

COMPETITIVE DYNAMICS IN THE MOBILE PHONE INDUSTRY

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The mobile phone industry in Spain has a high level of internal competition, because although not many existing operators, the degree of rivalry between them is very high. This is due, among other things, to the ease with which customers switch between companies, keeping at the same time, their telephone number. At the beginning of 2012, Spain was the portability leader between companies in the European Union. This rivalry has traditionally required the companies to maintain each other under constant surveillance in order to carry out defensive or offensive actions for beating the competition.

This ease of portability has seriously damaged large operators such as Telefónica and Vodafone, that watching not only their gradual loss of market share in recent years but also the consequent rise of other smaller operators such as Orange or Yoigo, have decided to take action to halt their loss of customers.

Thus, in early 2012, Telefónica considered that it was not possible to enter fully into a price war with the rest of its competitors if at the same time continued to subsidize the terminals. Therefore, they decided to lower its subsidy strategy and instead focus on developing a more aggressive low price policy while offering its current customers (as Yoigo had been doing since a few months before) the acquisition of terminals with interest-free financing.

In response, the great rival, the British operator Vodafone, perhaps pushed by the events, also adopted a similar strategy based on two major points. On the one hand it announced the introduction, from April 2012, of used terminal repurchasing programs, and on the other hand, decided to stop subsidizing the terminals for new customers, leaving only for the old ones the chance to enjoy discounts or gift phones.

These two movements showed clearly that the model of customer acquisition based on attracting customers to the competition giving away phones (which increased disproportionately the cost for the companies) was no longer affordable. In fact, these practices instead of benefiting the operators, led to what is called "washing machine effect" whereby users have changed the company each time they need to change their terminals, increasing the cost of the operators in the medium term.

Ultimately, the big operators seem to have realized that the new strategies in the mobile phone industry have to spend more resources to retain existing customers instead of trying to attract them to the competition. In other words, "always treat better the one is your customer than the one is not".