The mobile phone industry and Porter's five forces analysis

Competitive strategy depends on a company capabilities, strengths and weaknesses in relation to characteristics and skills of its competitors. Competitive strategy aims to establish profitability and long term stability. The fundamental basis of above average profitability in the long period is the achievement of a competitive advantage. According to Michael Porter, a Harvard Business School professor and the reigning guru of competitive strategy, there are two basic types of competitive advantage: cost leadership and differentiation. So he has developed three generic strategies:

- Cost Leadership (a firm sets out to become the low-cost producer in its industry)
- Differentiation (a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers)
- Focus (after a company has selected a segment or a group of segments it tailors its strategy in order to serving them to the exclusion of the others. In the focus strategy there are two variants: cost focus and differentiation focus).

Porter also claims that a competition within an industry is driven by five competitive forces:

- Threat of new entrants
- Threat of substitute products or services.
- Bargaining power of suppliers.
- Bargaining power of buyers.
- Rivalry among existing firms.

Porter defines them as “the elements of return on investment”. He also argues that the five forces determine industry profitability because they influence the prices, costs, and required investment of firms in an industry.

After having read the article titled “the mobile phone industry” and its five forces analysis, I believe that three most important threats, for a network operator such as Vodafone, could be: the monitoring of the Government on health diseases; the regulation of 3G technology tariffs; and the development of new services and technologies.

Vodafone Group is a company leader in the telecommunication sector at global level (source: FT research centre, 2005 Report). In UK Vodafone has an important position with more than 16ml customers. The company tries to maintain a high public profile following the latest trends, always developing new technologies, and offering high quality services. Vodafone UK is very concerned about how its business impacts the community and is committed to developing a reputation as a responsible firm.

If the new research, wanted by the UK Government, on health diseases caused by the use of mobile phones should find concrete evidence, the ramification on the industry could be dramatic (see http://www.mthr.org.uk for the latest research programme). A massive investment in an alternative technology could be essential for a leader company like Vodafone UK to continue its operations. It would be, for example, the case of developing hand-sets with a even lower radiation waves emission and of incrementing the use of shared base stations.

The 3G technology has been put under strict observation by the Government that wants to regulate its tariffs. The Ofcom has been asked to continue controls on *"wholesale mobile call termination charges where there is evidence of market dominance"*. The Ofcom has highlighted that *" price control should be imposed on dominant operators connecting calls to 3G networks as well as 2G networks"* (see the Ofcom website). Furthermore, the European Commission has recently stated that *"it would draft a law to crack down on "unjustified" high charges for using mobile phones abroad"* (www.bbc.co.uk/1/hi/business/4813534.stm).

Vodafone UK together with other operators are not convinced by these kinds of measures that regulate tariffs. The solution is *"in competition, not in regulation"* a Vodafone's speaker said (ibid.). If the Government remains on its position of cutting down tariffs Vodafone UK would suffer economic losses. Furthermore, Vodafone UK spent billions of pounds for purchasing its 3G licence. The high costs supported by the company for the acquisition of the licence and for improving 3G services could limit the expansion in the 3G mobile phones market and influence their use by customers as well. In this situation there is a double-sided danger. Keeping high the price of licences (in future) could bring high prices for using services and, in the end, could induce people to choose not to use the new technologies.

The market is saturated. Customers, thanks to the number portability, have high incentives to switch. The presence of many other competitors makes it available on the market many "packages" for all tastes. Vodafone UK is aware of the importance of developing new technologies and of following trends in society in order to meet the demand. The company constantly invests in R&D and always tries to purchase the latest innovations suitable for mobile phones which are available on the market. Vodafone UK has invested also many billions of pounds in Research & Development and introducing new services (for e.g., TV on mobile, Internet Access, music downloads etc.) in order to be ready to follow new social trends: a mobile phone should not be used as just "a mobile phone". However, there is a high concern due to the fact that basically its business relies on one essential technology (mobile phones). If new trends come up in society and people should stop being attracted by mobile phones, a new dramatic scenario could appear for the telecommunications companies. So the investments in new technologies could be a possibility to open a new way against the saturation of the market and the new trends. For example "*New online technology, known as Voice over Internet Protocol (VoIP), is the latest innovation set to overhaul the industry*", an OECD report said (see www.oecd.org). *"VoIP allows people to make calls over the internet for a fraction of the cost of fixed-line connections"*.

If we focus on the point of view of an equipment manufacturer such as Samsung, I think that the three important threats could be related to: the development of new technologies; the achievement of economies of scales; and the negotiation power over suppliers and mobile-phone service providers. (The Social Science Network Electronic Paper Collection: http://ssrn.com/abstract= 556923t)

Samsung is one of the world's largest semiconductor manufacturers. It makes communications devices ranging from wireless phones to networking switches; and many kind of consumer devices, including DVD players, LCD panels, printers, digital cameras and computers. It is the world's leading manufacturer of computer memory chips. It has grown dramatically in recent years, supported by an aggressive marketing campaign in North America and Western Europe.

The technology gap among the industries is narrowing because technologies are becoming standardized and so the market entry barriers are getting lower. As I have already stated above, as the mobile phone market gets saturated the demand for replacement will lead to market growth. To stimulate the replacement demand, introduction of new mobile communications technologies and services will be required (Color screens, Java, multimedia messaging and so on), resulting in a shorter lifecycle for mobile phones.

Companies from other industries such as PCs (think about the new Iphone created by Mackintosh) or network services will compete directly with Samsung. The challenge is to rely upon big and important mobile phone, so to develop a strong relationship between the network operator and the manufacturer.

Thanks to the five forces analysis it is possible to understand the strengths and the weaknesses of the current competitive position of both our business and our competitors. Thanks to it, it is easier to develop a SWOT analysis. It is a great way to identify whether new products, services or businesses have the potential to be profitable, so it allows us to make a critical analysis of the most important aspects (such as customer analysis, environmental analysis, competitor analysis and so on) for our business.

As far as the limitations of the Porter's model is concerned, I agree with D. Recklies that in his critic on the Porter's model argues that "*The model is based on the idea of competition. It assumes that companies try to achieve competitive advantages over other players in the markets as well as over suppliers or customers. With this focus, it dos not really take into consideration strategies like strategic alliances, electronic linking of information systems of all companies along a value chain, virtual enterprise-networks or others.*". The model was designed to analyse individual business strategies, so it can not evaluate large corporations or synergies between more companies. Another limitation is that the model does not take into account the fact that sometimes it may be possible to create completely new markets instead of selecting from existing one.(http://www.12manage.com/methods_porter_five_forces.html)