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Polish Mobile Phone Market - present situation and direction of changes

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**Dr. Maciej Czaplewski
Polish Mobile Phone Market – present situation and direction of changes**

Abstract

The value of the polish mobile phone market (MPM) was rising steadily since its beginning. The year 2009 was the first year when the value of that market fell down by 2,5%. It was caused by the forced regulation introduced by the Office of Electronic Communications, (the polish telecommunication market regulation authority) regarding the Mobile Termination Rates (MTR) decrease. According to the forecasts, the value of the polish MPM will be rising, beside the decrease of value in the year 2009, and the market is characterized by a steadily growing number of users, increasing volume of calls and increasing total calls duration. Already in 2007 the so called nominal penetration of this market exceeded 100%.

The second characteristic feature of MPM in Poland is the maintenance of its oligopolistic structure with the clear domination of three companies, which have rich, strategic foreign investors, are holding over 30% of market share of the MPM in Poland, and they are not interested in price competition.

The article shows, that beside the oligopolistic MPM and huge entrance barriers, new players are showing up. Those new players can be divided into:

- operators building own telecommunication networks,
- virtual operator (which don't have its own telecommunication network).

While presenting the structure of MPM in Poland and showing its evolution, the article draws a special attention to the company PLAY, which is gradually developing its own network, pursues a low price strategy and manifests this actions. This strategy begins to show effects, because the company gradually strengthens its market position and had 5,93% of the market share in the 2nd and 6,51% after the 3rd quarter of 2009¹.

The article focuses also on the arising on the polish MPM virtual operator (MVNO) sector. Their existing market share is meager. The article tries to show the reasons of such situation, most of all indicating on the problems with closing the contracts with the network operators.

The author makes a case, that from the users point of view, a deeper transformation of the MPM structure would be beneficial.

The following methods were used while preparing the article:

¹ http://gsmonline.pl/portal/news/news.jsp?s0n_id=23171, 20 stycznia 2010 – PLAY ogłosił, że na koniec 2009 roku pozyskał 3 447 858 klientów (zob. <http://p4.playmobile.pl/pl/o-firmie/historia-firmy/index.html>).

- analysis of the MPM in Poland, with special focus on the structure analysis of the market operators and changes in this structure;
- identification of business strategy of PLAY, which gradually develops into the fourth important operator on the MPM in Poland;
- synthetic presentation of basic factors that could allow to accelerate further polish MPM transformation, and in consequence reduce the market power of three dominant operators as well as increase the telecommunication service consumers position.

While writing the article, the author used:

- internal materials of operators functioning on the polish MPM,
- studies from companies researching MPM in Poland,
- decisions of the Office of Electronic Communication regarding MPM,
- polish MPM experts announcements.

Key words: Telecommunication, Polish Mobile Phone Market

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Polish Mobile Phone Market – present situation and direction of changes

1. Introduction

Telecommunications Services Market (RUT) is subject to dynamic changes. An significant impact on this state of matter has the:

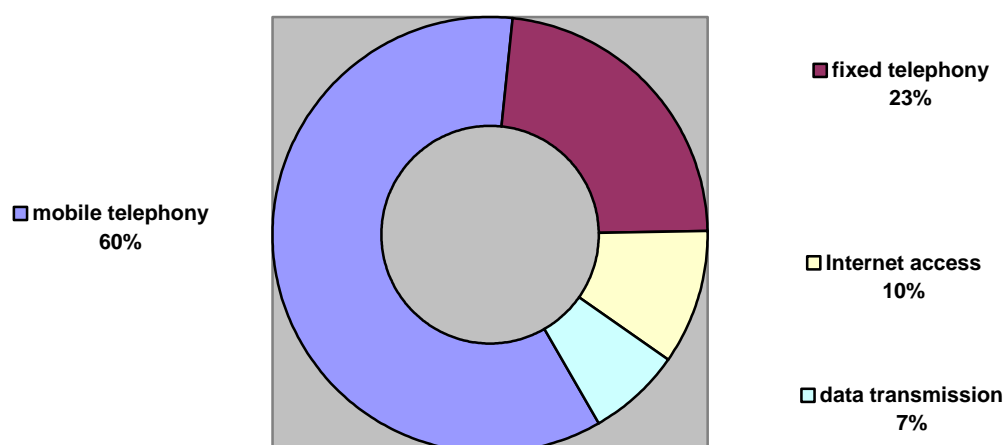
- liberalization of RUT,
- technical and technological progress.

One of the effects of technical-technological progress was the emergence of mobile telephony (TK), which gradually began to develop into a major, and subsequently into a dominant segment of the RUT.

On the fixed telephony market (RTS), despite the drop of call prices and also the possibility to chose an operator, and in consequence a more attractive offer choice, customers of this market segment do less and less calls. This fact coupled with falling tariffs leads to falling revenues from this market segment.

This situation causes that the share of fixed telephony in the value of the Polish telecommunications market in 2009 fell to 23% (Fig. 1).

Fig. 1. The value of the telecommunication market in Poland in 2009 (in %)

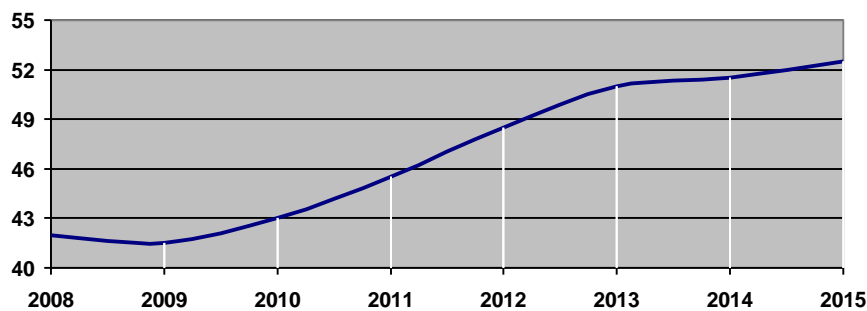


Source: Audytel, „Polski Rynek Telekomunikacyjny 2010”, dane spółek. After: Dziennik Gazeta Prawna from 23.02.10.

The Figure 1 also shows that the share of the mobile phone market in the Polish telecommunication market is 60%. The mobile phone market in Poland grew continuously until 2008. Only in 2009, the value of this market decreased by 2.5%, which was primarily influenced by the imposed by the regulator lowering of MTR rates (wholesale rates for end calls.)

Estimates indicate, however, that in the next years the value of the telecommunications market (RT) in Poland, including the mobile market (RTK) will grow (Fig. 2).

Fig. 2. Estimated value growth of the telecommunication market in Poland until 2015 (in bln PLN)

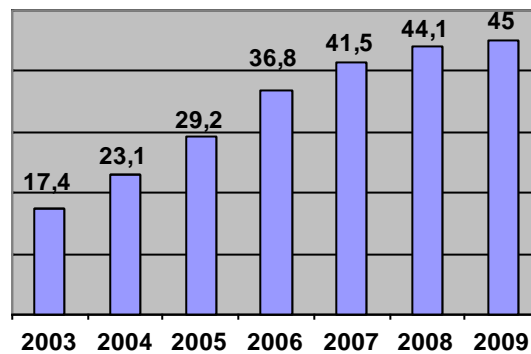


Source: Audytel, „Polski Rynek Telekomunikacyjny 2010”, dane spółek. After: Dziennik Gazeta Prawna from 23.02.10.

2. Mobile Phone Market in Poland

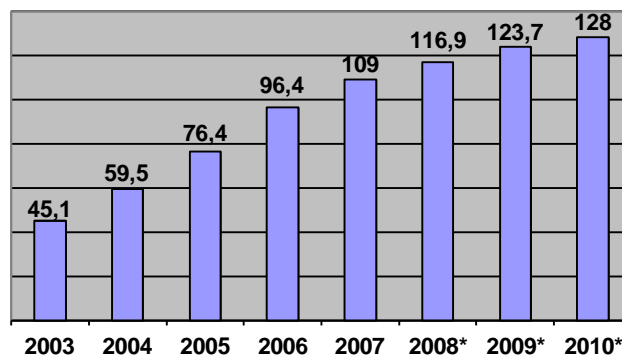
In Poland, RTK, despite a small decrease of its value in 2009, is characterized by continuous growth in terms of users, the number of calls and the aggregate time of their duration. Already in 2007 the so-called nominal penetration of this market has exceeded 100%. One of the key indicators for the mobile phone development is the number of active SIM cards and the number of cards per 100 inhabitants. Data on these two figures for the Polish RTK show figures 3 and 4.

Fig. 3. Number of active SIM cards in Poland (in mln)



Source: GUS. After: Dziennik Gazeta Prawna from 27.01.10.

Fig. 4. Number of active SIM cards per 100 inhabitants in Poland (in %)



Source: Audytel and GUS. After: Wall Street Journal Polska from 8.01.09.

The above shown data allow to speak of a saturated market, where the acquisition of new customers is quite difficult. In addition to the saturated market, another important feature of the polish RTK is the domination of three operators:

- PTK Centertel (Orange), which is since 2005 solely owned by the incumbent polish operator Telekomunikacja Polska, which, on the other hand, main owner (49,79% shares) is France Telecom²;
- Polkomtel (Plus), which is owned by:
 - Polski Koncern Naftowy ORLEN SA (24,39%);
 - KGHM Polska Miedź SA (24,39%);
 - Polska Grupa Energetyczna S.A. (21,85%);

² http://www.tp.pl/prt/pl/o_nas/o_firmie/udzialowcy?_a=502148

- Vodafone Americas, Inc. (19,61%);
- Węglkokoks SA (4,98%);
- Vodafone International Holdings B.V. (4,78%);³
- Polska Telefonía Cyfrowa (Era), which is owned by:
 - T-Mobile Deutschland GmbH (70,5%);
 - T-Mobile Poland Holding No. 1 B.V. (22,5%);
 - Polpager Sp. z o. o. (4,0%);
 - CARCOM Warszawa Sp. z o.o. (1,9%);
 - Elektrim Autoinvest S.A. (1,1%).⁴

These operators are functioning on the polish RTK since the beginning of its inception, with strong strategic investors and a significant market share. As of April 2009 the shares of these operators of the polish RTK were as follows:

- Orange - 30.99%
- Plus - 32.56%
- Era - 30.18%.⁵

The presented status indicates that the RTK in Poland has an oligopolistic structure. Taking advantage of this situation, these three, named earlier, operators, didn't compete for a long time with service prices, but mainly with the types and prices of the offered mobile phones models. The existence of such a situation was not favorable to customers, and its clear change, first of all, required the emergence of new entrants on the market. However, the entry on this market is a considerable challenge and involves:

- the need to offer services for users already having a phone,
- the use of price and non-price competition (upgrade offer of additional services - mobile Internet, telephone payments, mobile TV),
- the improvement of customer service,
- an increasing competition between major players (the aspiration to become a leader, the desire to discourage new and potential players to enter the market).

Despite a significant challenges related with entering the RTK in Poland, new players began to appear on it. A more noticeable change in the polish RTK began to take place since the year 2006 in connection with the:

- entry of subsequent mobile operators (OTK), who had their own infrastructure,
- emergence of Virtual Operators (SO).

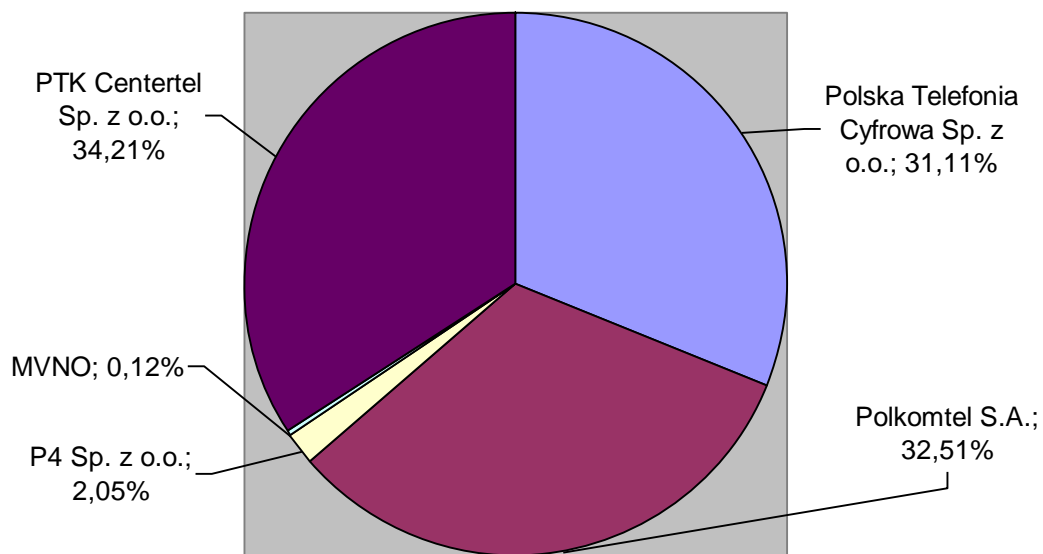
³ http://www.polkomtel.com.pl/polkomtel_sa/wladze/akcjonariusze/Default.aspx

⁴ http://www.era.pl/pl/strona_korporacyjna/o_ptc/udzialowcy

⁵ http://gsmonline.pl/portal/news/news.jsp?sOn_id=23171

This process led to changes in the structure of operators functioning on the RTK in Poland and their market shares. Those shares at the end of September 2009 measured by the number of active SIM cards shows figure 5.

Fig. 5. Shares of main operators on the RTK in Poland by number of active SIM cards (as at 30 September 2009)



Source: Vodafone, France Telekom, Deutsche Telekom, GUS. After: Dziennik Gazeta Prawna from 12.11.09.

Among the new OTK, who have their own network and are developing that network, an exceptional dynamism is showing the company Play (P4)⁶.

In March 2008 Play had nearly one million of customers, and at the end of 2009 - 1.4 million. 33% of its clients used the subscription service and the remaining 67% - the prepaid offer. This proportion is nowadays a standard on the market and the ratio of subscribers to the customers using pre-paid services is similar (30:70) also in the remaining operators. Play assumes to break even in 2010 by obtaining more than 5 million users.

The success of the Play is undoubtedly linked to the facts that:

- P4 is competing with low prices (recently offered a new pre-paid offer called “fresh”⁷)

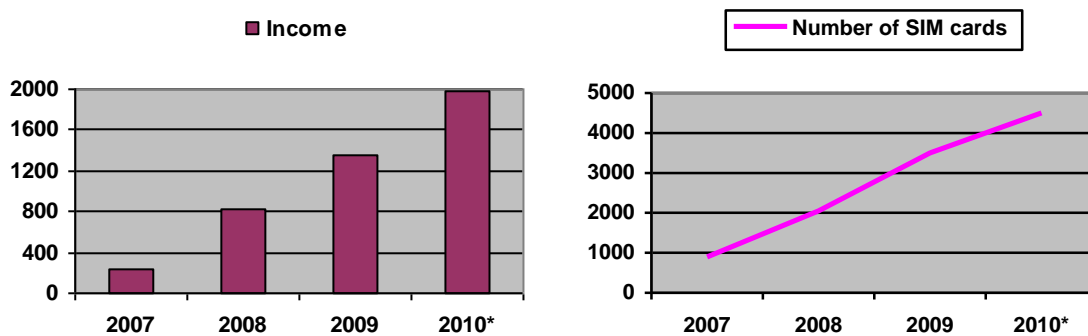
⁶ As at the end of 2009 the ownership structure of PLAY is as follows: Hilson 49.7%, 50.2% Tollerton (see <http://p4.playmobile.pl/pl/o-firmie/udzialowcy/index.html>).

⁷ A 1 minute call to all networks costs 29gr, SMS 9gr, MMS 19gr and transmission of 100kb of data 12gr.

- the company promotes a comparative campaign, informing that the connection from Play network to other networks are cheaper than those inside the other operators networks)⁸.

This strategy gives results in rapid increase of the number of SIM cards and in increasing incomes. This state of matter is illustrated on figure 6.

Fig. 6. P4 Annual Results - income (in millions) and the number of SIM cards (in thousands).



Source: P4. After: Dziennik Gazeta Prawna from 21.01.10.

It should be noted that Play benefits from some regulatory preferences. Due to the use of UKE regulations it benefits from higher, than competitors, MTR rates.⁹

The number of operators on the Polish RTK is gradually growing. On one hand, new entrants with their own telecommunications networks are entering this market. One should especially mention the following companies:

- Centernet, intending to make money in this business after three years of operation,
- Mobyland planning to gain profits after 5-6 years of activity,¹⁰
- Dialogue, announcing the start-up in the first half of 2010.¹¹

On the other hand, conversion of the RTK in Poland are the result of the emergence of virtual operators, who do not have their own network and are renting a network from the

⁸ Play believes that polish companies - Orange, PTE, PLUS are raising prices in order to improve the profitability of their owners, and the company tries to exploit this fact in order to strengthen its own market position. An example confirming this point of view are the fees charged by Orange for the use of broadband Internet in the UK and in Poland. In the UK the Orange "Internet Everywhere" package is equivalent to about 67 PLN. In Poland, a comparable package of Orange "Free Premium" is a monthly expenditure of approximately 120 PLN (see rozmowa z Chrisem Bannisterem, Prezesem Spółki P4 – Gazeta Wyborcza from 17.11.08).

⁹ The asymmetry of rates, which favors Play is 141%, while in other EU countries this asymmetry varies between 0% and 59%. (Dziennik Gazeta Prawna from 7.12.2009).

¹⁰ See Operatorzy mobilni szykują się do walki o utrzymanie klientów, Wall Street Journal Polska from 2.01.2008

¹¹ Cmp. Gazeta Wyborcza from 29.01.10.

infrastructure operators. Major MVNOs in Poland on the RTK and the operators, who provide them a network (infrastructural operators) are shown in table 1

Table 1. Major MVNOs in Poland

Virtual operators	Infrastructural operators
MEC, Polsat	PTC
Avon, MNI, Wirtualna Polska	PTK Centertel
Gadu-Gadu, Carrefour, Dialog, P4, mBank	Polkomtel

Source: Powolny marsz wirtualnych operatorów, Rzeczpospolita from 27 march 2008.

First MVNO on the Polish market was mBank. The company has launched its services in the late 2006 after a rapid conclusion of a cooperation agreement with Polkomtel. MBank consistently pursues a strategy of offering great mobile services, which are a marketing support for its core activity, namely banking.

Otherwise proceeds Mobile Entertainment Company (MEC). The company does not offer special low prices but is steadily building the “Mobilking” brand image, which is addressed mainly to young men.

Furthermore, MNI (a company listed on the Warsaw Stock Exchange) offers mobile services for its own fixed telephony customers and also a niche brand for fans of fortune-telling.

The results of MVNOs operating on the Polish market are hardly satisfactory. Four players who begun their businesses in 2007 managed to gather less than 100 thousand of customers until the end of March 2008. Main reasons of weak MVNOs position can be primarily related with lack of:

- well-recognized brand;
- well developed sales network;
- appropriate equipment;

and also in:

- high fees for technical infrastructure, which are up to 60-70% of all expenditure
- late MVNO entry onto the market (when infrastructure operators already had a 100% market penetration)
- traditionalism of polish customers who are quite reluctant to change an telephone company

- movements of competition (especially the impressive advertising campaign of Play, which overshadowed the actions of other players).¹²

In the current situation, chance of success on the polish market have those MVNOs who will be able to:

- reduce the price,
- attract niche customers or
- have rich shareholders¹³.

Many companies were interested in the status of MVNO¹⁴. From a formal point of view, in Poland it can be anyone - actually the companies only need to:

- have an agreement with infrastructure operator,
- choose a group of customers
- have a business idea.

But in reality to become a MVNO is not really that simple. First of all you need an agreement with infrastructure operator. Obtaining a mutually satisfactory agreement is not easy, because infrastructure operators demand information about:

- a reliable estimate of the customer base,
- method of distribution,
- service
- financial credibility.¹⁵

The first three, mentioned above, elements MVNOs would like to retain for themselves as a trade secret, and keep it at least until the start of the business.

Moreover one often stress the importance of having relevant experience in telecommunications.¹⁶

3. Conclusions

Observation of RTK in Poland leads to the following conclusions:

- it is hard to gain a place on it by the new network operators,

¹² Cmp. Porażka wirtualnych operatorów, Word Street Journal Polska from 27.02.08.

¹³ Cmp. Porażka wirtualnych operatorów, Word Street Journal Polska from 27.02.08.

¹⁴ In the year 2006 more than 100 companies applied for the status of MVNO See Każdy może być operatorem, Dziennik from 11.09.2006.

¹⁵ See Każdy może być operatorem, Dziennik from 11.09.2006.

¹⁶ For cost-effectiveness of the project one have a monthly sale of minimum of 30 thousand. minutes of phone calls, which may require not only the provision of telecommunications services but also the Internet telephony. See Word Street Journal Polska from 11.09.06.

- there is place for only a few virtual operators.

The first conclusion results from the strong position of three dominant network operators and a high saturation of RTK in Poland. One should also note that in Europe there are no success stories about a fifth player on RTK.¹⁷

The second conclusion connected with virtual operators results from the basic fact, that this is a difficult market segment. One should remember that there are around 350 to 400 MVNOs operating on the world. According to the Pyramid Research studies in 2006, the MVNOs served 86 million customers. At the same time there were 2.7 billion mobile customers worldwide. So MVNOs had only around 3-4% market share.¹⁸

Despite the difficult forecasts in the MVNO segment in Poland, new pretenders are showing up steadily. Among them a special attention deserve in particular the following:

- cable television operator Multimedia Poland. This operator does not require the SIM card change. It offers an application, through which the phone automatically logs in to the Wi-Fi networks. Being within the range of Wi-Fi networks anywhere in the world, it connects for free to the Multimedia Poland number. Local call price is 10gr per minute, and to the mobile networks 29gr per minute.¹⁹

- TV operator Cyfrowy Polsat, which combines mobile telephony services in a package with television and the Internet²⁰. Moreover the company has their own billing system and their own customer service center.²¹

Taking into account the experience of MVNOs in the world, one can assume that on the market will remain those who:

- promote strong,
- direct their services to selected segments,
- have competitive prices (which may be difficult taking into account the high fees paid by national MVNOs for leased technical infrastructure).

Further visible changes on the Polish RTK rather will not be very rapid. This is largely due to the financial capacity of the three dominant operators resulting from the considerable profits generated and from the strong economic position of major shareholders of these operators. An clear oligopoly crush of the three major operators on the polish RTK could be expected mainly after:

¹⁷ Cmp. Dziennik Gazeta Prawna from 7.12.09.

¹⁸ See Powolny marsz wirtualnych operatorów, Rzeczpospolita from 27.03.2008.

¹⁹ See Gazeta Wyborcza from 29.01.10.

²⁰ Cmp. Gazeta Wyborcza from 30-31.01.10.

²¹ Cmp. Gdzie ta wirtualna rewolucja, Gazeta Wyborcza from 19.03.2008.

- finding strong strategic partners who are willing to financially support the new entrants by the new polish RTK operators, including the MVNOs (which is especially difficult during the current economic crisis),
- applications by new entrants, like Play, more aggressive market strategies, which, however, are connected with the need for further expenditure
- application by the European Commission and UKE regulatory solutions that promote the new operators on the RTK, including the virtual operators.