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SME Management and Development

Marketing strategy for a GSM phone service. Target market: St. Petersburg Russia. Case: MegaFon

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ABSTRACT

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This Master's thesis will present a marketing strategy for a digital mobile phone service when penetrating into the new market areas. MegaFon is a mobile operator of the new generation with a number of important technological advantages in hand. As a basis for formulating the marketing strategy, the target customers are defined, located and analysed. In addition, the service positioning, pricing, and distribution channel alternatives are analysed and defined as well. Questions concerning the key success factors, and after sales issues are also covered. The theoretical aspects are mainly related to the theories concerning the introduction of a new service or services (the service/service life cycle), marketing strategies in the introduction stage and the marketing channel decisions. As a case study, MegaFon estimations and approaches are defined and explained to enlighten the real market environment. The information on this seminar work is collected using several sources such as general literature, internal reports, and interviews with MegaFon partners, Internet and other written available documentation. As a result, key decision factors are outlined and traditional approaches to the new service introduction are partly challenged.

LYHENNELMÄ

Tekijä:	Jari Petri Ängeslevä
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Tämä pro gradu tutkielma esittää markkinointistrategian digitaaliselle matkapuhelinpalvelulle penetroiduttaessa uusille markkinoille. MegaFon on uuden sukupolven mobiilioperaattori, jolla on lukuisia teknlogiaan perustuvia etuisuuksia puolellaan. Markkinointistrategian perusteena asiakkaat on määritelty, paikallistettu ja analysoitu. Tämän lisäksi, palvelun positiointi, hinnoittelu- ja jakelukanavavaihtoehdot on myöskin analysoitu ja määritelty. Menestystekijöihin liittyvät kysymykset, myynnin jälkeiseen toimintaan liittyvät asiat on myös tutkittu. Teoreettiset aspektit liittyvät pääsääntöisesti uuden palvelun ja palveluiden lanseeramiseen (palvelu, palvelun elinkaariajattelu), niiden markkinointistrategioihin lanseerausvaiheessa ja markkinointikanavien päättämiseen. Tutkimuksessa on selitetty MegaFonin ennustamis- ja lähestymistavat, joilla on valotettu todellista markkinatilannetta. Tämän tutkielman informaatio on kerätty useista lähteistä, kuten: yleistä aiheeseen liittyvää kirjallisuutta, sisäisiä raportteja ja Megafonin materiaalia, yhteistyökumppaneiden aineistoa, Internettia ja muuta saatavilla olevaa materiaalia. Tuloksena on määritelty päätöksenteon avainkohdat ja osaltaan perinteiset lähestymistavat on kyseenalaistettu.

FOREWORD

This Master's thesis has been done partly for the MegaFon Consortium in Russia and more precisely for their St. Petersburg filial. I have been very happy to work with MegaFon personnel, friends in Finland and in Russia. In addition, I want to thank them for providing the real world environment, and the experiences without which this Master's thesis would never have been possible to prepare. Sharing ideas with people from other countries has broadened my worldview professionally and, in addition, personally. Moreover, my sincere thanks to my professor Mr. Timo Pihkala, for the outstanding support during my studies.

In St. Petersburg, Russia

Jari Petri Ängeslevä

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INTRODUCTION

1 OBJECTIVE AND SCOPE OF THE MASTER'S THESIS

1.1 Growth in mobile service business in Russia

Growth in mobile service sector is driven by consumer demands and any enterprise focused services are more or less absent. Almost all operators are offering basic services like:

1. Voice mail
2. Call back
3. Ringing tones
4. Logos
5. News

Above these obligatory services, operators are also putting emphasis on MMS and other, more value added services. Currently, due bad statistics and lack of other reliable sources of information, no solid and sound information about the market value as such, do not exist, or at least are not obtainable. However, several indicators do show that value added services are gaining better ground and the portion in ARPU (Average Revenue Per User) for data based services is incrementally increasing. Based on the information from analysts and other industry observers, some remarks can be made.

Current market is still it's infancy when it comes to the usage and revenue of the value added services. Jason Smolek, a senior consultant at J'son & Partners, said that "Russian cellular market remains far behind Western European markets when it comes to SMS (Short Message Service), MMS (Multimedia Message Service), e-mail, remote corporate access, Internet access and games. "The most advanced services in Russia are still ring tones, which show you the state of the market here." (Thestandard.com, 2003)

Same analysts predicted that this year value-added services will account for only 8 percent of total revenues for Russian cellular operators, or $320 million respectively. Almost all of that revenue is from SMS, so far the only data service that has any popularity in Russia. Digital services have failed to take off in Russia for a number of reasons. First of all, there are too few content providers in Russia to make data services worthwhile for the average user. While there are thousands of companies providing content for cellular phone users in Europe and North America, in Russia there are only 20 to 30 such companies. Definitely without domestic development resources aimed for the mobile content area, the market is not going see significant growth in data service revenues.

There are also technical reasons, that Russian cellular operators have not been pushing data transmission services such as GPRS (General Packet Radio Service) connections. From a purely technical standpoint, the current network would not be able to support a huge stream of data. Operators need to upgrade hardware and software to support GPRS. How ever, most importantly, the Russian market isn't mature enough for users to be interested in high-end services.

Mr. Smolek continues: "Most users are just getting mobiles to begin with so they're satisfied with just voice services." Still, that leaves a lot of room for growth and Smolek expects that data services will begin to play a much bigger role in the Russian cellular market over the next few years. He predicted that by 2008 Russian operators' revenues from value-added services would reach $1.5 billion, or 25 percent of all revenue. When market is reaching this point, it is obvious that local content providers will tag along and will benefit next to the operators from this new business opportunity.

1.2 Mobile communications market in Russia, background, players and trends

According to statistics, cellular communications is currently booming in Russia. The subscriber base doubled during 2001 (3.4 million subscribers at the end of 2000 and 7.84 million at the end of 2001). Since then market has reach almost unreal growth figures. At end of 2003 mobile phone penetration grow from 12.4 percent to 25.1 percent. At the same time the number of subscribers grew from 18 million to 36 million according to figures from telecom consulting house J'son and Partners. Also at end of 2003, market in Russia is clearly the fastest growing market in Eastern-Europe with growth figures over 100% for each operator. The total number of mobile telephone subscribers in the Moscow region reached 4.3 million and exceeded the number of fixed communications subscribers. This trend has continued in a rapid speed. Currently, total (end of 2003) penetration is already over 25% and operators are sharing the input of 2.000.000 new subscribers monthly. You could state with confident that the penetration level is reaching close to 40% in end of 2004, boasting the total number of subscribers close to 57 million. This makes Russia the fastest growing and one of the largest cellular phone markets in whole Europe and very attractive market for value added services as well. Market shares between operators has followed the growth trend and only slight net changes has been identified. MegaFon has gained faster larger market share in St. Petersburg area.

Top ten operators at the end of 2003

Operator	Subs	Growth 2003	Moscow subs
MTS	13,370,000	101%	4,940,000
VimpelCom	11,310,000	119%	5,680,000
MegaFon	6,340,335	115%	850,308
Uralsvyazinform*	1,194,500	146%	-
SMARTS	1,142,000	111%	-
N.Novgorod Cellular	368,321	114%	-
Yeniseytelecom**	251,471	228%	-
Yekaterinburg-2000	230,112	189%	-
Dal` Telecom International	205,199	183%	-
Baykalwestcom	184,285	176%	-

Source: J'son & Partners

Figure 1, Top Ten Operators

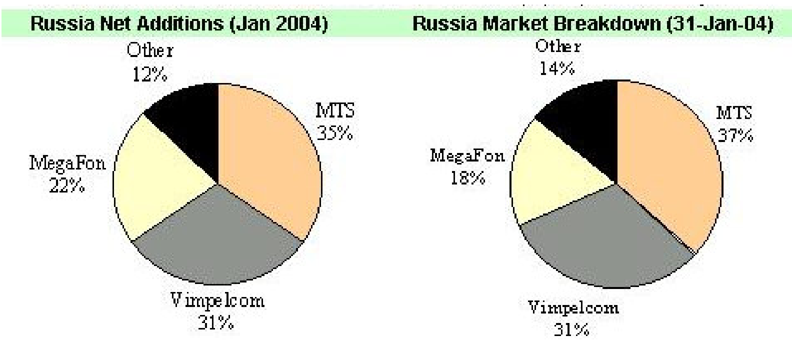


Figure 2, Figures, Russia

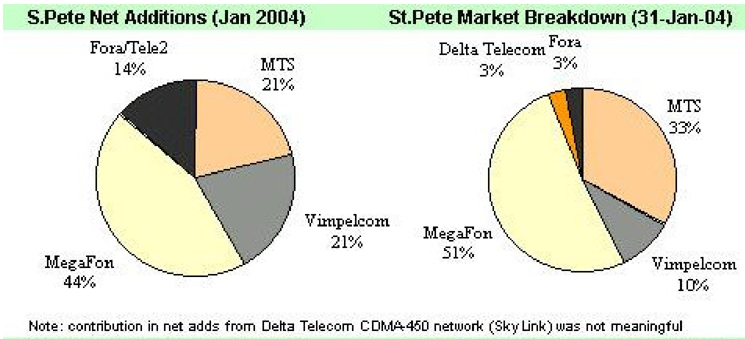


Figure 3, Figures. St. Petersburg

The regional client base is also growing. Currently Russia is in second place among the countries of Eastern Europe in terms of the absolute number of subscribers; however the level of cellular communications penetration is extremely low outside of Moscow and St. Petersburg. In Moscow this indicator is much higher (about 60%). The Moscow Licensed Area leads in cellular penetration with 68.3 percent penetration followed by the St. Petersburg Licensed Area with 55.8 percent penetration. The 80% saturation point is close. Moscow will be there after this year and St. Petersburg will follow close behind.

1.3 Company profile of MegaFon

Figure 4, MegaFon Logo

OJSC “MegaFon” is the first pan-Russian mobile operator in GSM 900/1800. It was established in May 2002 as a result of renaming and changing the legal form of CJSC “North-West GSM” and merging with CJSC “Sonic Duo” (Moscow), CJSC "Mobicom-Kavkaz", CJSC "Mobicom-Center", CJSC "Mobicom-Novosibirsk", CJSC "Mobicom-Khabarovsk", CJSC "Mobicom-Kirov", OJSC "VCC Povolzhye", CJSC "Volzhsky GSM" and CJSC "Ural GSM". Main shareholders of OJSC "MegaFon" include OJSC "Telecominvest", LLC "CT-Mobile", TeliaMegaFon (Sweden). Licensed territory of OJSC "MegaFon" covers 100% of the Russian territory – all 89 subjects of Federation with population of 145 million people. The number of Company's subscribers is over 5,500,000 and is increasing the healthy 35% annually. (source: MegaFon Consortium, 2003)

1.4 The research question

Strategic planning has become more and more important for the companies success and survival. Several research studies have shown that companies that plan their service-market strategies have a greater chance to achieve commercial success in the end. In the management literature, strategic planning has been gained more attention, and in the same time, when market planning has received less priority.

The research problem in this Master's thesis consists of questions concerning how to market a mobile phone service in a new market area using a real operational case as an example. A few questions will be answered in order to formulate the marketing plan. The main questions to be answered are: who are the main, target customers and how we can reach them? To develop a proper marketing plan, a lot of information needs to be collected. By using a Russian operator MegaFon as a case sample, these questions will be reflected to actual business decisions made by local Marketing, Brand and Channel Managers.

For reaching target customers, they must be first defined, located, and analysed. After that, service positioning, pricing, timing and distribution channel alternatives are also analysed and defined.

1.5 The contents of the Master's thesis

The Master's thesis begins with a short introduction of the concept for which the marketing strategy is formulated. The objective and scope of the research are defined next and the research problem and research question are stated. After that, the contents of the study and the company and its mobile service are introduced.

One part of the scientific process deals with the research methods, research design and data sources. This has been presented in the chapter three. The choice of research methodology is explained, and, in general, the methodological aspects are discussed as well. I have been trying to follow real business decisions as carefully as possible to make the case close to actual market environment in various angles to reach best possible approach to the problem.

The main theoretical part of this Master's thesis has been explained in the chapter two. It reviews the relevant literature involving service marketing techniques and empirical research findings in areas, which are relevant to mobile phone service marketing. At first, some background information about strategic marketing in the beginning of service life cycle has been presented and the concepts of service life cycle and market evaluation are introduced, since they provide a useful framework for formulating marketing strategies in different stages of the service life cycle. These concepts are valuable and well understood among MegaFon Managers and they do understand the behaviour of markets and in particularly when making long-reaching plans.

The chapter presents also introduction of the new service, marketing channel decisions and some basics from global marketing point of view.

2 THEORY RELATED TO THE CASE STUDY

2.1 Strategic marketing

Marketing is one of the most difficult areas for analysing and decision-making for the company. Particularly, planning on the international scale is a very complex process. Marketing decisions must be made on the face of insufficient information about processes that are dynamic, non-linear, lagged, stochastic, interactive, and downright difficult. However, this is not taken as a case for intuitive decision-making; rather it suggests the need for improved theoretical frameworks and sharper tools for analysis. Marketing is becoming the only thing that differentiates high technology services, as the companies are being forced to base their services on identical technologies to cope with the persuasiveness of technical standards (Davidow, 1986, 41).

Strategic marketing is a process of analysing opportunities, choosing objectives, developing strategy and formulating plans (Kotler, 1976, 45-46). Planning should not be directed at predicting the unpredictable, but at designing strategies for coping with the unpredictable (Linstone, 1977, 171). To choose among opportunities, a company must refer to its basic purpose and mission that should be defined in terms of meeting generic needs not producing particular services. For any opportunity, the company must develop a well-integrated set of objectives that are hierarchical, quantitative, realistic and consistent. The major elements in formulating marketing strategy includes: market segmentation, market positioning, market entry strategy, marketing-mix strategy, and timing strategy.

Good marketing plans begin by analysing what is currently happening and what has happened in the past. It is impossible to develop solid plans for the future if the current situation is not clearly understood. It is essential for entrepreneurs to be able to view their companies and the services they offer from the viewpoint of prospective customers (Grumpert, 1992, 24). The more clearly the company understands what customers want, the more likely the company's marketing strategy is shaped by its customers, who are constantly changing their tastes, desires, and needs.

Typically, short-range marketing plans are written for each service line or service in such a way that every plan can stand on its own. At the same time, the plans must be related to the unit's total marketing plan and should take into account the service's recent history, its stage in the profit cycle, the economic outlook, competitor's plan and so forth. Furthermore, marketing plan should be linked to company's business plan to ensure that it is compatible with the production, sales and finance areas (Grumpert, 1992, 230). The plan is never complete. It needs to be regularly monitored, updated and improved - ideally quarterly and at a minimum level annually.

Services should not always be considered as strategically critical, simple because of their ability to contribute heavy sales and profits in the coming year. Some services should be choose for their probable value in assisting a company to meet its long-range goals. This is particularly important in international markets, where success depends upon constancy of effort despite setbacks, discouragement has and lack of immediate profit. (Makens, 1985, 149) This is also the case of digital mobile phone services in the new market area.

Depending on the nature of the service, a wide variety of marketing approaches are available. The most appropriate strategy is highly dependent on the nature of the market, i.e. is the consumer market needs a different approach from that of the industrial and business markets. In the case of this seminar work, research findings concerning marketing strategy applied in both business and consumer markets are reviewed.

2.2 The service life cycle

The concept of service life cycle is one of the first attempts to form an analytical framework for predetermining service-market strategy. It uses the stage in the service life cycle as the basis for proposing strategic guidelines. By identifying the stage that a service is in, or may be heading towards, companies can formulate better marketing plans. The concept can also be used to analyse a service category, a service form or a brand (Kotler, 1991, 350).

The service life cycle is an important concept in marketing providing insights into a service's competitive dynamics. It portrays distinct stages in the sales history of a service (Kotler, 1991, 348). Corresponding to these stages are

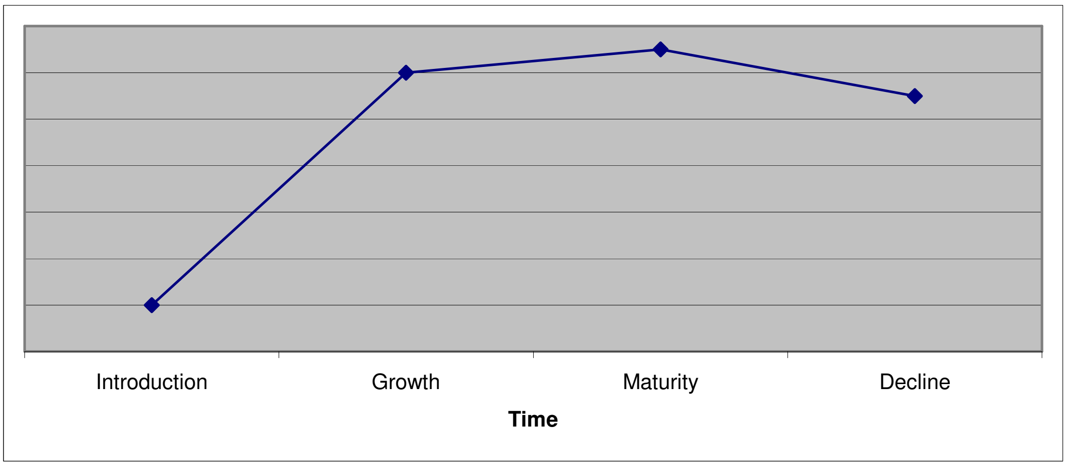


Figure 5, Life-cycle

distinct opportunities and problems with respect to marketing strategy and profit potentiality. Most discussions of service life cycle portray the sales history of a typical service as following an s-shaped curve. This curve is typically divided into four stages, known as introduction, growth, maturity, and decline. The following figure shows a typical sales life cycle.

The service exists as one solution among many others to meet a particular need. Every new need follows a demand life cycle that passes through the stages of emergence, accelerating growth, decelerating growth, maturity, and decline. The demand life cycle can be viewed as the parent concept of the service life cycle. Each new technology that emerges to satisfy that need exhibits a demand-technology life cycle. Within a given demand-technology cycle there will appear a succession of service forms that satisfy the specific need at the time. The particular service forms of a given technology also show a life cycle, as do brands within that service form. (Kotler, 1991, 370)

The idealized service life cycle concept reveals an underlying pattern of sales development, but it largely ignores the complex variations that occurs in practice. The basic characteristics of each stage are known to be determined independently of the absolute length of the service's life. However, service life cycles are also known to assume multifarious forms, not necessarily conforming to the stages of development outlined in the ideal s-shaped life cycle curve. Researchers have discovered over a dozen service life cycle shapes such as a fad, a growth-slump-maturity pattern and a cycle-recycle shape. Even for those cycles that follow the classical pattern of slow introductory and then exponential growth, the initial rates of sales development will vary greatly, especially where the service is a basic technological innovation.

Service life cycle theory has been criticized on the grounds that companies cannot predict the shapes an advance or predict the duration of the stages. The variation among service forms in a service class and among brands in a service form is too great. Life cycles are the result of chosen marketing strategies rather than of an inevitable sales history that is independent of the chosen marketing strategies. Kotler suggests investigating the extent to which the service life cycle concept describes service histories in particular industry. Moreover, the normal sequence of stages and the average duration of each stage must be reviewed periodically, because intensifying competition is leading to shorter cycles over time. However, it has been argued that the further away from the ultimate consumer, the longer the service life cycle (Haas, 1976, 119).

2.3 The concept of market evolution

Services and markets have life cycles for changing marketing strategies over time. Marketing thinking should not begin with a service, but rather with a need (Kotler, 1991, 348). The service life cycle focuses on what is happening to a particular service rather than on what is happening to the overall market. It yields a service-oriented picture rather than a market-oriented picture. Hence, service life-cycle theory must be broadened by a theory of market evolution.

The theory of market evolution holds that new markets emerge when a service is created to satisfy an unmet need. The innovator usually designs a service for the mass market. (Kotler, 1991, 371) Even when a new service turns out to be a commercial success, rivals are so quick to follow that the new service is typically fated for only a short period of a happy life. A market evolves through emergence, growth, maturity and decline stages. Firms need to anticipate the evolutionary path of a market as new needs, competitors, technology, channels and other developments affect it.

In emergence stage market is latent consisting of people who share a similar need or want for something that does not yet exist. The entrepreneur has three alternative strategies to design an optimal service for the market in question. The new service can be designed to meet the preferences of one of the corners of the market. This is called a single niche strategy. According to multiple-niche strategy two or more services can be simultaneously launched to capture two or more parts of the market.

If sales are first-class, new firms will enter the market, ushering in a market growth stage. Each firm entering the market will go after some position, locating either next to a competitor or in some unoccupied segment. Eventually, the competitors cover and serve all the major market segments. In fact, they go further and invade each other's segments reducing everyone's profits in the process and causing maturity stage. (Kotler, 1991, 368-369)

Ultimately, the market demand for the present services will begin to decline. Either the total need level declines or a new technology starts to replace the old. The old technology will eventually disappear and a new demand technology life cycle will begin. Mobile communication services are a good example of an industry with relatively short technology life cycles.

2.4 Introduction of new service

Although successful new services are challenged by competitive services at a faster and faster rate, there are still advantages in being first in the market. The usual reward is a larger market share than later-entry competitors. The obvious disadvantages of being first are that a company has to assume the expense of preparing the market and risk the failure of the idea. Disaster can strike in two ways: if the service is not ready for the market, or if the market is not ready for the service. (Rosenberg, 1977, 273)

The introduction stage of the service life cycle starts when the new service is launched. It takes time to roll out the service in several markets and to agree about needed roaming infrastructures in digital mobile networks. Typically, selective distribution strategy is used. The stage is marked by a slow growth in sales. During this stage there are usually only a few operators selling the new service. They tend to put out limited versions of the service, since the market is not ready for service refinements.

When a new service is launched, the company has to stimulate awareness, interest, trial and purchase. The first objective is to make the best customer prospects aware that the new service is now available; to tell them what it does, what are the benefits, why claims are to be believed and what will be the conditions for consumption (Enis, 1985, 356). This takes time, and in the introduction stage only a few persons will use it. If the service is satisfying, a larger number of buyers are drawn in. The entry of competitors into the market speeds up the adoption process by increasing the market's awareness and by causing prices to fall. In order to prepare to the increasing competition, the strategic emphasis must shift to creating service preference through advertising, better distribution channels, and more effective pricing (Rodger, 1973, 62). More buyers come in as the service is legitimised.

The introduction time will be short if the service does not require setting up a new infrastructure of distribution channels, transportation, services, or communication. This time will also be abbreviated if the operators will readily accept and promote the new service. It will also be short if consumers have an interest in the service, will adopt it early, and will give it favourable word of mouth. (Kotler, 1991, 353) Many consumers and dealers, who are aware of the service of this seminar work are interested in the service and would like to try it. However, the lack of required network infrastructure, roaming agreements and applications is slowing down the introduction time to the market area.

Growth can be obtained in the existing market by creating new technology services. Such services can obsolete existing ones, thus providing a source of sales. The computer industry, for example, has long had sales fuelled by new generation equipment. Another classic growth pattern is to exploit marketing or distribution strength by adding compatible services, services that are not line extensions but are very different even though they share customers with existing services. Synergy is usually obtained, at least partly, by the commonality in distribution, marketing, brand recognition and image. (Aaker, 1988, 246)

2.5 Marketing strategies in the introduction stage

The company needs to assess the nature of the market in term of existing suppliers, their services, existing customers' perceptions of these services and various features relating to the buyers themselves. Gathering data on all these issues is the first step in the process of creating a marketing strategy. Having conducted the research, an organization needs to shift and analyse the data to present a clear picture of the market. At service market level, companies are concerned with understanding the nature of their external

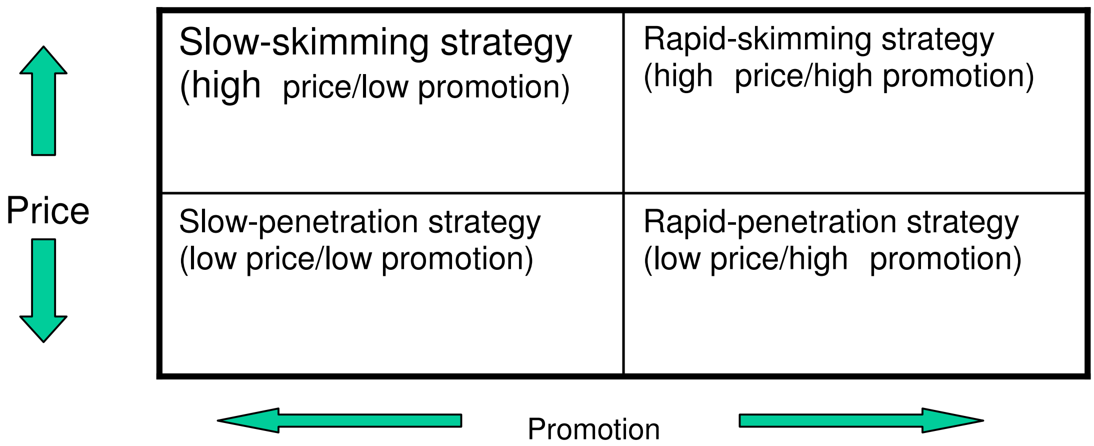


Figure 6, Market strategies in the introduction stage

market environment and planning the design, development and commercialisation of their services. These aspects involve both the management of an individual service's introduction to the market, and the subsequent process of service life cycle management. In launching a new service, marketing management can set a high or a low level for each marketing variable, such as price, promotion, distribution, and service quality. There are many possible marketing strategies in the introduction stage. According to Kotler, when considering price and promotion, management can pursue on of the four strategies shown in presented picture.

A rapid-skimming strategy consists of launching the new service at a high price and a high promotional level. This strategy makes sense under the following assumptions:

1. A large part of the potential market is unaware of the service Those who become aware are eager to have the service and can pay the required price.
2. The firm faces potential competition and wants to build up brand preference (Kotler, 1991, 355)

A slow-skimming strategy consists of launching the new service at a high price and low promotion. This strategy is also called as a selective penetration strategy. This strategy makes sense when:

1. The market is limited in size
2. Most of the market is aware of the service
3. Buyers are willing to pay a high price
4. Potential competition is not imminent (Kotler, 1991, 355)

A rapid-penetration consists of launching the service at a low price and spending heavily on promotion. This strategy promises to bring about the fastest market penetration and the largest market share. This strategy makes sense when:

1. The market is large
2. The market is unaware of the service

3. Most buyers are price sensitive
4. There is strong potential competition
5. The company's manufacturing costs fall with the scale of service and accumulated manufacturing experience

A slow-penetration strategy consists of launching the new service at a low price and low level of promotion. The low price will encourage rapid service acceptance; and the company keeps its promotion costs down in order to realize more net benefit. The company believes that market demand is highly price elastic but minimally promotion elastic. This strategy makes sense when:

1. The market is large
2. The market is highly aware of the service
3. The market is price sensitive
4. There is some potential competition

The choice of strategy depends on the extent of service awareness, potential competitive entries, sensitivity of demand to price, and economies of scale and experience. If the awareness is limited, competitive entries are unlikely in the near term, demand is not price sensitive and major cost reduction is not possible through scale expansion or experience building and then a skimming strategy is often appropriate. (Urban, 1987, 270)

2.6 Marketing channel decisions

The decisions on the marketing channel are among the most complex and challenging one facing the firm. Normally, it takes years to build a distribution system. For the distribution process to be successful, a marketer must understand distribution channels from a total-channel management point of view. The channel should not be viewed from the standpoint of the manufacturer only, or to think that what is good for the manufacturer is good for the channel (Rosenberg, 1977, 469). Each channel alternative should be weighed against economic, control and adaptive criteria.

Each channel system creates a different level of sales and costs. The channel chosen for the company's services intimately affects many other marketing decisions like pricing, advertising and sales-force decisions. Still, another reason for the significance of channel decisions is that they involve the firm in relatively long-term commitments to other firms. When analysing the members of the marketing channel as buyers, the value chain approach is one possible tool. However, in analysing the end users of consumer services, the marketing mix approach is likely to give more output.

In order to achieve distributor loyalty, it is important that he does not feel at any stage that his relationship with the supplying company is temporary one. A firm that is able to demonstrate, that throughout its international activities it has treated its distributors fairly and reasonably, is more likely to earn the loyalty of its foreign agents and distributors. Similarly, organizing visits for the best performers and their families tend to develop a feeling of belonging. Such a sentiment is the foundation of a happy and fruitful relationship with people who are not directly under the firm's managerial jurisdiction. (Majaro, 1977, 146)

The distribution channels are complex behaviour systems in which people and companies interact to accomplish individual, company and channel goals. Each channel member is depended on the other channel members. The channel will be most effective when each member is assigned the tasks it can do best. Operators, service providers, manufacturers, wholesalers and retailers should work together to produce greater profits than they could obtain individually. By co-operating, they can more effectively sense, serve, and satisfy the target market potential needs. Generally retailing is more dynamic than wholesaling and thus it is particularly difficult to predict or forecast. Marketing intermediaries, through their experience, their specialization, their contacts and their scale; offer the service provider more than he can usually achieve on his own. However, individual channel members are usually more concerned with their own short-run goals and their dealings with firms next to them in the chain.

Company characteristics play an important role in channel selection. The company's overall size determines the extent of its markets, the size of its larger accounts and its ability to secure the co-operation of intermediaries it elects to use. The company's service mix influences its channel pattern. The wider the company's services mix usually is, the greater the ability of the company has to deal with its customers directly.

In designing marketing channels, service providers have to struggle between what is ideal, what is feasible and what is available. The starting point for the effective planning of channels is a determination of which markets are to be reached by the company. In practice, the choice of markets and choice of channels may be interdependent. The channels decision must accept the service and price structure as given and adapt channels to that decision (Baker, 1983, 163).

Channel design is greatly influenced by customer characteristics. When the number of customers is large, service provider tend to use long channels with many middlemen on each level. The importance of the number of buyers is modified somewhat by their degree of geographical dispersion. Even the number and geographical dispersion are further qualified by the purchasing pattern of these buyers. Where the ultimate customers purchase small quantities on a frequent basis, longer marketing channels are desirable. From the service provider's point of view, the problem of obtaining information about the end users and exercising control increases with the number of channel levels, even though the provider typically deals only with the adjacent level.

No marketing channel can be trusted to remain competitively dominant over the whole service life cycle. Early adopters might be willing to pay for high value added channels. The earliest channels face the challenge of market creation; they are high cost because they must search for and educate buyers. Channels that expand the market and offer sufficient services follow them. Later buyers will switch to lower cost channels to decrease costs and to patronize lower-value-added channels. Radically new services tend to enter the market through branded channels, such as different youth-programs that spot trends and attract early adopters.

Between intensive and exclusive distribution, stands selective distribution, which means the use of more than one but less than all of the intermediaries who are willing to carry a particular service. The company does not have to dissipate its efforts over many channels, including many marginal ones. It can develop a good working relation with the selected middlemen and expect a better than average selling effort. Selective distribution enables the producer to gain adequate market coverage with more control and less cost than intensive distribution. (Kotler, 1991, 516) The better system is not the one producing the greater sales or the one producing the lesser cost, but rather the one that produces the best profit.

The analysis of choosing distribution channel should begin with an estimate of sales under each system, because some costs will depend upon the level of sales. A company salesman concentrates only on the company's services; he is more aggressive because his future depends on the company and he is more successful with customers, because they prefer to deal with company personnel.

A multi-service operator may have existing distribution arrangements in many markets, although the nature of the services is such that different channels are required for each service line. It is important that those responsible for selecting channels in a given country pay attention to other arrangements that already exist there. In the other words, before one starts looking for totally new relationships, it would be wise to explore the usefulness of existing channels; they may prove better than one expects (Majaro, 1977, 140).

Services characteristics also influence channel design. Services requiring installation and maintenance services usually are sold and maintained by the company or exclusively franchised dealers. In the same way, services of high value are often sold through a company sales force rather than through middlemen.

2.7 Global marketing

One of the most circulated publications on the need for global strategies is an article by Levitt. His message was: “Companies must learn to operate as if the world were one large market - ignoring superficial, regional and national differences” (Levitt, 1983). Levitt believes that new communication and transportation technologies have created a more homogenous world market. People around the world want the same basic things and services - things that make life easier and increase their discretionary time and buying power. This convergence of needs and wants has created global markets for standardised services. Usually standard service strategy is the easiest and often the most profitable option to international marketing (Rosenberg, 1977, 630).

On the other hand, people have similar kinds of problems around the world, which also makes world market more homogenous. According to Gumpert, service or product almost certainly solves a problem, if it has achieved any level of success. Understanding the exact nature of the problem being solved is often the key to moving from modest success to great success (Gumpert, 1992, 19).

The requirements and opportunities have changed in many industries due the globalisation phenomenon. Increasing global competition, obsolescence and substitution, together with increasing speed in the development of new technologies, have led to shorter service life cycles and higher innovation intensity (Rodger, 1973, 57). The shorter service life cycles have led to more emphasis on research and development and on recognizing new opportunities and exploiting them quickly with successful timing. Good example is personal computers. A few years ago the competitive life cycle of portable computer was well over two years and currently the average life cycle of portable computer is six to nine months. In a similar time period cellular phone life cycle has shortened from three years to one and a half years.

Short life cycles are also one driving force for global services. Furthermore, if service requires considerable technical service and attention, a high level of standardization will be important. Where a firm has managed to develop an internationally accepted brand or trademark for a specific service the pressure would weigh against differentiation. And finally, of course, ease of service is very important. Because of the trend towards increasing uniformity of markets, those companies, which operate in several markets simultaneously and time their service introductions correctly, gain both higher volume potential and quicker learning. Their learning accumulates, which may lead to higher potential for innovation or it can be exploited, for example, through more successful marketing programs. Competing in lead markets provides companies also with the best possibilities to recognize new industry trends and opportunities (Jeannet, 1986).

Companies that operate in one or more foreign markets must decide how much to adapt their marketing-strategy mix to local conditions. At one extreme are companies that use a standardized marketing-mix worldwide. Standardization of the service advertising, distribution channels, and other elements of the marketing mix promises the lowest costs because no major changes have been introduced. The other extreme is the idea of an adapted marketing-mix, where producer adjusts the elements of the marketing-mix to each target market, bearing more costs but hoping for a larger market share and profit return. (Kotler, 1991, 416)

The marketing activity can be partially centralized or completely centralized even when customers are located in other countries. Usually, marketing and sales efforts have to be located near the customer. According to Porter and Takeuchi, there are three roles of international marketing in global strategy. The first one involves configuring marketing activities worldwide, the second involves co-coordinating these configurations and the third involves establishing links between the configuration and co-ordination of other activities in the value chain.

Central co-ordination of international activities can provide competitive advantage. Common brand names, common service standards and warranties, standardized sales force training and standardized distribution selection can all be centrally co-coordinated. In addition, decisions about sequencing the introduction of new services to different countries can be centrally co-coordinated as well. Knowledge can be shared also across countries. As an example, a centrally organized newsletter or routine meeting can disseminate marketing information.

There are many advantages of marketing internationally. Costs of international business are greater than costs of domestic business, but the advantages of economies of scale resulting from expanded sales might offset this. Economies of scale-opportunities exist in several functions such as purchasing and marketing when a company operates simultaneously in a wide geographic area. The opportunities to reduce costs specific to different geographic markets and to exploit fixed costs across the global market are basic advantages of a company competing globally.

3 RESEARCH DESIGN AND METHODS

3.1 Research method

Marketing strategy research offers a wide variety of different approaches, and before designing a research framework, it is necessary to choose the most appropriate one. Fundamental to this choice is to consider how each approach affects the nature and quality of the data gathered and hence the strength of the conclusions drawn. Therefore, a combined approach may provide the best possible solution, because it may give a synergistic end-result. The strengths of different techniques will be emphasized, whilst compensating for the inherent weaknesses that are present in all research methods.

Because of the amount of quantitative information and time for this study, the qualitative research method has been used. Moreover, the qualitative methods permit the researcher to study the selected issues in depth and in detail. Of the many research questions, the qualitative data is the most rigorous one and the objective data available for it does not artificially constrain the richness and complexity of the issues. It is often necessary to emphasize that case studies should be based upon all available data, not just interview and qualitative data. (Alloway, 1977, 1-2, 15) Deciding what information and how much data to gather in an evaluation, involves difficult decisions about trade-offs. Gathering more data usually takes longer time and costs more, but getting less data usually reduces confidence in the findings. (Rutman, 1985, 52)

The qualitative data consist of detailed descriptions of situations, events, people, interactions, and observed behaviours; direct quotations from people about their experiences, attitudes, beliefs, and thoughts; and excerpts or entire passages from documents, correspondence, records, and case histories. The detailed descriptions, direct quotations, and case documentation of qualitative methods are raw data from the empirical world. The data are collected as open-ended narrative without attempting to fit institutional activities or peoples experiences into predetermined, standardized categories such as response choices that compose typical questionnaires or tests. (Rutman, 1985, 54-55)

This research is carried out using a case study research methodology. Sufficient amount of information exists of the market area for this research, and as expressed by Eisenhardt, case study research is most appropriate in the early stage of research (Eisenhardt, 1989, 548). The case study approach offers a flexible study design. Data gathering and analyses are largely determined by the subject matter, and specific procedures are decided upon while the study progresses. Gathered information consist of:

1. Interviews with MegaFon partner personnel. Interviews are conducted by using face-to-face, telephone and e-mail mediums;
2. Data gathering from open sources, like Internet, portals and commercial studies about the subject;
3. Theoretical information from recognized authors in marketing and marketing strategy planning.

Case studies pose more problems than many other methods because they burden the subjects of the study substantially. This means that, in practice, the opinions of the subjects of the study and their managers have to be consulted in study planning, and it is seldom possible to collect all the data that would have been desirable. This is clearly the case in Russia, where transparency is not sufficient and statistical information is not as reliable as in western countries. Another problem is generalization. "Generalization from case studies is possible but not in the same way as from comparative statistical studies. Case studies have the advantage that they permit researchers to hypothesize generalizations about structural relations between different properties of the one case and between properties of the case and properties of its contents" (Halfpenny, 1979, 810). This challenge is kept in mind, when the determination of the analysis level is decided.

3.2 Research design and data collection

Data collection was based upon primary and secondary sources. Secondary data sources, such as industry and market reports, trade journals, and customer's reports, were used to strengthen and complement the primary case study work that includes interviews and other internal company documentation.

4 TARGET MARKET – ST. PETERSBURG, RUSSIA

4.1 Background

At the current stage, Russia is concentrating on developing new and innovative technologies, especially looking into Internet and mobile communications industries. Russia is through its eRussia program planning to be entirely digital over the next 7 years. The involvement of foreign owned companies in the sector has facilitated the major investments needed to update the infrastructure and introduce new services. Overall, Russia, a country under communist rule only a decade ago, is now heading towards techno-social network readiness equivalent to e.g. Japan, France, Italy, and Spain. The telephone system has undergone significant changes in the 1990s; there are more than 1,000 companies licensed to offer communication services. eSt. Petersburg is under the eRussia program and is under implementation. This will enable more e-readiness to this region. Moreover, St. Petersburg is the second largest city and also on the second place in mobile phone users. See 1.3 for further information.

Access to digital lines has improved, particularly in urban centres and Internet and e-mail services are improving significantly. St. Petersburg has made progress toward building the telecommunications infrastructure necessary for a market economy. However, a large demand for main line service remains unsatisfied. Domestic, cross-country digital trunk lines run from Saint Petersburg to Khabarovsk, and from Moscow to Novorossiysk; the telephone systems in 60 regional capitals have modern digital infrastructures. Cellular services on the other hand, both analogue and digital, are available. In rural areas, the telephone services are still outdated, inadequate, and low. Three undersea fibre-optic cables for routing the major part of the traffic connect Russia internationally. Digital switches in several cities provide more than 50,000 lines for international calls and satellite earth stations provide access to Intelsat, Intersputnik, Eutelsat, Inmarsat, and Orbita systems.

4.2 Basic information about Russia

The official name is Russian Federation and short conventional form is: Russia. Locally it is called as Rossiyskaya Federatsiya and short local form is Rossiya. Type of Government is federation and chief of state is President Vladimir Vladimirovich PUTIN (acting president since 31 December 1999, president Since 7 May 2000). Head of government is Premier Mikhail Mikhaylovich KASYANOV (since 7 May 2000) and Deputy Premiers are: Viktor Borisovich KHRISTENKO (since 31 May 1999), Aleksey Leonidovich KUDRIN (since 18 May 2000), Aleksey Vasilyevich GORDEYEV (since 20 May 2000), Boris Sergeyevich ALESHIN (since 24 April 2003), Galina Nikolayevna KARELOVA (since 24 April 2003), and Vladimir Anatolyevich

YAKOVLEV (since 16 June 2003). In cabinet: Ministries of the Government or "Government" composed of the premier and his deputies, ministers, and selected other individuals. All of them are appointed by solely the president himself.

4.2.1 Basic geography

Russia is located in Northern Asia (that part west of the Urals is included with Europe), bordering the Arctic Ocean, between Europe and the North Pacific Ocean. In addition, Russia is the largest country in the world in terms of area, but unfavorably located in relation to major sea-lanes of the world. Despite its size, much of the country lacks proper soils and climates (either too cold or too dry) for agriculture. Total area of the country is 17,075,200 sq km and water is covering 79,400 sq km of the whole area. City of St. Petersburg is the northernmost major city of the world. It is located at 59° 57' Latitude North, 30° 19' Longitude East (Pulkovo meridian).

Figure 7, Map of Russia

4.2.2 Population

Total country population is approximately 144,526,278 (July 2003 est.) and they are representing different nationalities (|Russian 81.5%, Tatar 3.8%, Ukrainian 3%, Chuvash 1.2%, Bashkir 0.9%, Belarusian 0.8%, Moldavian 0.7%, other 8.1% (1989). Population in St. Petersburg is 4.7 million. (City of St. Petersburg, 2002)

4.2.3 Political and economical profile

The party political scene in Russia was highly volatile and fragmented throughout the 1990s but has begun to settle. Some 26 parties were included on the ballot for the 1999 election to the Duma, compared with 43 in 1995. Only six of them crossed the 5% threshold for parliamentary representation, and of these only the CPRF could boast a substantial nationwide organization. The second largest party in the Duma, Unity (now merged into United Russia), was little more than a collection of pro-Putin regional notables formed just weeks before the poll. Most other parties are very small, often organized around one prominent personality. A new Kremlin-backed law on political parties, which entered into force in November 2001, looks set dramatically to alter Russia's party political scene.

The law seeks to address some shortcomings, such as the opacity of party financing, but it also raises the registration requirements for political parties to a level that could stifle the development of all but the largest political groupings in Russia. Only political movements that have more than 10,000 members, with a minimum of 100 members in each of at least 50 of Russia's 89 regions, can register as a political party. This will remove all regional and issue-based parties from the ballot, leaving perhaps four or five parties to contest the next election, in December 2003. Moreover, the requirement that parties re-register on a regular basis may open the door to state pressure on opposition groupings. Although parties have been given until July 2003 to comply with the new requirements, the law has already triggered a wave of mergers among the groupings and factions represented in the Duma. A decade after the implosion of the Soviet Union in December 1991, Russia is still struggling to establish a modern market economy and achieve strong economic growth.

In contrast to its trading partners in Central Europe - which were able to overcome the initial production declines that accompanied the launch of market reforms within three to five years - Russia saw its economy contract for five years, as the executive and legislature dithered over the implementation of many of the foundations of a market economy. Russia achieved a slight recovery in 1997, but the government's stubborn budget deficits and the country's poor business climate made it vulnerable when the global financial crisis swept through in 1998. The crisis culminated in the August depreciation of the rouble, a debt default by the government, and a sharp deterioration in living standards for most of the population. The economy subsequently has rebounded, growing by an average of more than 6% annually in 1999-2001 on the back of higher oil prices and the 60% depreciation of the rouble in 1998. The rouble's real appreciation back to its 1998 level is making Russian goods exports less competitive both domestically and abroad. Economic growth fell to 4% during 2002.

These GDP numbers, along with a renewed government effort to advance lagging structural reforms, have raised business and investor confidence over Russia's prospects in its second decade of transition. Yet serious problems persist. Russia remains heavily dependent on exports of commodities, particularly oil, natural gas, metals, and timber, which account for over 80% of exports, leaving the country vulnerable to swings in world prices. According to several analysts, GDP is app. 2-4% generated by natural resources sector and true growth is then only slightly above the average in Europe.

Russia's industrial base is increasingly dilapidated and must be replaced or modernized if the country is to maintain vigorous economic growth. Other problems include a weak banking system, a poor business climate that discourages domestic and foreign investors, corruption, local and regional government intervention in the courts, and widespread lack of trust in institutions. (Economist, 2002)

4.3 Mobile communications

The first cellular system came to Russia in 1991 and is now one of the fastest growing segments of the Russian telecommunications market. Unlike other European markets, Russia is not saturated with cellular equipment/services. Cumulative investment in Russia's cellular communications industry has exceeded $1 billion, with average annual market volume of $125 million.

Three major mobile standards are used in Russia: NMT, AMPS/DAMPS, and GSM. These three standards cover 99 percent of the Russian cellular market. The remaining one percent is covered by CDMA standard, but the status and the future of this standard in Russia is unclear.

4.3.1 NMT-450

This standard was the first that came to Russia, in 1991. The pioneer and major operator of this standard is Moscow Cellular Company. This standard maintain leads in terms of geographic presence – over 500 cities. NMT has a status of federal standard in Russia. Based on it the Federal "Sotel" network was founded. This network united all NMT operators in Russia and provides automatic roaming countrywide.

4.3.2 AMPS/DAMPS

VimpelCom (Bee-Line trademark) was the first Russian company that implemented the AMPS standard in Russia in 1992. AMPS has a status of regional standard. The regional AMPS operators are unified under Association-800.

4.3.3 GSM 900/1800

Today, GSM is the most popular cellular technology in Russia. It is offered in 223 cities in 55 Russian regions and provides nation-wide and international roaming in 213 cities. Like the NMT standard, GSM has a federal status. The first company that brought the standard to Russia was Mobile Telesystems company. Currently, the two leading GSM operators are Mobile Telesystems and VimpelCom.

4.3.4 CDMA

Although the CDMA standard is considered to be one of the most prospective standard in the world, it only accounts for one percent of Russia's mobile cellular market. This is due to the fact the Ministry of Telecommunications regulates it as a standard for fixed wireless communications only, not as a cellular standard. However, since the technology allows CDMA handsets designed for fixed wireless communications to be used for mobile use as well, several Russian CDMA operators having licenses for fixed communications only have started to use this advantage and provide cellular services. In general, CDMA's future in Russia is very unclear, both for mobile and fixed wireless communications.

5 GSM BASED SERVICE TO BE MARKETED

5.1 Background of GSM

Letters GSM comes from words "Global System for Mobile Communications". It is the most widespread digital mobile communications technology. About 20 million subscribers make GSM calls on over 180 networks in 100 countries. GSM technology covered about half the world's digital mobile communications by 1998. The number of GSM users is expected to grow to over 1 billion million by the year 2005. In Russia it will be close to 60 million by year 2004.

As already was told GSM is the world’s most widespread digital cellular standard and it will retain its position. GSM differs from other standards in its maturity and in its constant development. It already offers a platform for a variety of different services. There are further improvements in voice quality, and data and other services are becoming more versatile. Faster data transmission speeds are providing the means for new applications. These services, which can be provided with a GSM, network and GSM phone will all the time grow in importance. GSM is an important technology for MegaFon’s network and mobile phone businesses. MegaFon has been very successful on the GSM market from its very first beginning and they are continuously seeking new, innovative services for the demanding Russian market.

5.2 I LOVE service

Figure 8, I LOVE Logo

MegaFon launched its new and innovative service called “IS LOVE” 2003 in September. This innovative and interactive service is consisting existing elements, like: SMS, MMS and Internet portal together in a way that it enables seamless dating service; despite of time and location. This clearly uses the old and very popular dating service format that was introduced long ago by paper media to the masses. In practice, you either could place your own ad to the newspaper and all replies were rerouted by using a anonymous indexing code. This way anonymity was guaranteed and people could trust to the system. Alternatively, if you wanted to answer any

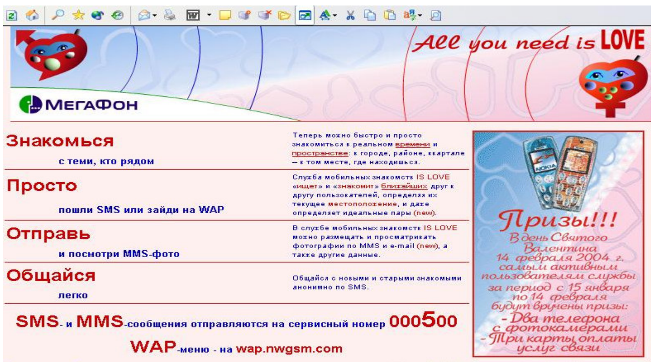
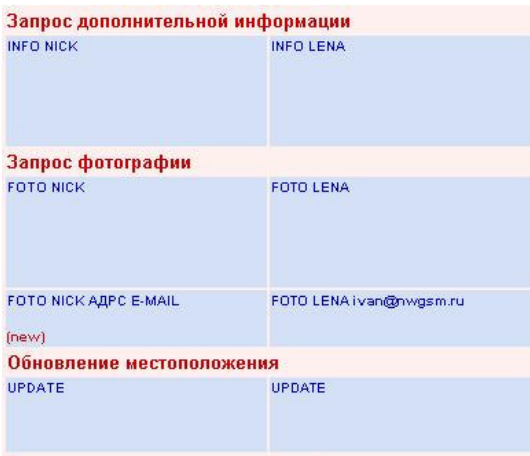


Figure 9. I LOVE Portal

of those ads, you just wrote a letter, addressed to the corresponding index and sent to the newspaper. They rerouted your mail to the original owner of the ad. I LOVE service is transferred to the digital environment and it uses all latest technologies to serve more instantly people who uses the service. By combining several mobile phone based features like: SMS, MMS and optional camera capabilities to the portal that is always on-line in Internet, creates a structure that serves all users easily, efficiently and precisely to the need. Service enables you to create a profile for yourself and for the "match" you are looking. You can also freely answer any ads on the site or on the screen of your phone through WAP connection. System is build up for easy to remember SMS number 00500, wap.nwgsm.com and Internet site at: http://www.islove.ru/. Russian IT firm InfoSoft Company did original programming work for the technical solution. According their General Director, Mr. Valery Cheredin: "There are hundreds of thousands people in St. Petersburg we consider the target market for this service." The concept is allowing users to place information about them along with a photograph, register under their favourite nickname and start communicating with strangers. They can this way to get to know other service users who happen to be nearby – on the next street or one block away. All location-based information is gathered from base stations and accuracy in city is even within one hundred meters.



Запрос дополнительной информации	
INFO NICK	INFO LENA
Запрос фотографии	
FOTO NICK	FOTO LENA
FOTO NICK АДРС E-MAIL (new)	FOTO LENA ivan@nwgsm.ru
Обновление местоположения	
UPDATE	UPDATE

Figure 10, Table of Keywords

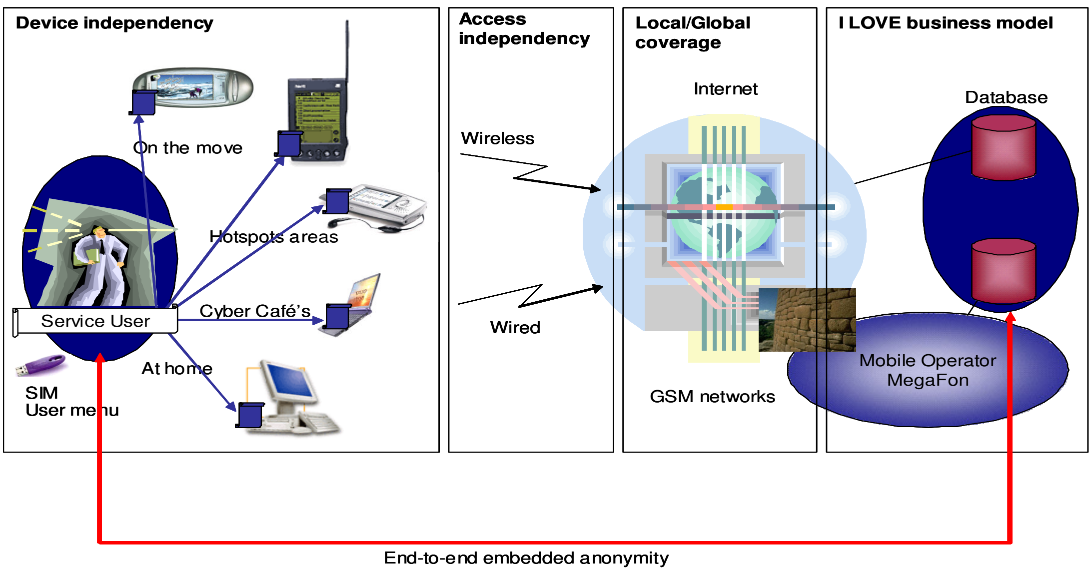
Service also includes several keywords to control, retrieve and update subscribers information or when contacting other service users. Words are easy and logical to remember like: INFO, FOTO and UPDATE. Feedback channel for the system administrator is just an email away at: contact@islove.ru .

Additionally subscribers can load settings, mainly SMS and MMS to their phones easily from operator as a smart message or subscribers can configure it by themselves with easy to follow instruction on operator's website. Help function is also integrated to keywords during WAP connection and by clicking the HELP, subscriber will receive list of all keywords and additional assistance if needed.

5.3 Technical description of the service

Technically the service is based on simple traffic handling and database functions that enables seamless service. All gathered data is stored only for retrieving and sending information between service users and in no case their anonymity is in danger. Picture below enlightens basic functionalities and describes the functional logic behind the service. First, service is technically reachable by all communications mediums, like fixed or wireless networks by using several compatible devices from mobile phones to palm computers. Additionally, it can be reached via Internet as well. Secondly,

Figure 11, Technical description of the service



network technologies enable also truly global approach if MegaFon wants to expand the service regionally. This will of course need roaming agreements and additional billing systems for SMS traffic handling internationally. Thirdly, the anonymity is embedded to the concept and guarantees seamless user experience without revealing your identity. Base stations cell information is used in connections through mobile networks, and this add extra flavour the service by offering location-based information for the service users. This is very convenient in phase, where user wants to arrange a rendezvous with other person.

6 MARKETING STRATEGY OF THE SERVICE

6.1 Target market

When thinking cellular phone market globally, it is possible to make some basic conclusions about St. Petersburg's market as well. Cellular mobile phones growth rate globally is more than 50% and it has been expected to continue at least several years ahead. In Russia, saturation point is still far away and penetration level in St. Petersburg has just reached 58% (Cellular Market Watch, December 2003, J'son and Partners Russia) . If current trend is continuing, saturation point of 80% will be reached after five years from now. Also, it might be feasible to forecast that market shares are following the growth and no major changes will happen.

The most of the markets will be first in St. Petersburg and the surrounding regions. Competition situation is very hard at this moment, and seems to be so that it is only getting harder in the future. Still, although competition is fierce, the ambitious objective is to achieve the point of 3 million subscribers during year 2004. Later, depending on how the competition situation changes is expected that MegaFon will year by year strengthen its position in the area. MegaFon's partner and sub supplier for the service, Info Soft Company's Mr. Cheredin states that: "When we did a poll to find out how many messages participants send before they meet their correspondents "in person", and it turnout that, sometimes there is meeting since the service ensures complete anonymity. People do not always want to meet in person." Same poll also revealed that, if service users agree on a rendezvous, most of them do so after exchanging an average 10 messages. Each message costs 0.12 cents and makes roughly 1 dollar to be acquainted. This clearly shows that pricing is below the threshold of any competing traditional service.

Instead of competing in every possible existing market areas in St. Petersburg, MegaFon has to identify the most attractive market segments in the region. When the major market segments have been identified, it is possible to develop service and marketing programs tailored to each these selected segments. In generally, we can define two major customer segments, while keeping in mind that, all subscribers own a phone that enables at least SMS level communication.

Now, (end of 2003) there is totally approximately 3.5 million subscribers in St. Petersburg region, which 2.6 million belongs to MegaFon. (Rosbalt Agency, 2003) It is also worth of evaluating the fact that, when digital GSM's next phase is GPRS and, that it can offer for its subscribers much more user-friendly features than GSM network, it is expected that in the near future many GSM-users will change their digital GSM phones to GPRS phones. GPRS enables smoother WAP connection and faster response times to data intensive services.

One way to make target segmentation is to define customers according to their geographical, demographical, psycho graphical and behavioural dimensions. From the geographical viewpoint, it is obvious, that target customers are at this moment in St. Petersburg region. Demographically most important variables are income and occupation. Target customer must have enough money to buy and use GSM phone services. The costs of the phone and the user SIM-card in St. Petersburg are approximately same level than in western countries. The fundamental difference is that in Russia over 90% of subscribers are prepaid customers and, that in Finland for example over 90% of subscribers are post-paid customers. In psycho-graphically and behaviourally we could say that target market is for those people, who are enthusiastic towards all the new services. People, who have to have a latest phone with all new features and functions and they want to show that they are so called heavy-users.

Segment 1, consists of people who already have discovered the freedom by the use of wireless telecommunications, and are in the front-line of using new data based services. Subscribers in this group have more than 10% data share in their monthly ARPU figure and they possess the latest phone models with MMS and digital camera features.

Segment 2, consists the rest of already existing mobile phone users. They all use prepaid services, but according to current billing information at hand, data services represent less than 10% of their monthly ARPU figure. This group is the potential future prospect for I LOVE service.

6.2 Sales volume estimation

Sales forecasting is difficult because of rapidly changing market and lack of historic data from the subscribers. Especially in the early phase, prepaid invoicing data was not stored in away that it enabled deep statistical methods to find out possible user patters etc. However, today the situation is luckily totally reverse. Now, MegaFon can have itemized prepaid bills that indicates what service, how many downloads or uploads, when, by whom and what was the

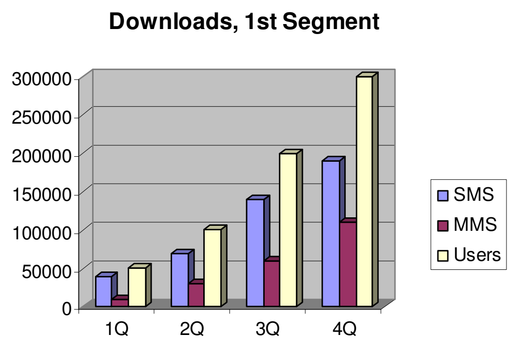


Figure 12, Graph, Downloads

connection time. This will be used as tool to differentiate two segments already mentioned, and to track down any trends that might forecast the future user patters.

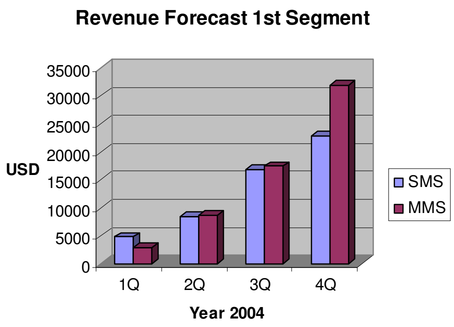


Figure 13, Graph, Revenue

It is quite challenging task to create a model of how to estimate sales volume of the service when the market is growing rapidly. The main question is, that how fast the MegaFon can increase the user-base for the service. Current price policy is following including local VAT: one SMS is $0.12 and one MMS is $0.29. Price for the WAP connection is excluded due too complicated pricing packages available.

By using the available data, the graphs are created for highlighting the trends. For the first segment the forecasted downloads are estimated to grow from initial 50000 to 300000 in the end of 2004. Service will be SMS dominated, but MMS is growing relatively faster than SMS. If this scenario is actual and true, turnover for SMS and MMS is then following respectively. As we can see due the skimming the cream pricing policy in MMS, the turnover for it, is exceeding SMS already on a second quarter. After this revenue is more dominated by MMS and therefore any pricing decisions should reflect this fact. This will give MegaFon some flexibility to decrease more popular SMS pricing without losing a lot in revenue.

On the second segment, similar type of trend is identifiably similar, but due the sense of possible prospects, it is harder to draw any precise

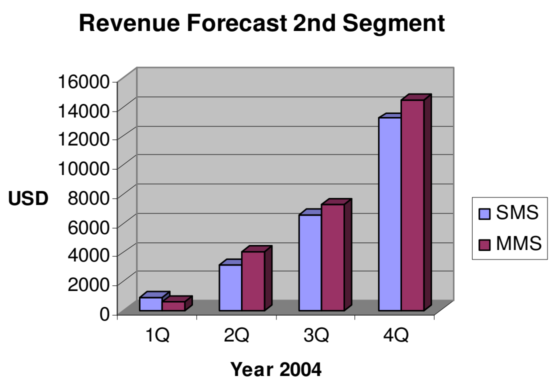


Figure 14, Revenue Forecast

conclusions about its future behaviour. The importance of this group lies on its huge user volume that might change the forecast significantly, if more subscribers are adopting the new service faster than originally thought by MegaFon. The trend in second segment is faster growing by nature than in the first segment and this might lead to the situation mentioned earlier. If groups are partially overlapping and changing their user experiences and if those experiences are positive, we might expect solid growth in the future in downloads. Now, if we look the estimated revenue for the service, we can pinpoint the same phenomena that MMS is exceeding the SMS revenue shortly after the 1st quarter. The trend is however different to a estimation of the more rapid growth and that in this group the majority do not use latest phone models so much than in the first group. SMS and MMS are growing quite steadily parallel and major frog leaps are not present and the first year. This group consist the huge possibility, if prices for the devices with multimedia functions and colour display will decrease significantly and people change their old models accordingly.

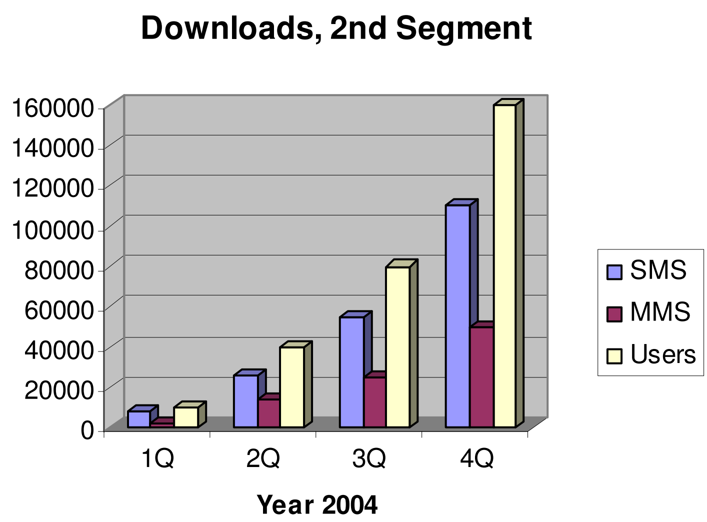


Figure 15, Downloads

6.3 Service positioning

Positioning is the act of designing the company's offer so that it occupies a distinct and valued place in the target customers' minds (Kotler, 1991, 302).

MegaFon's I LOVE mobile phone service is somewhat different for each customer. In generally you could say, that for the old dating services the paper format was always not online and traditional snail mail took sometimes weeks to deliver letters for acting parties. That is like: you are not anymore forced to wait and use traditional mailing services to get acquainted with somebody for example. With cellular phone, you are always connected, (Of course depending on the coverage of the network) and that is one basic thing what I LOVE offers as well. In other words, you can browse ads online anytime anywhere.

MegaFon has some of the "number-one" positions, what it has been successfully promoted in Russia. These include "best quality" and "most mobile cellular phone services". MegaFon has a good brand image all over Russian Federation and that gives an advantage when entering to new service orientated market area like mobile dating services. In order to achieve such a brand image, MegaFon has already a carefully designed definition of its brand in their brand manual. Manual is used always as a guideline when designing the brand's communications and appearance. Not all of them need to be in all activities, but all activities must be based on one or more of the brand dimensions. And this is also true, when targeting to St. Petersburg's cellular phone service markets.

6.4 Competition aspects

Currently there are several competitors in the target area. Mainly, there are MTS, Vympelcom (brand name BeeLine), Delta Telecom (brand name SkyLink) and St. Petersburg Telecom. Fortunately, a similar service from competitors has not been launched so far. This gives clearly the advantage for MegaFon to use its positions to gain more users than others do. This is important, because the service is not roaming, so only MegaFon subscribers can used it.

Competition is faced from local printed media, with several tabloids and other type of papers with some connections to the Internet as well. This is also a possibility to expand MegaFon service, so that partnership with most popular papers are created and mobile extension for the service is created. Exact figures is unavailable for the paper media circulation, and more deep analysis is impossible to do.

Pure Internet dating services are focusing on solely foreigners and expats who are willing to marry a local woman. In my opinion, they are not directly competitors, because of the audience and their different service offering.

6.5 Pricing strategy

The most feasible and simple method of pricing for the cellular phone services is to compare it with the closest competitive substitutes available. Now when lack of direct competitors are not allowing us to make straight comparisons, we have to find alternative ways to approach this question. In addition, price comparison with paper format substitutes is also not feasible. In this case, MegaFon can use price strategy that allows healthy profits and they should be the benchmark on the market. This will lead naturally to the cream skimming policy, like mentioned before in Sales volume estimation part. Gradually prices need to be decreased, but strong growth in user base, compensate this and increasing popularity of MMS is contributing as well.

6.6 Evaluation of distribution channels

This section reviews and evaluates potential distribution channels. Mobile operators are used to easy services that do not require much explaining to customers. They are selling what have become commodity services. Once a phone is set up and running, it can be used. Every person who buys a cellular phone knows how to use a phone, just as those who buy cars usually know how to drive.

The distribution of cellular services has traditionally been concentrated in the operator channel. Operators are defined as service providers with a local presence. In prepaid market, situation is extraordinary when it comes to operator presence on the retail shops, which collect prepayments from subscribers and sells phones with subscriptions. Each outlet is accepting all operator payments and therefore the usefulness to use them for promoting the service is unlikely to bring good results. Differentiation is too hard to implement. Also, local service providers are short-term profit oriented.

The sales package has to be easy and simple to sell and promote. Services that give positive feeling to the end-users are favoured. Easy to use packages are also easy to sell services, because benefits can be easily communicated to the customer. Because of this, MegaFon need to advertise directly to subscribers and by using methods like, SMS and direct mailing for both segments are most feasible ways to reach the target audience. Every subscriber receives a monthly-itemized list of phone usage, and an commercial attachment can be used to promote the service. It is vital to make all necessary configurations to the phones as easy for the customer as possible, to enable instant service experience without huge understanding of the technology itself. Like mentioned before, ready made smart messages that are automatically configuring the phone to operate WAP connection and adding I LOVE link to the phone menu can be used. Special SIM card toolkit allows also services that are pre-configured to the SIM card itself beforehand, and are possible to instantly use after the phone is switched on.

6.7 Chosen distribution strategy

As already has been mentioned, in such a city like St. Petersburg direct mailing and SMS marketing are most important distribution channels to reach potential segments in question.

6.8 After sales and support service strategy

The purpose of the support service is to provide customer the instructions and guidance that is needed to use the cellular phone and its applications for mobile dating service. MegaFon support department interacts only with directly with customers. The activities of the support service can be divided into pre-launch preparations and after-sales support. Pre-launch preparations include preparing support material for the subscribers. After this, sales support maintains all the normal after sales procedures, what cellular phone services need. These questions are addressed also in part 5.2.

7 CONCLUSIONS

The chosen marketing strategy in the introduction phase is closest to Kotler's slow-skimming strategy where the new service is launched at a high price and a low level of promotion. The high price will be acceptable for the first segment and enables fast enough service acceptances. Although market is not large, it is already quite highly aware of the service. High promotion level is not needed because of MegaFon's free publicity. In addition, because of market demand is highly price static and the potential competition does not yet exist. MegaFon should price their services so high as possible taking, of course, into consideration MegaFon's normal pricing strategy in other mobile-based services.

The service is positioned as a competitive, offering mobility to the old basic paper format users and inspired technology and quality against potential substitutes. Because of the wide range of different types of digital cellular phone services available, MegaFon can offer service to both customer segments depending on the actual use versus forecasted.

The targeted market segments are in generally already existing mobile phone users and the people who have discovered the freedom by the use of wireless telecommunications, and want to be connected. Geographically target customers live in the areas where already exists the cellular network. They, of course, must have enough money to buy and use cellular phones. They need the phone as an important tool in the business or they just want to have it because of the image what it gives.

Selective distribution strategy is used when penetrating into market area. GSM cellular phones will be sold through the local retail network with pre-configured SIM cards and direct SMS and paper format mailing to each existing subscriber.

Further studies should be made in how the location information can bring extra revenue and how it can be used for more precise service in regions where base stations density is lower than in cities. Similarly, price diffusion for mobile content services and its relations to penetration of mobile phones that support rich data services like MMS and possibly video streaming, should be analysed more deeply.

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