintain important rhythms of growth, even at times when competitive rivalry has been strongest.

P9. Our study of R Bank reveals that consumers not only demand price but also quality of service. They want the bank to respond quickly to their demands, especially with regard to the authorisation of risk and price. What is more, they would like the deeds to be prepared without delay, without any errors, and want them to be ready for signing at the right time. The instalments and charges must also be deducted from the current account on the dates stated and in accordance with the conditions that have been agreed. The rest of the products must also function in agreement with the client's expectations. All this requires a level of experience and knowledge which R Bank has been able to offer in the services that form part of its core competences, such as bank loans and the rest of the bank products that make up the package. The bank has had some quality problems in the provision of insurance services, this being an area that has not constituted a traditional element within its core competences.

Strategic CRB success measures

What were the results of the CRB strategy? The bank reached a rate of almost 21 home mortgages per branch per year. This figure may not be very high for a bank with a strong branch value, but for R Bank it was of great importance (we must bear in mind that some offices do not contribute to this figure because of its environments). The mortgages are generally sold to customers with medium-high or high incomes and are accompanied by a significant amount of cross-buying (mortgage package).

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The average bank branch (three people) breaks into profitability in three years as a consequence of this strategy (we do not consider other strategies and segments).

Since 1999 the Bank has had a policy of studying these operations six months after the signing of contracts. In this way, the bank tries to ascertain the real results of its strategy, given that the commitment of the client can only be verbal for legal reasons. The bank has found that the results are very similar in each study. Table V collects the average results of the most recent studies available (2001). As one might expect, on the ground the client frequently does not take up the whole package of products. Nevertheless, the bank achieved a high level of customer association amongst the clients who took out mortgages. We can see that the gross margin (total income) from the average customer attracted by bundling is 1,292 euros and the profit before tax (PBT) is 487 euros (using the efficiency rate of the bank). Return on investment/loan is 78.82 per cent due to cross-buying and because high and medium-high income customers were attracted.

From the working below we obtained an estimation of the lifetime value (LTV) of the average customer attracted by bundling: 3,581 euros (Berger and Nasr, 1998; Mulhern, 1999; Rappaport, 1986; Srivastaba *et al.*, 1999):

> If the bank is able to keep the client, s/he will bring in profit not just for one year, but for the rest of his/her active life. In fact, bank clients stay with the institutions they choose to work with for an average of 11 years (FRS). What is the present value of this future source of profit? To answer we need to define: the PBT growth rate, g; and the capital cost, r. In a recent report on European Banking, Merryll Lynch (2000) uses: growth rate, 3 per cent, capital cost, 10 per cent.
>
> The reckoning for average client lifetime value is as follows:
>
> Lifetime value average client (for a specific bank) = $(\text{PBT}\ (1+g)/(1+r)) + (\text{PBT}\ (1+g)^2/(1+r)^2) + \ldots + (\text{PBT}\ (1+g)^{11}/(1+r)^{11})$,
>
> where:
>
> PBT = 487 euros;
> g = 3 per cent (growth rate);
> r = 10 per cent (capital cost).
>
> The result being:
>
> Lifetime value average bank client = 3,581 Euros.

The PBT and LTV are higher than those obtained in the sector from the average personal banking client (see Table V). The calculations in Table VI were arrived at using the sector figures from the Bank of Spain. This comparison allows us to show that the bank gained profitable clients (more profitable clients than the average in the financial sector in Spain), in spite of the low price of its mortgage loans. RCB contributes to LTV through its three value drivers (Rappaport, 1986; Srivastaba *et al.*, 1999): accelerating cash flows through immediate cross-selling/buying; enhancing cash flows by gaining high profile customers with whom a relationship already exists; and reducing risk (vulnerability and volatility of cash flows) by means of increasing customer switching costs.

Conclusions and future research

This paper aims to make two main theoretical contributions: to propose a new approach to bundling in the context of relationship marketing and the marketing of

	Volume banking sector (euros in thousands)	Percentage of individuals	Volume per family (euros)	Differential[a]	Income/ costs (euros)
Deposits (current accounts, FRDs, . . .)	529,233	60	28,867.3	4%	859.6
Investment (loans, credit, . . .)	458,826	42	17,518.8	4%	
Investment funds	190,193	85	14,696.7	0.95	139.6
Pension funds	16,000	100	1,454.5	0.95	13.6
Services	5,260	50	239.1		239.1
Total income					1,252.2
Operating costs					820.2
Profit margin					432.0
Credit provision	1,253	40	45.6		45.6
BAI (profit before tax from average bank client)					386.4
Lifetime value for a bank (average 1.57 banks/customer)					1,810.3

Notes: [a] There is considered to be a 4 per cent client differential. The client differential (families + businesses) was 2.96 per cent (banks + savings banks); the credit investment rate was at 5.40 per cent while the deposit rate was 2.44 per cent. From experience we estimate 6 per cent for family credit investment and 2 per cent for deposits, producing a margin of 4 per cent. This percentage is applied to the deposit figure matched with the figure for investment, 17,518.8 (euros). A 1.40 per cent differential is applied to all the other deposits (difference between 4 per cent and the inter-bank market rate)
Sources: Authors' own work. Figures for sector obtained from the Bank of Spain

Table VI. Profit before tax from the average bank client (families)

services; and to show that the strategic implications of bundling are only partially explained by price or product focus, whereas previous research had focused mainly on this particular aspect. A specific price bundle can have more strategic implications than a different specific product bundle, due to the associative power of bundling and its interactive capacity. We demonstrate that the distinction between transactional and relational bundling is key to understanding the strategic relevance of bundling and the consequences for companies. Whereas transactional bundling is a promotional tool, relational bundling is more strategic in that it greatly facilitates the building of a long-term relationship with customers. The case also shows that without fluid, interactive, flexible dialogue between the consumer, office/commercial manager and the central team responsible for analysis and final decision making, with the consequent customisation of the offer in terms of products and price conditions, the strategy would not have been successful.

From a managerial perspective, we demonstrate, through a specific empirical case, that collaborative relationship (mixed) bundling (price or product) can constitute the strategic nucleus of a company; at least, if the firm's primary goal is to maximise the opportunities of attracting valuable customers within competitive markets. For this to occur, a company must define bundling through an in-depth analysis of the contextual experience of its customers. Obviously our empirical case refers to a specific context. Strategy is a contextual topic. Other contexts should be investigated in the future. The

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case method provides an in-depth explanation but the results it provides may not necessarily be generalised into other contexts. That is why we have developed a model in which we identify the factors that, in our view, explain the success registered in the case we selected for analysis (Figure 1).

Another important question is whether customers will deepen or scale down their association with the bank in the long term. A great deal of research has been devoted to coming to grips with the question of how to develop a continuing relationship with consumers making their first-time purchase (Griffin, 1995; Kotler, 1999; Raphel and Raphel, 1995). Essentially it would be a matter of ensuring that the purchase be repeated, accompanied by cross-selling and up-selling, leading, in the long run, to the establishment of a partnership relationship. Nevertheless, specific research has not been carried out to address the problems of maintaining and expanding relationships with consumers who have been attracted via short cuts such as CRB, through establishing a meaningful association between company and consumer right from the start. In such cases, efforts should centre less on cross and up-selling and more on consolidating the relationship.

Marketing literature suggests that the result will probably depend on factors like satisfaction, trust, commitment or non-opportunistic behaviour. The bank under study

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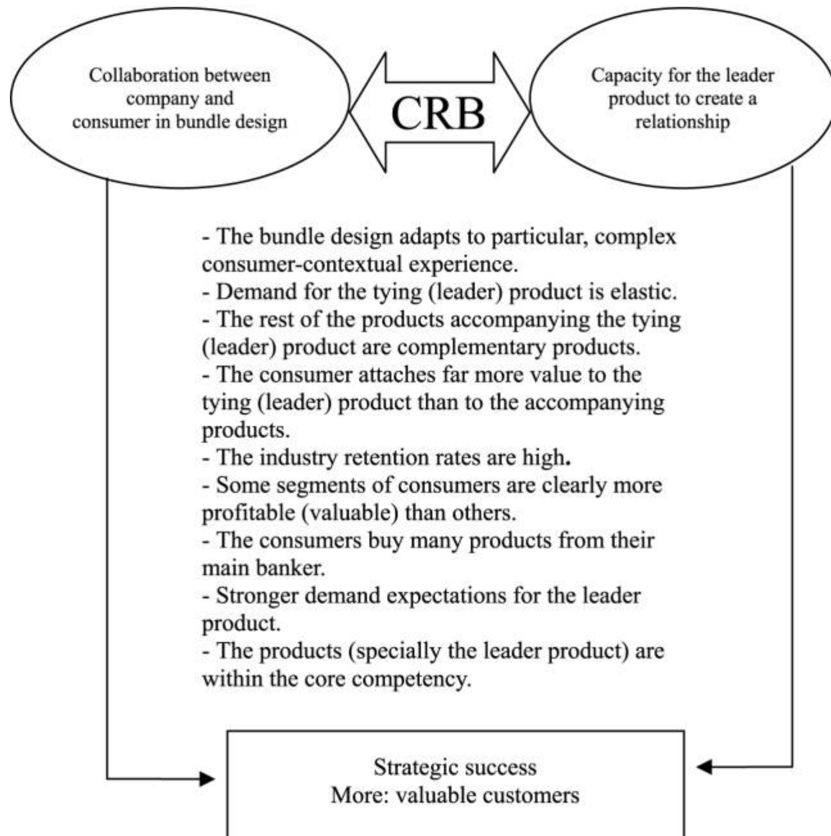

Figure 1.
Strategic bundling model

did not have data at its disposal to answer this question and we consider that this could be an important area for future research. The qualitative knowledge accumulated by the bank shows that many customers intensified their relationship with the bank, but also that some customers did not renew low-level satisfaction products once they expired, such as multi-risk insurance, for instance. Further study will be necessary to chart the long-term behaviour of customers whose relationship with the company has been built through CRB.

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