

European Telecommunication Companies and their Strategies

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Abstract

This paper presents the main European telecommunication companies that act on the Eastern - European market, focusing on their adopted strategies: British Telecom, Vodafone, Deutsche Telekom, France Telecom, Telia Swedish, Ptt Holland, Teledanmark, Telecom Italy, Telefonica Spain, Magyar Telekom and Ote Greece. It is very interesting to observe that this area's intense concurrence almost fully submits to a few strategic options: cost reduction, efficiency growth, traditional services protection and the development of new income sources.

However, we took as example the strategy followed by Vodafone Telecommunication Company, analyzing its brand essence and values, as resulted from the company's statements available on their internet site.

Keywords: telecommunication, strategy, mobile phone, fixed phone, provider

Introduction

The liberalization and mobile development represented massive changes with a profound impact on the competitive environment reconfiguration on the Eastern - European markets together with the opening of the fixed phone markets competition and the development of the mobile services. On every market there are companies that try to gain on their side the clients of the fixed phone companies using a diversity of strategies. However, the users adopted with enthusiasm the mobile revolution in the region: the mobile phone possession reached the saturation point in countries such as Czech Republic, Hungary and Slovenia, the rest of the markets going fast towards this direction.

The mobile phone always wins when it comes to convenience and added services on a market in which the fixed telecommunication providers are not always clear leaders in the services' quality. These reasons will make that the fixed - mobile substitution (FMS) continues to be a threat for the Eastern Europe fixed telephony, needing to create offensive strategies.

The Main European Telecommunication Providers

The main European Telecommunication Providers that act on the Eastern European market are:

- **British Telecom** is a 100% private company that owns the most performing communication network and intends to assure a global covering throughout its products and services within all 100 countries in which it operates. The concern is made of a joint-venture **British Telecom - MCI/USA**, owning the most advanced and complete telecommunication network from the world. Its role consists in offering services and products for the multinational clients.
- **France Telecom** serves more than 172 million customers in five continents as of March 31, 2008, of which two thirds are Orange customers. Orange is the key brand of France Telecom, one of the world's leading telecommunications operators. The group had consolidated sales of 52.9 billion euros in 2007 (13 billion euros as of March 31, 2008). As of March 31, 2008 the group had 111.9 million mobile customers and 12 million broadband internet (ADSL) customers. France Telecom is the number three mobile operator and the number one provider of broadband internet services in Europe and one of the world leaders in providing telecommunication services to multinational companies. It developed an almost 100% digital network, with more than 1,5 million kilometers optical cable. For the partial privatization of the France Telecom company, the French government obtained over 7,1 billion dollars.
- The group's operating activities are organized by geographic zones. These are composed either by country, by groups of countries, or worldwide for enterprise business customers. Their mission is to closely coordinate all customers' activities and adapt the overall strategy to the requirements of the local markets.
- The convergence of services accessible on fixed lines, mobiles and the Internet and the distribution of content on all platforms characterize the group's innovation and strategy. The personal communication services, home communication services and enterprise communication services are directing the group's global strategy in terms of customer offers. Content and healthcare departments lead these new business territories.
- **Vodafone Group Plc** is the world's leading mobile telecommunications company, with a significant presence in Europe, the Middle East, Africa, Asia Pacific and the United States through the Company's subsidiary undertakings, joint ventures, associated undertakings and investments.
- The Group's mobile subsidiaries operate under the brand name 'Vodafone'. In the United States the Group's associated undertaking operates as Verizon Wireless. During the last two financial years, the Group has also entered into arrangements with network operators in countries where the Group does not hold an equity stake. Under the terms of these Partner Network Agreements, the Group and its partner networks co-operate in the development and marketing of global services under dual brand logos.

- At 31 December 2007, based on the registered customers of mobile telecommunications ventures in which it had ownership interests at that date, the Group had 252 million customers, excluding paging customers, calculated on a proportionate basis in accordance with the Company's percentage interest in these ventures.
- The Company's ordinary shares are listed on the London Stock Exchange and the Company's American Depositary Shares ('ADSs') are listed on the New York Stock Exchange. The Company had a total market capitalisation of approximately £99 billion at 31 December 2007.
- **OTE Greece** is the main leader among these country's telecommunication companies. It owns many subsidiaries including **COSMOTE** and **OTENET**. In 1949, OTE owned the monopoly in Greece, but since the 1st January 2001, the provider developed its activity in a completely competitive environment. The OTE vision is to become part of the first 5 telecommunication companies from Europe and become closer and closer to the client satisfaction maximization, contributing to the social, technological, commercial and universal exchanges.
- **Deutsche Telekom** is the greatest supplier of telecommunication from Europe and number 3 world-wide. It contributed to the privatization of some telecommunications providers from Europe: *Hungary, Belgium, Holland and Czech Republic*. **Magyar Telekom** is the major telecommunication services supplier from *Hungary*, offering services for physical and juridical persons (telephony, data transmissions, added value services). Magyar Telekom is the major shareholder of **Maktel**, fixed telephony provider and **Mobimak**, mobile phone provider, both from *Macedonia*. Magyar Telekom owns the controlling interests within the **Telekom Montenegro (TCG)**, the greatest provider from Montenegro, offering fixed, mobile and Internet services. The Magyar Telekom shareholders were listed to the Budapest and New York Stock Exchange since 1997. The controlling interests of Magyar Telecom (59,49%) is owned by Deutsche Telekom, the greatest telecommunication company from Europe, 40,51% of the shareholders being quoted to the Stock Exchange.
- **Telia Swedish** is present in Europe - *Greece, Latvia, Ireland, Poland, Bosnia - Herzegovina*. Telia contributed to the technical and strategic performances development of the telecommunication systems in over 100 countries, throughout the consultancy company: **Telia Swedtel**.
- **PTT Holland** is a 100% private company, having one of the most sophisticated substructure and realizing the most rapid new lines implementation. PTT Holland is present in Europe throughout the **Unisource** subsidiary, in the data and voices networks' field.
- **Teledanmark** is in the privatization process, needing to pay 2 billion dollars for the acquisition of 30% of its capital, owned by the *Danish* state.
- **Telecom Italy** occupied the 6th world-wide place and assures the highest mobile phone penetration degree from Europe: 18%. It is associated with **IBM** in the **STET** group made of 100 companies from Italy and from the world, for the data services, voice and multimedia integration.
- **Telefonica Spanish** is the greatest telecommunication provider from the Spanish speaking countries (over 300 million subscribers within the affiliated companies from *Spain, Latin America and USA*).
- The explosive **fixed - mobile substitution** represents a less welcoming effect of the mobile development in Europe, because of the extended

substitution of the fixed calls with the mobile calls. The practice to pass directly to mobile, where there is no fixed line, is somehow accepted by the fixed communication providers. What represents a concern for them is more the practice to give up to the fixed lines replacing them only with the mobile phones.

- In the competition with the mobile phone telephony and other new technologies, the classical fixed telephony doesn't have many chances in the current conditions. In Romania, only on the international calls segment, RomTelecom affirmed that the local and interurban traffic continued to grow after the liberalization, eventhough the calls from fixed phones to mobile phones diminished. The national providers are under pressure because the fixed telecommunication markets still form the piers of the communication markets, but they are under an extreme pressure. This is due to the late beginning of the liberalization. Only in the last 2-3 years a diminishing of the fixed phone tariffs took place.
- The fixed telephony national business of the dominant providers has 3 factors of pressure:
 - a decline of the fixed lines due to FMS;
 - a decline in the calls' volume due to FMS and market share erosion;
 - a decline in prices due to the competition.

The Key Strategies of the Dominating Providers

The strategies applied by the main telecommunication providers on the Eastern European market are:

Cost reduction

The national providers take drastic measures, but adequate regarding the costs. Taken into consideration the diminishing incomes of the fixed lines, the only way to maintain the profitability is to reduce the costs, proportional to the incomes' reduction. The 2 key fields that they were focusing on were the reduction of the employees' number and capital expenses, these being the most controllable expenses.

The employees' salaries are, usually, some of the highest operational costs for the telecommunication providers, so it is not surprising that most of them continue to take radical measures linked to these costs. RomTelecom reduced with 12% the number of its employees, followed by Cesky Telecom with 10% reduction in 2003. But, not all the providers attended the same level in their efforts to reduce the employees. A way to evaluate their position is to report their employees' costs to incomes. Eesti Telecom didn't take the measure to reduce its employees because its employees' costs structure was already very good: its employees' costs represent only 11% from its incomes.

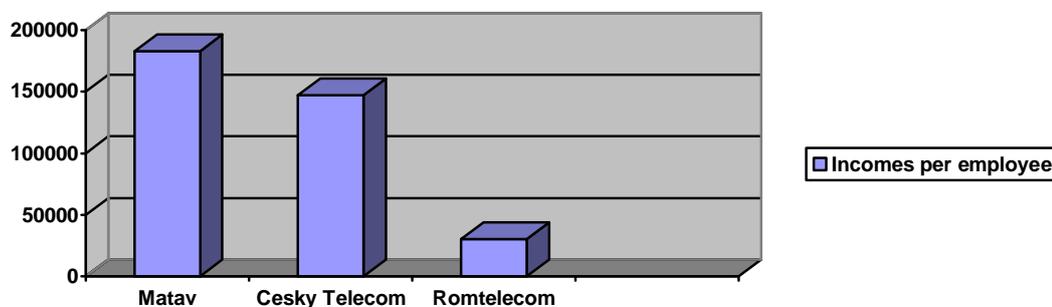
The capital costs forms another relatively easy measure to reduce costs. For instance, Matav moves on the Internet the customer relationship service from the en detail stores, assuring the routine on line services such as order taking and defection reports. At its turn, TPSA (Polland) transforms the services operations for customers in a unified call center. This strategy was recently adopted by RomTelecom as the

providers' representatives informed on the Communication Day (Romexpo, 21 April 2004).

Efficiency growth

The efficiency growth goes hand in hand with cost reduction for providers, whose main objective is to give up to the inefficient image of slow providers. They made progresses in this regard, eventhough in a slow rhythm.

The national Eastern-European providers made progresses. The employees' reduction lead to a growth of the report of incomes per employee. Matav is the leader to this index with annual incomes per employee of 183 000 USD, followed by Cesky Telecom with 145-147 000 USD. However, RomTelecom has much work to do for the efficiency improvement: its incomes per employee were only of 30 000 USD in the first 9 months of 2003.



Traditional services protection

The majority of the national providers entirely changed their way to commercialize their voice services. A key change was the process to rebalance the access tariffs also to the local calls, which were traditionally priced under costs. However, the reduction of calls at distance (interurban and international calls) was due to the imminent competition.

Moreover, some providers introduced a diversity of prices in view of protecting and developing fixed mobile incomes. Cesky Telecom introduced free minutes as part of the subscription, whereas TPSA offered a package with unlimited minutes (for a higher subscription fee). Matav introduced prepaid fixed charges to counteract the attraction of the prepaid mobile cards, with no success in preventing the fixed lines decline.

The development of new income sources

The national providers that have a contribution to the mobile development throughout their own mobile businesses compensate somehow the decline of the telephonic services. Cesky Telekom that operates on a Czech market, in which 89% of the population has a mobile phone, registered a decline. In exchange, TPSA managed to have a powerful growth of the mobile incomes

on the Polish market, where the penetration reached only 42% in September 2003.

The Internet in large band is in its first phases of development in the Eastern Europe. The demand is still weak, despite a rapid growth in 2003 becoming from a restraint group of users. The high prices of DSL (Digital Subscriber Line) combined with the low income of the population remain the main barriers in adopting DSL and other broadband services. As a consequence, DSL will be a solution for small and medium enterprises and affluent individual customers, on a medium term.

Alike to the DSL services, the data mobile services have a cold welcome in Eastern Europe. Throughout the GPRS networks (General Packet Radio Services), almost all the providers offer a large range of advanced data services, such as MMS, mobile email and location based services. The main reason is that these services need expensive terminals, besides the fact that they are relatively expensive and this is not in accordance with the low income of the population.

Besides the growth of the mobile services incomes, there are less ways to compensate the incomes in decline of the fixed telephony. The result is that only the providers that own growing mobile operations manage to obtain a growth of their total incomes. The others registered static or declining incomes due to the fact that the markets they operate on, are filled (Cesky Telecom) or they have no direct interest in a mobile operation, besides the administration of a static or negative growth of the fixed lines.

When the mobile markets will arrive to saturation and the fixed mobile competition will intensify, all the providers will face the same difficulties in the growth of incomes.

The first effects of the liberalization were felt by the companies in the field that confronted themselves with the provocation and opportunity to develop their businesses in totally new conditions. That's why, the main objective of the National Authority for the Regulation in Telecommunication (NART) was the creation of direct communication channels with the industry. The principles of this relationship were the transparency, the continuous informing and public consultancy.

The liberalization led to benefits for all the users of the communication services, making possible the prices reduction, the offer diversification and the risen of services quality. The RomTelecom prices diminished with 63% in medium for the international calls in fixed networks and with 20% for the interdepartmental national calls in the network. However, the alternative suppliers and, especially, the ones that use the TV cable support, propose significant prices under those of Rom Telecom.

A diversification of the used technologies was registered. So, if the main network access mean was the traditional telephonic cable, after the 1 January 2003, new technologies were introduced within the entrance on the market of new suppliers: coaxial cable, radio support and optical fiber.

The telecommunication industry came back to profitability, but the VoIP technology development will mix up the role and the business model of the traditional telecommunication companies, creating pressures for a new approaching modality for the industry regulation.

Thus, in the Central and Eastern Europe, the importance and the market share owned by the VoIP services, compared to the fixed telephony, still remain modest. However, the disadvantages associated with the VoIP services' use, play an important role in the postponement of their mass adoption in this region.

Vodafone - An Example of a Targeted Strategy

The Vodafone Telecommunication Company's vision for 2010 is to be one of the most trusted companies in the markets where it operates, according to the declarations of the company's leading team. Its five year strategy - developed in 2005 - is designed to help it realise this vision. It sets clear priorities to:

- Maintain high ethical standards
- Understand and respond to its stakeholders' priorities
- Ensure its operating standards are consistent across the Group
- Deliver on its promises in three key areas:
 - 1 responsibility to its customers
 - 2 reuse and recycling of mobile phones
 - 3 energy and climate change
- Capture the potential of mobile to bring socio-economic value through access to communications.

Vodafone will also focus on the enlargement of 3G, Broadband and 3G+ area cover. The Vodafone strategy is to focus on the HS-DPA network enlargement in more and more towns to offer 3G broadband services. This company, which already uses the data technology in business segment of clients doesn't seem convinced by the success of WiMAX compared to 3G. At Vodafone, a monthly subscription at 200 MB costs 3 euro without taxes and reaches 35,70 euro for a subscription of 8GB included. The download speed goes to 2,8 Mbps in 3G Broadband covering area. On the other hand, a subscription for one year, at a downloading speed of 3,6 Mbps in the 3G+ covering area for the Orange telecommunication provider is 5 euro per month without taxes, included unlimited access 3 days a month, every supplementary day, being taxed with 1,5 euro.

Thus, the company has to pay more attention to the segments of potential users, that didn't show their interest in mobile telecommunications till now, and, also to keep its clients, in the conditions of a growing competition.

Conclusion

In the first 30 worldwide developed countries from the economical point of view, the telecommunication industry grew in 2003 with 10% compared to 2002. At the end of 2004, the industry knew a weak grow, the majority of

the most important players on the telecommunication market hardly regaining their financial stability.

One of the main conclusions is that the higher popularity of the telephony throughout Internet and the VoIP services threaten the traditional fixed mobile providers' incomes, especially for the international calls. The fixed mobile providers have a more powerful competition from the part of some companies on one hand, but also from the adoption of the VoIP services by the alternative providers of other platforms, such as the TV cable networks and fixed wireless networks, on the other hand. Moreover, the VoIP services can present a competition even for the mobile telephony that currently owns much more subscribers than the fixed telephony in many countries.

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