

# Competition in telephony

BY DR FAISAL BARI

Interesting times are almost here for the telecommunications sector in Pakistan. With the entry of new players, the landscape is going to change soon and the traditional dominant players, PTCL in land phones and Mobilink in mobile telephony, are going to be challenged and will definitely lose some market share. But hopefully competition will also force players to provide better quality at more competitive rates. We should hope that the customers will gain from the change. The existing companies will have their fat trimmed a bit, but given their past monopoly status, this might not be a bad thing to happen to them too. For landline system PTCL monopoly has been removed in local systems and other companies will be able to enter the market through local wireless loops and so on. We are already seeing television advertisements from one such entrant. For mobile telephony Warid and Telenor are already in the hunt and are expected to launch their packages by mid of this year or thereabouts.

Mobilink already has a fairly large network of consumers. Telenor and Warid will have to work out interesting strategies to not only take some market away from Mobilink but to deal with each other and the other smaller players as well. There might be first mover advantages here too. If Telenor comes into the market first and can offer packages that later Warid can only copy, Telenor might steal the show and Warid might have to do innovative things even to get entry. Mobilink will also, one can be sure of that, if it wants to survive, have to carefully think its strategy and response to the imminent entry of others. The prepaid card was a great idea and a tremendous success. It has opened up the market for mobile telephony significantly, but this product will be offered by other providers too, so Mobilink really has to think of other things to do. Mobilink, though it has recently been taken over, has a relatively poor reputation in terms of quality. There have been times, as recent as last week, when its service was very unsatisfactory and poor. The tag of 'Maybe-link' is not undeserved. If the newcomers can come in with newer, better networks and can offer services of higher quality, Mobilink will be in trouble.

A two pronged strategy, from the newcomers, could be effective in this market. For the mass market the new comers could offer a prepaid card that is competitive with the existing players, but offers a 'special' for the first few months to entice new customers and encourage some of the existing customers to switch. But it should have better service quality than the product of the existing players. Since the new players are likely to have higher costs initially, than existing players, making it competitive, with an initial 'special' offer, should be more than enough. Let the existing players compete or lose markets. In the second time period, say a year or two down the road, the players can look and see if they need to undercut the incumbent.

The other prong of the strategy, for newcomers, should be about high-revenue customers. There does seem to be a market in Pakistan now for customers who want higher quality and a variety of products



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that reduce their cost of transactions, and are willing to pay for them. These customers would like ease of payment, national and international coverage, and integration of mobile telephony with mobile computing. This market is almost ready for exploration. As newcomers strive to establish their reputations of being a quality provider, this market will be very important for them. Even company specific products and packages could be looked at as one way of approaching niche marketing. To just take one example, all newspaper and television companies have special needs for communication with their personnel in the fields. A company could develop a generic product that could be sold to all or most of these companies. It is true that this sort of product development is still a little while away, but newcomers can explore the possibilities and see what comes out of it.

The problems for PTCL are different. PTCL, when it was Telephone and Telegraph (T&T) department, was pretty bad. The running joke at one time was that if you applied for a telephone connection, your grandson might have a chance of getting the phone, if he is lucky. People used to go through all sorts of hassles to get a connection, to get repairs done and so on. All of that has thankfully changed. PTCL has modernised itself. Technology changes, in the form of digital exchanges, fibre optic cables, satellite connectivity, and wireless technology have revolutionised communication technology completely. With faxes, computers (internet and E-mail) and mobile telephony, the options have multiplied. PTCL has kept up with most of these changes, but with a lag. And, more importantly, because of their monopoly position in local telephony, they have continued to enjoy substantial monopoly profits and monopoly slack.

But all of this is going to change over the next few years. Their monopoly is already gone and we have companies coming in local provision as well. As the international dialing market also opens up, PTCL will have to shape up even more. Eventually PTCL survival, in this rapidly changing field, is going to depend on its ability to keep pace with technological change and by offering customers competitive, quality products. PTCL has the advantage of being an incumbent, with tremendous knowledge of the local market, as well as an established network. But it continues to have an overhang of the T&T department and public sector mentality too. PTCL's future will depend on its ability to battle the overhang and get rid of it before competition forces it to get out of business.

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We are already seeing advertisements on the television, from competition, that are making fun of PTCL's corrupt practices. The lines-man who brings the demand-note asks for money for his 'mithai'. This is hard marketing. But it does tap into a perception and a reality about PTCL, both of which PTCL has to fight and get rid of. How well PTCL does it will determine its future.

Adam Smith, in his *The Wealth of Nations*, had pointed out that whenever people of a trade get together, they hatch schemes against public interest. He was a keen observer of business and human psychology. This is also clear from his very powerful and interesting notion of 'self-interest' driving most things in an economy. And we have seen this borne out again and again in the interest group activity at industry level that has happened in Pakistan. APTMA, sugar lobby, automobile manufacturers lobby, vendor lobby, and the cement manufacturers are all examples of such self-interested groups. The guardian of public interest has to be the government and regulators appointed by the government. But we know regulators in Pakistan, whether it be NEPRA, OGRA, PEMRA, PTA or any other, have been very weak, do not have the capacity for such regulation, and do not have the requisite support from the government. So most of these groups get away with murder most of the time. If this continues to happen in telecom as well, as it has so far, despite the increase in competition we might not see the expected increases in quality and reductions in prices (cement is an excellent example in this regard). So PTA needs to be strengthened substantially by the government if it is serious about safeguarding public interest.

One saving grace, for sometime, could be that since the game in telecom is being played by incumbents and newcomers, where the newcomers have to get some market share to become profitable, unlike the game mostly in incumbents that happened in cement, development of cartels and other conspiracies against public interest might take some time irrespective of PTA presence or absence. But in the medium to long-run, there are no ways around strengthening of PTA if public interest is to be protected in the sector. Markets do not function well under oligopoly condition and telecommunication, despite the technological and other changes, is the quintessential example of an oligopoly market.

Students of economics, industrial organisation and management should keep a keen eye on the developments in the telecommunications field. It will provide them with excellent examples of good and bad moves, good and poor strategies, responses as well as forward-looking behavior. The games of newcomers versus incumbents, the game of mobile providers versus landline ones, the game for new customers versus fight over existing customers. All of these games, a necessary part of evolving market structures and sign of a healthy sector, will provide tremendous learning opportunities for all players involved and keen observers. As more sectors are opened up for competition, including the market for television networks and media, these games will be played there too, and managers who learn the lessons from one sector well could become an important resource for other sectors as well.

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