

Chapter 1

Introduction

1.1 Research Intention

Setting the right price for a product or service is one of the hardest things for a marketer. In many cases the perception of a product or service by the customers is the cornerstone to successful pricing. Unexploited diversification and pricing potentials are often the main driving forces for dramatic price developments and the origin for diversified product offerings.

An outstanding example is the formation of low-cost (or no-frill) airlines in Europe after the liberalization of the European domestic aviation market was completed in 1997. By the year 2002 low-cost airlines had gained substantial market shares. Furthermore, low-cost carriers are expected to increase their market share in the coming years as can be seen in Figure 1.1. Airlines such as Ryanair, EasyJet, and GO penetrated the market with aggressive pricing strategies putting the established airlines under pressure. Unlike established airlines, low-cost carriers offer little service on board (no frills), have higher seat closeness, accept only direct booking, use cheap secondary airports, do not offer flexibility on cancellations, and have enticingly low fares that rise only as a flight fill up.¹

However, many flight customers prefer the reduced prices over additional service and convenience as offered by established airlines and use no-frill flights instead. The aviation market had a great unexploited potential which was not recognized by the established airlines. With the new low cost alternative to traditional flying many passengers have switched to the low-cost offerings, and new customers have entered the market that did not fly so frequently previously.

The aviation example shows how important pricing is when a new business model is implemented. Recognizing unexploited segments in a market is the key for designing a marketing strategy. To make the right strategic decisions marketers need valid instruments to estimate the preference structure of their customers. With such instruments they must be able to forecast market response when existing marketing strategies are changed or new marketing strategies are initiated.

¹ "Turbulent skies". (2004, July 10). Economist.

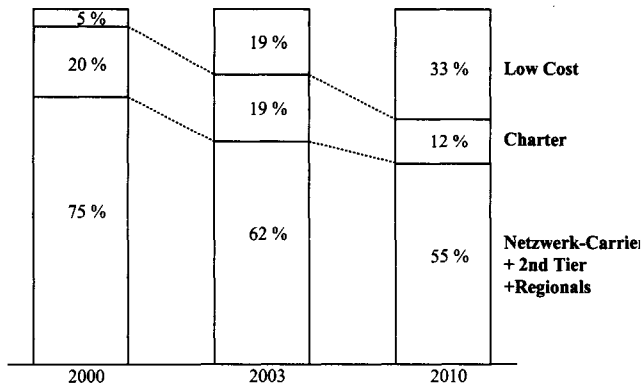


Figure 1.1: Market shares in the European aviation market in terms of percent passengers (“Impact of Low Cost Airlines - Mercer Study”, Mercer Management Consulting, 2004).

Examples of such marketing strategies are the differentiation or diversification of existing products, along with the introduction of new products. Product differentiation is the modification of a product to make it more attractive by differentiating it from competitors’ products. Product diversification means providing different types of an existing product to better serve different customer segments. Low-cost airlines entered the aviation market with a differentiation strategy.

Following the daily news other interesting examples can found in the mobile phone industry. Mobile phones have changed dramatically over the last years. In the past mobile phones were un-stylish, uncomfortably large and heavy, had small monochrome screens and large antennas, and were only used for one thing: talking to other people.

Today’s latest models, are elegantly shaped pocket computers with high resolution color screens. And in contrast to previous years mobile phones have become a uniquely personal item. Some phones designed for business users provide office functionalities, have tiny keyboards, and are capable of sending and receiving e-mails in addition to text and multimedia messaging. Other phones have satellite-positioning functions, high-resolution cameras that take pictures and record and play video clips, have a music player, FM radio, and can function as a game console. The mobile phone has become such an important aspect of a user’s daily life that it has changed from being a mere ‘technological object’ to a key ‘social object’ (Srivastava, 2005).

Mobile phones are sold to a large number of consumers that have heterogeneous needs and requirements. Diversified phones are offered in all price classes, and the mayor mobile phone companies Nokia, Motorola, Samsung, and Sony Ericsson offer product lines with many different telephones.

The mobile phone industry has experienced a huge growth over the past years. In 2003 the number of mobile phones in use worldwide was around 1.4 billion overtaking the number