

Forces that affect the mobile telephony industry marketing essay



**ASSIGN
BUSTER**

This research outlines the several forces that affect the mobile telephony industry in Malta in particular Vodafone Malta within the micro scenario given the continuous changes in the business environment.

Introduction

Vodafone Malta has been in operation for the past twenty years and for a good number of years enjoyed a monopolistic view of the market. Recently competition increased and the organisation had to review its strategy in order to ensure that it does not lose its market share.

Methodology

An interview with the Human Resources Executive of Vodafone Malta was conducted in order to complete the research. The questions were drafted beforehand guided by text books moreover the survey was recorded to document our research.

Interview Analysis

Certain topics raised in the interview analysed the strength of each force in Porter's Five Forces in which collectively affect prices, market share and potential profits.

Porter's Five Forces Analysis

With this tool, the favourable and unfavourable forces for the company's performance and industry's attractiveness and most importantly the impacts of these forces on Vodafone Malta could be identified.

Conclusion - " Technological Development as the most changing dynamic"

The main challenge that the industry is facing is technological development and therefore frequent analysis of the micro environment using various management tools and techniques is vital for the strategic perspective of the firm.

Introduction

Although mobile phones have become a fundamental part of personal communication across the globe during the past ten years, consumer research has devoted little specific attention to motives and choice underlying the mobile phone buying decision process. There are numerous factors that need to be taken into account when exploring consumers' mobile phone buying decision process, including both macro and microeconomic conditions that affect the evolution of mobile phone market in general as well as individual consumer's motives and decision making

Having visited one of the largest mobile operators in Malta; Vodafone Malta, an analysis was conducted using Porter's Five Forces model about the factors outside the organisation that influence the nature of competition within it, the forces inside the industry (microenvironment) that influence the way in which the firm competes as well as the industry's likely profitability. A business has to understand the dynamics of its industries and markets in order to compete effectively in the marketplace.

Vodafone is a mobile telephone company, operating in Malta. It was founded in 1982 and it is a subsidiary of Vodafone Plc. Vodafone Malta provides

telecommunication services such as mobile telephony and broadband

<https://assignbuster.com/forces-that-affect-the-mobile-telephony-industry-marketing-essay/>

services to both the Business-to-Business (B2B) as well as Business-to-Consumer (B2C) market.

Methodology

The aim of this research is to investigate whether Vodafone Malta is well structured to meet all challenges from both the micro and macro environment. A set of questions was prepared in advance by taking insight from management documents and books regarding Porter's five forces that impact on the organisation. Next an appointment was fixed with the Human Resources Executive, Ms Gabriella Cappitta who accepted to follow an interview. The interview was recorded and notes were also taken during the interview which was used after to formulate the final analysis. After that, information regarding the industry was gathered and therefore Porter's Five Forces analysis was then prepared.

Interview Analysis

Porter (1980a) defined the forces which drive competition, contending that the competitive environment is created by the interaction of five different forces acting on a business. In addition to rivalry among existing firms and the threat of new entrants into the market, there are also the forces of supplier power, the power of the buyers, and the threat of substitute products or services. Porter suggested that the intensity of competition is determined by the relative strengths of these forces.

A extensive interview was carried out with management at Vodafone Malta and the following factors have been noted.

Vodafone Malta started its operations in 1990, and at that time it was not difficult to penetrate the market since Vodafone Malta was the only mobile operator in Malta. Thus, it was a monopoly. The challenges started when another network operator, GO, started their operations in Malta which consequently led to Vodafone's market share declining. Nevertheless, whilst still competing with another mobile operator, Vodafone managed to retain the greatest market share. Two years ago, Melita also started their operations in Malta and this led to Vodafone losing its clients to GO rather than to the new mobile operator, Melita. Through extensive research, Vodafone Malta noticed that a great amount of their customers decided to opt for other local mobile operators just to test what other mobile operators are offering. Nowadays, customers' perception is changing and the main difference of choosing from one operator to another is more likely to be with special offers, pricing and a variety of different attractive packages. Through the research that Vodafone conducted, it resulted that the general public tend to look at Vodafone as a proud organisation and thus Vodafone has been working on developing various strategies in order to change this customer perception.

Vodafone's main vision is to have a product which stands out and can be considered as good value for money. Customer satisfaction is one of the main objectives that the organisation works towards. Vodafone's goal is to give the best value for money by offering high quality, innovative products such as offering different mobile plans to people according to their lifestyle. The company tries to diversify in a way to satisfy all types of customers or

groups. An example is by offering plans to university students and offering other plans to normal students which suits their different needs

Vodafone Malta invests heavily in market research. They specifically employ individuals on a full time basis to coordinate such research and also engage external market research agencies to conduct other forms of research, through their expertise. The organisation uses research methodologies such as surveys and mystery shopping. Moreover, it was also created a new research technique known as the Customer Delight Index (CDI) which consisted of selecting a sample of customer who answer questions related to the three major mobile operators in Malta, thus Vodafone, GO and Melita and analyse their perception on various factors such as pricing, marketing, brand image, regarding the three different companies.

In the case of this organisation, the supplier's power does not affect the internal outcome of the company. Every year Vodafone Malta review their current supplier list in order to ensure that they are providing the service and/or product that satisfy both the organisation and the customer needs. Such suppliers include maintenance, overseas, infrastructure, canteen and furniture manufacturers.

A totally dedicated team is responsible to retain and maintain good relationships with the corporate customers. Vodafone Malta focuses on effective communication and thus ensures that it's providing its customer base with efficient customer service. The specialised training provided to all Vodafone employees, particularly the support staff guarantees that all employees have the expertise required to help the customer select the best

plan that suits their own needs and/or circumstances. On the other hand, it is the market and its intense competition that drives the prices down and not the customer.

There are many factors which have been contributing to the success of Vodafone Malta. One aspect is, that Vodafone is the only global mobile operator in Malta and the majority of the decisions taken on a local level need to be approved internationally ensuring that it is professional in its approach. Hence, this provides the organisation an advantage of offering a better service and/or product to its customers when compared to its competitors. This organisation has been in operation for the past twenty years and in these years it has managed to establish a strong brand name. The organisation invests heavily in promotion particularly in attractive TV advertising, with eye-catching colours and taglines, which are all in line with the organisation's global advertising strategy. All of the above provide Vodafone with a unique selling proposition for its customers. . Other mobile operators having diversified in other communication areas led to Vodafone to focus its efforts solely on mobile telephony and broadband internet considered as the firm's core function.

Moreover, Vodafone has to overcome challenges which its main competitor does not. Since GO has, in the past been backed up by the Government of Malta, creates an advantage for GO in certain infrastructural aspects such as the installation of new cables in Malta. To upgrade such infrastructure, Vodafone Malta needs to spend a large amount of money on a yearly basis to ensure that the quality of its service remains high and competitive.

Another challenge which Vodafone Malta faces due to its current competition is the fact that the organisation does not offer television services. This leads to customers preferring to choose other providers in order to have a one stop shop for all its communications needs.

External factors such as economical, political and legislative changes, both locally and internationally, affect the way Vodafone Malta operates its business in the micro scenario. An example of this is the implementation of the new EU legislation regarding roaming rates. Vodafone Malta was expected to reduce its rates for its customers however the organisation was still being provided the roaming service from their suppliers at a high rate. Consequently, this led to higher costs and less profit. Taxes imposed by the government also affected the pricing strategy. The organisation decided to withdraw all taxes on prepaid vouchers at a loss for the company.

Vodafone is committed towards the community and the environment that it operates in. The organisation has over the years focused on promoting itself as a Corporate Social Responsible (CSR) organisation. All levels of this organisation have contributed towards this initiative through various activities such as the Tree4U campaign as well as through other methods such as recycling old mobile phones. The CSR initiative has led the organisation to built trust with its customers, employees and shareholders.

A major infrastructure that contributes towards the core function of the organisation is the technology required to provide the service. The organisation employs talented IT professionals to join their team so as to develop the latest and innovative IT infrastructure. Since mobile telephony

and broadband is all based on the latest technology, Vodafone Malta requires needs to invest continuously so as to ensure that it retains a competitive edge over its other two competitors.

Porter's Five Forces Analysis

Porter's Five Forces is a structure for the analysis of the industry and the development of business strategy formed by Michael E Porter. This type of analysis deals with factors outside an industry that influence the nature of competition within it, the forces inside the industry (micro environment) which affects the way firms compete and therefore the industry's likely profitability. The model was used to determine the attractiveness of the mobile telephony industry in Malta. The five forces analysed were; intensity of rivalry among competitors, potential entry of new competitors, development of substitute products, bargaining power of suppliers and also bargaining power of buyers.

Intensity of Rivalry among Competitors

The mobile service market in Malta is characterized by a very small selection of service providers. In the mobile market the duopoly of Vodafone and Go Mobile ended with the launch of Melita Mobile in 2009. Other companies such as Baymobile, Redtouch and also Ping also offered mobile services for the Maltese markets in the recent years, yet the three major providers still remain Vodafone, Go Mobile and Melita. The entrance of Melita Mobile with 3G service has shuffled the cards a bit in terms of market share, actually Vodafone lost its position of absolute dominance of the market. Its market share was down to 49.6% by the end of 2009, however Vodafone still

generated the largest amount of outgoing mobile minutes and its still estimated as the market leader.

Since the mobile phone market is undoubtedly growing, there is little pressure to take customers from competitors. Consequently, Vodafone Malta has been working for the past years on its customer satisfaction by offering the latest technology and the best quality service compared to the other providers. This strategy also involves offering packages in concurrence with people's lifestyles, using the best marketing which subsequently will lead to attracting new customers to the brand. For instance, Vodafone Malta lately introduced iPhone4 which offers the latest and most advanced operating system in the market.

The fixed costs due to licensing and the establishment of wireless network points of access being very high lead to mobile phone companies trying to maximise their productive capacity, which leads to excess capacity and intense rivalry. Consumers in the mobile phone industry consider mobile phone service as a commodity therefore rivalry within this particular niche is high. Switching costs for mobile phone consumers are also low, so competitors can easily attract buyers through pricing and service offerings.

Potential Entry of New Competitors

While the threat of new entrants is weak, Vodafone must continue to maintain its costs competitive to that of its competitors. By retaining high levels of efficiency, Vodafone can help make the entrance into the mobile telephone industry unattractive to its potential competitors. Evidence suggests that companies often find it difficult to identify new competitors but

that is not the case in the mobile phone industry. Because mobile phone operators must compete for licenses they can easily identify their competitors in the individual markets. For example in the case of Redtouchfone make use of Vodafone infrastructure since the latter is an established network operator in Malta.

Malta's demographic characteristics may result in the market being more attractive to new competitors, as the Maltese population being concentrated in a few towns the service providers could offer their services to the majority with a relatively little expense. Nevertheless, as Ms Capitta said during the interview the cabling costs for starting off mobile telephony service is quite high since the only company in Malta that is backed up by the government is Go Mobile and consequently costs for new operators are exorbitant.

Moreover, the EU commission complained that Maltese roaming charges still remain the highest compared to other countries and in view of this fact the EU introduced lower charges resulting in huge losses to all mobile telephony companies in Malta.

Potential development of Substitute Products

Substitute products for the mobile phone industry could be considered fixed-line phone products since this substitute product price is lower. However, the quality and performance capabilities are insignificant compared to mobile phone products considering the evident advantage that this service can be used all day long without having to be near a fixed phone. Switching costs are low but the advantage goes to the mobile phone industry because there is a greater chance of switching to mobile phone from fixed-line phones than the other way round. Statistics indeed show that the total revenue generated <https://assignbuster.com/forces-that-affect-the-mobile-telephony-industry-marketing-essay/>

from the mobile market stood at four times as much when compared to the fixed market.

It can be assumed that Vodafone faces a low threat of product substitutes. The focused customer loyalty leadership strategy that Vodafone operates under, makes it difficult for a comparable substitute to be produced at a lower rate by their excellent use of economies of scale, their buying power, and their absorption of temporary price increases that come from suppliers don't need to be passed on to the consumer. In view of this fact, Ms Capitta stated that when the government introduced higher Vat Rates for roaming services Vodafone Malta decided to eliminate those costs to their consumers' advantage but at the company's loss by strategically making up for the loss from other areas.

A worrying factor for the mobile phone operators could be the internet which is becoming a viable vehicle for cut rate phone calls taking a big bite out of mobile telephony core revenue. Likewise, customers find online chatting as a feasible and more cost effective way to communicate than the mobile phones. Although during the recent years mobile phone service providers introduced broadband internet on mobile phones with quite a rapid penetration rate, internet from home still offers a cheaper alternative.

Bargaining Power of Suppliers

Mobile phone manufacturers are the primary suppliers to the mobile phone operator market. Earlier, the mobile manufacturing industry was more important to consumers than the mobile phone operators themselves since the price to buy a mobile phone was high and the selection of operators was

restricted to one. In view of this fact, it can be concluded that the bargaining power of suppliers was low.

Nowadays, considering the much lower prices for mobile phones, the wider range of brands and also the widespread choice of operators the bargaining power of suppliers went even lower.

Vodafone, by being a cost leader, operates with margins greater than its competitors, which in turn, allows them to absorb price increases from its suppliers easier than its competitors. By being a large, focused player of the mobile telephony industry, Vodafone could hold suppliers costs down, and it could make a profit even if its competitors are making only average returns.

Another important supplier for Vodafone is the infrastructure and maintenance suppliers which form part of the core structure of the company and which in turn allows effective operation. Nonetheless, it can be deducted that the bargaining power of these suppliers is very high considering that higher prices, lower quality and delays from these suppliers would result in devastating loss in terms of revenue and customer satisfaction for the company.

Bargaining Power of Consumers

The industry firms battle for higher quality, greater levels of service, and lower prices than their competitors and to their consumers' benefit.

Consequently, the competition in this field can be considered as cut throat the market being limited due to demographic constraints. Nonetheless, there is little product differentiation among operators, the switching costs are low

furthermore operators are offering latest mobile phones to new subscribers for free or with low prices

As Ms Capitta stated, corporate customers do not contribute to driving prices down since Vodafone's strategy is to offer them the best packages suitable to their needs. However, the market plays an important role in driving prices down since the competitors try to attract customers from Vodafone by offering attractive and cost effective packages. Nevertheless, Vodafone's strategy does not involve driving its prices down but is working on offering the best customer satisfaction in the market with reasonable prices.

The buyers in the mobile telephony industry are strong. Moreover, these powerful buyers can reduce the cost leaders prices, but not past the level of their closest competitor. This ensures Vodafone will continue to profit at above average returns compared to its closest competitor.

Conclusion – “ Technological development as the most changing dynamic”

One of the critical comments made of the Five Forces framework is its static nature, whereas the competitive environment is changing turbulently. It can be argued that the five forces determine the profitability of an industry. At the heart of industry are rivals and their competitive strategies linked to for instance, pricing or advertising but it is also intrinsic to look beyond one's immediate competitors as there might be other factors which contribute to levels of profitability. Particularly, there is competition from substitute products or services which may be perceived as substitutes by buyers even though they form part of a different industry. An example mention

beforehand may be the internet as a substitute to mobile phone calls and texts. There may be also threats produced by potential new entrants although a company like Vodafone will see this as an opportunity to strengthen its position in the market by ensuring as far as they can customer loyalty. Finally, it is important to appreciate the importance of suppliers and buyers in the market which can completely change Vodafone's strong position if not enough attention will be given.

The industry structure is constantly being revolutionized by innovation in the technological department thus the five forces model is of a limited value given that it represents only snapshots of a dynamic picture. So that the Five Forces model is valid it needs to be analysed in conjunction to the framework of other management tools, techniques and theories.

Appendices