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COMPETITION IN THE MARKET OF MOBILE TELEPHONY IN POLAND

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Introduction

In 2007 the number of mobile telephones users in Poland increased to 41,39 million thus outnumbering the total population. This implies that in each Polish family there is at least one mobile phone. At the same time, there is hardly any competition in the market with only 13 companies functioning there, out of which three have the greatest market shares much due to their own transmitters network. These three have been the fiercest competitors. Nowadays, there has appeared the fourth operator who has been granted permission to build their own network – in result, the competition increased significantly.

Mobile operators compete over clients mainly by means of price policy, however the clients also pay attention to wide range of services or attractiveness of telephones offered. The main source of information on the offer are traditional media which results in high advertising expenditure.

In Poland mobile telephony market is penetrated to a high degree (Analiza penetracji rynku …, 2009). Such bold hypothesis is made upon market research commissioned by the Office of Electronic Communications (UKE - Urząd Komunikacji Elektronicznej). According to this research, in 2007 the number of the market participants amounted to over 41 million whereas the number of inhabitants in Poland was equal to 38 115 000 people (data for the end of 2007, according to the Central Statistical Office).

Competition in the market of mobile telephony on Poland

Competition is a process by means of which participants of the market, in pursue of their own goals, try to make offers more profitable than their competitors' ones in terms of price, quality and other features that affect purchase decision (Kamerschen, Mc Kenzie, Nardinelli, 1999). The above definition indicates that participants of a given market attempt to avoid the consequences of their rivals presenting more profitable offers. Until 2006 3 companies operated on the Polish mobile telephony market in the form of an oligopoly:

- PTK Centertel Sp. z o.o. (Orange, Pop, Orange Go and the network NMT 450i),
- Polkomtel S.A. (plus GSM, SimPlus Team, Sami Swoi)
- Polska Telefonia Cyfrowa Sp. z o.o. (Era, Era TAK TAK, Era Biznes and Heyah).

In 2007, PLAY – P4 sp z o.o. joined the market game as the fourth serious market player. These entities operate as MNO (Mobile Network Operator) which means that the services are provided by means of the operator's own telecommunication infrastructure with a basic unit being a network. There is also the second type of market participants called MVNO (Mobile Virtual Network Operator) i.e. an operator of virtual mobile network who does not own their own telecommunication infrastructure and provides services by means of MNOs. MVNOs are new participants. In 2006 this group comprised:

- emFinanse sp. z o.o. (mBank mobile)
- P4 znane jako PLAY
- Avon Mobile sp. z o.o. (myAvon)
- Wirtualna Polska S.A. (WPmobi)
- MNI Telecom S.A. (simfonia)
- Mobile Entertainment Company A.S. (S.A.) (Mobilking)
- CP Telecom sp. z o. o. (Carrefour Mova)
- Mars Polska sp. z o.o. (Snickers Mobile)
- Cyfrowy Polsat
- Mediatel S.A. (telepin mobi)

First of the aforementioned MVNOs, emFinanse sp z o.o. belongs to the BRE BANK group and is at the same time first participant of the Polish MVNO market. The company offers mobile telephony services combined with bank services. Having signed a contract with Telefonia Cyfrowa sp. z o.o. as soon as in 2006, Cyfrowy Polsat S.A., started off no sooner than two years later in spring of 2008.

Over the last 10 years the market of mobile telephony in Poland has been continuously expanding. With regard to this it is worthwhile to examine its path of development in that period.

Its condition is presented in Chart 1 denoting the number of market users and its penetration. [1]

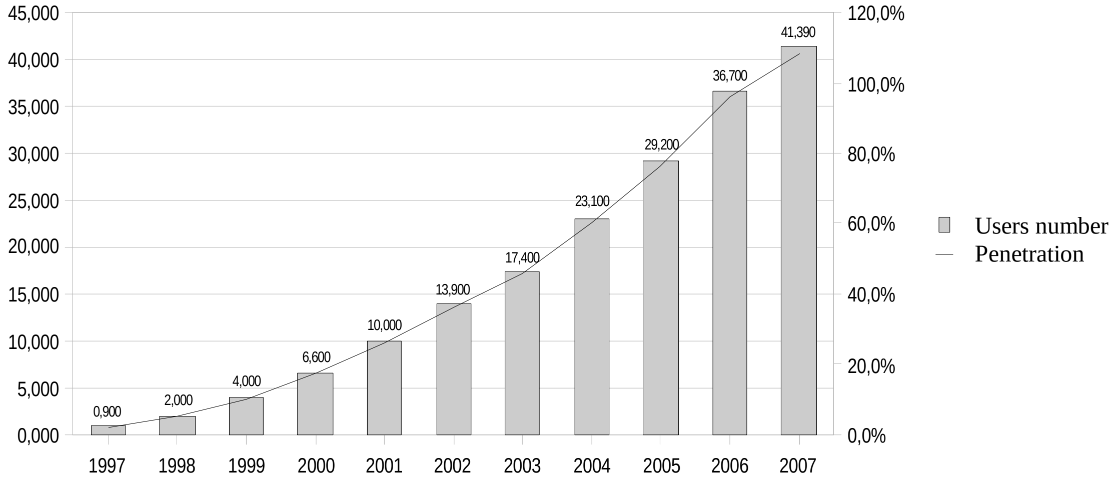

Chart 1. The number of market users and its penetration.

Source: Market penetration analysis, Urząd Komunikacji Elektronicznej [the Office of Electronic Communications], Warsaw 2008, p. 5

In 1996 PTC as the first company started operating on the Polish market. This happened in 1996. Chart 1 clearly presents that since that time the number of users has been continuously growing. As soon as in 1997 the number of mobile telephony users amounted to 0,9 million and market penetration to 2,1%. Within one year the number went up to 2 million and in 2004 more than half of Polish citizens owned a cell phone. At the end of 2007, the number of users reached 41,39 million. In the year 2007 penetration amounted to 108,6% which implies that statistical Polish person owns at least one active SIM card.

Research conducted by the European Commission on the single European market of electronic communication in 2007 placed Poland in the 6th position among all 27 countries of the EU with regard to the number of users. Chart 2 presents the number of mobile telephony users in the European Union in 2007.

1 The number of active SIM card per 100 inhabitants

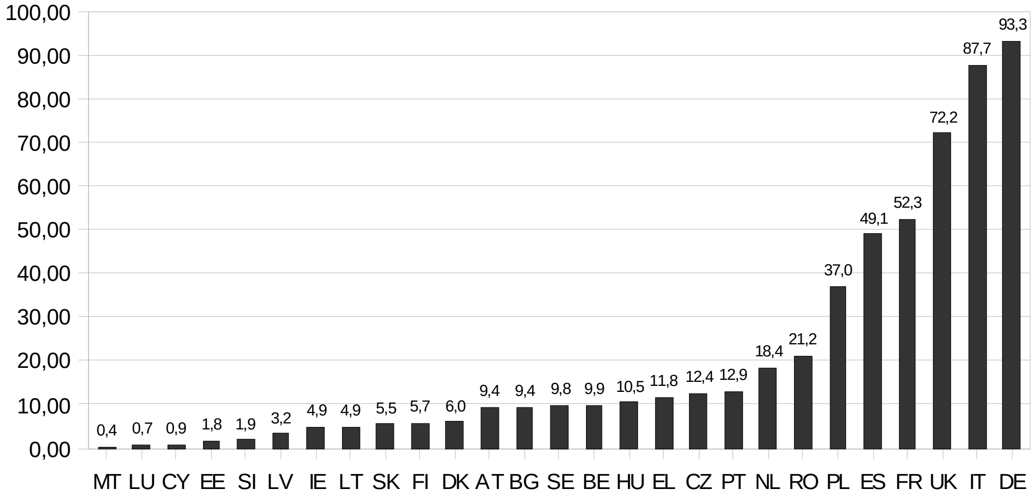

Chart 2. Mobile telephony users in the European Union in 2007.

Source: Progress Report on the single European Electronic Communications Market 2007

The data quoted above demonstrate that the first five positions are taken by: Germany (93,3 M), Italy (87,7 M), Ukraine (72,2 M), France (52,5 M), Estonia (49,1 M). Poland as a country with large population landed a high position.

Over 100% penetration of mobile telephony market in Poland signifies that the Polish attach great importance to owning a mobile phone. This is confirmed by a poll from 2007, results of which are presented in Chart 3.

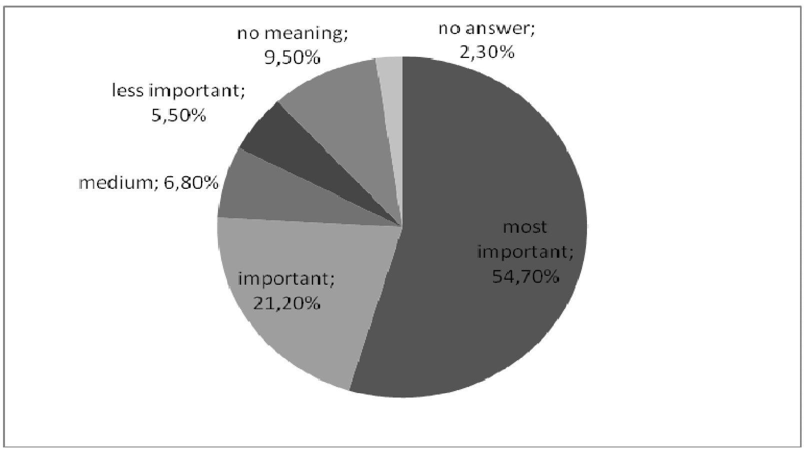

Chart 3. Importance of owning a mobile phone in 2007.

Source: „Preferencje konsumentów a rynek komórkowy w Polsce" [Consumers' preferences and mobile telephony market in Poland], Urząd Komunikacji Elektronicznej, Warsaw 2008, p. 31

The research presented in the report (Preferencje konsumentów a rynek …, 2007) indicated also that more than a half (54,7%) of the respondents underlined a high importance of owning a mobile phone. Only 10% of the respondents admitted that a telephone is insignificant to them.

Analysis of the data reveals very high acceptance of mobile telephony among the Polish. Brand awareness and recognition constitute yet another issue. Chart 4 presents knowledge of operators' brands in 2007 in comparison to 2006. The answers were given spontaneously.

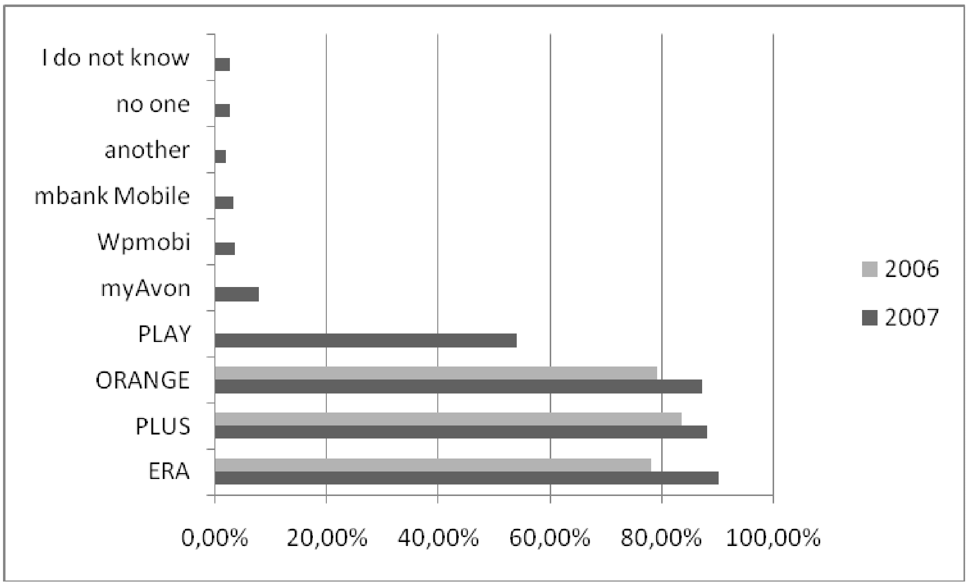

Chart 4. Recognition of operators' brands in 2007 year in comparison to 2006.
Source: Author's own analysis based on research Preferencje konsumentów a rynek telefonii ruchomej w Polsce [Consumers' preferences and mobile telephony market in Poland], Urząd Komunikacji Elektronicznej, Warsaw 2008

The research pointed to ERA as the most recognisable brand in 2007 the knowledge of whom was declared by 90,2% of all respondents. Subsequent places were taken by Plus (88%), Orange (87,1%) and Play (54%). Due to the fact that MVNOs have existed on the Polish market since 2007 they were not included in the responses in 2006. Among virtual operators in 2007, myAvon was the most recognisable brand, the awareness of whom was declared by 7,7% of the respondents. 3,4% of them pointed to Wpmobi whereas 3,3% to mBank Mobile. 2,5% of respondents did not know any operator.

Respondents' declarations give rise to a significant question: *why is it ERA to be the most recognizable brand in Poland*? To answer the question, a comparison should be made of how the three, most recognisable operators compete over clients (Era, Plus, Orange). In the first place, decision affecting factors will be presented on how the clients choose the network and secondly client winning capacity of particular operators will be shown.

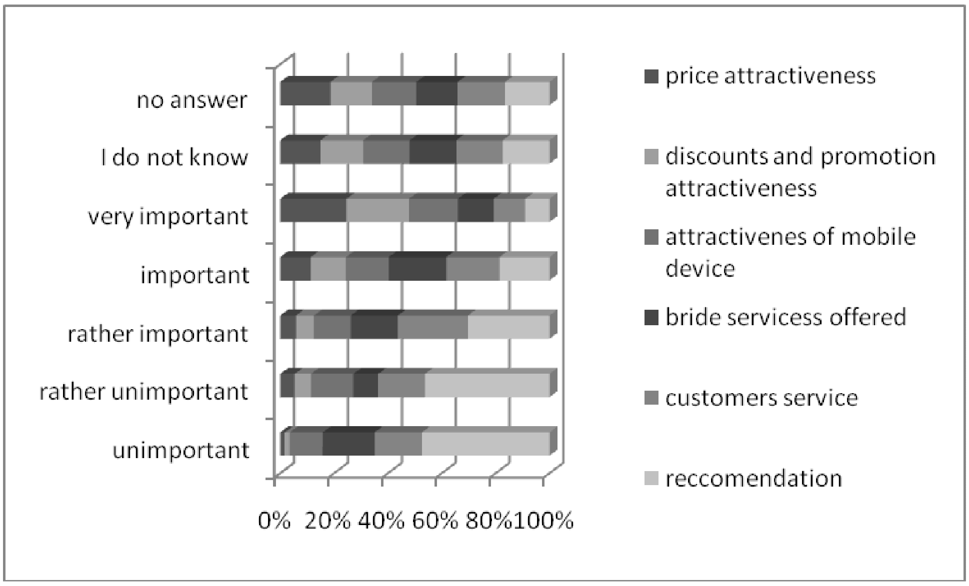

Chart 5. Factors affecting the choice of a particular operator.

Source: Preferencje konsumentów a rynek telefonii ruchomej w Polsce [Consumers' preferences and mobile telephony market in Poland]

Analysis of Chart 5 reveals that price attractiveness of the offer as well as discounts and promotions were important or very important factors. Another significant aspect was attractiveness of telephones offered as stated by 80% of the respondents. By contrast, only 25% of the respondents were of the opinion that recommendation of their friends and relatives had a significant influence on their choice of a particular operator.

With regard to high price attractiveness as well as promotions and discounts, it is worth to analyse where the clients find information on the operators' offers. In terms of information sources mass media constitute an overwhelming majority. In the period 2006-2007 more than 80% of the respondents found information on the operators' offer on the radio and television, over 50% of them on the other hand relied on public opinion. Special emphasis should be given to internet information, with its rising tendency. In 2006 9,6% of Polish citizens relied on internet-derived information, only to triple one year later thus amounting to 31,1%. Canvassing was the least popular source of information used by less than 10% of the respondents. The data is presented in Chart 6.

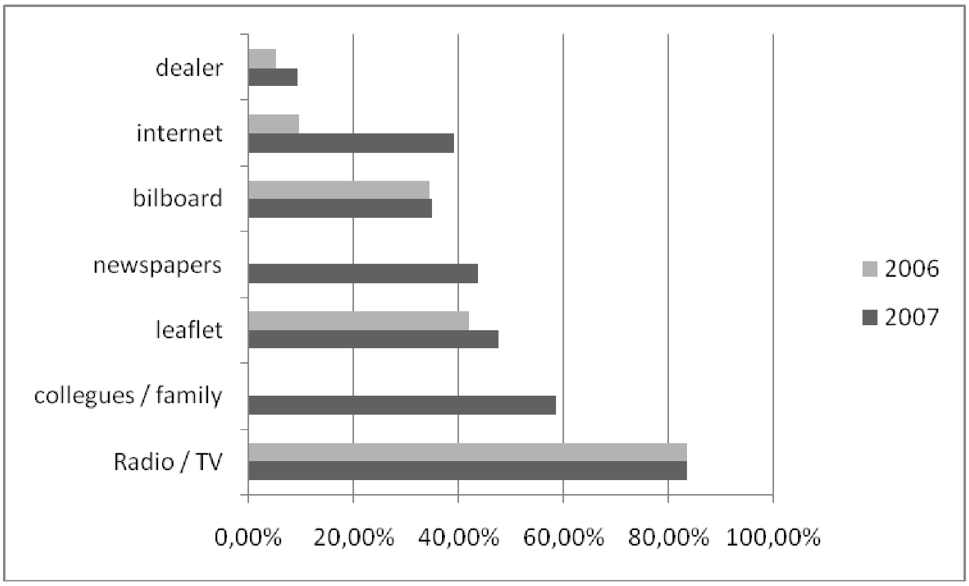

Chart 6. Information sources on the operators' offer over the period 2006-2007

Source: Rynek telekomunikacyjny w Polsce w 2007 roku [Telecommunication market in Poland in 2007]. Warsaw, December 2007.

High imbalance in favour of mass media results from a very high level of expenditure on traditional media advertisement in the mobile telephony when compared to other sectors. Chart 7 presents changes of mobile operators' expenditure on advertisement in traditional media in the first half of 2008 in comparison to firs half of 2007 year.

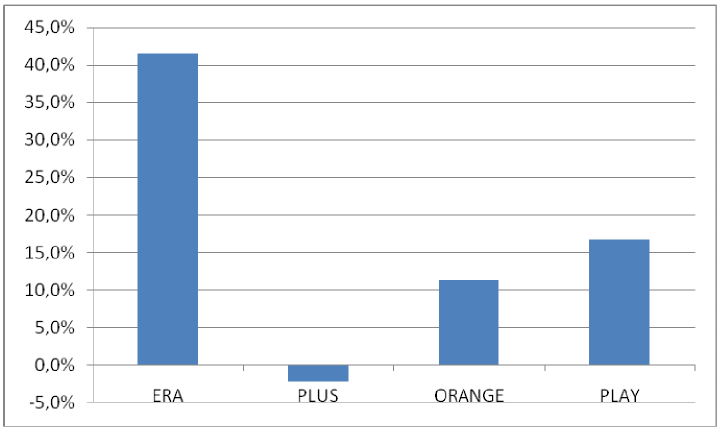

Chart 7. The structure of mobile telephony operators' expenditure on traditional media advertisement in the first half of 2008.

Source: Urząd Komunikacji Elektronicznej (2008), Preferencje Konsumentów a rynek telefonii ruchomej w Polsce [Consumers' preferences and mobile telephony market in Poland].

In the first half of 2008 expenditure on traditional media advertisement amounted to PLN 96 M in the case of newly launched network PLUS and as much as PLN 232,9 M spent by ERA. At the same time, the three leaders – except for PLUS – increased their expenditure in comparison to the previous year. The changes were significant. ERA increased its allocation to advertisement by 40%, Orange by over 11% and Play by almost 17% in comparison to last year. Only PLUS limited its advertisement expenditure and in the first half of 2008 spent less by 2,3% than a year before.

The companies decide to allocate additional funds to advertisement for the reason that it affects the choice of an operator to a substantial degree. Another factor to determine the choice of an operator, being at the same time a bargaining chip, is beyond any doubt price of the services offered. Not without a reason majority of respondents claimed that while deciding on an operator a significant issue is price attractiveness of their offer. The first mobile operator charged not only outgoing calls but also incoming ones. A turning point of the tariff policy was introducing per-second call rates. Until 2004, mobile telephony was mainly focused on competing over clients with landline networks. Price policy was underdeveloped and consisted mainly in introducing temporary promotions for certain services. No sooner than when rumours appeared on prospective new entities entering the market, existing operators begun to lower their rates as a means of deterring a potential competitor. Chart 8 illustrates post paid (service payment after its delivery) call rate changes in 2007 compared with 2005.

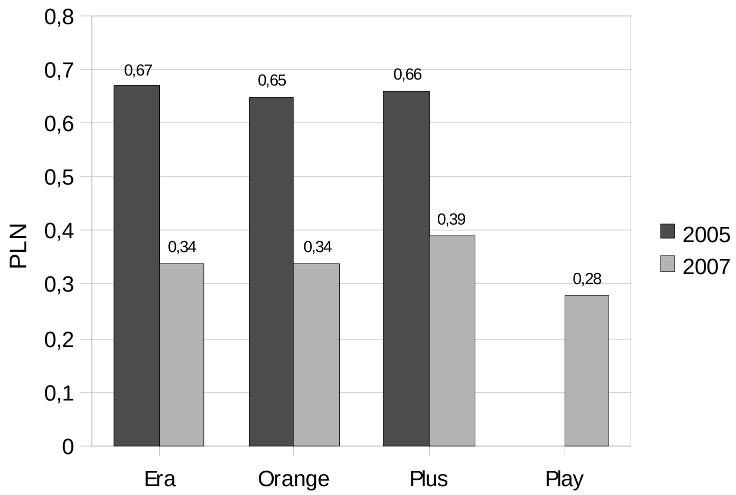

Chart 8. Changes of post-pay call rates in the years 2005-2007
Source: author’s own analysis on the basis of: Analiza cen usług telefonii ruchomej 2005-2007 [Analysis of mobile telephony services prices 2005-2007], Urząd Komunikacji Elektronicznej, Warsaw 2008

Chart 8 illustrates a substantial fall in call prices over the period 2005-2007. In 2005 ERA charged the highest prices for voice calls (PLN 0,67) whereas PLUS came second with slightly lower prices (PLN 0,66). The cheapest connections were offered by Orange (PLN 0,65). In 2007, PLAY network joined the competitive struggle, offering a visibly lower rate amounting to PLN 0,28. This in turn caused other operators to lower their prices. Era did not charge PLN 0,67 anymore but only PLN 0,34, Orange PLN 0,34 and Plus PLN 0,39.

A similar falling trend can be seen in pay-as-you-go connection rates (services are pre-paid). The trend is presented in Chart 9, with struggle for a client becoming even more visible.

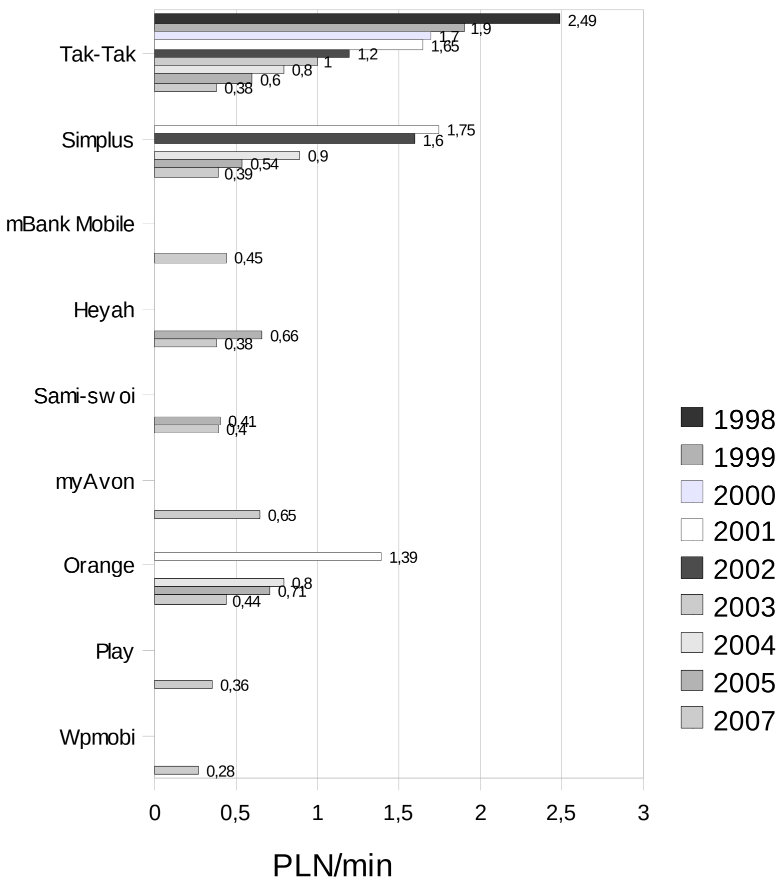

Chart 9. Pre paid connection rates

Source: author's own analysis on the basis of: Analiza cen usług telefonii ruchomej 2005-2007 [Analysis of mobile telephony services prices 2005-2007], Urząd Komunikacji Elektronicznej, Warsaw 2008; Raport o stanie rynku telekomunikacyjnego- 2004 [Report on condition of the telecommunication market] , Urząd Regulacji Telefonicznej i Poczty (nowadays: UKE), Warsaw 2004

In 1998, on the Polish market of mobile telephony, Era offered their clients voice connections for PLN 2,49/minute. The expanding market of operators who enabled using pay-as-you-go services, was encouraging call rates reduction. In 2001, Era priced one minute connection at PLN 1,65, Orange PLN 1,39 and Plus PLN 1,75. In 2005, the rates fluctuated between PLN 0,71/minute in Orange to PLN 0,41 / minute in Sami Swoi. New participants entering the market with lower connection rates forced existing operators to reduce connection rates in their network. In 2007, the cheapest connections were provided by virtual Wpmobi (PLN 0,28) and the most expensive ones by myAvon (PLN 0,65/minute).

The range of services offered by operators comprise not only voice connections but also a number of other features. Chart 10 illustrates which services offered by operators were used most frequently by the Polish

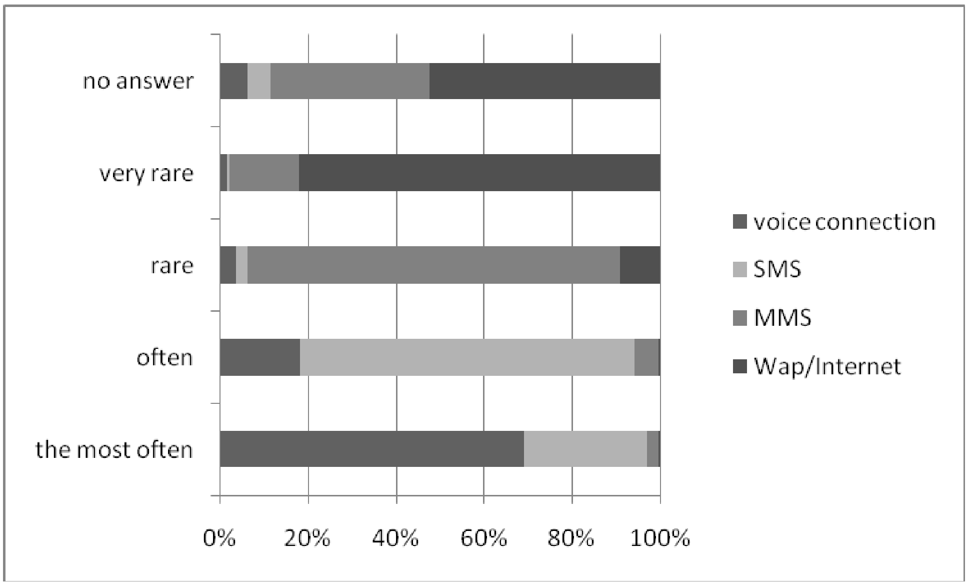

Chart 10. Most popular services of operators

Source: Preferencje konsumentów a rynek telefonii komórkowej w Polsce [Consumers' preferences and mobile telephony market in Poland], p.21, Warsaw, 2008.

The most popular are voice connections and as such are used most frequently. Texting is also very popular as almost 90% of the respondents use it often or very often. Less frequently, the respondents point to MMSs (33%) and 88% of them admit to not using WAP at all.

Competitive struggle among operators revolves around prices of voice calls and text messages, those being the most frequent services. It is also worth to compare the prices of SMSs in all of the available networks. Chart 11 presents changes in the area of SMS prices in the period 2005-2007.

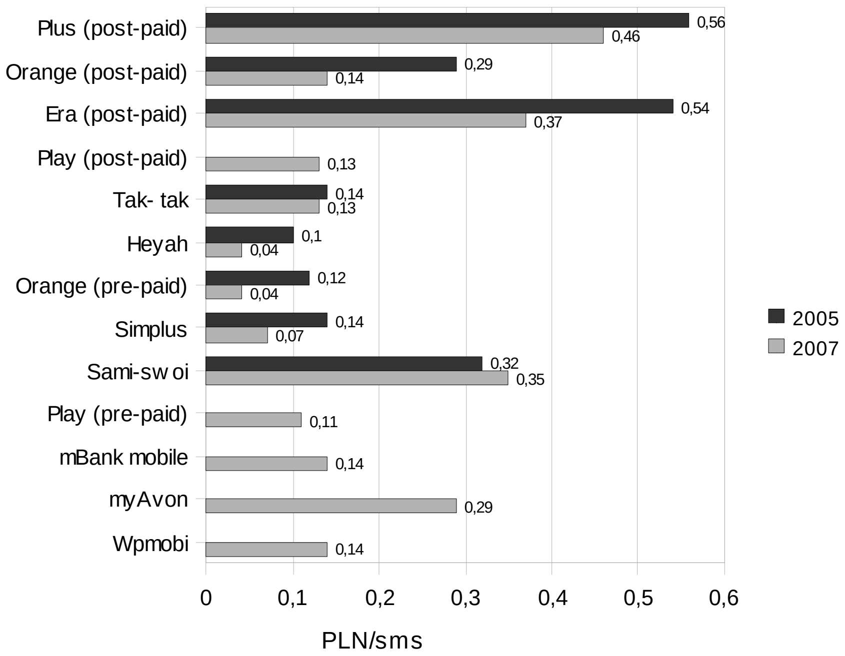

Chart 11. Changes in services price in the period 2005-2007

Source: author’s own analysis on the basis of data provided by the operators

Chart 11 illustrates the falling tendency in 2007 when contrasted with the year 2005. Only Sami Swoi increased their price from PLN 0,32 to 0,35. In 2005, the lowest rates were proposed by Heyah (PLN 0,1) and in 2007 two networks: Heyah and Orange (pre-paids) – PLN 0,04. Highest price had to be paid for a text message in Plus (post paid) both in 2005 (PLN 0,56) and in 2007 (PLN 0,46)

Summary

Analysis of consumer preferences in the period 2005-2007 demonstrates that price of the services offered is of utmost significance when selecting a mobile telephony offer. In majority of cases consumers are not willing to pay higher bills for using services provided by operators. For this reason, the main emphasis of the competitive struggle is put on lowering the prices. Most common services such as voice calls and texting, encourage the clients to get acquainted with offers of particular networks. Their main source of information are traditional media, it is not surprising therefore that operators’ expenditure on advertisement is enormous. This practice proves highly efficient which is confirmed by ever growing market penetration rate. It may be indicative of new paths of development for telecommunication market. Introducing new operators of the MVNO type should break the existing oligopoly and to make it more liberal.

Competition in the Polish mobile telephony segment is very strong – it was difficult therefore for the new operators to enter the market as evidenced by the case of Play. Nonetheless, Play instantly found its place on the market which made the competition even fiercer. At the beginning mobile networks had to compete over clients with landline networks. At present, market penetration index amounting to over 100% signifies that mobile operators do not need to fear competition on the part of landline operators and should focus solely on competing with other mobile network operators.

Comprehension check

1. Indicate which factors brought about fast development of mobile telephony market in Poland in recent years.
2. Describe difficulties to be faced by companies from this market in their attempts to increase their market share.
3. What is the significance for this segment of the State as a market regulator?
4. On a transregional scale, does the European Commission and its agendas influence functioning of the market? Give examples.
5. Describe further development of mobile telephony in Poland. Refer to determinants of further market development.

Recommended readings

- Raport o rynku telekomunikacyjnym w 2008 roku, UKE, http://www.uke.gov.pl/uke/index.jsp?place=Lead01&news_cat_id=188&news_id=4070&layout=3&page=text

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