

# Consumer behavior regarding price drop in Smartphones

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## Abstract

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Most of the leading Smartphone companies who are focused on manufacturing high end Smartphone are facing the situation where their market share have declined remarkably whereas, budgeted Smartphone manufacturers are gaining the market share with massive amount of sales. There is high competition in the Smartphone market, hence the price promotion is one of the most important factors for the Smartphone manufacturers because it can either generate revenue for the company by massive sales or affect the brand image by declining in market share.

The thesis is aimed to go through the consumer market and extract the information on, how the consumer perceived these circumstances. The survey was conducted at Laurea University of Applied Science, Otaniemi unit among the students studying the Bachelor in Business Management in English.

The survey results showed that participants have different aspects while purchasing Smartphone like price, features, brand and design. Each of these factors has its own importance, but this survey showed that most of the participants considered price and brand as an important factor. Moreover, Price drop has been a major concern, but it does not affect the brand image significantly.

Keywords: Smartphone, Consumer Behavior, Price drop in Smartphone

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## 1 Introduction

In Mobile-phone industry, Smartphone is a major product and price drop has been a matter of concern among the people. Various brands sell more than 1 billion Smartphones in a year. Companies usually create their own unique Smartphone adopting various mobile operating systems. Today, top Smartphone operating systems are iPhone OS (Apple), Android OS (Google), WP OS (Microsoft) and Blackberry OS (Blackberry). All the Smartphone manufacturers introduce their range of product portfolio in the market with prices ranging from 100 to 900 Euros.

Regardless of availability of Smartphone ranging from low price to high price, consumers are always interested in high end Smartphone device introduced by manufacturers as a flagship device. Oxford dictionary has defined Flagship devices as the best or most important thing owned or produced by a particular organization. Sales and popularity of the flagship device play an important role for any Smartphone company to determine the market position, brand position, customer loyalty and as well as a market success.

Top Five Smartphone Vendors, Shipments, and Market Share Calendar Year 2013 (Units in Millions): -

**Top Five Smartphone Vendors, Shipments, and Market Share, 2013 (Units in Millions)**

Vendor	2013 Shipment Volumes	2013 Market Share	2012 Shipment Volumes	2012 Market Share	Year-over-Year Change
Samsung	313.9	31.3%	219.7	30.3%	42.9%
Apple	153.4	15.3%	135.9	18.7%	12.9%
Huawei	48.8	4.9%	29.1	4.0%	67.5%
LG	47.7	4.8%	26.3	3.6%	81.1%
Lenovo	45.5	4.5%	23.7	3.3%	91.7%
Others	394.9	39.3%	290.5	40.1%	35.9%
<b>Total</b>	<b>1,004.2</b>	<b>100.0%</b>	<b>725.3</b>	<b>100.0%</b>	<b>38.4%</b>

Source: IDC Worldwide Mobile Phone Tracker, January 27, 2014

Fig. 1. Smartphone shipment

However, at the moment the Smartphone market seems to be changing into a different dimension. The Smartphone manufacturing company like Apple, Nokia, and Samsung and others who are on the relay to produce high-end Smartphones are threatened because, the European and North American market is saturated and the new emerging market like India, China and Brazil are dominated by the budget Smartphone and local smartphone manufacturer. On the one hand, budgeted Smartphone companies like Huawei Technologies and Lenovo group limited are gaining the market share, but on the other hand, the high-end manufacture companies like Apple, Samsung are rapidly facing the downfall of price and market share. The average price of Smartphone has declined to \$375 from \$450 since the beginning of 2012 according to the estimation of International Data Corporation (IDC). (Burrows 2013)

Since consumers are the lifeblood of the business, it is immensely essential to understand the Consumer behavior in modern markets. Minor changes in any factor of marketing mix like product, price, place and promotion can affect the sales of the product. Hence, our research will be based on these factors. It will explore through two consequences, the first part will reveal the consumer behavior regarding the purchasing of Smartphone and the second part will study about the possible changes in consumer behavior or perception caused by price drop and as well as adverse effects on the brand image because of this phenomenon.

## 2 Significant of study

Understanding the consumer behavior is one of the important success factors now a day. Companies invest a lot of money and time to understand the customers and their perception about the product. It is very essential to have sufficient information about the customers and their choice, so that effective marketing strategies can be made to influence those customers.

As we can see, price drop and pricing strategy has been one of the crucial circumstances. Hence, this research will provide more information for the Smartphone industry, which might be helpful in making future marketing strategy. Similarly, the research can be a foundation for those who are willing to conduct the same kind of survey in the future.

### 3 Research methodology

The initial step was to confirm the right place for sampling; any mistake done at this phase can lead to waste of time and the research ambiguous. While taking a sample from the large portion of the population, it is very necessary to have a clear idea, how the sample will be drawn and make sure whether there are enough resources to meet those populations or not. Therefore, concerning the fact and with the purpose to diminish the chance of biasness, we narrowed down the population and decided to take a sample from Laurea University of Applied Science, Otaniemi, Espoo with the students studying Business Degree Program in English. Quantitative method was used as tool to carry out the entire empirical study. We designed a set of mixed question like Yes/No, multiple choice question and Likert scale for the purpose of extracting required information from the respondent.

Below is the Flow-chart which describes the process of the whole thesis.



Fig. 2. Research process (Malhotra et al. 2012)

#### 4 Smartphone

A Smartphone is a mobile phone, which is built based on an operating system with more advanced computing capability than a feature phone. It is not just an ordinary phone or a cellular device, which can make or receive phone calls, text messages and basic phone functions but possesses extra features and capabilities such as; true web browsing, powerful email management, platform for many other digital applications, digital camera, video Recording, wireless connection capabilities, wireless file transfer, equipped with sensors like accelerometers, gyroscopes used for auto detection of motion gestures, GPS, on screen keyboards and so on. (NUIT 2011)

The phone history dates back to the year when Alexander Graham bell invented the telephone and made a first call in 1878 A.D. Later on, Motorola introduced the first cell phone and made available to the general public. Compared to these days, the cell phone used to be more expensive and weighty. The first Smartphone was developed by IBM and Bellsouth “Simon”, and were released to the public in the year 1993 A.D; Simon had a touch screen and was capable of accessing email and sending fax. (Reed 2010)

Microsoft had made a second attempt by introducing their mobile phone called “The communicator”. It is the first Smartphone that was built based on operating system. The price of this phone was very high that it was not affordable for the general public having modest salary to buy the phone. After this The Handspring introduced the Palm OS Treo in 2003 A.D, which also featured the function like web browsing, email and contact organizer. Additionally, this phone also familiarized the idea of using third party application. After a year the company Research in Motion launched the original blackberry, which took a wider market. This was the Smartphone that was optimized for the wireless email use. Hence, it was very reliable for those who want to take their offices wherever they go, furthermore, this phone established the trend for the rest of the Smartphones. In 2007, the revolutionary device was presented by Apple incorporation called iPhone. (Reed 2010)

#### 5 Consumer behavior

Consumer behavior is the study of individual, group or organizations and the process they practice to select, secure, use and dispose of the product, service experience, or idea to satisfy needs and the impact that these processes have on the consumer and society (Hawkins et al. 2007)



In other word, Consumer behavior refers to all those activities related to consumer either physical activities like pattern of purchasing, usages of product, disposal of good and services or other emotion, or mental behaviors that is attached to those physical activities. We are living in the world; consist of more than 7 billion people. As a matter of fact that most of businesses are willing to reach this whole population because many markets are opening up as a globe. This circumstance not just only opens up the market, but also leads to the cutthroat competition. Therefore, understanding the consumer has been enormously important in this phenomenon.

### 5.1 Factor affecting consumer behavior

Cultural	Social	Personal	Psychological	Buyer
Culture	Reference Group	Age & life Cycle stage	Motivation	
Subculture	Family	Occupational Economic circumstance	Perception	
Social Class	Roles & Status	Lifestyle Personal & Self Concept	Learning Beliefs & Attitudes	

Source: Philip Kotler

Fig. 3. Factor affecting consumer behavior (Kotler et al. 2008)

#### 5.1.1 Cultural Factor

##### Culture

Culture is a set of basic values, perception, wants and behavior learned by an individual from the family, society or important institution. The world consists of diverse culture, which differ the lifestyle, perception and attitude of people from one place to another. It is very important for the marketers to understand the existing culture and the emerging culture, which will feed marketers with the information on consumer behavior and underlying factors, which can motivate them. For instant, the consciousness of people towards the fitness has created potential markets for the product like organic and other healthier foods. Similarly, westernization has also made many cultural shifts. It has crafted a common behavior among the young

generation, which has allowed for marketers to implement a single marketing program that may work all over the world. (Kotler et al. 2012)

McDonald's is one of the great examples of the businesses that have been able to understand different cultures and targeted its product as per the tastes, demands of that particular culture. The MCBauette in France (with French baguette and Dijonmu mustard), the Chicken Maharaja Mac and Grilled Chicken in India (with Indian spices) and the Mega Teriyaki Burger (with Teriyaki Sauce) or Gurakora (with macaroni gratin and croquettes) in Japan are some great examples. Similarly, ingredients used by McDonald's in Arab countries are certified halal. (Perreau 2013)

### **Subculture**

Many subcultures are found in each culture. Dictionary.reference.com has described subculture as a group having social, economic, ethnic, or other traits distinctive enough to distinguish it from others within the same culture or society. It includes: nationalities, racial groups or geographical regions. Sometimes the vast differences can be found even though they share the boundaries or living in a short distance. (Kotler et al. 2012)

### **Social class**

A society is formed with different social classes, which is determined by income levels, education, occupation, wealth and other variables. This class usually shows common behavior. Kotler et al defines social class as the society's relatively permanent and ordered division whose members share similar value, interest and behavior.

Usually, social class is ranked in three categories, Upper class, Middle class and Lower class. Each of these classes have different consumption pattern. Lower classes are more prices focused, whereas upper classes are more concerned on quality, innovation, social benefits and other elements. Similarly, they even do not go to the same store. Hence, Marketers often place their product targeting each class.

#### **5.1.2 Social factors**

A consumer behavior is also heavily influenced by the place, family, social roles and status.

## **Group and social networks**

People have some group circles with which they share common value, interest and behavior, which is called membership group. Kotler et al has mentioned some membership groups where an individual belongs and affects his/her behavior. A group of people with whom an individual has continuous interaction like friends, family, colleagues, they are called primary group. These groups have direct influence on each other. Similarly, a person also belongs to some other groups like religions, profession and trade unions known as secondary group. (Kotler et al 2009, P.227)

There are also some other groups, where a person does not belong, but wish to be a part of it. Such groups are called aspirational group. Whereas some other groups also exist like dissociative groups and disclaimant group in the society, where a person does not belong and whose norms and values are rejected or avoided by the individual. (Kotler et al. 2009, 227)

## **Family**

An individual learns and develops his/her attitude, opinions, perception and habits from the family. Family has direct influences on behavior of each individual. We still repeat some of the consumption pattern and brands that we had learned from our family. For instant, we usually do not use some of the product like cigarette, Alcohol, which our parents have explained us as a bad product. (Perreau 2013)

Similarly, family is the imperative consumer buying organization in the society. Each member of families like the husband, wife and children has different roles while buying products and services. For instant, women used to be more engaged in buying household stuff and men tends to do outside jobs in earlier days. Hence, marketers need to find out the roles of different members so that an effective marketing campaign can be made to influence them. (Kotler et al. 2012)

## **Role and Status**

A person might be engaged in a different group, where he/she has a different role. For instant, a person is a part of the family or part of several organization and club community where he/she has to perform different tasks. Each role has socially acceptable status that a person wants to maintain. Therefore, a person chooses a product that fits his/her status. (Kotler et al. 2012)

### 5.1.3 Personal factors

Personal factor refers to the way of perceiving the stimulus and reaction to the brands by an individual. Behavior and buying decision varies with the personal characteristics like warm-cold, dominant-subservient, introvert-extrovert, and competitive-cooperative and so on. If the marketers can find out which personalities profile customers are interested in buying the particular product then the same sorts of advertising campaign could be made to reach them. (David Jobber 2010)

#### **Age and life cycle**

Kotler et al (2012) states that taste and preference often changes according to the cycle of life. Preferences of some of the products like food, clothes, recreation often changes with age and life cycle. For instant, teenagers are more interested in buying colorful clothes whereas middle aged and elderly ages are usually interested in decent design clothes. Similarly, a bachelor is likely to spend more money in beers, party and bike, whereas an individual with family is more interested in buying something that will benefit his/her family. Many marketers segment their market place, according to age and life cycle.

#### **Personality and Self-concept**

Each person holds different personal characteristic that influence his/her buying behavior. Personality is often described in terms of self-confidence, dominance, autonomy, deference, sociability, defensiveness and adaptability. A person's personality can also affect preference of the brand (Kotler et al. 2012). Similarly, brands also has some kinds of personalities for instant, Marlboro's 'rugged American cowboy' personality has made the brand so popular that it became an international icon even in the country where cowboy never existed (white n.d).

Consumers tend to choose the brands that match with their own personality. However, in some cases consumer's ideal self-concept (How he/she likes to view him/herself) or others' self-concept (how he/she wants to be seen) can also affect in choosing the brand that match with them. (Kotler et al.2012)

#### **Lifestyle, Occupation and Economic situation**

A personal lifestyle is determined by various variables like culture, occupation, economic situation and so on and all these variables affect the behavior of an individual. For an instant, a

consumer purchases of BMW car not only for the transportation purpose, but also because of some other factor (luxury, reputation) that influence him/her to buy that car.

Likewise, Occupation of the individual also affects the buying behavior. A person working as executive buy more business suits rather than a blue-collar worker. Similarly, college students usually wear casual dress as compared to professional who prefer to wear formal dress. The economic situation also affects the buying behavior, blue-collar workers cannot afford to wear a premium business suits and tie everyday to work. (Management Study Guide expert's N.D)

#### 5.1.4 Psychological factors

The buying behavior of an individual is also determined by the psychological factors like motivation, perception, learning, and beliefs and attitude.

##### **Motivation**

Needs arise in different period of time. Some of them are biological that arises from the state of tension like; hunger, thirst. Besides, others are psychological which arises from the needs of recognition, esteem or belonging.

Many psychologists have drawn theories of human motivation. The two most popular theories are from Sigmund Freud and Abraham Maslow. According to Sigmund Freud, people are largely unconscious about the psychological forces that shape their behavior. Therefore, the buying process is also affected by the subconscious motives that buyers may not fully understand, (Kotler et al, 2012, P.171) whereas Abraham Maslow has explained why people are driven to a particular need at a particular time. He arranged the four types of needs; psychological need, safety needs social needs, esteem needs and self-actualization needs in the hierarchy that is shown in the figure below.

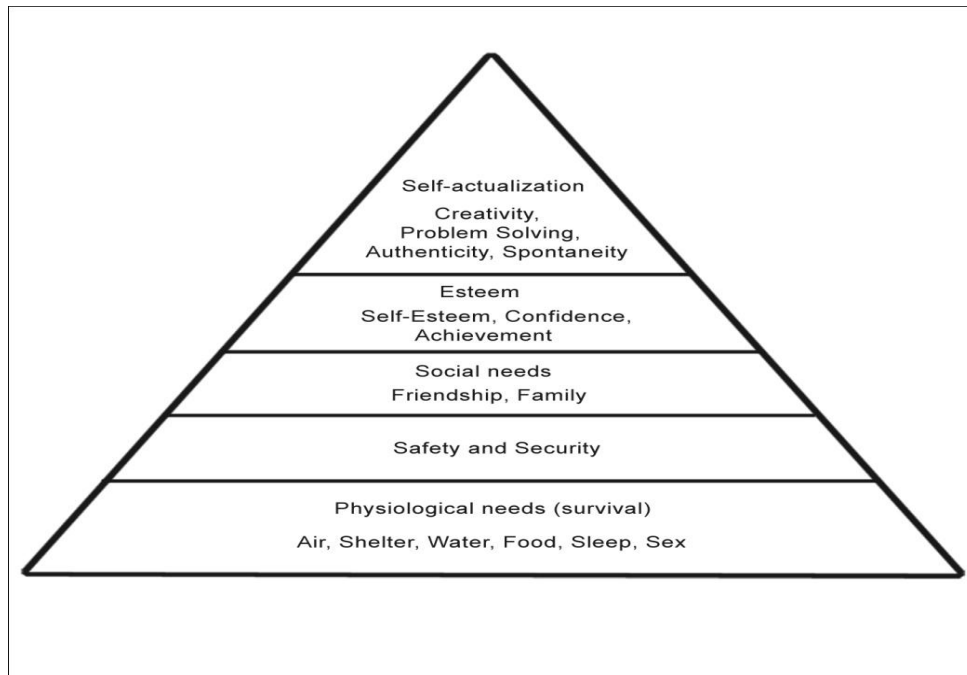


Fig. 4. Maslow hierarchy of needs (Kotler et al. 2012, 171)

This model explains that a person first try to fulfill the most important need like basic life needs; foods, shelter, clothing and so on. When the first needs are fulfilled, then it shifts to other needs like safety needs, social needs, esteem needs and self-actualization in chronological order. (Kotler et al. 2012, 171)

### Perception

Perception refers to the process by which people select, organize and interpret information about a particular situation. Individuals have their own ways of perception that can be different with others regarding the same things, which is caused by the experience, belief and characteristics of an individual. (Kotler et al. 2012, 172)

A person mind encounter many sensory stimuli every day, which is hard to remember hence, their focus, is only on them which are important and meaningful. The perceptual process of an individual is organized in three process; selective attention, selective distortion, and selective retention. (Kotler et al. 2008)

- **Selective attention:** The tendency for the people to screen out the most of the information to which they exposed.
- **Selective distortion:** The tendency of the people to adopt information to personal meaning.

- **Selective retention:** The tendency of the people to retain only that part of information to which they are exposed, usually that supports their attitude and beliefs.

## **Learning**

Learning refers to the change in consumer behavior from own experience. Sometime it can also be directed by the word of mouth; a person may take suggestions from friends before buying any products. There are also some other cues (a stimulus that can drive when, where and how the person respond) like a person may see a product in window shop or hear of some special sales that can drive him/her to buy the product.

Learning theory states, most of the behaviors are learned. An individual may learn from the interplay of drives, stimuli, cues, response and reinforcement. Similarly, an individual also learn from his/her own experience, if that is rewarding then he/she will develop belief. (Kotler et al. 2012, 173)

## **Belief and Attitudes**

As discussed above, experience drive peoples to develop belief and attitude. Belief is described as a descriptive thought a person holds on to something. Marketers are often interested in how people acquire belief about some special product, because this belief on a product or brand image can affect buying behavior. Similarly, people acquire a different attitude on something. Attitude is the way that people think and act on something. Whatever the person is directed by the attitude and this phenomenon is unchangeable. The marketers should consider this fact and try to fit the product in existing attitude rather than attempting to change it. (Kotler et al. 2012)

## 5.2 Consumer Decision making process

### Kotler's Buyer Decision Process

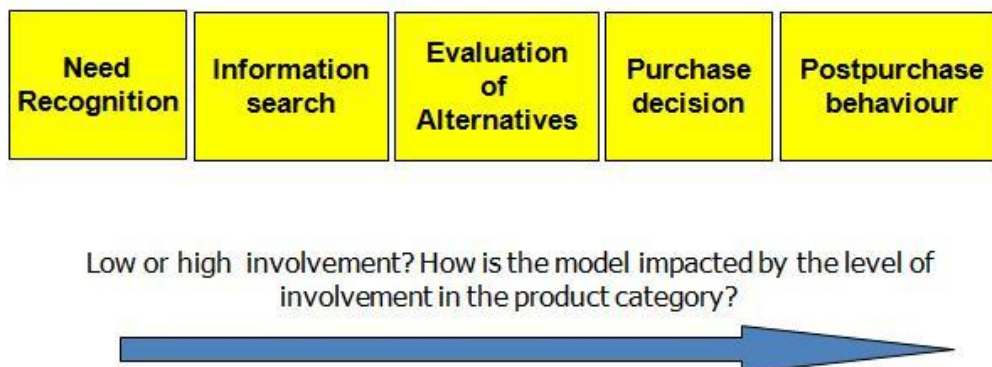


Fig. 5. Buying decision process (Kotler et al. 2012)

#### 5.2.1 Need Recognition

A person needs take place in different period of time. Some of the needs are daily routine (For instant food, fuel), unpredictably (broken fridge, computer) or status need (cosmetic products). Need recognition is the first step of the consumer to the consumption journey.

Human needs are never satisfied, if one is satisfied, then other arises, but the needs are transformed in the buying process after considering various circumstances. Sometime there also occurs the conflict in needs, which requires trade off. (Kotler et al. 2012)

#### 5.2.2 Information search

Once need has been identified the consumer starts to search the information. If the product is near the hand and satisfies his need, then the buying process occurs, if not, then consumer starts to search other alternatives. Kotler et al 2012 also mentioned that, the common ways consumer receives the information through are, the commercial source (advertising, sales person, packaging, display, website), personal source (family, friends, neighbors, acquaintances), public source (mass media, consumer rating organization, internet search) and experiential source (handling, examining and using the product). Commonly, consumer obtains most of the information through the commercial source so the marketer has great control in influencing the customer to buy the product. (Kotler et al. 2012)



### 5.2.3 Evaluation of the Alternatives

The consumer arrives at the final choice after evaluating several factors. It is difficult to find out the evaluation process of the consumer because the consumer does not evaluate with the single process but it includes several other stimuli. Similarly, the evaluation process one each individual differs from others; some people use careful calculation and logical thinking, whereas, others just do little evaluation or no evaluation or just buy in impulse of relying on intuition. The buyers also use other sources like consulting with friends or online review for the evaluation. (Kotler et al. 2012)

Buyers might use several evaluation processes, but their choice is determined by one important factor; for instant, if a buyer wants to buy a car, then he will probably look for the car that looks stylish.

### 5.2.4 Purchase decision

Once an evaluation has been done, the buyer makes an intention to buy the product. But every buying intention does not lead to the purchase of the product. Attitude of others and the unexpected situation are other factors than can often change the buying intention. If someone close to the buyer suggests buying the cheapest car, then the buyers buying decision to buy the expensive car can be changed. Similarly, situations like economic crisis, price drop by the competitors can also change the decision of buyers. (Kotler et al. 2012)

### 5.2.5 Post Purchase Behavior

It is very essential to follow up the consumer even though after they buy the product. The marketer should contact with the customer and take the feedback from the consumer. It will enhance the relationship between the buyer and seller. (Kotler et al. 2012)

The concept of relationship marketing has been amplifying; retailers are more concern on satisfying the existing customer. Relationship marketing refers to the maintaining and enhancing the relation with the customers. In cooperative relationship, trust among each other can have more potential to use each other's resources. They share more information about the needs and details, which will in the future improve the quality of mutual supports. (East et al. 2008)

### 5.3 Types of customer buying behavior

The customer buying behavior is different as per the situation or product. Some buying process occurred are habitual and some are complex: involves information collection or consultation.

	High Involvement	Low Involvement
Significant differences between brands	Complex Buying Behavior	Variety Seeking Behavior
Few differences between brands	Dissonance Reducing Buying Behavior	Habitual Buying Behavior

Fig. 6. Consumer buying behavior (Kotler et al. 2012)

#### 5.3.1 Complex buying behavior

Complex buying occurs to the products, which are risky, expensive and occasionally purchase goods for instant, purchase of a Smartphone, car or computer. Usually, consumers have different brand available with different features, and they try to find more information about the product before making any purchasing decision to avoid cost and get more benefit. Generally, the complex buying process goes through searching the product, developing belief, attitudes and final purchase. Hence, the marketer has to give more information to the consumer about the product and how the product is different and has superior benefits compared to the competitors. (Kotler et al. 2012)

This type of consumer buying model has always critics, Olshavsky and Granbois (1979) noted, "For many purchase, a decision never occurs, not even in the first time purchase, even when the behavior is preceded by a choice process, it is likely to be very limited, it is typically involves the evaluation of new alternatives, little external search, few evaluation criteria, and simple evaluation process models." (Kotler et al. 2012)

### 5.3.2 Dissonance-reducing behavior

It indicates those buying process where the product is risky, infrequent or expensive, but it is hard to figure out the difference between the different brands. Hence, there is the possibility of making either good or the bad product. If the product is bad and does not satisfy his/her need, then they will not buy the same product anymore or any other product from that brand. Therefore, the marketers should communicate with the consumer to make them feel happy about the product and keep them satisfied. (Kotler et al. 2012)

### 5.3.3 Habitual buying behavior

Habitual buying processes pass off with the products having low consumer involvement and little differences in brands. The consumer does not go through searching the information and compare the alternative brand but they purchase the brand that is familiar to them and continue the same behavior for the long period. East et al (2008) explained the habit of purchase as a process of producing a same behavior on encountering a particular behavior. Every product has some stimuli, which causes the consumer to repeat same behavior time to time; in the supermarket product the main stimuli could be a color, Shape of the package and many more.

### 5.3.4 Variety-seeking buying behavior

Some consumers tend to have a value-seeking buying behavior. Means that, they pick one product from the market, evaluate it and next time while purchasing they pick another product from the same production line. This shift from one product to another cannot be considered as dis-satisfaction, but they are likely to seek variety.

In such case, the strategy of marketers is often different as per their size. Giants firms are usually focused on dominating shelf space, keeping shelves stocked and massive advertisement. In contrast, small firms are concerned about giving special offers, free sample and advertisement support with the reason for trying new products. (Kotler et al. 2012)

## 6 Consumer satisfaction process

Businesses are nowadays being more customers driven. The top most priority for all the businesses is the customer satisfaction. Customers are demanding the improvement on quality, cost, delivery and new innovation. Below the figure 1.1 shows the top priority as the customer satisfaction and other related element that affect the customer satisfaction process. (Colin Drury 2000)

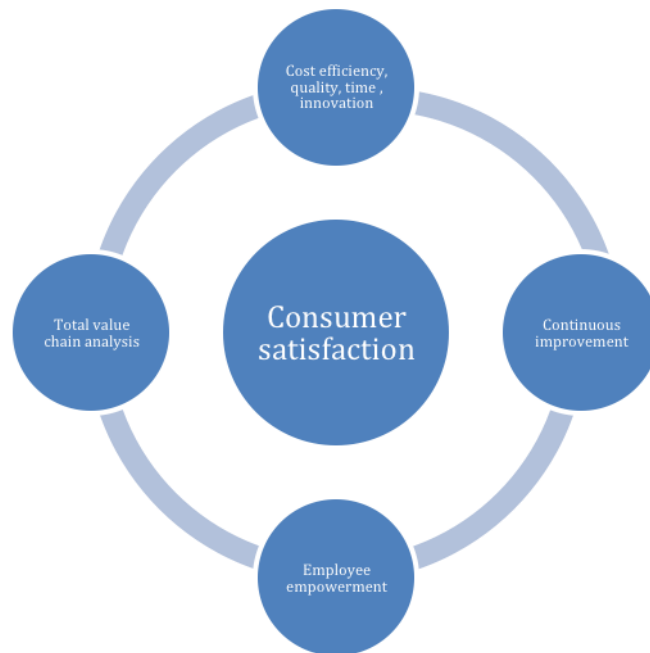


Fig. 7. Consumer satisfying process (Colin drury 2000)

Most of the consumers are always willing to buy a product, which is cheap in price, but serving the top level of benefits. Keeping the lower cost can provide the competitive advantages, but sometimes, poor decision can be made due to lack of accurate cost information. Hence the businesses should focus on the improvement of their cost system so that the accurate information can be obtained which will help to determine their product cost, profit, sales outlet, customer and market. (Colin Drury 2000)

A customer might be willing to buy a cheap product, but quality is the most important key factor, which forces companies to be focused more on TQM management (Total Quality Management). The main objective of TQM is to provide the top level of customer satisfaction. It does not end at the point, but the continuous improvement of all the functions of the business as per the customers demand and the latest trends. Most companies used to take quality as the additional cost of manufacturing, but later then they realize that it is cheaper to manufacture the item correctly at the first time rather than spending the money and time to re-

standard the item that are fault detected, scrapped or returned by the customers. (Colin Drury 2000)

Unavailability of product in the market can all lead a customer to go another option, which is available in the market. Hence, the organization should ensuring 100% time delivery and quick response to the request of the customers. Many companies are starting to place more emphasize on time-based measures and product cycle time as the main focus. The cycle time refers to the time of the start of the product to the completion of a product or services. It consists the processing time, movement time, waiting time and inspection time. Waiting time is the amount of time the product sits around for processing, moving, inspecting, reworking or the amount of time; it spends in finished goods stock waiting to be sold and dispatched. Only in the processing time the value could be added and others are non-value added activities. Hence, the organization should be more focus on reducing the time spent on each these activities. Moreover, being later in the market than competitors can have a dramatic effect on product profitability. To be a leader in the market, company must develop new products, services or new features in it. Therefore, companies have now started to focus on performance measurement on flexibility and innovation into their management accounting system. (Colin Drury 2000)

It has been mentioned above about the way to establish the standard operating procedure and better output. Many companies have lost the market due to the constant product offering. A company must have a continuous improvement in the product to compete successfully. Benchmarking is also another technique that is being more popularized these days. It is the process of comparing the firm's product and services to the best performing competitors. The main objective of benchmarking is, it will provide the information, which could help the firm to make future strategy and add some improvement on their product. (Colin Drury 2000)

In a book the "The innovators dilemma", Harvard business school professor Clayton Christians popularized the term "disruptive innovation", refers the innovation of new product which creates a new market and value to the customers. It does not only create the value, but also eventually disrupt the existing value, market and technology. (Colin Drury 2000)

## 7 Price and consumer perception of price and value

Price may be defined as the value of product attributes expressed in monetary terms which a consumer pays or is expected to pay in exchange and anticipation of the expected or offered utility. (Ramachandra et al 2010)

Price also has a strategic element, since price is commonly how products become positioned against other products in the market: undercutting competitors on price is a common way of competing. Price is the only area where marketers can directly improve the profits of the firm. (Blythe 2006)

It is the only element in the marketing mix that produces revenue; all other elements represent costs. (Kotler et al. 2012) Even a small percentage of increase in the price can generate a very large increase in profits. Companies often face big challenges when pricing the product in the market because price plays a key role in the creation of customer value and building customer relationships. Moreover, Price also conveys messages about the quality of the product.

Pricing is often regarded as the least exciting element of the marketing mix. However, it is the only element that directly relates to income, and it is also an element, which crosses over dramatically to the other elements. Promotional campaigns frequently carry messages about price; sales promotions are often based on price reductions and discounts. Pricing is the function of determining product value in monetary terms by the marketing management of a company before it is offered to the target customers for sale. The managerial tasks involved in product pricing include establishing the pricing objectives, identifying the price governing factors, ascertaining their relevance and relative importance, determining product values in monetary terms and formulation of pricing policies and strategies. (Ramachandra et al 2010)

A company must consider consumer perceptions of price and value when setting prices. The consumer perceptions of price and value can affect consumer-buying decisions. In consumer oriented pricing method a company must try to understand what value consumers place on the benefits they receive from the product and set a price consistent with this value to make the price more effective and acceptable. The consumers evaluate the product price based on the values like status, satisfaction and so on, which are difficult to measure, but the company must analyze the consumer's value and set price according to consumer perceptions of price and product's value (Ramachandra et al 2010).

## **Product Life cycle marketing and pricing strategies**

### **Introduction**

In the Introduction stage of the product life cycle, a product or a service is launched to the market. This stage is heavily associated with focusing on intense marketing effort in order to establish a strong influential identity for the maximum promotion of the product awareness. There is slow growth in the sales of product and in this stage profits are negative or do not

exist because companies have heavy expense on marketing expenditure. Consumers are testing the product in this phase. (Kotler et al. 2006)

### **Growth**

When a product is introduced in the market and if the new product satisfies the market then, consumers become more interested in it. So product enters into growth stage of product life cycle. In this stage sales are increasing with increasing profits as well. New competitors are also entering the market that increases competition. So, during this growth stage, companies still keep spending on marketing and promotion of product at high level. In this stage, New and effective pricing strategies (like reducing slight changes in original price) may be introduced in order to maintain increasing sales, attract more buyers and maintain lead in the competition as well. Since there is large demand in the market so, large volume production takes place that also decreases unit-manufacturing costs. (Kotler et al. 2006)

### **Maturity**

After growth stage of product life cycle, at some point the product enters into the maturity stage where the sales growth slows down. It is the period where the market reaches its saturation. Some producers at a later stage of the maturity stage of the product life cycle begin to leave the market due to poor profit margins. There is intense competition in the market from many different producers as a result Price wars and intense competition are common. Sales dynamics is beginning to decrease. Sales volume reaches a steady state supported by loyal customers. Producers attempt to modify their marketing mix in order to find new users and new market segments for its brands. Companies try to improve or accelerate further sales by cutting price to attract new users and competitor's customers. Furthermore, companies try to use better advertising campaigns or aggressive sales promotions like trade deals, premiums and so on in the maturity stage of product life cycle. (Kotler et al. 2006)

### **Decline stage**

Decline stage is one of the product life cycles. At this stage continuous decline in sales starts to take place. Sales of the product start to decline slowly or rapidly because of number of reasons like technological advances, intense competition and change in consumer tastes and so on. Many Competitors exist in the market and starts to takeover over market share. There is intense price-cutting and many more products are withdrawn from the market. Profits can be improved by reducing marketing and cutting other costs. (Kotler et al. 2006)

## 8 Price Changes/Price cut

Companies often face a situation in a market where they must initiate price changes or respond to price changes by the customer in order to be competitive in the market.

Many companies find themselves in a situation where they need to cut prices of products. Excess plant capacity, strong price competition, weakened economy, declining market share are some of the circumstances because of which the company needs to initiate price cut in the offered product.

In some situation, the company may aggressively cut prices to accelerate sales and market share in order to dominate the market through lower costs than its competitors or cuts prices in the hope of gaining market share that will further cut costs through larger volume. For example, Lenovo is one of the leading companies in the PC market, which uses an aggressively low-cost and low pricing strategy to increase its share in the PC market.

However, cutting prices to retain customers or to beat competitors can encourage customers to demand price concession and also can lead to price wars as competitors try to hold onto market share. The Price cutting strategy might also lead to other disadvantages as follows:

- Low quality trap: consumers might assume price cut is a result of the low quality of the product.
- Fragile market-share trap: Setting low price or initiating a price cut can help companies to gain market share but it does not guarantee market loyalty. Same Customers may shift to any lower priced brand in the future.
- Shall-pockets trap: Higher priced competitor can match the lower price and possess longer staying power because they have deeper cash reserves. As a result it is sometimes very difficult for a firm to survive in the market.
- Price war trap: All of the competitors can respond by initiating aggressive price cuts, which can trigger price war in the market.

## 9 Buyer's reactions to price changes

Customers do not always interpret price changes in a straightforward way. In some cases, buyers accept even the price increase in a positive way. For example, if a high value brand



increases price of a product, on the one hand, the buyer might think it as the product being more exclusive or of good value and high quality. On the other hand, a buyer might take it as the company charging an unnecessarily high price in order to increase the profit margin.

Similarly, Consumers interpret price cut with a different view in several ways. For instance, if Rolex a highly luxurious brand initiates a price cut in its watch, some consumers take it as better deal on an exclusive product, whereas some customers might think that the quality had been reduced and as a result of it, the brand's luxury image might be tarnished.

Since brand's price and reputation are often closely linked, a price change can always effect on brand image. In the scenario of price drop, it can have adverse effects on brand image by bringing a change in the consumer's perception regarding the brand reputation.

## 10 Responding to price changes

Companies must anticipate competitor price changes and prepare contingent responses. In general, the best response to competitors' changes varies with the situation. The company must consider the product's stage in the life cycle, its importance in the company's portfolio, the competitor's intentions and resources, the market's price and quality, sensitivity, the behavior of costs with volume, and the company's alternative opportunities. (Kotler et al. 2009, 604)

Market leaders often face fierce competition from smaller firms because of their aggressive price cutting strategies. Smaller firms try to build or gain huge market share with low cost products. For example, using price, Fuji has attacked Kodak, Shick has attacked Gillette and AMD has attacked Intel. Most of the brand leaders respond in many ways. Companies that face a competitor's price change must try to understand the competitor's intent and the likely duration of the change. (Kotler et al. 2006, 460)

Below is the figure describing the accessing and responding to competitor price changes.

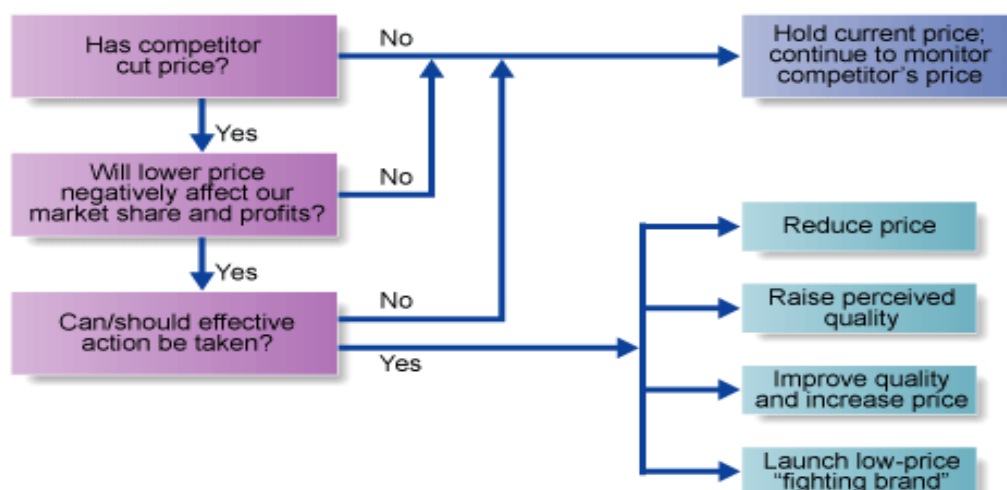


Fig. 8. Accessing and responding to competitor price change. (Kotler et al. 2009)

## 11 Sales promotion & promotional pricing

Sales Promotion is a key ingredient in marketing which are the activities carried out by a firm for promotional purpose of the product in order to stimulate product sales and consumer purchasing. Sales promotion is one of the marketing mixes which offer a group of incentive tools such as samples, coupons, cash refund offers, price off, premiums, prizes, free trials, warranties, cross-promotions, point of purchase displays and demonstrations and so on. It usually lasts for a short duration to stimulate greater and speedier purchase of a certain brand or service by consumers or dealers. (Kotler et al. 2006)

Price promotions are an obvious form of sales promotion, but are risky because they inevitably reduce profit margins on the one hand. Companies temporarily price their products below list price and sometimes even below cost to create buying excitement and urgency. Companies might offer discount, from normal prices to increase sales and reduce inventories and most companies frequently use special even price promotion during holiday seasons to draw more customer attention. (Kotler et al. 2009)

### 11.1 Strengths and weakness of sales promotion

According to sherelekar et al (2010), sales promotion is a bridge which covers the gap between advertising and personal salesmanship. It helps in accelerating the sale of the product of the company in a short period. However, there are some strengths and weakness of it that is shown in the following table.

Strengths of Sales Promotion	Weakness of Sales Promotion
It stimulates positive attitude toward the product	It is temporary and has a short life.
It gives extra incentive to the consumer to make purchases	Too many sales promotions may affect negatively on brand image. For example sale promotion may be taken as lack of popularity of the product or overstocking of the product
It persuades consumer to take immediate action now rather than later	Sales promotions are only supplementary devices to supplement selling efforts.
It has flexibility and can be used in any stage of a new product introduction.	Sales promotion programs are ineffective when established brands have a declining market.

(Shrelekar et al. 2010, 210)

## 11.2 Effects of price Promotion on brand image

Promotional tools in marketing are widely accepted and used as an effective sales tool of the company. In a competitive market, the companies of similar product category face several challenges from the competitor. Most of the brands are found using promotions more frequently because of which, consumers are more price oriented and the trade has started demanding more deals from manufacturers. (Kotler et al. 2006)

According to Kotler et al (2006), there is also evidence that price promotions do not build permanent total-category volume. One study of more than 1000 promotions concluded that only 16% had paid off.

Small-share competitor often uses Price promotion as an effective promotional strategy because they cannot afford to match market leaders' large advertising budget and are unable to obtain shelf space without offering trade allowances. Furthermore, Small-share competitors try to stimulate the sale of their product by offering incentives in order to enlarge its market share. Even though price promotion seems more advantageous to small-share competitors, it is less effective for a category leader who have high market share and whose growth lies in expanding the entire category. (Kotler et al. 2006)

"Price promotions are the brand equivalent of heroin: easy to get into but hard to get out of. Once the brand and its customers are addicted to the short-term high of a price cut, it is hard

to wean them away to real brand building... But continue and the brand dies by 1000 cuts” (Kotler et al. 2009)

When promotional pricing strategy is used too often it can create “deal-prone” customers who wait until brands go on sale before buying them. Additionally, constantly reduced prices can erode a brand’s value in the eyes of the customer. In difficult economic times, most companies use price promotions as a quick fix instead of sweating through the difficult process of developing effective long-term strategies for building brands. Thus, they might fall addicted to price promotion (Kotler et al. 2009).

Several research and studies has been conducted on the possible positive and negative consequences of sales promotion for a brand. Montaner and Pina (2008) studied with the effect of promotion type and benefit congruency on brand image and found that monetary sales promotion can have a negative effect on brand image because, it can reduce the expected price and reduce the image of promoted brand.

## 12 Consumer behavior survey

### Research methods

A quantitative method was applied for the survey in the form of questionnaire. The survey was conducted among the students who are studying Bachelor in Business Management in English Degree Program at Laurea University of Applied Sciences, Otaniemi Unit. The participants were asked a set of questionnaire. The questionnaire was created using an online survey website ([www.fluidsurveys.com](http://www.fluidsurveys.com)). It contained 21 questions in order to gather relevant information about their purchasing history, buying habits, brand loyalty and price preferences.

The questionnaire was distributed 120 students through social media. Some of the questionnaires were filled through reaching the students personally in the school premises. In total 37 people participated in the survey. Out of them 27 were male and 9 were female, whereas a respondent did not mentioned gender. Participants were from the age group of 18-24 and 25-34 except 1 person who did not mentioned age group. Most of them own smartphone but one did not own it but is willing to buy in future.

## Data analysis

Primary Data collection method was used in the survey. For the analysis of the required information gathered through the questionnaire, IBM SPSS statistics was used. It was easy to interpret the data for the further analysis with the use of SPSS. All the graphs and Pie charts were created by MS-Excel.

## Findings

### Smartphone ownership

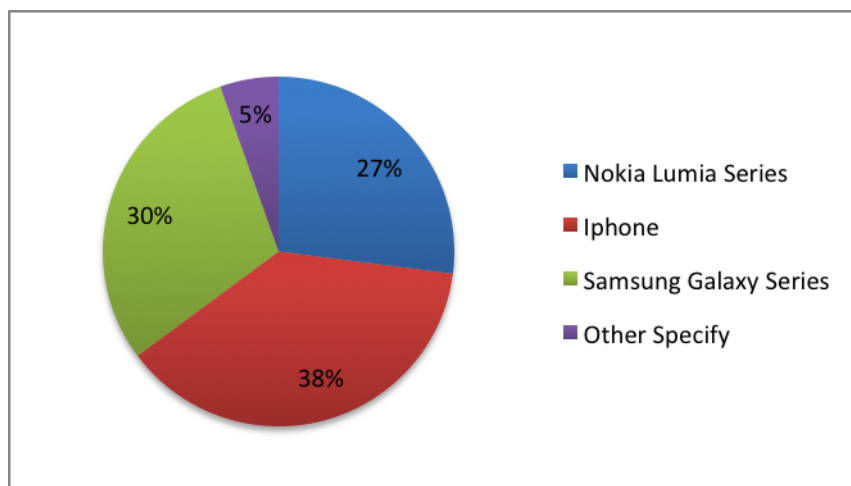


Fig. 9. Brand Owned

From the data it can be seen that respondents are more enthusiasts on high end Smartphones. The new emerging budgeted smartphone manufacturers like Lenovo, Huawei has held third and fourth position respectively in Smartphone shipment worldwide in 2013 but none of the respondents from our segment has mentioned any of these brands. iPhone is the most popular and highest paid brand among our respondents. There are few other brands (Motorola and ZTE) for which people have paid below 199€. Below table gives clear picture how much respondents had paid for their particular brands.

	Price paid						Total
	Below 199	200-299	300-399	400-499	500-599	600-699	
Lumia Series	0	2	4	1	3	0	10
IPhone Series	0	0	2	2	2	8	14
Galaxy Series	1	0	2	1	3	4	11
Others	2	0	0	0	0	0	2
Total	3	2	8	4	8	12	37

Price paid

### Early adopters of Smartphone

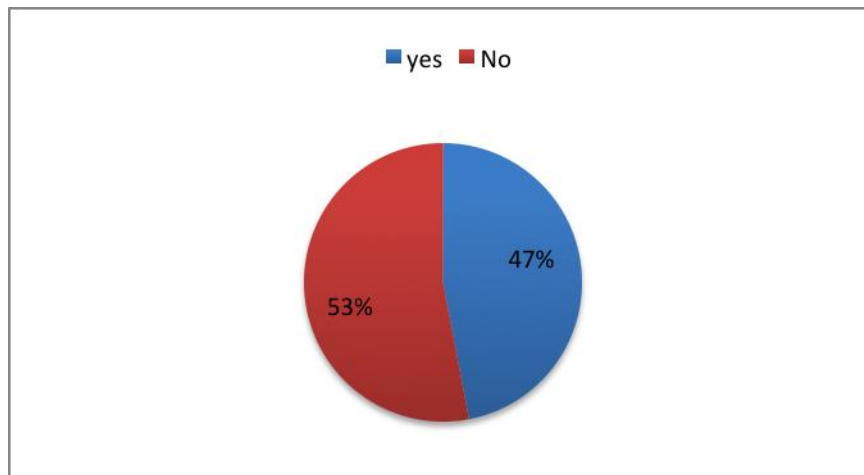


Fig. 10. Smartphone adaptation

It can be seen from the figure that respondents who purchase smartphone at introductory phase and those purchasing lately do not have huge differences. Out of total respondents, 53% mentioned, they are an early adopter of smartphone. It means that these respondents are more likely to pay high price if the product is persuasive to them. Sales promotions and price promotions do not influence these people to buy products because they are not price sensitive.

### Smartphone upgrading period

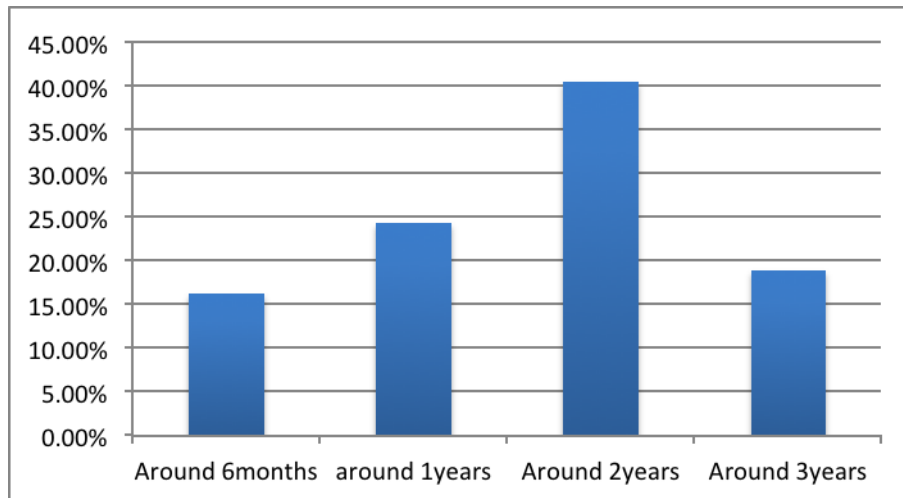


Fig. 11. Smartphone upgrading period

The chart depicts that majority of the respondents upgrade their phone around 2years, which is 41% from the total respondents. Secondly, around 24% mentioned that they upgrade their phone in 1year, 19% mentioned 3years and 16% mentioned 6months. From the survey, it is clear that in a period of 2 year, a smartphone product can reach the decline stage of product life cycle since most of the participants seem to be changing their smartphone at this time period. Additionally, a period of 6-12 month in the smartphone market can be understood as a maturity stage of the product life cycle since most of the scenarios of price drop and price promotion are seen at this period because of intense market competition from the competitors in the market in the smartphone product life cycle.

### Recommendation to third party

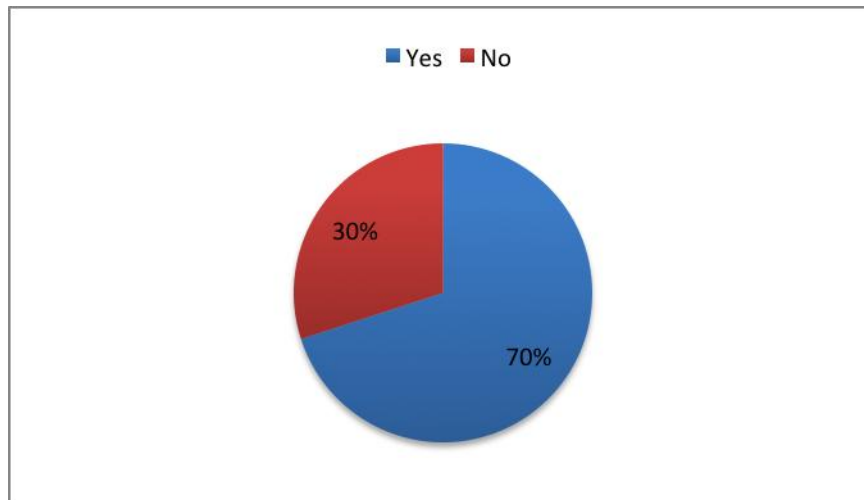


Fig. 12. Suggestion to third party

As can be seen in above figure, 70% of the respondents stated that they recommend the particular brand for the third party, whereas 30% mentioned that they do not recommend it to anyone. The survey shows that the satisfaction level and the recommendation to third party are correlated to each other. Most of the respondents who are satisfied with the brand are recommending it to other person and those who are not satisfied are not recommending it. Below table gives clear idea about the relationship between these two conditions.

		Recommendation		Total
		Yes	No	
Price satisfaction	Yes	22	5	27
	No	3	7	10
Total		25	12	37

Price satisfaction \* Recommendation Cross tabulation



### Factor they consider while buying smartphone

Respondents were asked what factors they consider most important while buying the Smartphone. They were questioned to rate in the scale how much priority they gives to different variables while making purchasing decision. The main purpose of the question was to study which factors drives respondent to choose particular Smartphone.

#### Price preference

Price	Number of respondent	Percentage
Strongly agree	7	20%
Agree	15	40%
Neutral	6	16%
Disagree	4	10%
Strongly disagree	5	14%

#### Brand preference

Brand	Number of respondent	Percentage
Strongly agree	12	32%
Agree	9	24%
Neutral	9	24%
Disagree	5	15%
Strongly disagree	2	5%

### Features preference

Feature	Number of respondent	Percentage
Strongly agree	16	43%
Agree	6	16%
Neutral	7	19%
Disagree	5	14%
Strongly disagree	3	8%

### Design preference

Design	Number of respondent	Percentage
Strongly agree	1	3%
Agree	7	19%
Neutral	14	38%
Disagree	13	35%
Strongly disagree	2	5%

When respondents were asked, what are the factors they consider while buying the smartphones, majority of them have choose price as the most important factor (60%), while 59% has mentioned features, 56% has chosen brand and 22% has chosen design. Choice of the smartphone depends on the personality and self-concept of the individual. The survey has shown that most of the people who gives important to features choose Samsung Galaxy series, whereas people who choose iPhone appears to be more brand enthusiast.

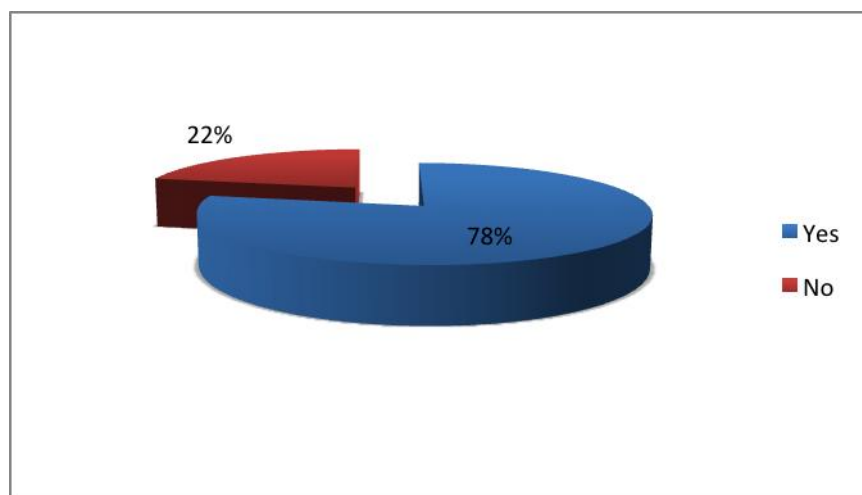
Secondly, they were asked what their preferences are if they have to choose between the price and brand.

		Choosing among variables		Total
		Brand	Price	
Brand they Own	Nokia Lumia Series	4	6	10
	IPhone Series	11	3	14
	Samsung Galaxy Series	2	9	11
	Others	0	2	2
Total		17	20	37

**Brand they Own \* Choosing among variables Cross tabulation**

The figure describes the choice between brand or price preference while buying a smartphone by the different brand smartphone user respondents respectively. This figure also reveals that, for the participants owning Apple iPhone, Brand is the major factor when making purchase decision and price is not of an interest for them. On the contrary, those participants who own Samsung, Nokia and other brands choose price as a major factor in purchasing decision if the product has similar variable. Therefore, from the figure it can be said that those participants who own the Apple brand Smartphone are more brand loyal and are brand conscious than other brand's smartphone user.

#### Concern about the price drop



**Fig. 13. Concerned about price drop**

Price drop seems to be major concern among the respondents. 78% of the respondents have stated that they are very concern about the price drop. However, only few respondents (22%)

had said that they are not concern about the price drop. Hence, it tells us that in this particular segment price cutting strategy can affect the brand image.

#### Reaction of price drop

Out of the total respondents 56% believes price drop in smartphone is a usual process. However, 33% of respondents are not happy because it happened in short interval of time. And rest of 8% never wants to buy same brand because due to this occurrence. And rest 3% has different reaction at the price drop that they did not mentioned.

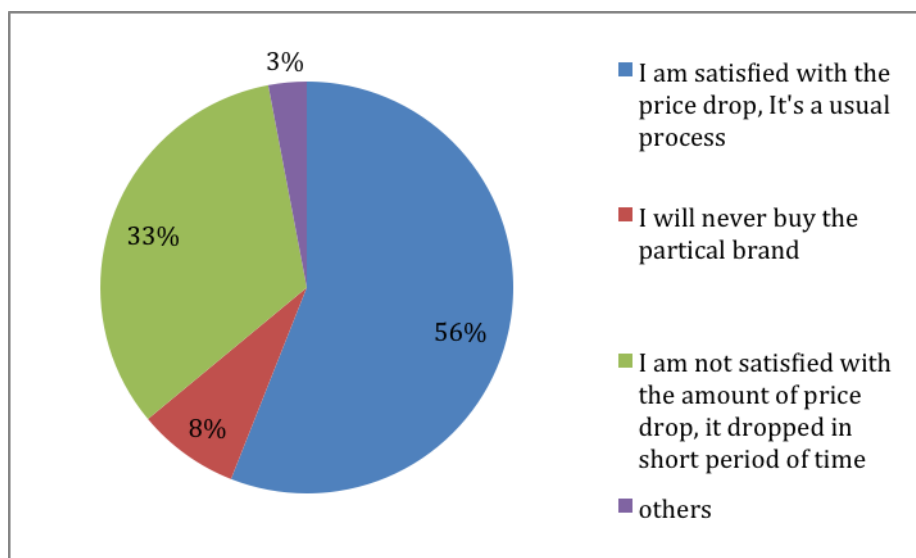


Fig. 14. Reaction after price drop

#### Perception about price discount

	Number of respondent	Percentage of respondent
Product is not selling well	13	35%
Better deal in exclusive product	23	62%
Others	1	3%

The survey result showed that majority of participants considered price promotion positively, 62% from the total respondent opted price drop as better deal in the exclusive product, which suggests that they might prefer to buy those smartphones because price drop will make it cheaper, affordable and a good deal. 35% of the respondents think price drop occurs if the product is not selling well in the market and rest 3% mentioned other reason.

#### Waiting for price drop in future

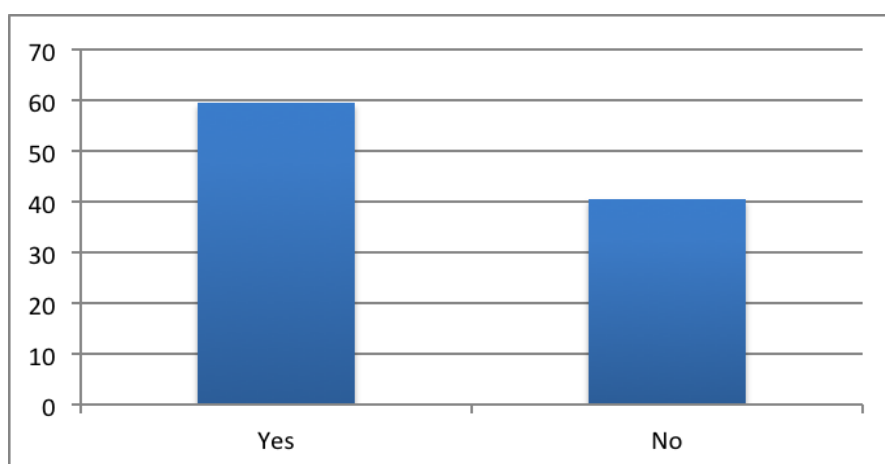


Fig. 15. Waiting for price drop in future

The survey shows that 59.5% respondents are willing to wait for price drop in future before purchasing a new smartphone. And 40.5% has mentioned that they don't wait for price drop for smartphone.

### Impact of price drop

		Switch the brand in next purchase		Total
		Yes	No	
Drop amount	Below 50	5	7	12
	50-100	5	5	10
	100-150	2	4	6
	150-200	1	3	4
	200-250	3	0	3
	Above 250	2	0	2
Total		18	19	37

#### Drop amount \* Switching the brand in next purchase cross tabulation

The figure shows the different amount of price drop cases experienced by the survey respondents and its effect on future brand preference while buying a new smartphone. In the survey 32 out of 37 participants have suffered price drop of below 150€ in their currently owned smartphone. 19 respondents mentioned that they would purchase the same brand smartphone in the future, which means that the amount of price drop has not affected in their brand loyalty whereas only 12 respondents have mentioned that they will buy other brand's smartphone because of dissatisfaction caused by the amount of dropped price. Those respondents who suffered price drop of more than 150€ answered that they will definitely switch to other brand smartphone in the future because they take the amount of the price drop as unfair and foul pricing.

### 13 Conclusion

The study has explored the behavior of various respondents who use different brands of Smartphone. It reveals several underlying factors that were hidden in consumer's mind. Most popular brands among the participants were, iPhone Series, Samsung Galaxy series, Nokia Lumia series and others (ZTE and Motorola). The key reason for success and failure of the product is related with the satisfaction on features, design, price worthiness and brand value.

Respondents have also chosen brand as per their personal characteristics and needs. There are various brands available in the market but the respondents have chosen brand that fulfill their needs and also approach their personal characteristics (how he/she would like to ex-

press him/herself). The survey shows that Apple brand Smartphone users are loyal to the brand than the other brand phone users. Since the day Apple has launched its iPhone, it crafted image as innovative, creativeness and stylish, which fits with the image that young age individual wants to have.

In the Smartphone market, the success and failure of the product are determined by variables; price, feature, brand and design. Respondents are more willing to buy the Smartphone, which has better features, and better product quality rather than only considering price as the main factor while purchasing Smartphone. Hence, this trend in consumers suggests that companies must be more concerned with continuous product improvement as per customer demand and the latest trend that serves top-level benefit to consumers instead of just approaching the price promotion to gain the market share. We have also discussed in theory about the consumer satisfaction process that is based on four factors: continuous improvement, top-level benefit, employee empowerment and top-value chain.

As discussed above, Companies use price promotion as a tool to gain the market share or to accelerate product sales against the competitor brand, the research data shows that respondents have experienced price drop in most of the Smartphones selling in the market, which seems to have created a “deal prone” situation, so most respondents are willing to wait for the price drop before buying new Smartphone in the future.

Hence it can be concluded that, if all other external variable (like economy) and internal variables (disruptive technology) remains constant, people choose Smartphone as per their Personal characteristics. Consumers do not always perceive price drop in a negative ways and it was said that there is not any significant affect of price drop amount to the brand image.

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## 15 Appendices

1. Gender
  - ☐ Male
  - ☐ Female
2. Age
  - ☐ 18-24
  - ☐ 25-34
3. Do you own Smartphone?
  - ☐ Yes
  - ☐ No
4. Which Smartphone do you own? If not then which are you willing to purchase.
  - ☐ Nokia Lumia Series
  - ☐ iPhone series
  - ☐ Samsung Galaxy Series
  - ☐ HTC One Series
  - ☐ Others\_\_\_\_\_ (please Specify)
5. Do you think you are an early adopter of Smartphone?
  - ☐ Yes
  - ☐ No
6. Did you use same brand before?
  - ☐ Yes
  - ☐ No
7. How long have you been using the Smartphone?
  - ☐ Below 6months
  - ☐ 6-12 months
  - ☐ 1-2 years
  - ☐ More than 2years
8. Do you suggest your friend to buy the same brand?
  - ☐ Yes
  - ☐ No
9. At what price did you bought your Smartphone?
  - ☐ Below 199€
  - ☐ 200-299€
  - ☐ 300-399€
  - ☐ 400-499€
  - ☐ 500-599€
  - ☐ 600-699€
  - ☐ Above 700€
10. Do you think your phone worth what you have paid?

- ☐ Yes
- ☐ No

11. How do you consider following factor while buying Smartphone?

- Feature
  - ☐ Most Important
  - ☐ Important
  - ☐ Neutral
  - ☐ Less Important
  - ☐ Least Important
- Price
  - ☐ Most Important
  - ☐ Important
  - ☐ Neutral
  - ☐ Less Important
  - ☐ Least Important
- Brand
  - ☐ Most Important
  - ☐ Important
  - ☐ Neutral
  - ☐ Less Important
  - ☐ Least Important
- Design
  - ☐ Most Important
  - ☐ Important
  - ☐ Neutral
  - ☐ Less Important
  - ☐ Least Important

12. Are you concerned about price drop?

- ☐ Yes
- ☐ No

13. Do you know how much price has been dropped since you bought the Smartphone?

- ☐ Below 50€
- ☐ 51-100€
- ☐ 101-150
- ☐ 151-200
- ☐ 201-250€
- ☐ Above 251€

14. How do you react after price drop on the particular phone you own?

- ☐ I will never buy the particular brand.
- ☐ I am satisfied with the price drop, it's a usual process.

- ☐ I am not satisfied with the amount of price drop, it dropped in short period of time.
- ☐ Others\_\_\_\_\_ ( Please mention)

15. In future are you going to wait for price drop before purchasing the Smartphone?

- ☐ Yes
- ☐ No

16. What is your perception about the price drop?

- ☐ Better deal in exclusive product.
- ☐ the product is not selling well in the market.
- ☐ Others\_\_\_\_\_ (Please mention)

17. Does price drop make negative impact on how you view the brand?

- ☐ Yes
- ☐ No

18. Do you prefer to change to another brand in your next purchase of Smartphone due to price drop in your present brand?

- ☐ Yes
- ☐ No

19. Assume that, different smartphone with the similar product line having same variables, but prices are different, in that situation what is your preference?

- ☐ Brand
- ☐ Price