

# Restructure Or Perish

**If Asia's telecom service providers do not move away from the business of just issuing new mobile lines, the possibility of them meeting the same fate as Harley-Davidson in the early '80s cannot be ruled out**

**RUPAK D SHARMA IN LANGKAWI**  
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**O**n a cloudy morning in Malaysia's sunny Langkawi, Bertrand Bitaud of Gartner, a research company, rolled out a slide of Harley-Davidson motorcycle on the big screen hanging on the conference room wall of Andaman Resort.

It was rather strange as he was supposed to deliberate on the business strategies of Asia's telecom service providers. But before anyone in the audience could think of what he was trying to prove he started: "Harley-Davidson has something to tell to all (telecom) service providers."

His underlying message was: telecom industry should learn the tricks of surviving in a competitive market from the giant American motorbike company.

Harley-Davidson, established in 1903, was a leading manufacturer of motorbikes in North America. However, by 1985, the company's market share had shrunk to less than 10 per cent and the company was on the verge of bankruptcy, mainly due to competition from the Japanese companies.

Its fall was inevitable.

But at this critical juncture things took a U-turn. And today it has once again established itself as a very successful company with a strong brand image and customer following.

"What the company did was get out of the motorbike business," Bitaud told the audience participating in NetE-

vent's Asia Pacific summit. It diversified and customised its product portfolio by stepping into other businesses.

Today, Harley-Davidson is not only about motorbikes. "It is also in the fashion business; it's a lifestyle company," said Bitaud. It makes apparels and other fashion accessories. Thus, Harley customers today feel that with the purchase of every Harley product they are also buying an experience and a lifestyle.

Bitaud was trying to prove that Asia's telecom industry could be compared with the Harley-Davidson of the early- and mid-1900s. Like in the Harley's heydays, Asia's telecom companies are also generating huge revenues and profits at present. The profitability rate of Asian telecom industry is, in fact, higher than of any other telecom companies in the world.

For instance, China Mobile, Asia's largest cellular carrier, generated a net profit of 24.1 billion yuan (US\$3.44 billion) in the first quarter of 2008, up 37 per cent. Last year, Bharti Airtel, India's biggest mobile operator, earned a net profit of 67.01 billion rupees (\$1.56 billion), an impressive 57 per cent growth.

But if you look at the sources of these profits, they came mainly from subscription of new mobile phone lines.

Bharati added 25 million new mobile users last year alone, pushing its entire subscriber base to over 64 million. China Mobile, on the other hand, already has around 400 million subscribers on its list. And this trend will continue until 2012.



According to estimates, mobile connections in Asia will record a compound annual growth rate of 13.6 per cent between 2008 and 2012, led by growing demands in India, China, Indonesia and other countries in the region.

In other words, Asia's telecom companies will continue to earn profits simply by signing up new customers of virgin markets in smaller cities and rural areas.

There is no doubt that availability of mobile connectivity in less-affluent areas will help countries to push up the teledensity rate, which is of the utmost importance for entire development of the country. But the concern is about the sustainability of this revenue generation mechanism?

It is estimated that the number of mobile subscribers in Asia will hit 4.4 billion by 2011. With this huge cluster of users, the market saturation will also start to grow, meaning telecom



HOANG DINH NAM/AFP

companies will find it difficult to add in new customers to its networks. This will have direct impact on their incomes and profit levels.

The only solution to this problem, according to Bitaud, is to move away from connectivity and diversify products and services range.

Talking about diversification, some telecom companies in Asia are already focusing on geographic diversification. Singapore's largest carrier, SingTel, has expanded its business in eight other markets including India, Indonesia, Thailand, the Philippines, Pakistan and Bangladesh. China Mobile also made its foray into Pakistani market and although Bharti Airtel could not clinch a deal with largest mobile carrier of Africa, other Indian companies are making attempts to enter into emerging overseas markets.

"These deals did work in the past (to keep the companies ahead in competition)," said Bitaud. "But we don't

necessarily think that that is going to work in the future." The reason: same as above, growing market saturation.

In this context, Bitaud said, companies must try to build their brand and promote brand loyalty so as to forge an emotional bond with customers. The idea is to make customers captive to your services, he added.

Michael Howard, principal analyst and co-founder, Infonetics Research, laid three steps to meet this target: consolidation of businesses, convergence of technologies and innovation.

What these three things churn out is a next generation network. "What this means is moving away from many single-purpose networks like telephone, mobile, broadband, data as separate networks onto a single network, a single Internet protocol packet network, where all the traffic, all the applications run on one network," Howard said.

The Chinese government's recent decision to merge six state-owned tele-

com companies into three can be considered the first step towards creating a next generation network (although it is not new in Japanese, European or American markets).

As per the decision, China Mobile will merge with China TieTong Telecom. China Telecom will acquire China Unicom's CDMA business and Unicom's GSM assets will be merged with China Netcom.

The move is expected to promote greater competition and offer better services to consumers as all three new companies will be able to offer mobile, fixed-line and broadband Internet services. This will also pave way for the long-awaited distribution of 3G services, through which customers can watch Internet televisions on mobile phone, hold teleconferences and send and receive huge bursts of data. More structural changes can be made by integrating other smart technologies and businesses such as that of providing Internet contents (like what Google, Yahoo and Cisco are doing).

"Once a service provider starts offering two or three or four services from one network, customers will find it difficult to switch to other company," Bitaud said.

"So, it is adios! telecom companies and hello! communication companies. That's a message."

But on top of all this company's pricing strategy should be that of Honda Accord, he added. The car comes at roughly the same price as five years ago, except that the Honda Accord has richer features, has better engines and is more stable. "In other words the price of service should remain same but customers should get more," Bitaud added.

