

How vodafone applied the principle of comparative advantage in its operations

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In international trade such as the one conducted by Vodafone, the principle of comparative advantage plays a very critical role. Comparative advantage is said to be one of the most straight-forward and simple economic concepts Lee (2008). The principle of comparative advantage is highly regarded not only in the business circles but also in the world of academia. It is said that when mathematician Stanislaw Ulam challenged Nobel Laureate Paul Samuelson in 1969 to state a proposition in all of the social sciences that was both true and non-trivial he gave his answer as the principle of comparative advantage (WTO, 2008)

This is why a better understanding of this theory needs to be established first before we proceed with finding out how Vodafone applied it. The theory of comparative advantage simply deals with the benefits of specialization and trade Suranovic (1997). The theory states that trade can benefit all the countries/companies/individuals so long as they produce goods with relative costs. The theory is also known as the Ricardian model after the 19th century classical economist David Ricardo who is credited with creating better awareness of this concept.

Others who had earlier tried to explicate the benefit of this concept included Adam Smith and Robert Torrens Suranovic (1997) Adam Smith wrote in *The Wealth of the Nations* that " If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. " (Book IV, Section ii, 12). But it is David Ricardo who is viewed as having brought the theory into prominence by

using a gripping and simple numerical example in his magnum opus, *On the Principles of Political Economy and Taxation*.

According to Ricardo, the benefits of trade come about in an economy where specialization thrives. A clear example is offered by P. A. Samuelson in his paper 'The Way of an Economist' when he writes: If a country is relatively better at making wine than wool, it makes sense to put more resources into wine, and to export some of the wine to pay for imports of wool. This is even true if that country is the world's best wool producer, since the country will have more of both wool and wine than it would have without trade.

A country does not have to be best at anything to gain from trade. The gains follow from specializing in those activities which, at world prices, the country is relatively better at, even though it may not have an absolute advantage in them. Because it is relative advantage that matters, it is meaningless to say a country has a comparative advantage in nothing (WTO, 2008). However, comparative advantage is many times incorrectly taken to mean to have absolute advantage over other countries that do not hold the same advantage (Lee, 2006).

So how did Vodafone use the principle of comparative advantage to gain a foothold in the global mobile telephony market? The management of Vodafone seemed to have realized early the importance of spreading your wings and expanding your operations to countries outside the country of origin. The first strategy involved making acquisitions. Vodafone is a company that has almost become synonymous with the word acquisition. Starting from the early

1990s the UK Company embarked on a worldwide acquisition spree, buying stakes in other mobile telephone companies.

It acquired stakes in European, American and Asian companies and in no time it had established itself as the world's biggest mobile phone company with footprints in almost every nook and cranny of the world. Vodafone's operating slogan ' bigger is better', saw the company go for one acquisition after another, pouring billions upon billions to this end allowing them make inroads into far-flung markets. (BNET. com, 2008) Once acquisitions had been made the thing that came next was establishing the market compositions in the different countries the acquisitions were based.

This important as without market insight Vodafone would not have been able to best utilize the conditions on the ground that would have otherwise made the provision of mobile telephone services relatively cheap. The trick with acquisitions is that the company has to make sensible ones, not making acquisitions for its sake. This is one area that Vodafone did not seem to pay close attention to and in the end some countries like Japan, the United States and in some Nordic countries did not turn out to be particularly good hunting grounds for Vodafone.

(ICFAI) Another big strategy that Vodafone came up with was the decision to make forays into markets wheretechnologywas relatively underdeveloped. This strategy went hand in hand with another strategy that involved going into regions where mobile penetration was low. It is for this reason that Vodafone bought stakes in Romania and Czech with the buying of Mobifon

and Oskar Mobil respectively. Vodafone was also quick to notice the Indian potential and was quick to find partners there.

Such entry into the untapped markets with enormous potential is the very essence of the principle of comparative advantage. In November 2007 Vodafone announced plans to acquire a stake in Telekom Malaysia a company whose fixed line operations p nine Asian countries. (TIMES ONLINE, 2008) Operations in far-flung places showed Vodafone that it was easier for them to establish themselves in places telecommunications infrastructure were underdeveloped because then they would have to supply these equipment themselves and establish a market of their.

This was in contrast to moving to countries where technology had taken off like Japan and the United States where the consumers were spoiled for choice and therefore were in the habit of switching to what they viewed as companies that provided up-to-date mobile telephony technology. It is for this reason that Vodafone experienced immense difficulties in Japan where people use their mobile phones not only for calling but for many other services like the accessing the internet, photo-messaging and video-calling. The problems in Japan proved too huge for Vodafone to handle and they finally sold off its stake in J-Phone.

(The Economist, 2001) Having been the first company to acquire a cellular license in the United Kingdom, the company also felt that they should also lead the way in the 3G technology. By becoming amongst the first mobile phone companies to offer this technology, Vodafone thought it could do as

many countries where its subsidiaries were based and a make a kill, so to speak. However the 3G experienced some teething problems and it took long time to roll out and by the time Vodafone was able to get it on the market there were other new problems contend with as is the norm in the capricious mobile telephony market.

No matter Vodafone did finally launch this service with promises to keep improving this service every other time. (ZDNet, 2008) Vodafone realized it could no longer rely on the voice-based operations only as its competitors were offering more than that. At the same time it also realized that there needed to be restructuring the running of its operations as far as its far-flung operations were concerned. Operations of these subsidiaries started becoming a matter of concern because it was proving difficult to follow their progress and so it was decided that they needed to be consolidated.

Therefore Vodafone under its new CEO, Arun Sarin, launched its ' One Vodafone' program with the aim of ensuring that all the company's subsidiaries could be reconciled together to represent the objectives of Vodafone. This is one of the reasons why Vodafone decided to buy controlling stake in South Africa's Vodacom. (TIMES ONLINE, 2008) On a more positive note Vodafone through its Kenyan subsidiary Safaricom was able to come with a very innovative product for its Kenyan subscribers that allowed them to transfer money through their mobile phones. The service called M-PESA registered so much success and so far over 1.

6 million people have registered. After observing the success in Kenya, Vodafone decided to launch the same service in Afghanistan called M-paisa with its partner Roshan. (Cellular-News, 2008) In conclusion it must be said that despite all of Vodafone's concerted efforts to tap into the advantages that come with setting up operations in other countries it has not necessarily been smooth sailing. Its shareholders have argued that these problems were caused by a lack of proper planning and the failure to identify the workings of the different markets.

Many have accused the management for going for growth at all costs and they strongly believe this is the reason their company has continued to make staggering losses despite the fact that it has built partnership with many mobile phone companies than they can care to catalog. (BBC News, 2003)

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