

A close-up photograph of a hand holding a blue smartphone. The phone's screen is lit up, showing a bright blue light. The background is a blurred cityscape at night, with various lights and colors like yellow, red, and white. The overall image has a soft, bokeh effect.

International Business Environment The Telecommunications Industry Individual Report on Vodafone

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Section One To be completed by the student

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Assignment Oral Presentation Exam

Title *Plastic The Telecommunications Industry – Vodafone plc*.....

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Introduction

Globalisation is defined as the process of transformation of local or regional phenomena into global ones. It can be described as a process by which the people of the world are unified into a single society and function together¹. The term is most commonly associated with economics and international trade promoting the free flow of goods, capital and labor.

A narrower definition of the term is that globalization is the process enabling financial and investment markets to operate internationally, largely as a result of deregulation and improved communications (Collins).

The concept of globalization in itself is not new and can be traced back to the Roman Empire, the Parthian Empire and the Han Dynasty². Early forms of globalisation were also based on trade and exchange of knowledge enabled through improved transportation capabilities. The British East India Company is an example of an early Multinational Company which was also the first company to issue shares which are a key component of global companies³.

Modern globalisation, as most of us know it today, has begun to develop after World War II with the establishment of international organisations such as the World Bank and the International Monetary Fund (IMF) to promote global economic integration and stability⁴. It is primarily based on international trade with the General Agreement on Tariffs and Trade (GATT) as its governing framework.

Significant technological advances have led to increased capabilities in infrastructure, transportation and communication that allow organisations to do business around the world. The internet has to be the most important technological breakthrough of the 21st century and has enabled global, real time information exchange. The increased spread of Information Technology is changing the way organisations structure themselves, manufacture and sell their products and services⁵. Technology has rapidly facilitated global manufacturing and distribution.

Globalisation has brought prosperity and increased wealth to many developing countries but there are also opponents to globalisation who see it as a process of exploiting poorer countries for cheap labour. The anti-globalisation movement is growing and represents a large forum to date.

Whether one supports or rejects the process of globalisation, it is expected to maintain its importance in International Business for some time to come.

This paper discusses the impact of globalisation on the telecommunications industry and more specifically provides an analysis of Vodafone in two of its trading regions.

¹ <http://en.wikipedia.org/wiki/Globalisation>

² <http://en.wikipedia.org/wiki/Globalisation>

³ <http://en.wikipedia.org/wiki/Globalisation>

⁴ <http://en.wikipedia.org/wiki/Globalisation>

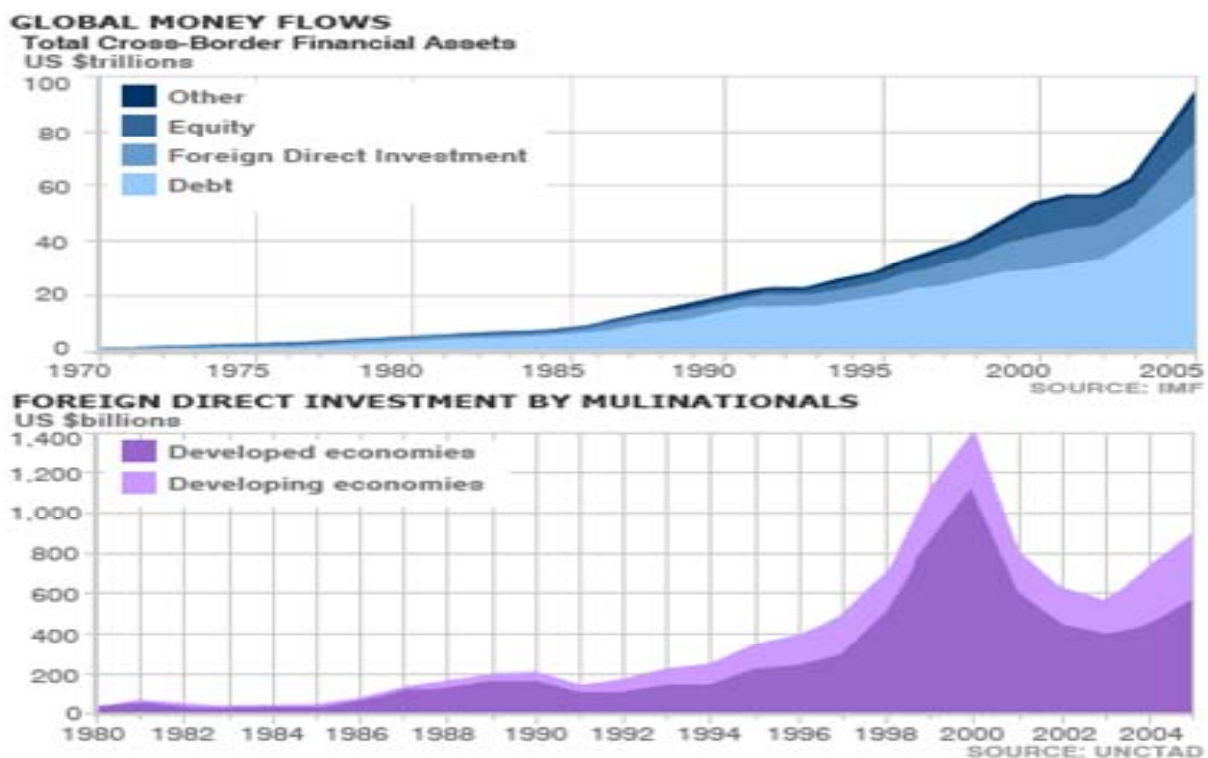
⁵ <http://news.bbc.co.uk/1/hi/business/6279679.stm>

The New Participants in Globalisation

The world has witnessed the rise of poorer countries to become key players in the global market; mainly India and China. These two countries, amongst others, have opened up their economies to attract Foreign Direct Investment (FDI) to their economy which is a key driver for kick-starting growth and prosperity. Both countries compete on low labour costs in the manufacturing and services sectors with the Western world.

The flow of FDI from the US and Europe to developing economies has significantly increased since the later 1990's as shown in the graph below.

Figure 1 - Global Money Flow and FDI



Foreign direct investment (FDI) in its classic form is defined as a company from one country making a physical investment into building a factory in another country. It is the establishment of an enterprise by a foreigner. Its definition can be extended to include investments made to acquire lasting interest in enterprises operating outside of the economy of the investor. The FDI relationship consists of a parent enterprise and a foreign affiliate which together form an international business or a multinational corporation (MNC)⁶.

China has become the preferred location for manufacturing and India is the hub for outsourcing and off shoring for services. India's GDP stood at 9.6% (2006), 9% (2007) and 6.6% (2008)⁷. China has been equally successful with GDP of 11.6% (2006), 13% (2007) and 9.8% (2008)⁸. These are two examples of the benefits globalization can drive in helping poor countries joining the global business community and become key players.

⁶ http://en.wikipedia.org/wiki/Foreign_Direct_Investment

⁷ <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>

⁸ <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

The Impact of Globalisation on the telecommunication Industry

The telecommunication industry is an enabler for practically any other business through the technologies and services it offers. Traditionally, the telecommunication industry was controlled by state owned, national telecommunication companies that would offer fixed line connections and later mobile communication services and internet connections.

The provision of communication services is globalising and technological innovation is breaking down traditional market boundaries and structures. Globalisation has opened up markets and brought more competition to the telecommunications industry. National telecommunication companies were privatised and the industry deregulated to make it more competitive.

The regulatory environment has had the largest impact on the telecommunication industry and continues to be a strong influencer. The regulator puts constraints on market participants to achieve specific public policy objectives which are impacted by new technologies and general consumer trends⁹.

The number of regulatory bodies has increased significantly from 12 in 1990 to 148 in 2008 worldwide¹⁰. These regulatory bodies are independent from the industry they regulate and can also be independent from the government.

Globalisation also means that national regulators often deal with organisations outside their home jurisdiction and issues take a global dimension¹¹. This means that regulators have to build functioning relationships with their international counterparts to develop flexible fit for purpose tools to regulate the telecommunications industry and its market participants. This led to stronger cooperation between national regulators and the formation of regional networks to deal with wider, cross-border issues¹².

The EU has a common regulatory framework for all 27 member states which is based on EU competition law. It addresses issues of access, authorisation and universal service and data protection¹³.

The International Telecommunications Union¹⁴ has organised the Global Symposium of Regulators for the past eight years which is a forum of national regulators from over 100 countries where global regulatory issues are discussed.

⁹ <http://www.ofcom.org.uk/research/cm/icmr08/>

¹⁰ <http://www.ofcom.org.uk/research/cm/icmr08/>

¹¹ <http://www.ofcom.org.uk/research/cm/icmr08/>

¹² <http://www.ofcom.org.uk/research/cm/icmr08/>

¹³ <http://www.ofcom.org.uk/research/cm/icmr08/>

¹⁴ <http://www.itu.int/net/home/index.aspx>

Standardisation Impact

The standardisation of technology and software has been another impact on the telecommunication industry accelerated by globalisation. The need for integrated technologies and infrastructure to enable global business led to the development of global technology standards, software protocols¹⁵, spectrum use, international roaming, intellectual property and content standards.

International organisations were formed to oversee the standardisation process and these include the International Telecommunications Union (ITU)¹⁶, The Organisation for Economic Cooperation and Development (OECD)¹⁷ and the World Trade Organisation (WTO)¹⁸.

According to the ITU, bridging the standardisation gap means facilitating the participation of developing countries in the standards development process which in turn allows them to profit from access to new technology development and ensures that their requirements are taken into account in the development of standards¹⁹.

The OECD publishes its information, computer and communication policy to promote best practices for the telecommunication industry and its market participants²⁰. These policies are developed by the Committee for Information, Computer and Communications Policy (ICCP)²¹.

The WTO has included services in the round of trade negotiations since 2000 and this has led to a General Agreement on Trade in Services (GATS)²². The GATS is the first multilateral, legally binding set of rules covering international trade in services and has set a framework for service providers such as telecommunications companies.

The development of ICT security standards is becoming more important as business digitalises and the internet is used as a mode of accepting and processing transactions.

Standardisation will continue to be key topic for the telecommunications industry as it continues to develop into a global marketplace.

¹⁵ HTTP – Hypertext Transfer Protocol is the most common global standard

¹⁶ <http://www.itu.int/ITU-T/index.html>

¹⁷ http://www.oecd.org/topic/0,3373,en_2649_37441_1_1_1_1_37441,00.html

¹⁸ <http://www.wto.org/>

¹⁹ <http://www.itu.int/ITU-T/index.html>

²⁰ http://www.oecd.org/findDocument/0,3354,en_2649_34223_1_119666_1_1_1,00.html

²¹ <http://www.oecd.org/sti/ICT>

²² http://www.wto.org/english/tratop_e/serv_e/serv_e.htm

New Technology Impact

Technological advances have a significant impact on the telecommunications industry and they impact the products and services offered as well as how telecommunication companies organise themselves.

The latest and most talked about development is Next Generation Networking which is a broad term to describe some key architectural evolutions in telecommunication core and access networks that will be deployed over the next 5–10 years. The general idea behind NGN is that one network transports all information and services (voice, data, and all sorts of media such as video) by encapsulating these into packets, like it is on the Internet. NGNs are commonly built around the Internet Protocol, and therefore the term "all-IP" is also sometimes used to describe the transformation towards NGN²³.

Service related functions are independent from underlying transport-related technologies on Next Generation Networks and users have unrestricted access to different service providers²⁴.

The transition to NGN requires a substantial amount of capital expenditure which has raised questions about access rights to these networks. The US is taking an approach known as forbearance where incumbents have no obligation to offer access to other operators once they have upgraded to NGA. The EU is opposed to this approach and has opted for charging risk premiums for NGA access²⁵.

NGA Broadband Networks are based on fiber cables and are expected to transform the way we use communication, information and entertainment services. According to Ofcom research, Japan in the global leader in deploying NGA Broadband Networks and Ofcom also believes that this network technology could be the next driver for National Competitiveness²⁶. The research also found that the four areas of demographics, topography, regulatory / political context and consumer demand drive the investment in fiber cable networks that enable NGA²⁷.

The emergence and continuing commercialization of Voice over Internet Protocol (VoIP) is another factor that impacts the telecommunications industry. VoIP is a general term for a family of transmission technologies for delivery of voice communications over IP networks such as the Internet or other packet-switched networks²⁸.

²³ http://en.wikipedia.org/wiki/Next_Generation_Network

²⁴ http://en.wikipedia.org/wiki/Next_Generation_Network

²⁵ <http://www.ofcom.org.uk/research/cm/icmr08/>

²⁶ <http://www.ofcom.org.uk/research/cm/icmr08/>

²⁷ <http://www.ofcom.org.uk/research/cm/icmr08/>

²⁸ <http://en.wikipedia.org/wiki/VoIP>

Company Analysis – Vodafone plc

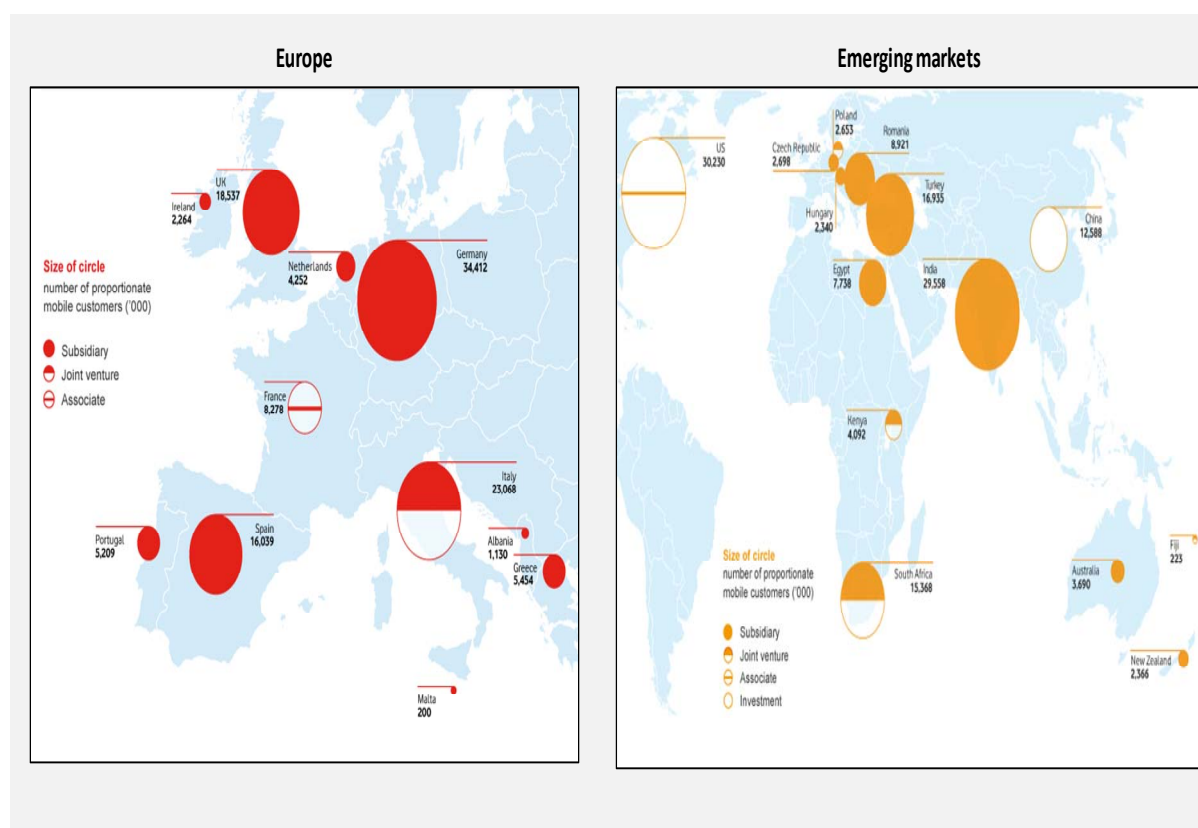
Vodafone plc operates in Europe and in several Emerging Markets countries. The Europe region includes the Group’s principal mobile subsidiaries located in Germany, Spain and the UK, its principal joint venture in Italy, as well as the Group’s principal fixed line telecommunications subsidiary in Germany. Other businesses in the European region comprise Albania, Greece, Ireland, Malta, the Netherlands and Portugal, as well as its associated undertaking in France.

All the Group’s mobile subsidiaries in Europe and the joint venture in Italy operate under the brand name ‘Vodafone’. The Group’s fixed line subsidiary operates as Arcor and the Group’s associated undertaking in France operates as SFR and Neuf Cegetel²⁹.

The Emerging Markets (EMAPA) region covers Eastern Europe, Middle East, Africa and Asia, Pacific and Affiliates, and includes the Group’s subsidiary operations in the Czech Republic, Hungary, Romania, Turkey, Egypt, India, Australia and New Zealand, joint ventures in Poland, Kenya, South Africa and Fiji, an associated undertaking in the US and the Group’s investments in China and India.

The Group’s subsidiaries in EMAPA operate under the ‘Vodafone’ brand. The joint ventures, associated undertakings and investments operate under the following brands: China – China Mobile; Fiji – Vodafone; India – Airtel; Kenya – Safaricom; Poland – Plus; South Africa – Vodacom; US – Verizon Wireless³⁰.

Figure 2 – The Vodafone Group



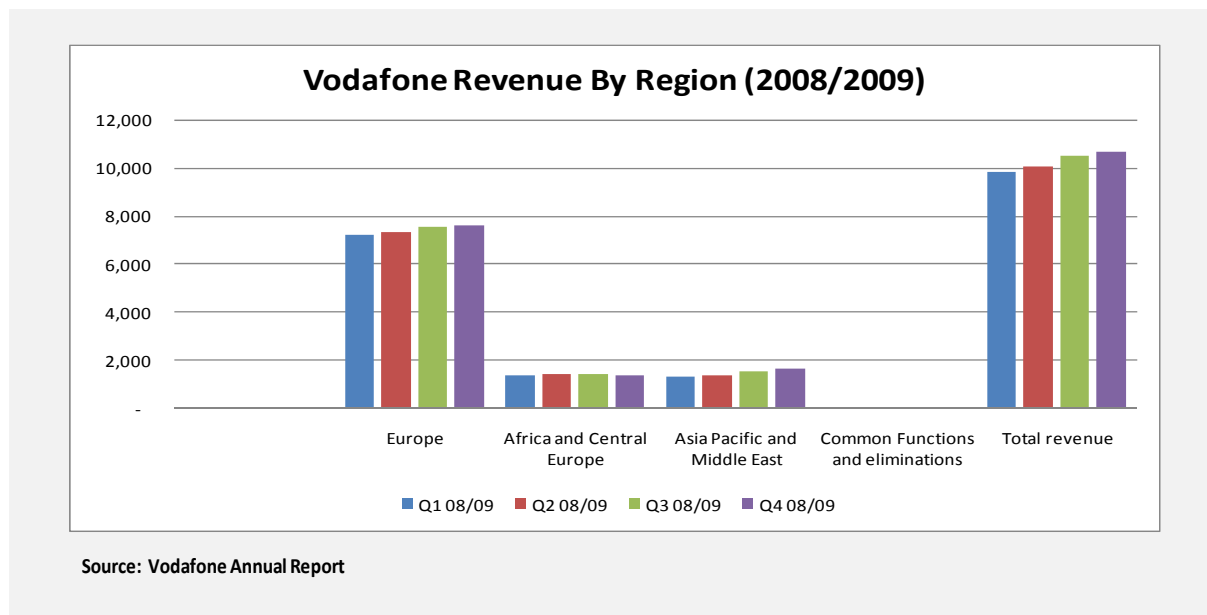
²⁹ Vodafone Annual Report - http://www.vodafone.com/static/annual_report09/index.html

³⁰ Vodafone Annual Report - http://www.vodafone.com/static/annual_report09/index.html

Group Performance

The group's total revenue stood at £10,645 million at the end of Q4 2008/2009 with the largest revenue contribution coming from Europe (£7,607 million). The Asia Pacific and Middle East region contributed £1,648 million revenue followed by the Africa and Central Europe region which generated £1,357 million in revenue.

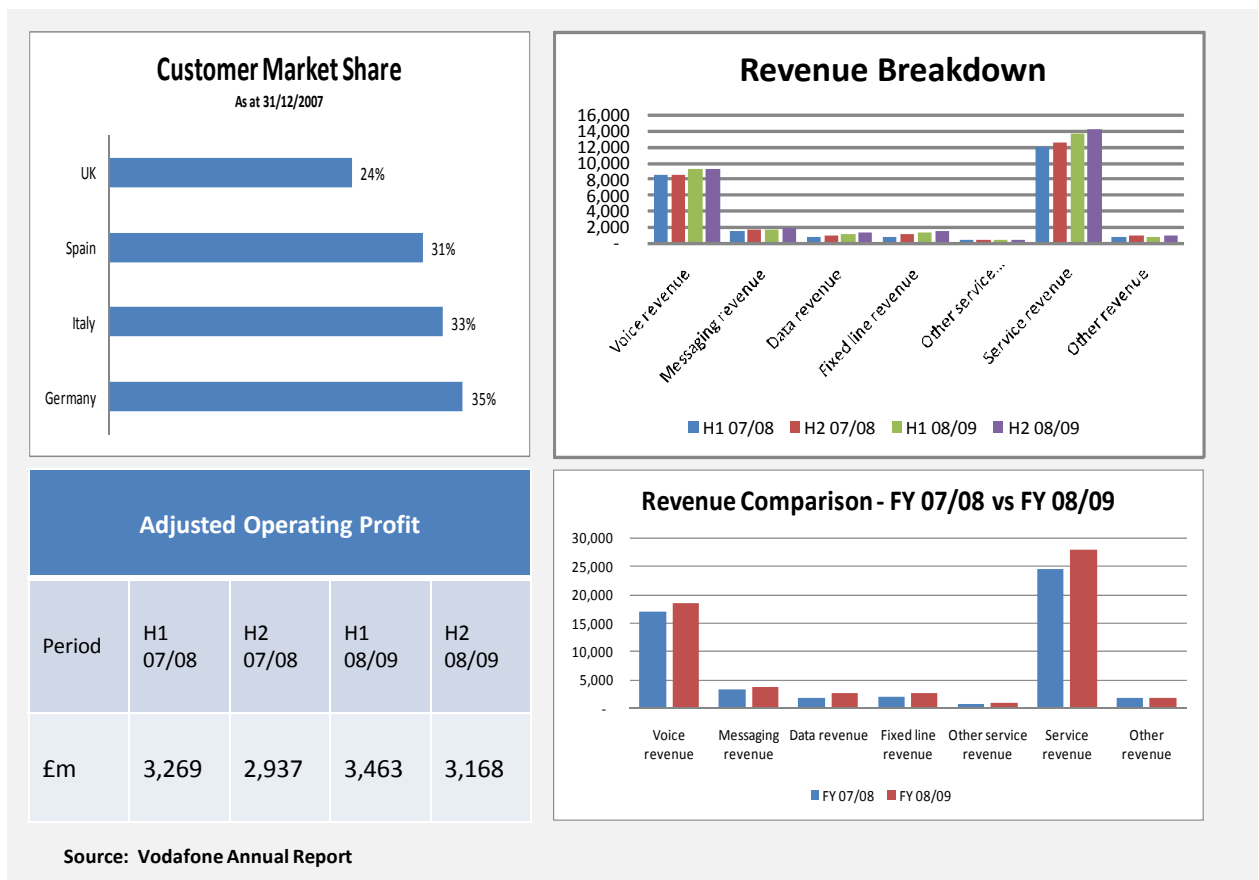
Figure 3 – Vodafone Group Revenue



- The Asia Pacific and Middle East region is the strongest performing region with the only positive organic percentage change of 4.7%. All other regions had negative results for their organic percentage change calculations.
- The group's EBITA was £14,490 million with an EBITA margin of 35.3%. The profit for the financial year 2008 / 2009 was £3,078 million. Vodafone shares achieved Earnings per Share (EPS) of 17.17p and the weighted average number of shares was 52,737.
- Vodafone has 113,946 customers in Europe, 55,688 customers in the Africa and Central Europe Region and 94,522 customers in the Asia Pacific and Middle East region bringing the group's total customer base to 264,156 customers. The net customer additions were negative for Europe and the Africa and Central Europe regions showing a decline of 654,000 in Europe and 163,000 respectively.

Regional Performance – Europe

Figure 4 – Dashboard

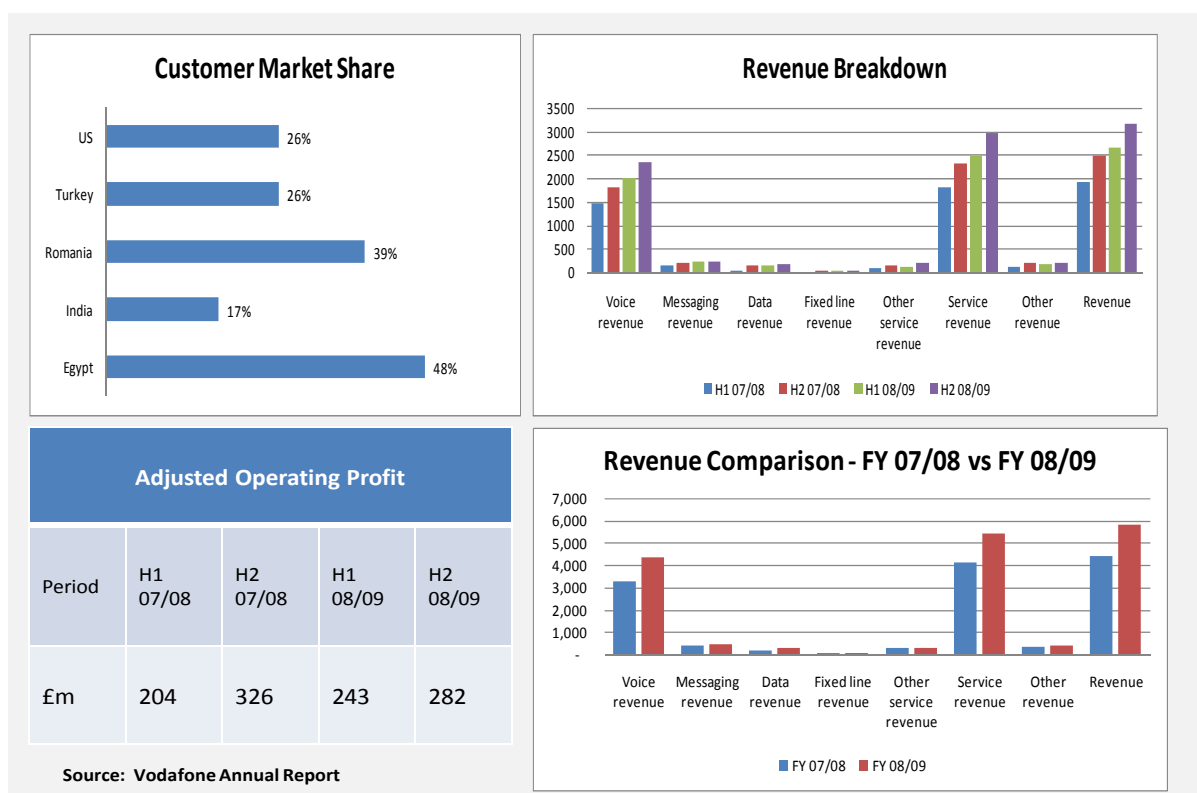


- The key revenue stream for the Europe region are voice revenue and service revenue which represent more than 80% of the overall revenue for Europe. Overall operating profit declined slightly in H2 of financial year 2008 / 2009 and stood at £3,168 million.
- Germany is the largest market for Vodafone with a 35% customer market share which is the second largest after T-Mobile which has a 37% customer market share³¹. Mobile phone penetration in Germany is 118% as at December 2007.
- The European market is in maturity stage and Vodafone states in its annual report that it is its strategic objective to drive additional usage and revenue from core mobile voice and messaging services.

³¹ <http://www.ofcom.org.uk/research/cm/icmr08/>

Regional Performance – Asia, Pacific & Middle East

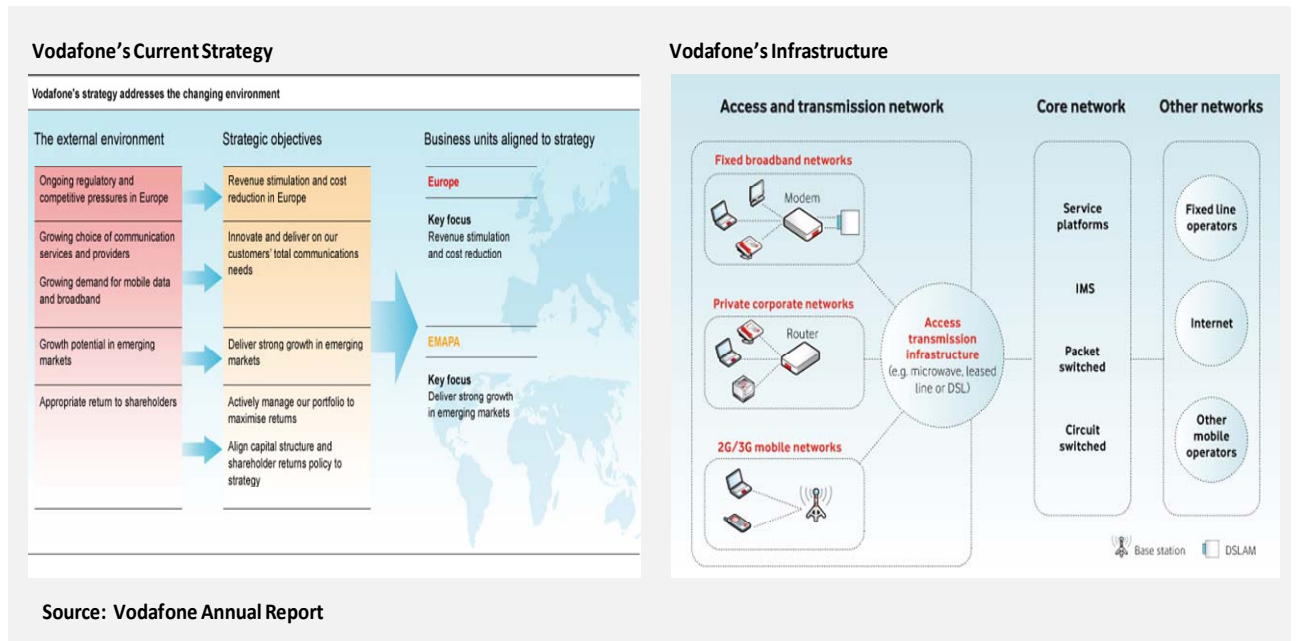
Figure 5 – Dashboard



- The key revenue stream for the Asia, Pacific and Middle East region are voice revenue and service revenue. The region generated £4,399 million revenue during fiscal year 2008 and £5,819 million during fiscal year 2009. The regions adjusted operating profit for the fiscal year 2008 / 2009 is £525 million.
- India and Egypt are key markets within the region. India is performing stronger in terms of revenue and generated £1,822 million during fiscal year 2008 and £2,689 million during fiscal year 2009. Vodafone has a customer market share of 17% in India. The operation in India is a wholly owned subsidiary and has 68,769 customers at the end of fiscal year 2008 / 2009.
- Egypt is a stronger performer in terms of customer market share which is at 48%. It generated £933 million revenue during the fiscal year 2008 and £1,285 million during fiscal year 2009. In terms of actual customers, the group had 18,941 customers in Egypt at the end of fiscal year 2008 / 2009.

Strategy Choice

Figure 6 – Vodafone’s Strategy and Technological Infrastructure



Current Strategy

Vodafone has set out clear objectives in its annual report for Europe and the Emerging Markets region. The European market is saturated and the group is focusing on revenue stimulation on its existing customer base and reduce servicing costs to drive up the Average Revenue Per User (APRU). This means reducing customer churn and increase the EBOTA margin for the region.

For the Emerging Market region, the strategic focus is on continuing to deliver high growth. The region has a lot of potential that has not yet been drawn on. Both India and China have large rural populations that have not yet been targeted but show strong demand.

These two strategic choices are appropriate for the Vodafone Group to operate within the current business environment. The next section of this paper will provide recommendations on tools and techniques that can be used to execute Vodafone’s strategy most effectively.

Strategy Execution

Europe

The European mobile telecommunications market is saturated and highly competitive. It is becoming more important to reduce customer churn and maximise the revenue generated from the existing customer base. This has to go beyond the traditional CRM approach and move away from the “one fits all” approach that is being used by the majority of carriers.

The Customer Lifetime Management (CLM) approach is based on quantitative analysis to determine a customer’s value and testing initiatives to increase it³². Mc Kinsey & Company defines CLM as the present value of all future revenues and costs associated with the average customer³³. The implementation of CLM involves the identification of the value drivers for the carriers customer base and Mc Kinsey & Company have identified eleven value drivers applicable to the telecommunication industry that can be applied as a blueprint for a CLM solution.

The value drivers are categorised into upstream and downstream value drivers and the relationship between these two categories has to be mapped, understood and tested. According to mc Kinsey & Company this can be achieved by asking some key questions such as:

- **How much does our low credit hurdle on new customers push up bad debt levels later?**
- **How much does above use of customer service diminish a high revenue customer’s value?**

Once the principle framework for a CLM approach has been defined the implementation process can start with building a model that calculates the lifetime value of individual customers and defining data sources and data inputs. According to Mc Kinsey & Co data can be extracted from the billing system, network usage database, customer service records and external data providers such as credit reference agencies. The firm further suggests that the data must include, by customer, expected direct recurring revenues, interconnection and roaming revenues and costs, recorded network usage, the use of customer service, payment behaviour and forecasts of the customer’s lifetime with the company³⁴.

The outcome of the CLM modelling has to be regularly fed back to marketing to tailor specific services that could increase the value of a specific customer or customer group. These value adding initiatives need to be tested with a sample group of customer and if they prove successful, they need to be deployed to the full segment of qualifying customers.

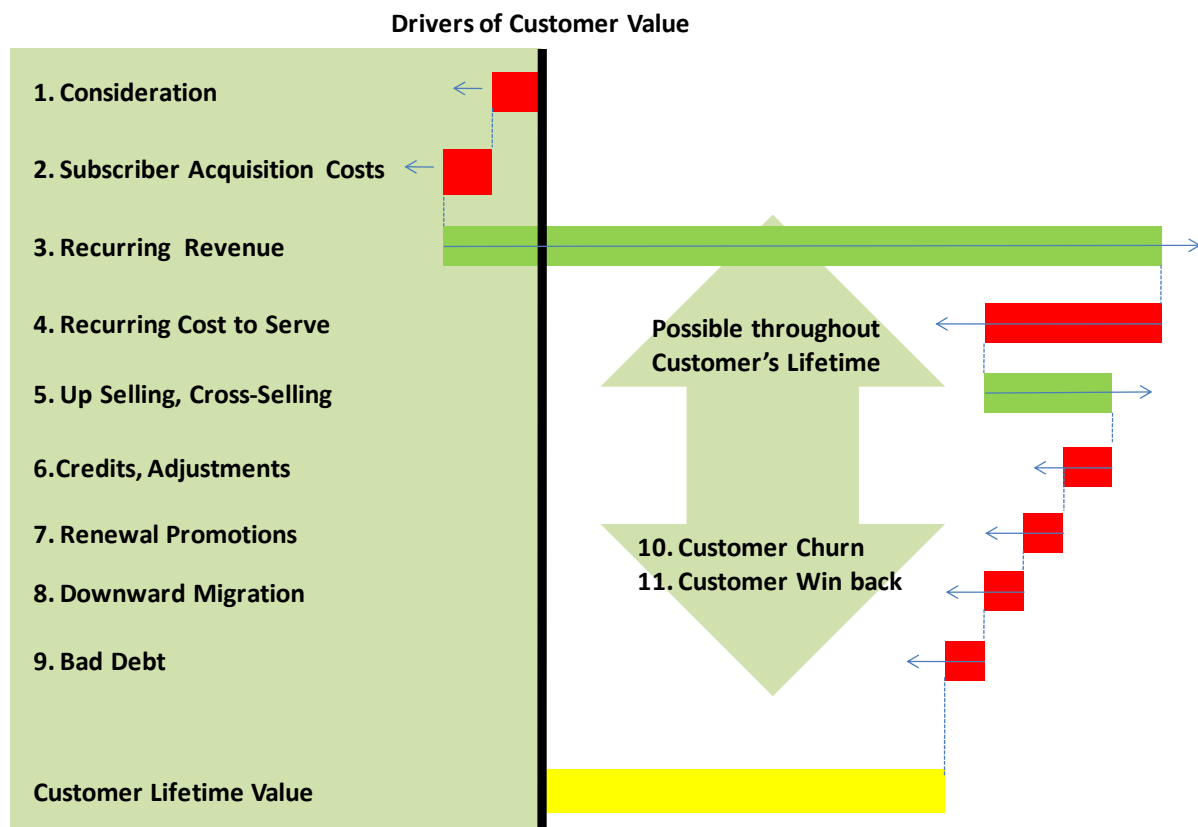
Applying CLM is an ongoing initiative that requires changes to the way the organisation is structured and to its cultural values. CLM has to implement as an ongoing, continuously changing and evolving tool to stimulate new usage patterns and behaviours with existing customers in addition to the standard acquisition process for new customers.

³² The Mc Kinsey Quarterly – GOING THE DISTANCE WITH TELECOM CUSTOMERS

³³ The Mc Kinsey Quarterly – GOING THE DISTANCE WITH TELECOM CUSTOMERS

³⁴ The Mc Kinsey Quarterly – GOING THE DISTANCE WITH TELECOM CUSTOMERS

CLM Customer Value Drivers



Source: Mc Kinsey Quarterly

CLM Benefits for Vodafone Europe

Developing and implementing a CLM solution can deliver the following benefits that would help deliver Vodafone's strategic objectives for Europe:

- Identify new services and products that stimulate new usage / increased usage amongst existing customers.
- Leverage opportunities in branding, pricing and channel strategy³⁵.
- Potential for generating a 4 – 5 percent margin increase in earnings before interest, taxes, depreciation and amortisation (EBITA) in 18 – 24 months³⁶.
- Reduced erosion of Average Revenue Per User (ARPU) and reduced customer churn

Recommendation for Vodafone Europe

Development and implementation of a Customer Lifetime Management methodology to extract additional value from existing customers leading to an improved EBITA margin. The CLM methodology has to be fully embedded in the organisational culture to eliminate a "silo thinking" in the various departments which can be achieved through the development of a new Target Operating Model (TOM) which redefines how the organisation engages, manages and serves its customers.

³⁵ The Mc Kinsey Quarterly – GOING THE DISTANCE WITH TELECOM CUSTOMERS

³⁶ The Mc Kinsey Quarterly – GOING THE DISTANCE WITH TELECOM CUSTOMERS

Asia, Pacific & Middle East

This region mainly includes emerging market economies which have a higher growth potential driven by higher customer demand. The CLM approach should also be applied to these markets to have a consistent approach across the Vodafone Group.

CLM Benefits for Vodafone Asia, Pacific & Middle East

Developing and implementing a CLM solution can deliver the following benefits that would help deliver Vodafone's strategic objectives for Europe:

- Identify new services and products that stimulate new usage / increased usage amongst existing customers.
- Leverage opportunities in branding, pricing and channel strategy³⁷.
- Potential for generating a 4 – 5 percent margin increase in earnings before interest, taxes, depreciation and amortisation (EBITA) in 18 – 24 months³⁸.
- Reduced erosion of Average Revenue Per User (ARPU) and reduced customer churn

In addition to CLM, the group should apply a pricing strategy that considers the substantially lower disposable income of consumers in this region. The prepayment mobile market should be leveraged more aggressively. The group could offer customers a pricing strategy where incoming calls do not carry a connection fee to stimulate market penetration.

The focus should be on urban areas, especially in India and China due to difficulties in providing network coverage in rural areas until a suitable partner has been found to share the costs of extending coverage to rural parts of these countries.

Recommendation for Vodafone Asia, Pacific & Middle East

Development and implementation of a Customer Lifetime Management methodology to extract additional value from existing customers leading to an improved EBITA margin. The CLM methodology has to be fully embedded in the organisational culture to eliminate a "silo thinking" in the various departments which can be achieved through the development of a new Target Operating Model (TOM) which redefines how the organisation engages, manages and serves its customers.

Focus on the prepaid mobile communication market with market leading pricing strategies to drive higher usage. Consumers in this region are also more likely to access the internet through their mobile phone because fixed line and broadband connection penetration is low. A core offering within the data services segment can leverage this situation.

The focus for this region should be on growing the customer base through aggressive acquisition strategies underpinned by CLM to ensure the customers with the highest value potential are targeted.

³⁷ The Mc Kinsey Quarterly – GOING THE DISTANCE WITH TELECOM CUSTOMERS

³⁸ The Mc Kinsey Quarterly – GOING THE DISTANCE WITH TELECOM CUSTOMERS

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