Price Bundling in the Student Banking Market

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Abstract

Banks in New Zealand have been putting substantial efforts into trying to attract and retain tertiary student customers for a number of years. A popular marketing strategy is price bundling, in which two or more products and services are offered at the same time at a discount. This paper reports on a study into the attitudes of New Zealand tertiary students towards the bank price bundling strategy, and to what extent this strategy assists with the retention of student customers.

Most respondents had a student bank account and the results showed generally positive attitudes among tertiary students toward the bank packages that were offered by banks in New Zealand. A relatively low defection rate was found in this study. It appeared to be their satisfaction, especially their satisfaction with banks and service channels, which contributed to their loyalty (or non-defection) rather than switching barriers.

Keywords: Student banking; Customer retention; Price bundling; New Zealand

1. Introduction

Banks in New Zealand have been putting substantial efforts into trying to attract and retain tertiary student customers for a number of years. Strategies have included permanent campus branches, courting students during the enrolment period, and distributing small gifts and brochures that introduce bank products and services on university campuses. This reflects international trends with financial institutions around the world targeting the student market with increasing intensity (Fry, Shaw and Dipchand, 1973; Lewis and Bingham, 1991; Mankila, 2001).

The tertiary student market is attractive for several reasons. The primary reason is that customers in this market are perceived as having a high probability of obtaining professional jobs after graduation, and earning higher incomes than those who have lower educational achievements. Tertiary students are also expected to develop a need for a wider range of financial services in the longer term.

Currently, six banks (ANZ, ASB Bank, BNZ, Kiwibank, National Bank and Westpac) are active in this market. A popular marketing strategy is price bundling, in which two or more products and services are offered at the same time at a discount. For example, the package offered by the National Bank of New Zealand includes a current account plus a debit card, savings account, waiving of monthly account and transaction fees, an interest-free overdraft, a low-interest loan and insurance (Retrieved 16th August 2004 from http://www.nbnz.co.nz/personal/life/products/tertiaryplus.htm).

Two studies have been conducted on the New Zealand student banking market, providing information on tertiary students' attitudes towards bank current accounts (Thwaites et al, 1997) and relational constructs of the student banking market (Bathula and Selvarajah, 2001). However, little is known of students' attitudes towards the student bank packages, and the effectiveness of those packages in retaining student customers.

This paper reports on a study into the attitudes of New Zealand tertiary students towards the bank price bundling strategy, and the extent to which this strategy assists with the retention of student customers. The next section considers some of the prior research in this area. Section three describes the research methodology, followed by a discussion of the results, and section five concludes.

2. Prior research

Satisfaction, bonds and price bundling

Customer retention has been found to positively influence a firm's bottom line. Drawing from their consulting experiences, Reichheld and Sasser (1990) suggest that a 5% increase in retention rate can translate into 85% higher profits for a branch bank. Retained customers, if satisfied, would be more willing to pay more for the firms' service and are less sensitive to competitive marketing activities (Reichheld and Sasser, 1990). This is because a long-term relationship developed between the firm and customers lowers the customers' perceived risks and wins their trust, making customers less price sensitive (Reichheld and Sasser, 1990).

Schlesinger and Hallowell (1993) believe that a customer who has been satisfied by one service provider may actively seek out that service again. Similarly, Oliver (1980) finds that the consequences of satisfaction are the positive attitudes and intention to repurchase, while Bloemer, Ruyter and Peeters (1998) assert that satisfaction has a direct positive effect on loyalty. However, satisfaction is a moving target because it relates to customers' perceptions. Whether customers feel satisfied depends solely on their assessment of specific conditions.

Another type of retention strategy emphasizes the importance of perceived behavioural control in customer retention. It is usually designed in a way that makes customers feel it is difficult or costly for them to defect (Jones et al, 2000). This is achieved by creating various bonds between firms and their customers. Arantola (2002) believes that the context of bonds is a relationship and defines a bond as "a perception by the customer of disincentives for switching suppliers" (p.94). The bonds can be positive and negative. Positive bonds are incentives to continue the relationship even when a switching possibility presents, while negative bonds are exit barriers when the customer has a desire to leave (Arantola, 2002).

It has been found that when satisfaction is low, switching barriers could positively influence repurchase intentions. However, the switching barriers can only function well for a relatively short-term. Also, it easily causes a feeling of entrapment and results in sabotage type behaviours (Jones et al, 2000).

A number of researchers therefore advocate a combined customer retention strategy in order to cultivate loyal customers or true customers. Storbacka et al (1994) believe that in order to establish a commitment of both parties to the relationship, the optimal strategy should be to ensure customers are satisfied on one hand while establishing various bonds as switching barriers on the other.

A price bundling strategy is “a selling arrangement consisting of two or more services sold at a special price” (Guiltinan, 1987, p.74). It aims to facilitate demand by offering attractive packages of services at discount. Mankila (2001) claims that a price bundling strategy should be understood as a process rather than a strategy and defines it as “an attempt to use different price bundles in order to develop loyal customer relationships by considering the total bank-customer relationship, and by focusing on mutual benefits in so doing” (p.217).

A price bundling strategy could develop low entry barriers and non-manipulative yet high exit barriers, and build relationships with customers. It can increase customer satisfaction as it not only enhances demand compared to an individual selling strategy, but also saves customer costs through discounts offered and reducing customers’ searching costs. A price bundling can also serve as a switching barrier through differentiated products as compared to rivals and favourable prices (Mankila, 2001). In a financial services context, retention rates are found to be significantly greater where customers use two or more of an organization’s services than in instances where they use only one service (Bain and Co. cited in Payne, 2000).

<u>The student banking market</u>

By attracting university students at an early stage of their economic life cycle, banks hope to maintain relationships with them and reap a profit from them in later years. Anderson (2002) cites Jim Marshall, the senior vice president for student banking of a U.S. bank:

> “When we bring in a student customer, if we do it right, we can stay with them through college, help them get through those years without any major financial mistakes. At the end we hope they’ll feel some loyalty and have a good impression of us, and that gives us a springboard”.

Tertiary students are generally believed to earn higher revenues than other market segments because they are more likely to obtain professional jobs after graduation. In the United States, the chance of employment for a tertiary graduate is about twice as high as for persons with a high school diploma (OECD, 2002). Education and earnings are positively linked no matter what the type of socio-economic system or the degree of economic development, and among OECD countries, the earnings premium for persons who had university-level education ranges from 40% to 80% (OECD, 1998).

By targeting the tertiary student market, banks look towards their future profitability. The average annual profit a bank makes from a student is estimated to increase from -£28 in the first year to £102 in the fourth year. If the relationship lasts 10 years, the annual profit for the bank in the 10th year would be £736. (Colgate et al, 1996).

To financial institutions, educated persons have been thought to be less loyal and to switch banks more often than those less educated (Jain, Pinson and Malhotra, 1987). As 36% of their sample had already changed financial institution and 32% of the youth market indicated that they would definitely or probably change banks in the future, Lewis and Bingham agree university/polytechnics customers have the "greatest tendency to switch" (1991, p.70).

Students' banking needs are found to be heterogeneous. In a study on students' current account attitudes and behaviour, four groups of students in the U.K. were identified according to their banking needs (Thwaites and Vere, 1995). In a similar study in the New Zealand student market, Thwaites et al (1997) found some students were sensitive to the core services offered, some were conscious of every aspect of their banks and some others would shop around for the best deal.

With respect to services, respondents expressed their requirements for quick and flawless services (Thwaites and Vere, 1995; Thwaites et al, 1997; Bathula and Selvarajah, 2001), personalized attention, convenient location and friendly atmosphere (Bathula and Selvarajah, 2001). Bank staff who are competent, helpful, well-mannered and friendly are most welcomed by the UK youth and students, who also mentioned their needs for personal service (Lewis and Bingham, 1991). They seemed to value a bank that is available, accessible, convenient and informative (Lewis and Bingham, 1991). Similarly, demands for convenience and service quality were also found in the student market in Ireland (Colgate et al, 1996).

Factors found by Lewis and Bingham (1991) that dissatisfied UK student customers were service, convenience-related factors, credit interest, free banking, overdraft, and free gifts. Besides similar findings, Colgate et al (1996) added that past experience with bank refusal of an overdraft request was among the reasons that dissatisfied customers. In New Zealand, students expressed their dissatisfaction with their existing provider because they thought their banks did not understand their needs. Poor service, followed by high bank charges and fees and a failure to appreciate student needs are thought to be the first three major factors that could dissatisfy customers (Thwaites et al, 1997). Mankila (2001) suggested that some

Swedish students would be easily dissatisfied with core offerings, and some by perceived higher bank fees and charges.

Defection in the Student Banking Market

A survey performed in Ireland identified the defection rate for students at 17.8% (Colgate et al, 1996). The reasons for the defections that were most important were inconvenience, dissatisfaction with service, refusal of overdraft request and dissatisfaction with charges. In this study, students appeared to be price sensitive because factors that could retain them were zero charge on account, interest paid on current account, high savings interest rate and low overdraft interest rate.

Split banking is a signal of disloyalty and suggests customers are ready to switch at anytime and literally defect. A study conducted on the youth and student market in the U.K. showed that 22% of young people had an account with more than one bank (Lewis and Bingham, 1991). Interestingly, the defection rate is low in New Zealand while split banking is not uncommon. Thwaites et al (1997) found that 16% of their respondents held more than one type of account with different banks plus that only 8% believed it was important to keep all financial matters in one place. Similarly, Bathula and Selvarajah (2001) found that nearly half of their respondents maintained accounts in more than one bank.

Lewis and Bingham (1991) concluded that young people would switch financial service providers if they were not happy or plainly attracted by a better offer from another financial institution. However, exceptions have been found in both the U.K. and New Zealand student markets. Thwaites and Vere (1995) highlighted that while 67% of students in the U.K. were said to be satisfied with their financial providers, only 28% of them felt a commitment to their financial institutions. By contrast, the number of New Zealand students who had defected was much lower than those who said that they were dissatisfied (Thwaites et al, 1997).

Some believed price bundling could be an effective strategy in retaining student customers. However, over dependence on the multiple bonds of a price bundling is unwise. Offerings in price bundles may not be popular among students as only about 40% of Swedish students chose student bank packages (Mankila, 2001). Additionally, the price bundling strategy itself could not guarantee the customer retention, as the group which had purchased such packages had a higher intention to switch banks than those which had not (Mankila, 2001).

3. Methodology

The study comprised a questionnaire distributed by hand to students at three locations: University of Auckland, Auckland central city campus; Auckland University of Technology Auckland central city campus and North Shore campus; and UNITEC. This represents a mix of institutional types and covers most of the city of Auckland. The questionnaires were distributed during the period of 12 – 16 September 2003, with 300 completed and returned. Of the returned questionnaires, 70 were excluded due to incomplete answers, resulting in a usable sample of 230.

Table 1 provides key demographic details of the respondents in this study. Most respondents were local students, aged 18-22 years, in their first or second year of tertiary education and with an annual income less than $10,000[1].

	Percentage
Respondents' age	
<18 years	2.6
18-22 years	67.0
23-30 years	28.3
31-40 years	1.7
>=41 years	0.4
Respondents' Origin	
Local	62.2
International	37.8
Years of Tertiary Studies	
<6 months	10.0
6-12 months	33.9
12-24 months	27.4
24-36 months	19.6
>36 months	9.1
Graduating Students	
Yes	25.2
No	74.8
Annual Income	
<$10,000	76.1
$10,000-$19,999	14.8
$20,000-$29,999	6.1
$30,000-$39,999	1.7
>=$40,000	1.3

Table 1: Respondents' Profile (N=230)

[1] By comparison, the average income of a New Zealander in the labour force in 2001 was $30,000. (Statistics New Zealand, 2001).

Some limitations with respect to this research must be acknowledged. The geographic constraint and relatively small sample size (N=230) mean that the attitudes of respondents may not fully represent those of all tertiary students in New Zealand despite random selection being applied to reduce bias. Another limitation is the high proportion aged 18-22 years old in this study (67%) compared to 40% as at July 31st 2003 for the polytechnic and university sectors (Ministry of Education, 2003). Therefore this sample cannot be regarded as soundly representative of the whole population in terms of age distribution. The measurement of respondents' attitudes relied heavily on the five-point Likert scale, which can only vaguely assess respondents' feelings, so both over-estimation and under-estimation are possible.

4. Results

Most (83%) of the respondents had a student bank account, with the distribution by bank shown in Figure 1 below. In the New Zealand market, having a student account indicates use of a student package because of the way the banks structure their product offerings.

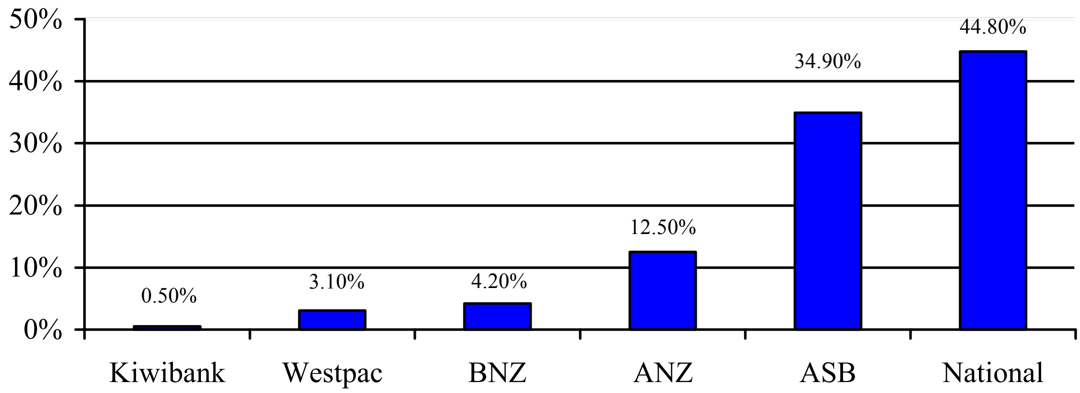

Figure 1: Student Banking Market Shares

By comparison, evidence from the Swedish student market showed that only about 20 percent of tertiary students and 40 percent of graduating students purchased student bank packages (Mankila, 2001). The high level of student package use in New Zealand suggests a good beginning for banks that are trying to maintain relationships with students through time.

Respondents appeared quite aware of not only the availability of student bank packages but also the effects of such offerings. As shown in Figure 2 below, students were generally positive towards these accounts, with few (less than 15% in each case) not prepared to venture an opinion[2]. Of particular interest is the finding that 58% disagreed that a student account prevented them switching banks freely, with the remainder being neutral or not prepared to offer an opinion.

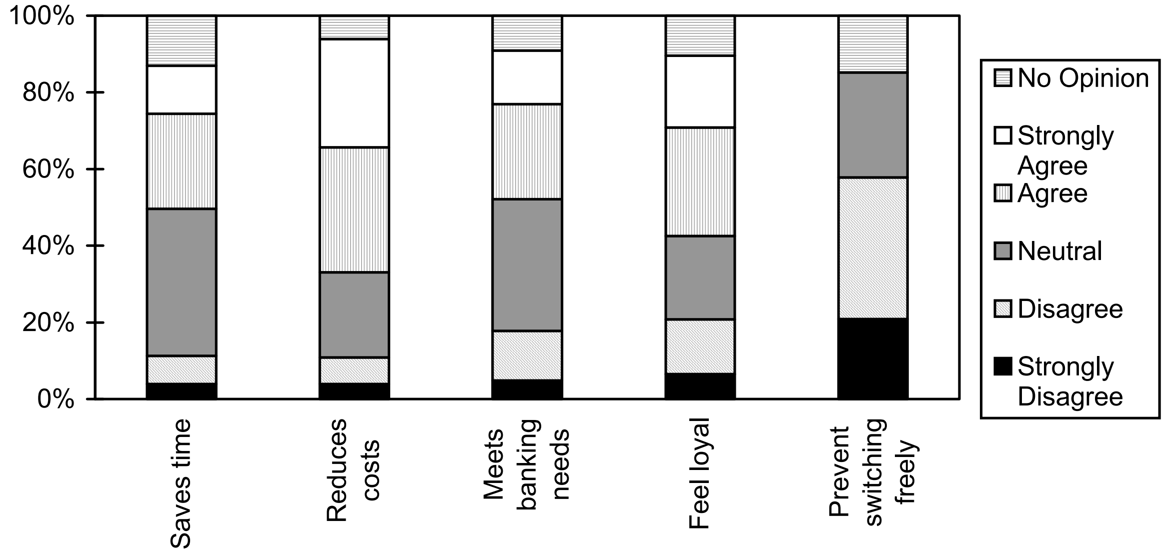

Figure 2: General Perceptions of Price Bundles

<u>Satisfaction[3]</u>

Generally, respondents were found to be quite satisfied with their student bank package, their bank and the access methods available to them, as shown in Table 2. Most respondents was satisfied with the service channels, with over a quarter of the respondents feeling "extremely satisfied". Satisfaction with bank's overall performance was not far behind, while satisfaction with the products provided was lowest. Less than 10% of the respondents said that they were dissatisfied with any of the three aspects of their banking relationship.

Satisfaction with	**Mean**	**Standard Deviation**	**Extremely Dissatisfied**	**Dissatisfied**	**Neutral**	**Satisfied**	**Extremely Satisfied**
Products	3.63	1.080	1.7%	7.8%	40.4%	33.9%	7.4%
Bank	3.91	1.054	1.3%	6.1%	25.2%	43.5%	15.2%
Service channels	3.96	1.029	2.2%	5.2%	21.7%	40.4%	26.1%

Note: the rating was on a 5-point scale, where 1 is "extremely not satisfied" and 5 is "extremely satisfied".

Table 2: Satisfaction with Student Bank Packages

[2] In order to measure respondents' general perceptions of bank price bundling strategy, a five-point Likert-scale ranging from "1-strongly disagree" to "5-strongly agree" was used. An option of "no opinion" was provided for those unwilling to commit themselves to a response for any reason.

[3] Respondents were asked to use a five-point Likert-scale to state their satisfaction with products, banks and service channels. An option of "no opinion" was also provided.

Previous studies conducted on student banking markets in New Zealand showed that students were not satisfied with their banks (Thwaites et al, 1997; Bathula and Selvarajah, 2001). For example, Thwaites et al (1997) found that only one third of New Zealand students claimed that they were satisfied with their main banks. One reason has been that students believed that their banks failed to understand their needs (Thwaites et al, 1997).

This study, however, indicates that the respondents were quite satisfied with products, service channels and overall bank performance. This satisfaction is believed to result from the products and service channels offered by New Zealand banks being generally able to meet and exceed students' banking needs. The root cause should be the competitive banking market environment, which forces banks to consider customer needs and wants.

The extremely high satisfaction score given by respondents to bank service channels in New Zealand may result from the stability and security of the Internet system, telephone system and ATM network in New Zealand.

Of the three dimensions, products received a relatively low satisfaction rating by respondents. The possible explanation could be that current products were not able to exceed what respondents want. This is evident from the claim by about half of the respondents that they were neither dissatisfied nor satisfied by their current bank products. This sends a signal to banks that they should review their products offerings.

<u>Retention</u>

The defection rate derived from the respondents was 14.9%, which was calculated by dividing the number of those who answered yes to the question "Have you changed bank in the last 12 months?" by total valid responses. When asked their probability of switching banks in the future, more than 54% of the respondents said that they would not or definitely would not do so. Around 16% of the participants showed some tendency to switch banks, while the remaining 30% of respondents were those who either stayed neutral or said that they did not know.

This study found an increased level of loyalty compared to other studies, with a 36% defection rate found among UK university/polytechnics students (Lewis and Bingham, 1991) and a 17.8% defection rate in Irish students (Colgate et al, 1996). Furthermore, of those who claimed that they would change banks in the next 12 months only 6% were highly likely to do so – lower than the rate of 32% found by Lewis and Bingham's study on UK students (1991).

The low defection rate found in this study is similar to that of Thwaites et al (1997) and Bathula and Selvarajah (2001), but the reasons appear different. In the previous studies, New Zealand students were found to be quite dissatisfied with their banks, and their low defection rate was due to students' inertia, zone of tolerance and laziness. In contrast, the current study indicated that it was the respondents' feeling of satisfaction, especially their satisfaction with service channels and overall performance, that contributed to this low defection rate.

No relationships were found between satisfaction and past defection activities as the significance levels are all greater than 0.05. However, the correlations between satisfaction and future defection intentions do show some relationships, as shown in Table 3.

	Future Intention to Switch
Satisfaction with Products	
Pearson Correlation	0.053
Sig. (2-tailed)	0.421
Satisfaction with Bank	
Pearson Correlation	0.185
Sig. (2-tailed)	0.005**
Satisfaction with Service Channels	
Pearson Correlation	0.150
Sig. (2-tailed)	0.023*

*** Significant at 0.01 level*   ** Significant at 0.05 level*

Table 3: Correlations of Retention and Satisfaction

Clearly satisfaction with the bank itself has the most important relationship with future intention to switch. Interestingly, satisfaction with the product itself showed no correlation, which suggests that the student account offered by a particular bank is not perceived as having any real difference with that offered by another organisation.

Respondents were asked to select the factors that could influence their choice of bank in the future when they were no longer eligible for a student banking package. They were able to select as many factors as applied, and the results appear in Figure 3 below.

Clearly the issue of bank fees is the most important factor, selected by 87% of respondents, with service quality also important (73%). The only other factor to be selected by more than half the respondents was the availability of a graduation package (51%).

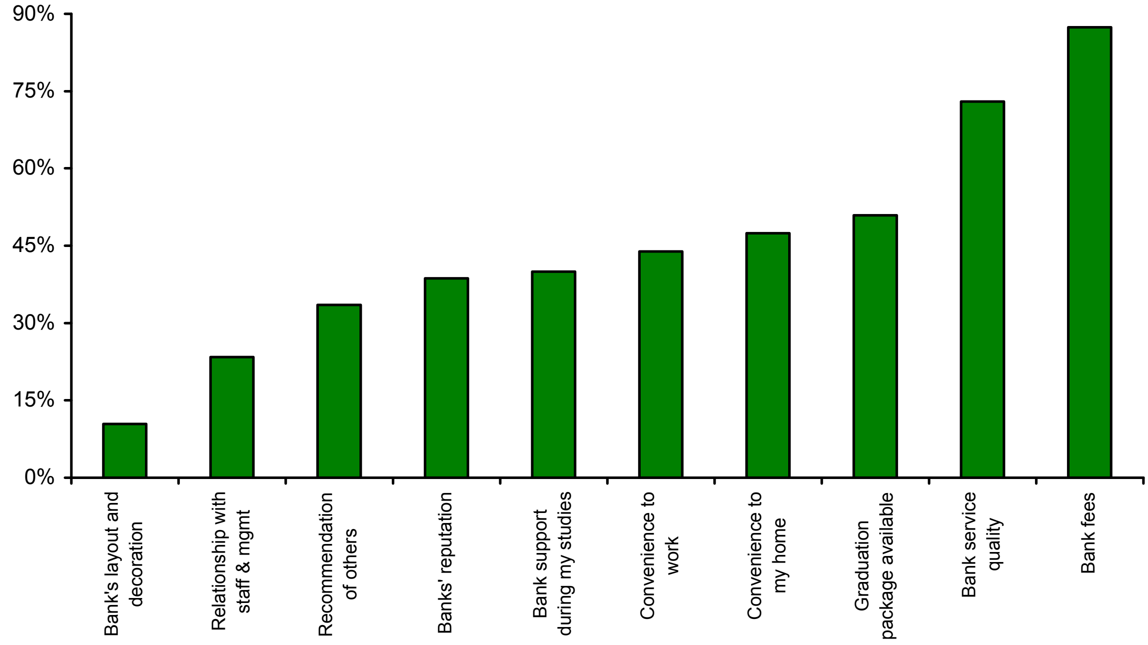

Figure 3: Bank Selection Criteria

<u>Implications</u>

Present research implies that it would be unwise to depend solely on student packages to retain student customers. Student package owners fail to show higher levels of satisfaction than non-package owners in all three aspects, as shown in Table 4.

Satisfaction with	Mean Rank		Mann-Whitney U	Asymp.Sig (2-tailed)
Products	Package holders Non-holders	108.93 146.70	2552	0.001**
Bank	Package holders Non-holders	107.65 152.77	2309	0.000**
Service channels	Package holders Non-holders	110.99 136.93	2943	0.019*

***Significant at 0.01 level* **Significant at 0.05 level*

Table 4: Satisfaction: package holders versus non-holders

This may primarily result from their varied depth of experience with banks. Student bank package holders tend to use more products than their non-package holder counterparts and therefore have greater opportunities to experience poor service or other unfavourable circumstances during their encounters with their banks.

The future defection intentions of bank package holders were stronger than non-package holders. For example, with statistical significance, the current study showed that about 15% of package holders would like to switch in the next 12 months while only 12.5% of non-package holders felt the same. This was consistent with the findings in the Swedish student banking market (Mankila, 2001).

In addition, “bank fees” and “bank service quality” rather than “the bank that supports me through my study years” were more frequently mentioned by present student package holders as their future bank selection criteria, indicating the relative importance of the price factor and service quality to these customers.

This could be explained by the proposition of “three levels of relationship marketing” by Berry and Parasuraman (1991, p. 144). They suggest that the higher the level of relationship marketing used, the stronger the company-customer relationship would be. In the case of the New Zealand student banking market, the dominant price bundling strategy belongs to the first level of relationship marketing because bankers are using pricing incentives to encourage student customers’ patronage. Price discounts can be easily imitated and cannot provide a competitive advantage, and Berry and Parasuraman (1991) found many level one marketers, were disappointed with the long-term results from this approach.

There was no significant difference between demographic groups in respect of satisfaction except for students with different origins. Local students felt more satisfied with their bank products and channels, as shown in Table 5.

Satisfaction with	**Mean Rank**		**Mann-Whitney U**	**Asymp.Sig (2-tailed)**
Products	Local International	123.04 103.10	5142	0.020*
Channels	Local International	125.40 99.23	4805	0.002**

***Significant at 0.01 level* **Significant at 0.05 level*

Table 5: Differences in Satisfaction

There were no significant differences in retention between different demographic groups, either in respect of past defection behaviour or defection intentions.

ASB Bank and National Bank are consistently ranked highly for customer service (for example see Staff (2003)). Our results verified this also holds in the student banking market.

Students were found to be quite satisfied with ASB Bank and National Bank. National Bank had the greatest market share, and 93% of their customers were satisfied with its overall performance. Similarly, 91% of ASB Bank's student package users expressed satisfaction. However, a slightly higher proportion of student package users were satisfied with ASB Bank's products and service channels than those offered by National Bank. Interestingly, 91% of ASB Bank's package users did not change banks in the past 12 months compared with 79% for National Bank. Only 9% of ASB Bank's users indicated they were likely to switch banks while 16% of National Bank's did so.

The small number of respondents who purchased student packages from the other four banks all gave high ratings to their banks on every aspect. To avoid distortions, it would be more appropriate to carry out studies with a broader sample size of the population.

5. Conclusion

This research sought to find out the attitudes of tertiary students in New Zealand towards bank price bundling strategy and to investigate to what extent prevailing the bank price bundling strategy can retain student customers.

The results showed generally positive attitudes among tertiary students toward the bank packages that were offered by banks in New Zealand. The majority of respondents agreed that such packages reduced their costs and time spent on product searching, satisfied their banking needs and increased their bank loyalty. However, they did not agree that such packages could create switch barriers.

The results also showed that students in New Zealand were quite satisfied with products and service channels that are included in student packages as well as with the banks' overall performance. This is substantially different from previous empirical evidence locally and internationally.

A relatively low defection rate was found in this study. It appeared to be their satisfaction, especially their satisfaction with banks and service channels, that contributed to their loyalty (or non-defection) rather than switching barriers.

More than half of the respondents did not include the relationship developed with banks through their study years as a factor in terms of their future bank selection criterion. Rather, the majority emphasised bank fees and service quality in their future choice of banker.

Bank package holders were less satisfied with products and service channels than were non-holders. Furthermore, package holders also had a higher defection rate than the non-holders in the past 12 months. As to future bank switching intentions, the proportions of package holders who planned to leave and to stay are both higher than those of non-package owners. The findings confirm the literature that student bank packages can only have a limited effect on improving customer retention.

Another implication from this research is that banks that offer excellent service are likely to succeed in terms of student customer retention. Although students are price sensitive and tend to choose banks that offer the lowest bank fees, there is limited difference between the banks in this regard in the competitive New Zealand bank market. As they would next turn to banks that offer quality services, it suggests that banks assess their approach in servicing student customers and try to impress students in every service encounter.

Future research on this topic could be carried out by exploring students' banking needs, especially those not included in the current student bank packages, and by discussing the feasibility of the segmentation of student customers. Present student bank packages provide indiscriminate offerings to customers and little is known about their actual needs even though they claim that they are not fully satisfied with products.

Service quality could be another important topic worthy of further study if banks intend to retain student customers.

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