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Strategic Business Model for Telecommunication Companies in the Philippines

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Abstract:

The study was conducted to perform an environmental scanning analysis for the telecommunications industry in the Philippines. To measure the present situation of the telecommunications companies – SMART Communications and Globe Telecom - focus group discussion, in-depth interviewing and document analysis were done. Using Porter's Five Forces Model, the forces – 1) rivalry among existing firms, 2) bargaining power of buyers and 3) suppliers are considerably high while 4) the threat of substitutes is moderate and 5) the threat of new entrants is low because of the oligopolistic nature of the industry. Furthermore, a SWOT analysis was utilized to analyze the internal and external factors affecting the industry. The strengths include: widely known brand names, cutting-edge fiber optics technology, high growth rate of the industry and huge demand of telecommunications subscribers. On the other hand, weaknesses include: poor telecommunications infrastructure and late adopter of new technology. In terms of the external factors, opportunities include: new technological products available in the market, value-added services, and increasing demand for mobile banking while the threats are: regulation of the NTC, heightened

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competition, and availability of substitutes. A TOWS matrix was also crafted to come up with different strategies.
In order for the telecommunications industry to achieve sustainable competitive advantage, a strategic business model was formulated. In the framework, the following were considered: 1) telecommunications infrastructure, 2) the telecommunication companies, and 3) value-added services. The identified factors are important considerations in formulating corporate-level, business-level, and functional-level strategies.

Key words: Telecommunications companies, SWOT analysis, Porter's five forces model, strategic framework, environmental scanning, TOWS matrix

1. Introduction

The advent of technology all over the world triggered humongous changes in how people behave and act. Major advances in communication, information processing, and transportation technology started at the end of World War II. The explosion of the use of the Internet and the World Wide Web paved the way for faster communication and transaction (Hill, 2010). Because of technology, people can easily transfer information from one location to another and have the capacity to tell to the world their sentiments and commentaries. Today, everything is instant. Messaging is instant, communication is instant, and even building relationship is instant! Thus, technology changed the way people live.

Because of the massive growth and penetration of technological products to people's lives, it becomes an imperative to adopt with different technological changes happening in the environment. One of the greatest outputs of technology is the birth of mobile or cellular phones. Communication is now much faster because of these advancements. In a research conducted by Pew Research Centre's Internet and American Life Project March 15 to April

3, 2012 Tracking Survey, 65% of the respondents mentioned that mobile phones have made it "a lot" easier to stay in touch with the people they care about. Approximately half of the respondents also said that their phone has made it at least somewhat easier to plan and schedule their daily routine and made them productive while doing things like sitting in traffic or waiting in a queue (Smith, 2012).

In the case of the Philippines, the Internet penetration rate substantially rose to 36% in 2013 as compared to only 2% in 2000, as cited by the National Statistical Coordination Board (NSCB). The increasing economic activities led to the rising demand for fast and easy information (Remo, 2013). Social networking had the largest share of personal computing time in the region and according to comScore (a leading internet technology company that measures what people do as they navigate the digital), Philippines was the second highest Facebook penetration rate in the world in 2013 at 92.2% (Visconti, 2013). In TNS "Mobile Life 2013" (a part of Kantar, one of the world's largest insight, information and consultancy groups), survey roughly 75% of the respondents in Metro Manila used their smartphones for taking photos or videos, 45% for Internet browsing, 44% for social networking sites usage, and 37% for e-mail checking emails (Lowe, 2013).

The telecommunications industry in the Philippines particularly the mobile service market is dominated by two (2) major players, a duopoly, namely SMART Communications and GLOBE Telecom. SMART Communications is the leading wireless services providers in the Philippines having 54.2 million subscribers on its GSM network as of 2012. It is a wholly owned subsidiary of the Philippine Long Distance Telephone Co. (PLDT), the dominant telecommunications carrier. It operates a nationwide cellular network, a wireless broadband service, a satellite phone service, and mobile commerce services (SMART Communications Website, 2014). Sun Cellular or Digitel Mobile Philippines, Inc. (DMPI), a

wholly-owned subsidiary of Digitel used to be part of the telecommunications industry. In October 2011, PLDT acquired Digitel from JG Summit holdings (Sun Cellular Website, 2014). Globe Telecom on the other hand is a partnership of Ayala Corporation and Singapore Telecom (SingTel). It is a major player in the telecommunications industry in the Philippines servicing at least 25 million subscribers as of 2012 (Rappler, 2014). These two big mobile service providers – SMART Communications and GLOBE Telecom - contribute a lot in the gross domestic product (GDP) of the Philippines.

The telecommunication industry specifically the mobile service companies is a vital factor in the Philippine economy thus contributing a huge percentage to the Gross domestic product (GDP). In Evans' research (2014), it contributed 10% to the Philippines GDP. This leads to an important question of how these mobile service companies can provide service quality to their subscribers. The researcher scrutinized all these information to have an in-depth analysis of the strategic factors that affect the business performance of the telecommunication industry and establish a strategic management framework that can be utilized by telecommunication companies to enhance their operation efficiencies and increase their level of competitiveness.

2. Review of Related Literatures

Several thorough studies explored the telecommunication industry and its importance in the micro and macro level environments. For instance, Sirapracha and Tocquer (2012) investigated the relationship of brand image, customer experience, and brand loyalty in Thailand's wireless telecommunication service industry. The results showed that the different wireless service players deliver different customer experiences and images and that customer experiences influence brand strength including brand image and customer

loyalty. Chang and Chong (2011) explored service quality, corporate image, price, customer satisfaction, and service loyalty of Malaysian telecommunication companies. The results showed that service quality, corporate image, and price were the customer satisfaction predictors. The findings also indicated that price had the most impact on customer satisfaction. The authors concluded that, it is an imperative to improve the quality management of mobile phone services. Al–Refaie, Jalham, and Li (2012) also examined the relationships of service quality, customer satisfaction, corporate image, perceived value, perceived price, loyalty, and trust in Jordanian telecommunication companies. The results revealed that customer satisfaction is directly affected by service quality, perceived value, perceived price and image. On one hand, repurchase intention is positively related to by customer satisfaction, loyalty and perceived value.

Al-Debei and Avison (2011) asserted that the telecommunication sector is undergoing critical revolution, and is driven by innovation, globalization, and deregulation. Cellular networks and telecommunications brought massive changes to the way telecommunication companies are conducted. They further mentioned that there is a need to enhance the ability of telecommunication operators in determining what constitutes the most effective business model to meet the their strategic objectives within the raging environment. Kwak, Lee, and Chung (2012) examined China's approach for standardization in the cases of locally developed 3G and 4G mobile standards. The authors argued that the approach of China to standardization evolved from techno-nationalism into techno-globalism. They further asserted that alliances with foreign firms are given emphases over local firms to comply with international standardization and commercialization of locally-developed standards.

Serafica (2001) analysed the level of competition in Philippine telecommunications. In the study, she provided a

clear and workable definition of competition policy especially as it applies to the telecommunication industry and identified threats to the competitive provision of telecommunication services. The recommendations given include: the establishment of specific rules to govern firm behaviour particularly policies on access to essential facilities and mergers; national license must be granted to facilitate consolidation and the formation of second carrier that can pose a credible threat to the current dominant operator; improve regulation by privatizing certain functions such as auditing performance of operators, preparing public consultation documents or implementing alternative dispute resolution mechanism; the access charge must only serve one objective and that is to accommodate competition; and end-user price setting by the regulator must eventually be removed. Patalinghug and Llanto (2005) examined the Philippine regulatory framework and the competition-related provisions of the rules governing the power of the telecommunication sectors. The study concluded that the regulatory rules have to be reviewed and overhauled. They particularly formulated the following conclusions: 1) structural remedies were more preferred than behavioural rules in curtailing the exercises of market power; 2) competition is better than ownership; 3) there should be clear transmission planning objectives and a formal planning process; 4) elimination of the service area scheme to allow new entrants to compete in the said industry; 5) network access and interconnection contracts must be decided by regulators; and 6) development of regulatory capacity. Cayanan and Suan (2014) on one hand analysed the factors affecting the pricing and pricing schemes of telecommunication companies in the Philippines. In their paper, despite the reduction in the telecommunication services prices brought about by competition in the said industry, the Philippines remained the highest among Asian countries. They further accentuated that the duopolistic nature of the Philippine Telecommunication

industry, concerns have been raised regarding service prices and the quality of services offered by the players.

Rajasekar and Al Raee (2013) explored the telecommunication industry in the Sultanate of Oman using Porter's Five Forces Model. The findings revealed that rivalry among competitors and threats of substitutes were the strongest competitive forces in the said industry. Threat of new entrants and bargaining power of buyers had significant impact also but bargaining power of suppliers was very limited. Majumdar and Bhattacharya (2014) explored the competitiveness of the mobile communication sector in India using Porter's Five Forces Model also. The findings presented that the intensity of competition and threats of substitutes were high while threats of new entrants and bargaining power of suppliers were low. They further asserted that the bargaining power of buyers was medium. On one hand, Venkatram and Zhu (2012) analysed the different factors affecting the telecommunication industry in China and India. The results showed that the number of subscribers, technology innovation, and government regulations and policies were found to be the influential and contributing factor in the growth of the telecommunication industry of the said countries.

From the related literatures presented, it is vital to come up with a study that will analyse the level of competitiveness of the telecommunication companies in the Philippines. Thus, a strategic business model for the telecommunication companies in the Philippines is vital to gauge the level of competitiveness and sustainability of the said industry.

3. Paradigm of the Study

In the research paradigm, the telecommunication companies in the Philippines were scrutinized by gauging the level of competitiveness and sustainability of the said industry.

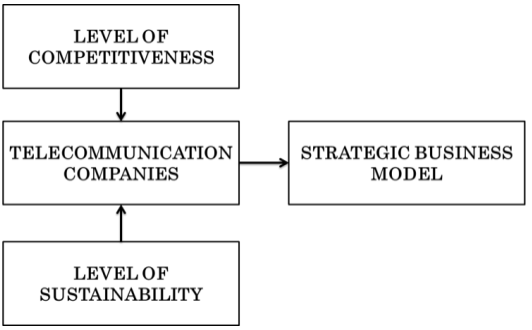

Figure 1. Paradigm of the Study

The research can provide useful insights and information to key stakeholders in the telecommunication industry in the Philippines including the telecommunication companies, and the National Telecommunications Commission (NTC), the primary regulator of the telecommunication companies in the said country,

4. Method

Exploratory research was used to scrutinize the competitiveness and sustainability of the telecommunication industry in the Philippines. Exploratory research is used for a problem that has no clear definition. It aids in determining the right research design, collection of data, and selection of subject. It relies heavily on secondary data.

4.1. Participants of the Study

The participants of the study were the two major networks in the Philippines namely Smart Communications (including Sun Cellular) and Globe Telecom. These are the only players in the oligopolistic market of telecommunication in the Philippines.

4.2. Measure

The study was fundamentally an empirical research. The date were collected from secondary sources such as news articles, telecommunication company websites, government reports and

documents, information from NTC, and other studies and researches on the status of the Philippine telecommunication industry. Focus-group discussion, in-depth interviewing and document analysis were done to fully scrutinize the level of competitiveness and sustainable of the said industry.

The researcher extensively confined extraction of data based on available documents directly and indirectly gathered from secondary sources. Over the course of document extraction, key personnel from every telecommunication companies were interviewed to gather reliable and valid data.

To measure the level of competitiveness of the Philippine telecommunication companies, Porter's Five Forces Model was used while SWOT analysis was utilized to measure the level of sustainability of the telecommunication companies. In the final analysis, a strategic business model was formulated to address the different factors affecting the environment on the telecommunication industry.

5. Results

The results of the competitiveness and sustainability measures were as follows:

5.1 Competitiveness of the Telecommunication Companies in the Philippines

The summary of the competitiveness of the Philippine telecommunication companies is shown in figure 2.

5.1.1. Threats of New Entrants (Low)

The oligopolistic nature of the industry where the market is dominated by few large producers/suppliers of homogeneous (sometimes differentiated) products and services is the primary reason why the intensity of threat pose by possible new competitors is low. Because of the fewness of the firms, they have considerable control over prices, but each must consider

the possible reaction of the rivals to its own pricing, output, and advertising decision (McConnell, Brue, & Flynn, 2009). This hinders new entrants to penetrate the growing but stiff competition in the telecommunication industry.

Economies of scale is another factor why the threat of new entrants is low. It is an important entry barrier for telecommunication companies because the two existing firms have sufficient sales to achieve economies of scale but new entrants would have such a small market share that they could not do so. These new entrants would then be high-costs producers/suppliers and as such they could not survive. The large capital expenditure for capital – the cost of obtaining necessary plant and equipment – is a huge entry barrier. Moreover, telecommunication companies can prelude the entry of new competitors through pre-emptive and retaliatory pricing and advertising strategies (McConnell et al, 2009).

The retaliation by the existing telecommunication companies signifies pressure for possible new entrants since these existing firms projects an established network presence that causes economies of scale. The products and services offered by Smart Communications and Globe Telecom are offered in the market in such that the new entrants will have hard time in the competition. Product bundling strategies are very common – bundle broadband, voice, wireless, video and other emerging technologies – to remain competitive in the industry.

5.1.2. Threat of Substitutes (Moderate)

The propensity of consumers to substitute is quite moderate in the telecommunication industry. The presence of broadband and Internet companies such as Google, Viber, Magic Jack, and Skype to offer telephony services for international calling and messaging and PC-to-PC domestic calls poses a moderate threat in the industry. The price of Viber and Skype for instance is free. A consumer just simply needs to download the application.

One major caveat of these free telephony service providers is the quality and timeliness of the messages being sent and the voice by means of call.

5.1.3. Rivalry Among Existing Firms (High)

The oligopolistic nature of the Philippines telecommunication industry signifies the intensity of competition in the said industry. In this type of market structure where strategic behaviour and mutual interdependence typically occur, the stiff competition is very much evident. Because the number of players is few, firms consider the decisions of the competitor in coming up of strategies for instance pricing strategy and advertising. For instance, once the competitor launches a new service, the firm matches it in the fastest way possible. For instance, Globe Telecom introduced last May 2013 their MySuperPlan for postpaid subscribers and GoSakto ("sakto" is a vernacular meaning of "exact") a self-service customized menu for prepaid subscribers. With that move, SMART Communications had a similar strategy by presenting Flexibundles where subscribers can choose the "bundle" of products and services that suit their budget and lifestyle. With the advent of LTE connection, both also upgraded their services on this matter (Magdirila, 2013).

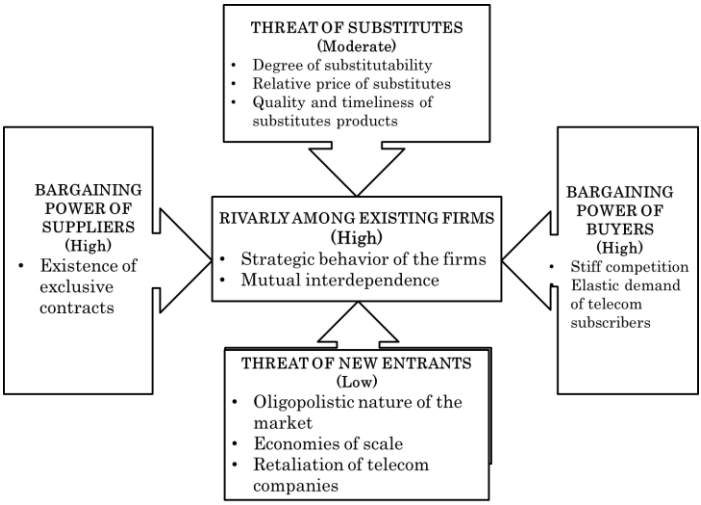

Figure 2. Level of Competitiveness of the Philippine Telecommunication Companies

5.1.4. Bargaining Power of Buyers (High)

Despite the fact that the telecommunication industry in the Philippines is dominated by only two firms, the bargaining power of the buyers is considerably high. Because of the nature of the market, the strategic behaviour and mutual interdependence causes a consumer to switch from one firm to another. For instance, when Sun Cellular (now under SMART Communications) offered unlimited texts and call, many of the subscribers of the other players switched to Sun Cellular. The high degree of competition always entails high degree of bargaining power of buyers.

The elastic demand of telecommunication subscribers also means high degree of bargaining power. The relative price of a telecommunication product or service affects the purchasing behaviour of subscribers. The lower the price offered by the competitor, the higher the possibility of consumers to switch to another network.

5.1.5. Bargaining Power of Suppliers (High)

The providers/suppliers of simcards for telecommunication companies are usually under exclusive contracts with the market player which mean that the bargaining power of the suppliers is high. On one hand, for mobile phone units, the existence of different mobile phone brands poses high bargaining power also. The fact the suppliers of these telecommunication companies can dictate the specifications and technicalities of their products/services (which are necessary for the firms to provide products/service to subscribers) signifies high degree of bargaining power.

5.2. Sustainability of the Telecommunication Companies in the Philippines

The summary of the sustainability of the Philippine telecommunication companies is shown in figures 3 for the internal factors and figure 4 for the external factors.

5.2.1. Strengths

- **Widely Known Brand Names**

The two players in the telecommunication industry in the Philippines are all widely known names. Each player caters different markets in the industry. Each plays the game in such a way that they will be able to differentiate its product/service offerings to competitors. It is no doubt that everyone knows the brand name of these networks.

- **Cutting-edge fibre-optics technology (e.g. 3G, 4G, LTE)**

Because of advancement in technology and the huge demand for new mobile services such as 3G, 4G, and LTE, the two players in the telecommunication industry are offering these services to cater the demand of their markets. People are fast-paced in having smart phones because these new phones have the capacity to communicate intensively through mobile

Internet instead of the typical text messaging. The rising demand for more advanced mobile phones requires advanced mobile service connectivity. According to Bajarin (2013) the role of smart phones will become more dynamic.

- **High Growth Rate**

The growth rate of the telecommunication industry in the Philippines is considered high. Growth in the Philippine enterprise telephony market is expected to outpace peers in Asia-Pacific on the strength of the country's business process outsourcing industry, according to research and consultancy firm Frost & Sullivan as cited by Lowe (2012). According to the said research, the Philippine enterprise telephony business grew by 7.2% in the second quarter 2012 and 24% in the first half of the year to $8 million.

- **Huge Demand of Telecommunication subscribers**

The demand for telecommunication products and services is considerably high in the Philippines. According to the International Telecommunications Union (ITU), the United Nations specialized agency for information and communication technologies, as cited in the online article alliance.com.ph (2014), there were 87.3 million mobile subscribers in the Philippines and 92% mobile penetration rate at the end of 2011.

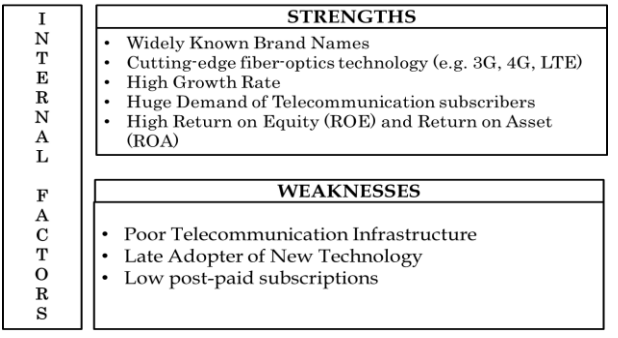

Figure 3. Internal Factors Affecting the Philippine Telecommunication Companies

5.2.2. Weaknesses

- **Poor Telecommunication Infrastructure**

The infrastructure needed by telecommunication companies entails huge amount of investment. One of the sad facts about telecommunication infrastructure in the Philippines is its slow internet connection, a service also provided by the two players in the market. The average webpage loading speed on desktops in the Philippines was 15.4 seconds, the second slowest behind 20.3 seconds of Indonesia in a Google study based on the report of Bloomberg, an international news agency (Mendoza, 2012). In a survey by OpenSignal, a company that created impartial coverage maps of mobile networks, the Philippines was identified as the poorest and slowest LTE (Long Term Evolution) broadband Internet access and coverage in the globe (Luces, 2014). In 2013, the Philippines lagged behind Asian neighbours in average Internet speed in according to the statistics of Akamai, a US-based Internet content delivery network. The global average for Internet speed is 3.1 Mbps but the Filipino subscribers only experience 1.4Mbps, very far from the international average (Hughes, 2013).

- **Late Adopter of New Technology**

In 2012, 63% of telecommunication companies across Asia had offered 4G mobile data services. This move proves that mobile, Internet, and LTE are the most vital things in the telecommunication industry in the continent. It is true that LTE adoption in developed nations such as Japan and Korea is doing well but emerging markets including the Philippines is at a slow pace. With approximately 34.6 million LTE subscribers in Asia-Pacific region of the aggregate 3.45 billion subscribers in the region in the first quarter of 2013, 4G is far from commonplace (Magdirila, 2013). The LTE technology was commercially introduced in December 2009 by TeliaSonera in Norway and Sweden and came to the U.S. market in 2010 (Pica, 2013). In the Philippines, it was only in 2013 when LTE

was introduced by SMART Communications and Globe Telecom (Noda, 2013).

5.2.3. Opportunities

- **New Technological Products Available in the Market**

The existence of new mobile phone units such as smart phones and Iphones entails a huge opportunity for telecommunication companies to offer services for users of these new mobile phones. The advancements of mobile phones today require new services such as 3G, 4G, and LTE. These services can be provided by telecommunication companies. In 2012, the Philippines was considered the fastest-growing market for smart phones in Southeast Asia according to GfK, a research firm in Singapore. It recorded a 326% increase in smart phone sales. The growth was relatively higher that the 78% increase posted in Southeast Asia's primary markets namely the Philippines, Singapore, Malaysia, Thailand, Indonesia, Vietnam, and Cambodia (Crisanto, 2012).

- **Value-Added Services**

Aside from typical mobile service of text messaging and phone calls, the growing number of smartphone and Iphone users seeks for other advanced services such as 3G, 4G, and LTE. With this, the telecommunication companies have the opportunity to provide these services.

- **Increasing Demand for Mobile Banking**

The demand of consumers for mobile banking services is also increasing this poses an opportunity for telecommunication companies to offer this service. According to Juniper Research, an international mobile telecommunication research company, over one billion mobile subscribers will be using their mobile phones for banking by the end of 2017. It was also predicted in

2013 that the mobile banking users will register at 590 million (The Philippine Star, 2013).

Figure 4. External Factors Affecting the Philippine Telecommunication Companies

5.2.4. Threats

- **Regulation of the Telecommunication Industry by National Telecommunication Commission (NTC)**

In the Philippines, the government through NTC regulates the telecommunication industry. The heavy regulation imposed by NTC means a major threat for telecommunication companies.

- **Heightened Competition**

The advent of digital wireless and a multiple increase in the allocation of spectrum in mobile communication really heightened the war in the telecommunications industry. It is evident that technological advancement and competitive development provided an increasing complex array of networks offering competing and complementary services. The "war" between SMART Communications and GLOBE Telecom is becoming stiffer. In 2012, both players claimed to be number one in the postpaid segment – SMART Communication by the number of subscribers while GLOBE Telecom by revenue per subscriber in the first three months of 2012 (Viconti, 2012).

- **Availability of Substitutes (Switching Costs)**

In many cases, telecommunication networks both provide inputs to, and compete with another network. This tends the subscribers to switch from one network to another.

5.3. TOWS Matrix for the Telecommunication Companies in the Philippines

The TOWS matrix, as shown in figure 5, summarizes the strategies that can be done by telecommunication companies in the Philippines. This matrix shows the different strategies by combing the strengths identified with the opportunities (S-O strategies), the weaknesses and the opportunities (W-O strategies), the strengths and the threats (S-T strategies), and the weaknesses and threats (W-T strategies).

	STRENGTHS	WEAKNESSES
OPPORTUNITIES	**S-O Strategies** • Create a platform that will cater to the increasing demand for mobile bankers. • Create marketing campaigns geared toward mobile banking as a way of life. • Create business lock-in programs to increase network loyalty.	**W-O Strategies** • Improve cell sites networks particularly to the countryside. • Improve and strengthen 3G, 4G, and LTE signals to make connectivity faster. • Create post-paid programs that target young professionals (bulk of subscribers) • Make post-paid transactions hassle free. Avoid too much paper requirements to possible clients. • Create a system that records and keeps transactions real-time.
THREATS	**S-T Strategies** • Remove expiration on load credits. • Seek ways to reduce the amount of costs to increase customer subscriptions. • Increase the level of connectivity during important events in the country (e.g. Christmas, New Year). • Continue investing on improvement of telecom facilities.	**W-T Strategies** • Provide different bundles targeting specific markets. • Create mobile services (e.g. viber, twitter, facebook) at the cheapest way possible yet comparable to the existing substitutes. • Telecom companies should have a regular environmental scanning to discuss the internal and external factors affecting the industry.

Figure 5. TOWS Matrix for the Philippine Telecommunication Companies

5.4. Strategic Business Model for the Telecommunication Companies in the Philippines

The strategic business model is a result of the thorough and extensive analysis made by the researcher from the SWOT analysis and Porter's Five Forces Model. In order for the

telecommunications industry to be competitive, there are three vital factors that should be considered. Following a typical value-chain, telecom infrastructure, Telecommunication Company, and value-added services are to be considered to gain not only competitive advantage but a sustainable one. These three factors are important variables in providing quality service to telecommunication clientele. For it to be sustainable, each telecommunication company should focus on formulating strategies related and relevant to the three mentioned factors – telecom infrastructure, telecom company, and value-added services. These strategies should be cascaded from top of the company to the lower level management. Prioritizing the improvement and augmentation of the three factors should be first considered by the board of directors and top management that will devise for the corporate-level strategy. Corporate-level strategy sets the long-term direction of the whole organization. From this standpoint, anchoring the corporate-level strategy from the three factors will set the right direction and guide them the correct allocation of resource for the entire company. Definitely, it is not enough that the board of directors and the top management of each telecom company will just do everything, the middle management including division or strategic business units (SBUs) of each telecom company should set forth business-level strategy. This strategy identifies how a division or SBU will compete in its products and services. The strategy that will be formulated should be aligned with the corporate-level strategy. Lastly, the lower-level management should come up with functional strategy the will guide activities within a specific area of operations. The functional strategy should go hand in hand with the business-level strategy devised by the middle managers.

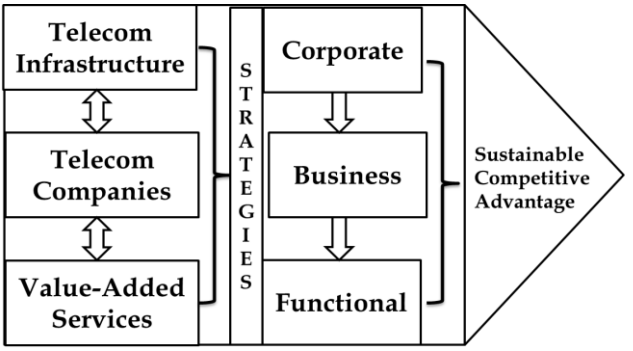

Figure 6. Strategic Business Model for Philippine Telecommunication Companies

6. Conclusions and Recommendations

The research concludes that the telecommunication industry in the Philippines is generally competitive as evident in the result of the Porter's Five Forces Model. The internal and external factors affecting the said industry showed that there are several important issues that the each industry player must address. To achieve sustainability, each telecommunication company should consider the different strategies presented in the TOWS matrix as they address the various telecommunication companies weaknesses and threats. On the other hand, the strategies enumerated also signify how each player can take advantage of the opportunities in the telecommunication industry and how to level-up the strengths of each player.

In the final analysis, is it essential for each telecommunication company to consider the strategic business model presented in the study as it gives a macro-level analysis on how to obtain sustainable competitive advantage in the industry. With the oligopolistic nature of the telecommunication industry in the Philippines where mutual independence and strategic behaviour are common characteristics, a straightforward and doable strategic business model is much attune.

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