

How switching cost can affect the market dynamics: The Case of Tata Sky DTH service disruption

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Abstract: *This case article highlights the fiasco following the recent direct-to-home (DTH) service disruptions by the Tata Sky. It provides insights into how switching cost can affect customer decisions in a competitive market like DTH services. It also illustrates how a reputed brand like Tata Sky can go wrong and still manages to get away with the situation, primarily due to high switching cost prevailing in the DTH sector preventing customers from switching to the competing companies. This also opens up the debate that even in a competitive market, customers are not always the king, especially when they are tied to the companies due to technological reasons or otherwise. The case article has been mainly developed through qualitative research by analyzing secondary data gathered from numerous sources like company websites, newspaper articles, social media, as well as some published research papers and reports. The case analysis leads to a number of important management lessons which can be a good guide to the companies for attaining sustained performance in a competitive market without compromising the service quality and keeping the customers happy.*

Key words: *DTH services, competitive market, switching cost, service quality, performance management*

I. Introduction

On March 11, 2015, the services to 17000 plus subscribers of Tata Sky Direct-to-Home (DHT) service were suddenly disrupted without any knowledge of the viewers [1]. The customers were unable to view even a single channel on their television sets. Later, the company informed that it was upgrading the set-top boxes from MPEG-2 to MPEG-4 in order to improve the quality of services and to accommodate more channels. With MPEG-2, the bandwidth available to Tata Sky was very limited and the upgradation would provide customers higher amenities like more hours of recording of TV programmes.

However, the manner in which the technology upgradation was managed by Tata Sky came under heavy criticism. The period chosen for the process was wrong as during the same period the ICC cricket world cup 2015, the most awaited event in a cricket loving nation, was in progress. Also, Tata Sky didn't bother to inform the customers in advance about the upgradation and possible disruption of services. This led to huge discontent among the customers with sentiments running high due to ongoing cricket world cup. The situation was further aggravated when services to another 25000-30000 customers were disrupted on April 5 [1]. With the cricket season (world cup and IPL) going on in full swing, many customers had paid advance subscription for premium HD quality sports channels. As Tata Sky's customer care centres were not prepared to handle a large number of complaints, it led to a situation where customers openly came out on the social media to vent off their frustration and anger. They alleged that the company was misguiding and cheating its customers. There was a growing anger about the way in which the whole process was handled. Apparently, such an unprofessional behavior is not expected from a reputed brand like the Tata Sky and that too while operating in a competitive market such as DTH services. But as what happened in reality was contrary to general expectation, it calls for a probe on the issue. Though a detailed investigation may be out of the scope of this paper, we feel that presence of a high switching cost in the DTH services market can possibly offer an explanation to this paradoxical situation.

II. Methodology

For the purpose of writing this case article, the Tata Sky fiasco was identified because of its contemporary nature and the profound impact it had on the TV viewing public. The case has been primarily developed through secondary research with the help of numerous data available in the public domain, such as newspaper articles, research articles, company websites, social media, etc. The analysis is qualitative in nature and it attempts to portray the event as it actually happened in reality. Personal experiences of the authors as being victim of this fiasco as well as discussions with a few TV viewers have been utilized to supplement the secondary data while drawing inferences and in delineating the management lessons.

III. The Strategy of Switching Cost

Companies usually try to employ strategies in order to dissuade customers from switching to a competitor's product, brand or services. In many markets, consumers are forced to incur some costs when switching from one supplier to another. These costs are called switching costs and can come in many forms. Switching barriers or switching costs are the terms used in microeconomics, strategic management, and marketing to describe any impediment to a customer's changing of suppliers. For example, if an individual decides to change his/her telecom service provider the switching costs can include the (monetary) cost of subscription, efforts put in to give the new telephone number to friends and relatives; costs related to getting accustomed with the interface of a new operator from a different brand; and costs in terms of time lost due to the paperwork necessary while switching to the new service provider.

Switching costs can affect competition in a market. When a consumer faces switching costs, the rational consumer will not switch to the supplier offering the lowest price if the switching costs in terms of monetary cost, effort, time, uncertainty, and other reasons, outweigh the price differential between the two suppliers [2]. If this happens, the consumer is said to be locked-in to the supplier. With customers locked-in, a supplier can raise the price of product/service to certain level without having the fear of customer loss. When rise in price is equal to or less than that of the switching cost it will prevent customers from switching.

While early literature classified switching costs as being either pecuniary (for e.g. termination fees charged for breaking a contract) or psychological (for e.g. the disutility faced by a consumer for buying a brand he/ she is not familiar with), recent works suggest that switching costs are multi-dimensional [3]. Comprehensive typology of switching costs identifies three major types of switching costs, each with various sub categories: **procedural costs** (involving mainly expenditures of time and effort and consisting of economic risk, learning and setup costs), **financial costs** (involving the loss of financially quantifiable resources), and, **relational costs** (psychological and emotional discomfort due to personal and brand relationship breakages and identity loss) [3].

A Typology of Consumer Perceptions of Switching Costs

Procedural Switching Cost	Financial Switching Cost	Relational Switching Cost
➤ Economic risk costs	➤ Benefit loss costs	➤ Personal relationship loss cost
➤ Evaluation costs	➤ Monetary loss costs	➤ Brand relationship loss cost
➤ Set up costs		
➤ Learning costs		

Source: Bhattacharya, A. (2013)

In case of DTH services, the financial switching cost is quite high. It includes costs related to buying of new antenna and set up box along with the monthly, half yearly or annual charges minus the security deposit refund from the last service provider.

The Exhibit 1 compare the prices and other charges for different DTH service providers in India. So, for example, if the customer wants to switch from Tata Sky to Airtel TV, then the switching cost incurred can be calculated as following.

- Total cost of installing a Tata Sky set-top box = 1399+400=1799/-
- Usually customer take long term packages because it is cheaper.
- E.g. basic pack of Tata Sky cost 165/- per month
- So, yearly cost = 165*12 = 1980/-
- Yearly subscription cost = 1815/- which is 165/- cheaper. So, customers will prefer long term subscription
- Let us assume the customer switches to Airtel TV.
- Installation cost = 1290 + minimum monthly subscription of 210/-
- Hence, total cost for switching to Airtel TV = 1799+1815+1290+210 = **5114/-**

For a customer looking only from the financial point of view, switching from one service provider to other is profitable only when the discount provided by the competitor outweighs the switching cost incurred by the customer.

However, it's not just the financial switching cost that creates a barrier, but psychological switching costs in terms of time required for applying for a new connection, time wasted during installation, etc. also come

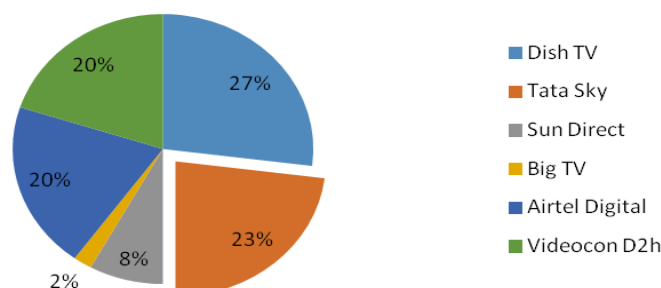
into picture. Also, it takes time to learn the new remote control for the set up box which sometimes becomes quite annoying for few customers.

IV. DTH Service Industry in India

DTH (Direct-to-Home) services were first proposed in India in 1996, but the Government of India did not give approval to it due to concerns over the national security and cultural invasion. The Government gave approval to it in November, 2000, after deliberate discussions with different Ministries. Zee group promoted Dish TV was the first to enter the Indian market in Oct, 2003 [4]. Since then, many competitors have followed and have entered the Indian market. When Dish TV entered the market, cable based subscriptions constituted the dominant part of the total TV subscribers. Thus, it mainly targeted the rural and city outskirts areas [5]. The high costs associated with DTH services, mainly for the purchase of set top box and antenna, made sure that the total household DTH subscribers remained less than 1 per cent of the total household TV subscribers at the end of 2005.

However, with increase in income of people and technology improvements (leading to lesser cost for DTH equipments), the number of DTH subscribers as a per cent of total TV households has steadily increased. With the entry of other players mainly Tata Sky, Airtel, Videocon d2h and others, market has seen stiff competition between the service providers to gain a bigger pie of the DTH customer base (fig. 1). As per the TRAI report published on 12th August, 2015, there are around 76.05 million subscribers in India out of which 41.15 million are active users.

Figure 1: Market Share (31st March, 2015)



Source: Dish TV India Ltd, Investor presentation, June 2015

The Ministry of Information and Broadcasting in its notification issued on 11 November 2011, set 31 March 2015 as the deadline for complete shift from analogue to digital systems. The government prepared four phase implementation plan.

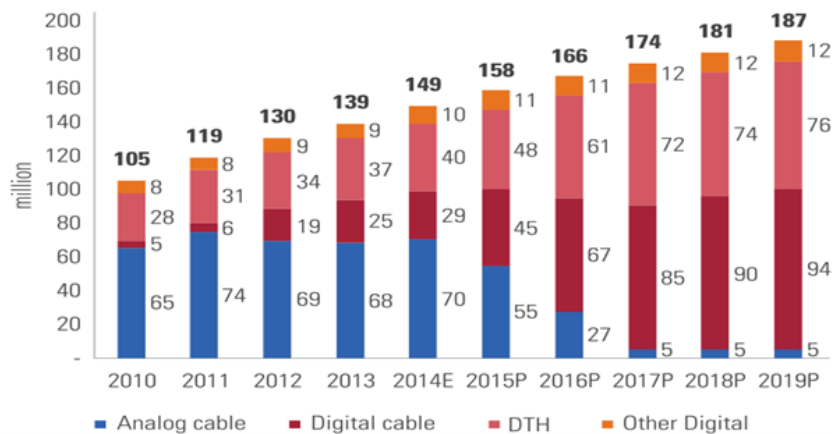
Phase (Planned date)	City/Region	Date of Switchover [‡]
Phase 1	Delhi	31 October 2012
	Mumbai	31 October 2012
	Kolkata	15 January 2013
	Chennai	<i>Not completed</i>
Phase 2	38 cities in 15 states	31 March 2013
Phase 3	All remaining urban areas	31 December 2015
Phase 4	Rest of India	31 December 2016

[‡] Indicates the date when analogue signals were switched off and not necessarily the date when 100% digitization was achieved

Source: Television in India, en.wikipedia.org

This push by the government for digitization helped cable & satellite operators to rapidly expand their reach. Phase 1 and 2 saw cable operators taking a larger pie of the digitization than the DTH operators. However, phase 3 and 4 is expected to be more challenging for the cable operator given the larger geographical spread, funding requirements and lower ARPUs (average revenue per user). The DTH is expected to gain more during phase 3&4 by capturing larger share of the analog subscribers.

Figure 2: Growth of DTH market



Source: FICCI-KPMG Indian Media and Entertainment Industry Report 2015

The TV viewing experience that the DTH operators provide coupled with premium and other customized interactive services, helps the operators to extract higher ARPUs (average revenue per user) than its cable competitors. DTH ARPUs are already on the rise and are expected to grow further with the launch of premium channels and uptake of HD (high definition) subscribers. Driven by these factors and higher realization levels post digitisation, the pay-TV ARPU is expected to reach about INR 311 by 2018 up from about INR 182 in 2013 [6].

V. The Fiasco and how Tata Sky handled this fiasco

The Indian DTH industry is highly competitive with about 10 operators trying to capture a huge market. The competition gets reflected in terms of number of channels offered by each operator, quality (e.g. HD) of channels, and subscription rates. In some areas DTH companies are also competing with the local cable operators. Most of the customers these days prefer HD channels for their superior picture quality. Tata Sky was the first DTH provider in India to offer 4k set-top-boxes to its customers [7]. Tata Sky and Dish TV promised MPEG-2 compression for their standard set top boxes, but new operators like Videocon, Reliance, Sun Direct, and Airtel DTH have brought MPEG-4. Videocon and Airtel also have access to DVB S-2 technology which gives more interactive services. Tata Sky had been using INSAT 4A for the transmission of signals but this was coming to the end of its life and Tata had been looking for another viable satellite with the desired transponder capacity for taking over the functions of the INSAT 4A. According to Tata Sky officials, a few years back they were looking at switching over to GSAT 10 but the Department of Space (DoS) had delayed the launching of this satellite which had forced Tata to look for foreign satellites with surplus transponder capacity. Thus, to improve the quality of video, they moved from MPEG 2 to MPEG 4.

According to Harit Nagpal, CEO of Tata Sky, the company has spent around Rs. 900 crore on upgrading its set-top boxes from MPEG 2 to MPEG 4 for all its customers to carry more channels. They have changed around 6 million boxes and spent USD 24 on each set-top box. However, the Indian DTH market is a fast growing market and apart from the upgradation costs, Tata Sky didn't actually lose much. The upgradation done was due on part of Tata Sky, so they had to do it at some point of time. With the improved capabilities, they are expected to get more customers and hence more profit. With most of its customers in urban areas, who like to watch high quality channels and are ready to pay premium prices for them, Tata sky is bound to get more revenues.

The sudden disruption of services starting from March 2015 and that too without any prior notice, left many customers wondering what exactly had happened to their set top boxes. The customer care of Tata Sky wasn't prepared for the large number of complaints coming from the customers. The customer care service was not working properly at most of the occasions. Places where customer care service was working, customers were left unattended on their call for minutes. Thus, they ended up paying money for their calls without getting their queries cleared.

Unlike in a saturated market where the market size is fixed, in a fast developing market, companies tend to ignore customer complaints to some extent. They know that with the market growing and high switching costs, they will anyhow add more customers than they will lose due to some service glitches. This gets reflected from the statement of Tata Sky CEO Mr. Harit Nagpal, when he said, “We cannot send our team to everyone’s home but we are working on that”.

Customers had renewed their subscriptions and many had paid for premium services. This left many in a quagmire whether to shift to any other DTH service provider or not. Also, over the time, watching TV has become an experience which many customer are well habituated with. So, a long time Tata Sky customer would rather like to stick to Tata Sky only than to move to a new DTH service provider and change the experience.

When Dish TV started their services in 2003, they mainly targeted rural and city outskirts areas where cable service had not reached or was not very good. However, Tata Sky when entered the Indian market in August, 2006, it started targeting metros and other urban markets. At present also, Tata Sky has 60 percent of its customers in top 20 cities [8]. Tata Sky was the first to launch customized interactive services in India. The customers like it mainly for the different services that it provides bundled in one package. Thus, customers over a period have become acquainted with the services and develop a taste of it. With the high switching cost associated with the DTH services, customers rarely think of changing the service provider.

Thus, Tata Sky didn’t actually lose much because of the high switching costs prevailing in the DTH service segment. And it appears that it was their customers who ended up losing their piece of home delight through this episode of service disruption.

VI. High Switching Cost- A Tactic for Locking Customers

Switching costs bind customers to vendors even if products/services are incompatible, locking customers or even markets into early choices. Their locking-in impedes customers from changing suppliers in response to (predictable or unpredictable) changes in efficiency, and gives vendors lucrative ex post market power – over the same buyer. Firms compete ex ante for this ex post power, using a variety of strategies like penetration pricing, introductory offers, and price wars, etc. [9].

Large switching costs lock in a buyer once he/she makes an initial purchase, so he/she is effectively buying a series of goods, just as (more generally) with strong enough relationship-specific economies of scope, sellers compete on bundles of goods rather than single goods. Sometimes sellers offer complete (“life-cycle”) contracts that specify all prices. But often contracts do not specify all the future prices, so that a long-term relationship is governed by short-term contracts [9]. In the case of DTH subscribers, most of them opt for customized bundled services which includes some HD channels, interactive sessions of kids and other premium services. Even if the customer goes for the basic scheme, still the switching cost associated with DTH services is quite high. This sometimes creates scope for compromise from the customer’s side in times of poor service.

One good example of how changes in switching costs affect customer’s buying behavior is the case of Indian telecom market. Post 2001, with the advent of wireless phones, Indian telecom sector saw a stupendous growth. However, the growth of CDMA subscriber base vis-à-vis GSM subscriber base has been sluggish. The reason for this sluggish growth of CDMA was the rigidity associated with it. When CDMA was introduced in India, it was mostly a single operator phone. Thus, if a customer ever wanted to change the operator, the complete cellphone had to be changed, thus, incurring high switching costs. With GSM phone, the only switching cost incurred is the cost of new SIM card and the balance amount with the previous operator.

With the technology improvements and greater competition, the prices for SIM cards fell steeply. Thus, switching cost further decreased. With the growing competition, operators started offering balance talk time with new SIM cards. Thus gave customers a lot of flexibility, with financial cost rarely coming into consideration while changing the operator.

However, switching costs not only include financial costs but psychological costs also. The psychological cost includes the time and efforts required to give new number to all in the contact list. With mobile number portability (MNP) in place, one can change the operator without changing his/her mobile number. The decision making power of the customer with lower switching cost can be judged by the number of MNP requests, 47.82 mn in 2012-13 and 27.32 in 2013.14 [10]. Operators struggling with their quality of services were badly hit with Tata Teleservices (including group companies) losing a total of 4.54 mn users. This clearly shows that for the proverb “customer is king” to be true, switching cost has to be low.








VII. Management Lessons

The way Tata Sky handled the situation clearly shows that they couldn't anticipate the depth of the problem and the public response that followed it. Whether the timing was deliberate or by mistake, it is obvious that they were not prepared to tackle the fiasco. Tata Sky made a few mistakes that could have been avoided.

- Tata Sky didn't communicate with its customers about the possible service disruption. Most of the customers thought there was some problem with their set top boxes. They came to know about the actual problem only through social media. In a competitive and well networked market like DTH services, it demeans the brand value of a company [11].
- In the present era of customer management, Tata Sky could have at least sent SMSs to its customers informing them about the service disruption and possible inconvenience to be caused by it. What's wrong with being honest and proactive?
- The statement of the CEO of Tata Sky ("we cannot send our team to everyone's home) was totally uncalled for, if not irresponsible. The unprofessional handling of the fiasco coupled with his statement, further aggravated the situation.

From the example of Indian mobile telephony industry, we have seen that in the post MNP era how some telecom companies have been struggling to retain their customer base intact, with a few of them having faced serious churning out of their customers. Today, customers have become more demanding and impatient and at the same time they are more knowledgeable than earlier. For a good segment of the customers, convenience is as equally important, if not more, as cost of the product/service. Although, at the end, the Tata Sky didn't lose much out of it, but the impact could have been very severe. This serves as a good management lesson for the Tata Sky as well as for others on how plan of execution of technology change and handling of the crisis following it can go wrong even for big companies, if not anticipated and prepared in advance.

Exhibit 1: Prices charged by different DTH operators in India

Features/ Vendors	Dish TV	Tata Sky	Airtel	Reliance	Sun DTH	Videocon D2H	Apna DTH
Logos							
Website	http://www.dish.tv	http://www.tata.sky.com	http://www.airtel.in/digitaltv	http://bigtv.co.in	http://www.sundirect.in	http://www.videocon.d2h.com	http://www.apnadth.com
Standard Definition (SD) Equipment Cost	Rs. 990 SD Recorder Rs. 1490 (1 months Any Pack)	Rs. 999 or Rs. 1399 with No installation cost 1 Month Grand Sports pack and 4 showcase movies Free	Rs. 1290 (2 month any pack free)	Rs. 1490 (4 month service free)	Rs. 1156 with 1 month free service or Rs. 1640 with 6 month free service	Rs. 1390 with 75 days New Diamond pack free or 60 days Platinum free Buy online for Rs. 1690 and get Rs. 200 cash back	Details Not Available
Installation Cost	Rs. 200	Rs. 400	Free Installation	Free Installation	Installation charges extra	Rs. 300	Details Not Available
Radio	22 Radio Channels	Not Available	10 All India Radio channels - FM Gold, FM Rainbow, AIR Punjabi, FM Rainbow-Bangalore, AIR Tamil, AIR Ragam, AIR Telugu, AIR Bengali, AIR Gujarati and AIR Urdu.	10 Audio Channels	Available	20 Active Music Channels for Rs. 20 / Month Extra	23 Radio Stations Available
Minimum Plan	Rs. 200 / Month with 208+ Channels & Services	Rs. 165 / Month with 89 Channels & Services	Rs. 210 / Month for 157 Channels. or Rs. 120 / Mon (South Value Pack with 119 Channels)	Rs. 132 / Month for 102 Channels.	Rs. 123 / Month Details Not Available for total number of Channels	Rs. 150 / Month with 196 Channels & Services	FREE 59 Channels Available
Long term Plan	Rs. 4990 for 12 months (272+9 channels)	Rs. 1815 for 12 months (89 channels & Service)	Rs. 2784 for 12 months Economy pack (157 Channels) 45 days extra	Rs. 1366 for 12 months Value Pack (102 channels)	Rs. 1596 for 12 months Value Pack for India. (1 month free)	Rs. 1650 for 1 year New Gold pack	Not Applicable

Source: <http://tvoptions.in/>

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