

COMPETITIVE ADVANTAGE IN MOBILE PHONE INDUSTRY (Focus on Value Chain and Core Competency)

V. V. Vara Prasad¹ and P. K. Sahoo²

¹Associate Professor, and HoD, Department of P.G. Courses-MBA- Former Group General Manager, Globe Investments Ltd., Malawi, Central Africa

E-mail: varaprasadvv@rediffmail.com

²Vice-Chancellor, Utkal University, Vani Vihar, Bhubaneswar-751 004, Orissa

E-mail: prasantsahoo12@yahoo.co.in

ABSTRACT

Modern day Business demands competitive advantage that shall provide the much needed vigor for any industry player, whether a new entrant or an existing organisation. The reason is simple; the fierce competition is threatening to put pressure on pricing and thereby adversely dragging down the profit margins, it is but vital for the industry players to set right the back-end operations while improving the front-end competitiveness. The two concepts of Strategic Management as propagated by Michel E Porter, Viz., Value Chain Analysis and Core Competency for competitive advantage have gained the significance in almost all the areas of business and mobile phone industry is no exception to this.

While mobile phone industry on one hand seems to be providing promising growth rates YoY (Year-on-Year), the competition is also brewing up from all types of companies, both MNCs (Multi National Corporations) as well small players who just assemble and sell. The inflow of cheap yet durable Chinese products are another threat that is common now-a-days to any industry, has its influence on Mobile Phone numbers also.

Under the given scenario, the concepts of value chain analysis and developing a core competency shall give immense boost to the companies' performance from the costing as well as marketing point of view. Where as value chain analysis shall tighten the operations and have strict vigil on the costs, the competitive advantage can gain market advantage—combination of both the strategies shall help withstand the competition and survive.

The present paper tries to examine the significance of Value Chain Analysis and Core Competency from the point of view of mobile phone industry and make recommendations for improvement of performance parameters.

1. INTRODUCTION

The concept that a cell phone is used for basic communication has undergone a sea change as other value added services are added to this amazing instrument with an ultimate aim of converting the cell as a source of communication, knowledge and entertainment. All companies are spending huge amounts on R & D to not only to enhance the value added services but are trying to make it affordable and within reach of common man.

At present the instruments are available at around US \$ 30 and the aim is to bring the same to less than 25 \$, same is the case with tariffs, which at present are around US cents 5 per minute; present potential is estimated at 11 million households worldwide per month, and if the tariffs can come down to the proposed levels of US cents 2 per minute, this number may go up to an estimated 32 million new customers per month. The markets like India, China, Brazil, Russia and Africa shall be very attractive with huge potential if the call rate can be reduced to a level less than 2 cents per minute.

Factors Determining the Buyer's Preference of Mobile Phone:

1. Consumers using mobile phones wish to have a good perception over the quality, features and operation of instrument;
2. Most consumers, besides the basic features need an attractive brand name. Brand name helps a consumer to install, recall and differentiate competing products of similar nature. Thus brand image plays a pivotal role in influencing the buying decision;
3. The popular law of demand states that there is an inverse relationship between price and demand for a product. Other things remaining the same, price is an important element in influencing consumer preference;
4. Add-on features like games, camera, FM radio; Music on Mobile, MP3, Net Surfing, etc., are key factors determining the buying pattern of mobile phone; and

5. Last but not least the after sale service and response of the sales team contribute their importance in influencing the retention of customer and enhancement of consumer loyalty.

2. MOBILE PHONE INDUSTRY—AN OVERVIEW

The market for mobile phones is increasing at a rapid pace all over the world and emerging country like India is also witnessing a two digit increase in the numbers YoY. It is but natural that many a local and international companies shall be interested in setting their foothold in this lucrative market. Mobile phone industry is further divided as mobile Phone Instrument (Nokia, Samsung, LG, Sony Ericsson, Motorola and other local players like Micromax, Karbon, Spice, etc.) and Mobile Phone Service (Airtel, BSNL, Reliance, TaTa Idea, Hutch and others). Both sectors are witnessing fierce competition in pricing and offering extra features and attractive promotional activities is also common to all players. It is but natural that Mobile phone instrument industry is directly dependent on Mobile Phone Service industry. The more areas covered under the service paradigm more market for various instruments.

To understand the mobile phone instrument industry, table No 1.1 shall throw light on the magnitude of mobile phones that are used in some important countries across the world.

Table 1.1
Ranks of Countries as per the Number of Mobile Phones in Use

Rank	Country	No of Mobile Phoes	% of Population	Year
1	China	906,800,000	67	2010
2	India	840,280,000	70	2011
3	USA	302,945,000	96	2010
4	Russia	220,550,000	151	2011
5	Brazil	217,300,000	111	2011
9	Pakistan	105,100,000	63	2011
15	Bangladesh	74,190,000	49	2011
41	Sri Lanka	17,340,000	81	2010
47	Nepal	10,000,000	35	2010

Source: Wikipedia

As it can be inferred from the above table all the BRIC (Brazil, Russia, India and China) countries are among the top 5 ranks, with USA being 3rd with most number of mobile phones in use. The table also reveals the position of some SAARC (South Asian Association for Regional Cooperation) countries. The market scope for mobile phones is increasing day by day as the users are interested in having more than one instrument at a time.

3. VALUE CHAIN ANALYSIS AND CORE COMPETENCY

Michel Porter has developed the concepts of value chain analysis and core competency for a business unit to face the effectively and also develop the market advantage in the long run. It has to be noted that these two concepts shall help the organization in Mobile Phone Industry to sustain the competition and develop strategies for surging ahead in gaining new markets and retaining their shares.

1. Value Chain Analysis

A business undertaking performs several activities in order to finally deliver the product to the ultimate consumer. Activities such as production, and R & D, material sourcing and handling, marketing and physical distribution, after sales service, etc., if done in a systematic manner shall enhance the value to create an advantage for the firm and increase consumer satisfaction in the form of improved quality at reasonable price. The chain of activities gives the products more added value than the sum of added values of all activities. It is the affect of synergy.

Michel porter has identified a set of activities are divided as (i) The “primary activities” include: inbound logistics, operations (production), outbound logistics, marketing and sales (demand), and services (maintenance); and (ii) The “support activities” include: administrative and infrastructure management, human resource management, technology (R&D), and procurement.

Continuous analysis and improvements in work methods and procedures eliminates waste and contributes to lower cost and high profits:

1. Improved production methods contributes to quality enhancement and less defectives
2. The value chain analysis creates value all long the chain of activities for better value service to customers.
3. The process aims at time management in procurement and dispatch of materials resulting in savings in material handling and storage costs.
4. Proper analysis of actives like procurement, and logistics facilitate a firm to operate with low inventories and reduced operation cycle of working capital.
5. Improved performance with stress on employee training and development results in employee satisfaction and less absenteeism and attrition.
6. Value chain analysis shall result in competitive advantage to a firm both thorough overall cost leadership and improved attributes of product, resulting in differentiation.

2. Core Competency

The core competency is the strategic advantage a business firm enjoys over its rival competitors to gain market position. It is that strength through which a firm can dictate terms of its own in the market. Competition finds it difficult to imitate this particular advantage in the short run. Microsoft has the core competence of designing office software products that are user-friendly. PepsiCo has a core competence of mass production and distribution of bottled drinks. Polaroid has a core competence in manufacturing immediately self-developing film. Ernst & Young has the core competence of performing audit functions for Fortune 500 corporations. One of Wal-Mart's core competencies is their massive EPLD Pricing (Every Day Low Pricing) system.

Features of Core Competency:

1. It is unique to a particular organization.
2. It pertains to any functional area like production, marketing, finance, and personnel.
3. It cannot be easily imitated by competitors in the short run.
4. It should give considerable returns to an organization in the form of new markets or improved position in the existing market.
5. It is developed through innovation, worker retention, large scale economies, and also through alliances, mergers and acquisitions (To add the advantage of other organisation to own strengths).

Focus of Core Competency:

It is to be noted that a core competency is not exclusive to any business. Table 1.2 shall highlight the challenges that are faced by Mobile Phone Industry and the available options to be competitive. Competitive advantage is developed with dedication and hard work from all the forces in an organization. An organization should incorporate all ingredients of a successful business like:

- (i) Focusing its activities on customer;
- (ii) Concentrating on TQM (Total Quality Management);
- (iii) Adapting to Change;
- (iv) Forming alliances and coalitions with others; and
- (v) Developing teamwork and innovation in organization thorough employee participation

Table 1.2
Challenges and Options to Create Competitive Advantage in Mobile Phone Industry

S. No.	Challenges	Options
1	Competition from Discounted Pricing and falling Margins	Strict Cost Controls through the use of more outsourcing options and controlled Investment in Infrastructure
2	Rivalry among existing players to capture Market	Micro Segmentation, Increased Range of Products and Focus Marketing
3	Growing number of players making Value Chain Modus Operandi Critical	Innovation of new models in value chain to create competitive advantage
4	Complexity of Change	Develop positive attitude towards change and restructure business procedures
5	High Marketing Costs	Effective CRM and Customer retention

Factors That Shall Push the Performance:

1. **Pricing** is one important element that shall decide the fate of a mobile phone instrument. Recent surveys suggested that Indian Mobile Phone manufacturing Companies have gained considerable market advantage and forayed into the MNCs (Multi National Corporations like Nokia, Samsung, Sony Erickson, LG, etc.) markets due to the pricing advantage. This is noticed especially under the Rs. 5000 category. The local companies are able to give matching features at cheap prices. Luring the consumers;
2. **Product Differentiation (Features)** plays a key role in consumer decision making. This is clearly evident from the rise of sales of internet mobile phones. Companies that have given access to the net with speed and accuracy are marching ahead in this segment. For example, Samsung already has surpassed Nokia in this particular segment with its wide range of Smart-phones even though Nokia is still the overall market leader;
3. The most popular features other than calling are Music Player (MP3), Internet, Touch Screen, and Dual Sim; and
4. **Promotion** plays a vital role in making or breaking a brand. It is not enough to have good product and pricing strategy but it is of immense significance to have a broad band of promotional programmes. For example, HCT a leading MNC is unable to

make an impression on Indian consumer, besides having some really good products; is due to poor advertising strategy.

Market Performance – Year 2009: In the year 2009 the market share of Nokia marginally reduced from 56 per cent to around 54 per cent. The sales of Samsung slightly rose to 9.7 per cent from 9.5 percent. The market share of local manufacturing companies like Micromax, Karbon, Spice, Vediocon, Lava, etc., has shown remarkable increase from just 0.9 percent in the year 2008 to 17.5 per cent in 2009. This is mostly due to the pricing strategies set by the local manufactures. For example, Micromax Q5 shall have all the advanced features of a phone yet way below the price of leading world brands in the same band.

Market Performance – Year 2010: Nokia and Samsung took 70 per cent of the Indian mobile phone market revenues between January-November 2010. According to market data from GFK Nielsen Nokia took 49.2 percent of the market revenues, while Samsung took 20.5 per cent of the market revenues. LG phones took 5.3 percent, while Indian handset manufacturer Micromax was just behind in fourth place with 5 percent of the market revenues.

Exhibit 1.1 Smart-Phone Revolution in India

1. During 2010, Indian mobile phone users bought nearly 7.5 million smart phones and the sale of smart phones has grown by 30% over the previous year. The year 2010, witnessed the beginning of a new era in telecommunication and information technology. There are around 200 brands in the country now selling smart phones. Globally there are 500 million smart phones and it is expected to reach 1 billion by 2013. In India smart phones are expected to reach 25% share in the next 5 years.
2. The popularity of the smart phones is mainly due to the drop in the prices, rise in social networking sites and aggressive marketing by the handset manufacturers. The smart phones now provide ultimate convergence of music players, digital cameras, radios, and gaming and navigation devices. The emergence of new Indian and Chinese handset manufacturers, who offered smart phones at less than Rs 4000 resulted in drop in the prices of handsets in the country. The year 2010 saw sliding market share for the industry leader Nokia, while the other manufacturers like Samsung, LG, HTC and Motorola rolling out new varieties of handsets.
3. Google's Android software platform has gained huge popularity and it is expected to rule the

OS areas in 2011. The users are awaiting the launch of iPhone 5 from Apple, which is expected to come with RFID (Radio Frequency Identification Device) enhancing the phone's functionality as a mobile wallet. Nokia has already announced that all its new handsets in 2011 would come with built in RFID feature.

4. The launch of tablets by Apple, Dell and Samsung has further widened the market and demand for smart phones. With the launch of 3G services it is predicted that there will be more internet users connected via phones than the users connected via PC or laptop.
5. However according to a new study, the smart phones have become a status symbol and not fully utilized. It says that 71% of the owners use them only for making a call or for social networking. A typical smartphone user exploits only 10% of the phone's functions.

Source: <http://www.indiatelecomonline.com/smart-phones-gaining-popularity>

4. SUMMARY AND SUGGESTIONS

It has to be observed that apart from pricing, marketing and branding, the following are some core areas that are immensely significant in mobile phone industry:

- (i) **Technology:** The key driver of change in the **mobile phone handset industry** is technology. It is essential to develop unique software capabilities to bring innovative products, which cannot be easily imitated by competition. For example, Apple I-phone is a hand held computer with specialized mobile phone applications.
- (ii) **Forward Integration:** Own retail stores are a core competency because; (a) they provide an unique buying experience to the consumer, (b) the locations of the stores and their trained personnel are difficult to imitate, (c) the stores sell multiple lines of products including computers, and software, etc catering to wider customer range. All most all the companies are opening their own retail outlets like Nokia, Motorola, Samsung, LG, Micromax, etc.
- (iii) **Liquidity:** When the competition is severe and cutthroat; it shall have a squeeze on all the players in the value chain. A company having a good liquidity position shall have the advantage in procurement and shall end up paying lower prices for parts on one hand, which can contribute to the dwindling margins and shall enjoy the preferential supplies that shall boost the performance of the company.

(iv) **Research and Development:** Continuous R & D shall be an integral part of mobile phone business. It shall not only contribute for product innovation, which is important to improvise the business tactics but also has to concentrate on improving new methods/procedures of operations.

The competitive advantage is something that can be developed with long term development processes and shared experience. Forming alliances and partnerships all along the value chain shall be a Key Success Factor (KSF). It has to be noted that an integrated approach to Human Resource Management and the ability to adapt to change are considered as key to sustain the core competencies that are so developed. It pertains to well-organized employee skills, technologies, processes, knowledge, expertise, and or capabilities. Creating unique customer value and loyalty are other areas of competitive advantage that cannot be easily emulated by the competition. Once these core competencies are developed and converted into competitive strengths shall be transferred to other markets. At the highest level, a company develops new core competencies as well as expanding existing ones in order to enter new and future markets. A company at this high level of functioning recognizes the needs and wants of customers in new and future markets and develops the competencies necessary to meet those needs and wants.

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