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What Defines Success: An Analysis of Pakistan Telecom Industry

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What Defines Success: An Analysis of Pakistan Telecom Industry

Sara Khan [α], Saif Ur Rahman [σ] & Hira Amin [ρ]

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I. Introduction

Many studies in last few years indicated certain factors that are globally recognized as crucial for increasing the profitability. (Stadle, 2007) also highlighted in his study that doing well is not just enough, you constantly need to find out how you should be doing better by analyzing the management practices that are doing good and eliminating the ones that are bringing harm. Another element that facilitate in improving practices is benchmarking with the better performing companies. Invariable careful analysis enables one company to have a competitive edge over the other when they confront each other in direct competition as it is apparent in the telecom sector of Pakistan

Mobilink focuses on networking. Mobilink also has access over areas where no other competitor has reached but it might lose signals in basements or some distinct part of the house. Their huge networking attracts large businesses to utilize this service of their so they could contact their employees wherever they go. Businesses that operate on a multinational or global level like the telecom sector of Pakistan has to built reputation in the eyes of all their customers, their focus should not only rely on increasing sales. Customer satisfaction is the basic reason for customer retention which no doubt is a huge factor that adds to the success of a firm. During our research work we analyzed that the telecom sector can divide their customers in two broader perspectives 1. Corporate level customer. 2. Domestic level customer. Corporate level means that huge businesses that comes into a contract with a particular network to provide all their employees with one particular connection. The other Domestic level includes the rest of the public. These telecom firms need to treat these customers differently in order to provide them satisfaction. We identified that corporate level customers are satisfied by proper connectivity or networking – how far their signals reach to small villages, northern areas, deserts etc. Mobilink as observed has the strongest networking that attracts the corporate level to come into an agreement with it. However on the other hand Domestic level customers are attracted by competitive prices and packages. Ufone was the pioneer in introducing sms packages under the name of sms bucket.Mobilink is catering needs of corporate users and have key revenue from corporate sales. Ufone and telenor are increasing their revenues through promotions and personalized cellular services, where aswarid seeks to offer competitive prices. If these three techniques are used differently by analyzing the type of customer then their sales may tremendously increase.

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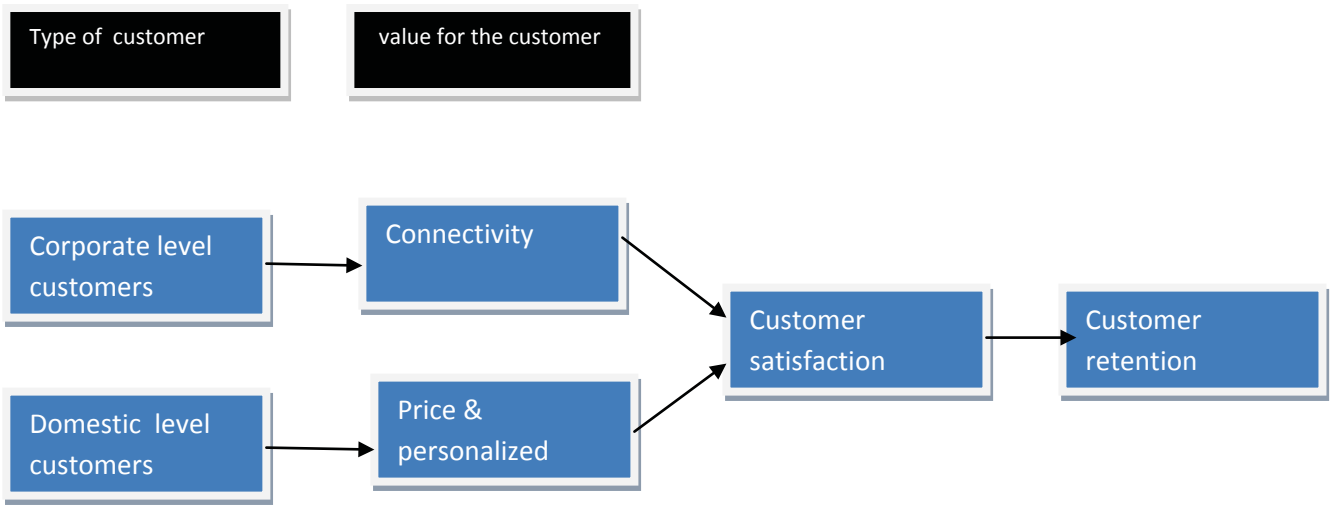

Logical planning to avail the revenue growth opportunities are extremely necessary. (Stadler, 2007) in his famous article mentioned that Nokia faced quality problems as well as increased costs by creating overly ambitious sales target for which they had to renew the focus on profitability rather than growth. Similarly we saw that Ufonegives Rs 500 to rickshaw drivers to display their posters on their rikshaws basically to advertise ufone's products. This sort of branding includes no taxes, maintenance or any other operating expenses. However we analyzed that this cost free method of advertising is somehow posing an adverse effect on the corporate image of the company and may not help in expanding the business as whole as advertisements also should be designed to attract both types of customers identified above. Whereas on the contrary Mobilink tries coming up with a very professional approach to advertising and hit on making large companies their customers which definitely add to their profitablitity. Mobilink's website also portrays the fact that professionals are behind it to manage. Addressing the needs of all types of customers enables a firm's growth.

Telecom needs to have their brains working round the clock so that they bring innovation and productivity in an inexpensive manner as the services provided by these companies are fighting over 'paisas'. Ufone beats others in ground-breaking advertisements whereas is behind mobilink which at present is the leading market with about 30 million strong subscriber base.

A blend of internal capabilities along with making use of external vision of the telecom companies is very essential. What we mean by internal capabilities is valuable human resource which is not only spirited in making best use of existing opportunities but also identifying them at the right time. In short the human resource is responsible for making the best fit between internal and external environment.

II. Project

Our goal was to identify the factors on basis of which some companies in telecom sector of Pakistan managed to perform well than others in last ten years. We identified the top performers of telecom industry on the basis of market share and their smart strategic moves. We made a comparison between mobilink, the top performer, with its two strong competitors, telenor and ufone. Our sources of data collection include PTA, formal and informal interviews with the management of telecom, past researches and publications, and few corporate as well as domestic level customers to identify some key success factors on basis of which we generated some propositions. Our biggest limitation was time period and lack of cooperation on the part of management of few telecom companies.

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CELLULAR SUBSCRIBERS								
	Mobilink	**Ufone**	**Zong**	**Instaphone**	**Telenor**	**Warid**	**Total**	**Growth Rate %**
2000	114,272	-	80,221	112,000	-	-	306,493	15.39
2001	309,272	116,711	96,623	220,000	-	-	742,606	142.29
2002	800,000	350,000	218,536	330,000	-	-	1,698,536	128.73
2003	1,115,000	550,000	319,400	420,000	-	-	2,404,400	41.56
2004	3,215,989	801,160	470,021	535,738	-	-	5,022,908	108.90
2005	7,469,085	2,579,103	924,486	454,147	835,727	508,655	12,771,203	154.26
2006	17,205,555	7,487,005	1,040,503	336,696	3,573,660	4,863,138	34,506,557	170.2
2007	26,466,451	14,014,044	1,024,563	333,081	10,701,332	10,620,386	63,159,857	80.70
2008	32,032,363	18,100,440	3,950,758	351,135	18,125,189	15,489,858	88,019,812	39.4
2009	29,136,839	20,004,707	6,386,571	34,048	20,893,129	17,886,736	94,342,030	1.30
2010	29,551,075	20,057,079	6,486,338	11,917	21,299,334	18,141,542	95,547,285	1.28

It was quite challenging to obtain the data of these companies. However as seen mobilink has the greatest cellular subscribers also because it was the first one to get into the market after instaphone and paktel. However later instaphone and paktel merged which did not gave them an obvious competitive advantage also according to Jim Collin mergers and acquisition play virtually no role in igniting a transformation from good to great as two bid mediocre entities joint together never make a great company.

Each industry has its own success factors as it is not only affected by its ways of operations but also by the external factors that directly or indirectly influence it. However being focused to the telecom sector of Pakistan there are five major propositions which appear basic to the success and rating of these companies as no 1 or gold medallist , silver medallist or collapsed.

Proposition 1.

You cannot afford to ignore the technology. Paying no attention to timely implementation may be fatal.

An important factor is analyzing the technological change that is to be brought to the company and of course on the right time is crucial for the existence of the company when it operates in such a tough competition as it is seen in the telecom sector. Implementing technology at the right time helps not only in reducing manpower or cost but also in adding more features to the existing business.

Being no or little technologically concerned was one of the main reasons for the failure of Instaphone in Pakistan. Instaphone was the pioneer of cellular industry in Pakistan, initially owned by Millicom International and was acquired later by the Arfeen Group.

One of the main reasons behind the collapse of instaphone was the introduction of GSM in 1994 by Mobilink in Pakistan. Instaphone's customer switched to Mobilink as it introduced sim card whereas insta offered specific handsets with lesser functions.

Moreover Instaphone was far behind in technological war as its signals were analogue. The primary disadvantage of analoguesignalling is that any system has noise – i.e., random unwanted variation. The effects of noise create signal loss and distortion. As the signal is copied and re-copied, or transmitted over long distances, these apparently random variations become dominant.

Due to being technologically incompetent most of the customer of Instaphone switched to other network, leading to a revenue shortfall. Resultantly PTA terminated the license of Instaphone due to the company's failure to pay outstanding dues for the license renewal fee they agreed to in April 2005 ($291MM).Pakcom, the company that runs Instaphone, failed to meet the payment schedule of $291 million for getting the operating license renewed for next 15 years from 2005. Before the company's license was cancelled, it was ranked at the bottom in terms of market share. Revenue of Instaphone in 2003-04 was 3196 million

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PKR, 2693 million PKR in 2004-05, 1539 million PKR in 2005-06, and 472 PKR millions in 2006-07.Concequently, Instaphoneemployees' had not been paid their salaries since May 2008.It had become a normal practice for the companies to delay salaries and it has been so since January which increased employee dissatisfaction.

Proposition 2.

Use the skills/ideas of others around you to grow your business – Exploitation.

Innovation, exploration and exploitation of opportunities can also add to the value of an organization. Many authors such as (Buckley, 1998), (Kogut, 1984), (March, 1991) have also critically analyzed the factor of exploration Vs exploitation. Firms investing solely on exploration processes operates at such a level of risk that it would be difficult for it to secure enough short term returns to fund long term growth. It can therefore be concluded that it is always better to exploit before you explore which also (Standler, 2007) in his famous article has identified as its one out four factors for companies to be successful. Relating it to the telecom sector again Mobilink explored the GSM technology which was replaced by the EMS technology. EMS as well as GSM technology connects through satellites where as EMS technology did not have sim cards in it unlike the GSM technology which became very popular and is inexpensive. People usually keep couple of Sims as it appears quiet economical. Insta phone also couldn't stay in the market for long as it didn't upgrade itself with technology. We observed that the major cause that forces a company out of competition is external factor which as defined by Ranyard and Flides (1998) as 'outside the influence of the organization' but still it could have been managed more vigorously. On the other hand every other network exploited what Mobilink explored. However still Mobilink enjoyed revenues from it as at that very time only Paktel and Instaphone existed. This was one of the very basic reasons why Insta couldn't stay in market for long as it did not exploit mobilink's exploration. Exploration is well defined by March (1991), he says it is associated with activities such as 'search, variation, risk taking, experimentation, play, flexibility, discovery and innovation while exploitation is associated with activities such as refinement, choice, production, efficiency, selection, implementation and execution. This phenomenon of exploitation by (Leseure&Driouchy, 2010) has defined it as a copy and paste approach to strategy. They also pointed out in their study that firms will tend to forgo valuable exploration opportunities (e.g. learning and real options) for exploitation opportunities. Similarly it is seen one feature added by any telecom company is instantly adapted by others before it becomes an apparent edge for the pioneer. For instance the GPRS technology was launched by Ufone which was replicated by others before they could attain a significant edge. However we do not mean to say that companies should quit exploring. Exploration is always good for ones learning and experience as (Levitt & March, 1991) says once a firm accumulates sufficient experience with one technology, it is natural for the firm to be trapped in the technology and be blinded to alternative opportunities – this phenomenon is called competency trap or learning myopia. The literature however also warns that relying too much on exploitation may lead firms to be locked out of opportunities in the long run. However still it isn't wise to explore something that requires tremendous amount of cost and energy and is easily copied by competitors. However our observation, interviews and analyzing few case studies of companies helped us identify when it is safe to explore.

1. Cost high, benefit is high and when there is medium to high barriers to copy as this will help them benefit from differentiation strategy where the competitor would take time to copy till then the firm may explore something additional and stay at a competitive edge.
2. When cost is high, benefit is medium to low and barriers to copy are extremely high. This way in the long run cost would be distributed over time and benefit over time will cover initial cost. Also extreme high barriers to copy wouldn't threaten the firm's position or wouldn't bring any investment harm.
3. Low cost, medium to low benefit and low barriers to copy. This will just help the firm engage in learning process.

Safe To Explore			
Serial	Cost	Benefit	Barriers to copy
1	High	High	Medium to high
2	High	Medium to low	Extremely high
3	Low	Medium to low	Low

Proposition 3.

Retaining high quality customers is way too better than striving to attract new ones.

A fundamental truth in the business world is that competitors are always looking to steal your customers, and many customers are on the lookout for a better

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deal. There are five companies operating in Pakistan namely; Mobilink, Ufone, Telenor, Warid and Zong. There is hyper competition between these companies especially between Mobilink and Telenor, which are the main players in the cellular industry of Pakistan. As of November 2009, Mobilink is capturing 30.9% of the entire market with highest number of subscribers followed by Telenor having 22.2% of the market share. All companies are striving hard to maximize their market share by intensive marketing campaigns and offering more innovative products at minimum prices (Mobile Cellular Policy Jan. 2004 Ministry of Information Technology. IT and Telecommunication Division. Government of Pakistan).

The factors which make a telecom company to retain its customer are call clarity, provision of user friendly services, lower price, value added services, provision of continuous support services and timely respond to customer complaints. (Bendapudi& Berry, 1997) has affirmed that quality of services would persuade the customer's intent to stay in long term relationship with the organization as it's a great deal more expensive to acquire customers than to retain them, an effective customer retention strategy is crucial to a company's success. Cöner and Güngör (2002) found that service quality would lead towards more loyal customers. (Gremler, 1995) has found the psychological relationship between customer and a service provider as bond that helps to retain customers in the long term. It can be seen as care, friendliness and ease of communication in delivering quality services to the customers. (Woo and Fock, 1999) have found that, in Hong Kong, network coverage and call quality has significant influence on customers. (Shankar & Krishnamurthi, 1996) have focused the firm's attention on the preservation of low price sensitivity which would result in long term profitability. It affects consumer satisfaction (Anderson, 1996).

The intent to satisfy customer by bringing quality in the service sector is becoming essential to retain the customer (Brown and Gulycz, 2001). Therefore we see that for customer retention and loyalty customers should be highly satisfied. Service industry depends on continuous cycle of repurchase so companies have to struggle hard to retain customers (Anderson et al., 1994). In Pakistan where telecom industry is getting competitive, customer retention has become essential. Customer retention has undeviating impact on the market share of the organization (Steenkamp, 1989). Canadian scholar (Barnes, 1997) study has emphasized that loyal customer would keep recommending to others, which helps the organization to earn more customers.

(Fornell, 1992) acknowledged satisfaction program facilitates retention of customers. Organizations should also give its customers more than they expect as also the 80-20 rule of business states that 80% of your business will come from 20% of your customers. Therefore the companies should be extra careful in retaining their existing customers and devote extraordinary attention towards retaining the 20% of those customers who provide 80% of the profits to the firm. As ufone has the ability to retain its existing customer base with a high level of customer satisfaction through optimal network service and installation of 24-hours call center.

Companies should continually look for innovative ways to gather their customers' data and to find what is perceived as value-addition for them because the more you know about your customers the better you can meet their needs. Telenor is at an advantage as its top management is known to be visible for the customers. However it is kind of impossible for customers to approach the top management of other networks. This, without doubt extensively adds to customer satisfaction.

Proposition 4.

Come up with new value-added packages while maintain the quality of existing one.

Cellular companies are facing keen competition because the margins from their voice business are declining. That is why companies are looking for Value added services as the next wave for growth. It has become the flywheel of telecom growth and a large part of revenue for operators is likely to come from VAS in the years to come. The reasons behind focusing too much on VAS is that, today, mobile phones are not considered to be a basic device only with the main purpose of communication, but it is regarded now as an extension to a dimension of human life. Apart from being an indispensible commodity in a society, mobile phones have started to define the very fabric of personal life; it is used to express, for entertainment and day to day work to such an extent that the user feels handicapped in its absence. The main reason for the companies to be more concerned about value added services is that the customers have become increasingly demanding. Apart from voice calls, cellular phones are used for Internet surfing, email, music, news bulletins, video on demand, social networking, banking, billing and other such related activities. The potential of facilitating the cellular users via value added services (VAS) in their daily life is enormous and untapped to its full potential, especially in the context of Pakistan.

A study was conducted by GetJar, a neutral application store, which specifically aimed at forecasting of financial and market growth of mobile phone applications and value added services. The results of the study indicate that the market for mobile applications would boost to US$ 17.5 billion till 2012. Furthermore, the market showed a Year over Year growth of 92%. The application market growth is expected to rise from US$ 1.94 billion in 2009 to US$

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15.65 billion in 2013. According to Gartner research, global downloads in mobile application stores are expected to surpass 21.6 billion by 2013.

A recent research by TNS highlighted the change in technology usage and trend of the customers. According to research, 40% of the users pay to download mobile applications or content. The Qualcomm research also revealed that 63% of the mobile users would spend more time accessing and purchasing content online if it was easier to find; 80% of the users had problems obtaining content on their handsets and whereas 58% of the users believe in carrying their content along with them regardless of the device. By analyzing these trends, one can easily determine that the future of VAS is bound to be enormous.

Pakistan has undergone an immense growth in Telecommunication sector both in terms of infrastructure and subscription. The telecommunication industry of Pakistan has emerged as one of the fast growing telecommunications industries of the world. Due to this fact, it managed to attract US$ 815 million in 2008-09. Attaining an incredible mark of over 98 million subscribers in the country, the competition between operators in Pakistan has increased enormously as the subscribers have increased choice to choose their operators on the basis of the value added services being offered. As a result, the mobile operators have realized that being successful at VAS has become important for their growth. This has led to a keen focus on marketing and value added campaigns. Most mobile companies are trying to innovate in their VAS offerings in order to create a differentiation from their competitors.

In the context of Pakistan, Mobilink is considered as a leader in provision of VAS. Mobilink is a telecommunication service provider in Pakistan. The company is Pakistan's leading cellular operator with a subscriber base of around 29.5m and market share of 31% in October 2010. In addition to cellular service, Mobilink is diversifying its service portfolio by setting up new businesses and also making expansion through acquisitions. Recently, Mobilink started offering DSL broadband through a wholly owned subsidiary, named Link.Net. Moreover, the company launched its wireless broadband service through WiMax based technology under the label of 'Mobilink Infinity'.

Mobilink's customer base continued to grow in the first quarter of 2006, with an average of 1 million customers per month. Its network resources also grew. Mobilink offered a new range of products. Launch of jazz octane was a good step towards strengthening the jazz brand and it was aimed for youth. In the third quarter of 2006, in pursuit of further strengthening its market position, it launched Jazz Ladies First. This was especially designed for women in Pakistan offering rates and timings favored by them. Through Jazz Budget it introduced per 30 seconds billing. To strengthen its position in the competitive market it also revised its postpaid rates. Furthermore they reduced their international calling rates. With this price revision, mobilink also offered its indigo customers discount on weekends and discounted calls to a selection of friends and family. This price revision followed by another offer on internal calls for Jazz prepaid customers, which allowed them to make international call on local rates.

In today's scenario of increased competition, communication is considered the key to success. This is why 91% of the KSE 100 and most major financial institutions in Pakistan rely on Mobilink indigo for their communication needs. From premium connectivity, exclusive BlackBerry Solution, to priority Customer Services, only Mobilink indigo bridges top organizations to success, everyday.

Mobilink is the first operator in Pakistan to offer in-flight communication service for its customers. Partnering with Air France and Emirates through its partner networks On Air and AeroMobile, Mobilink offers GSM network onboard aircraft; providing not only voice calls and text messages but also data over GPRS. This service enables passengers to use their GSM mobile phones and smart phones, such as BlackBerry, during flights - after takeoff and before landing. Mobile in-flight roaming works like regular roaming service on ground. It is billed by passenger's home mobile operator. To use the service, passengers with an international roaming subscription simply switch on their mobile phones on a Mobile in-flight roaming equipped aircraft. Currently, this service is being provided on one Emirates and one Air France aircraft. These aircrafts fly to various European destinations such as Paris, London, Vienna, Rome, Frankfurt, Munich, Venice, Barcelona, Copenhagen, Prague, Warsaw, Hamburg, Casablanca etc.

Mobilink indigo Rewards Program is another value added service provided by mobilink which donate Rewards Points to help fight Cancer.

The Mobilink Foundation is a grant-giving organization, which provides support for the local community not only financially but also through dedicated volunteer hours as it helped a lot the victims or recent floods.

The scope of VAS especially in a country with the demographic and economic condition of that of Pakistan is enormous. Mobile VAS is an emerging stream of revenue for both the telecommunication sector and other related industries and provides a strong hope of rescue of the industry from the decline ARPU (Average Revenue per user). Provision of VAS is one of the strongest reasons for mobilink to have largest subscriber base in Pakistan. Moreover, in Pakistan in specific it will act as an agent of change in the social uplifting of the rural and under privileged society in specific. However Ufone and telenor are also innovatively moving with service provision. Ufone was

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the pioneer in bringing SMS packages under the name of SMS bucket. . Telenor had also come up with internet and edge services which provides internet at three times faster rate.

Preposition 5.

Keeping eyes open to opportunities and availing them on time.

The telecom companies lies in an oligopolistic competition, so letting go an opportunity means handing it over to the other competitor and if this is consecutively done then the market position of that very company can seriously be threatened. Since mobilink lost the opportunity of mobile banking in 2009 which was later availed by telenor. Now telenor is recognized as the first telecom operator in Pakistan to be ISO 27001:2005 certified for ISMS (information security management system) for mobile banking service. Also Telenor is seen to be giving a tough competition to both mobilink and ufone. From last two years (2009 and 2010) telenor has seen to have a greater market share of 23.9% than ufone 19.7%, Mobilink still is a market leader. However still as yet it can't be stated as telenor has taken ufone's position completely as number 2 sinceufone is fighting to get the share back and is also working on a mega expansion project amounting USD 550 million which will enhance the subscriber capacity by 10 million.

Through heavy advertisement and increased innovative packages a telecom industry may significantly increase its growth rate. Telenor is a threat to mobilink as well since it is quite innovative in its packages and moves with a well planned strategy. Above all telenor being a multinational has a strong base and has no apparent problem in bringing heavy investments when needed. On the other hand telenor is also playing an active role since right now it is at a number 2 position compared to warid which is at number 4 though they both started their operations in Pakistan almost together.

Mobilink when interviewed pointed out that the toughest competition they are facing is by Telenor. Telenor is threatening its position since it is looking forward to acquire 70% of warid's share. Warid has already sold 30% shares to Singtel which is a Singapore based company. This deal if finalized would be a very smart and strategic move and would make Telenor a significant market player. Also Telenor deals very carefully with its brand image and indulges effectively in social responsibility.

If telenorwarid deal will be finalized as mentioned earlier (Telenor is interested in acquiring 70% shares of warid) would mean that CMCC would lose the opportunity of being a significant market player as CMCC (China Mobile Corporation Company) the present company of zong was interested in acquiring shares of warid and then telenor. Instaphone did not respond to any opportunities as the management was reluctant to change therefore gradually their subscribers declined till the point that it was forced out of the market.

III. Findings

During our project we found that the telecom sector has two types of customers which value different services. Corporate level customers value connectivity where as Domestic level customers prefer prices and personalized services. Catering differently to their needs enable one firm to have an edge over others. Immediate exploitation of others ideas is important before the existing customers are attracted to the other network. Heavy competition may force the firm out of the market if timely actions are not taken. As it was studied during our research work that Instaphone's management was reluctant to adopt to change which was extremely necessary for instance adopting GSM technology or adding competitive packages. Instaphone also was risk averse and weren't confident to invest where required.

IV. Conclusion

Mobilink being the top performer amongst rest can still improve its profitability. It shouldn't just rely on its existing strategy of approaching or directing its efforts towards corporate customers but also by catering needs of rest of the public and fulfilling their expectations. Still Mobilink exceeds the rest through this very strategy by having the maximum subscribers. However the rest has shaped their marketing towards the public without recognizing the fact that these two different customers require different treatment. Also to keep ones network competitive the company has to build its reputation and smart timely moves are a prerequisite towards building ones reputation.

From last many years different authors support the idea of exploitation over exploration. However we believe that exploration to some extent is important to keep yourself active also we identified situations where it is beneficial to explore. Investing into ones network is also important. Instaphone couldn't survive for long because it was reluctant in investing into technology or otherwise when required. Adding packages keeps the customer interested in their current networks for which the company needs to keep track of upcoming opportunities. Maintaining the satisfaction level of customers keeps them loyal to their network.

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