

CHAPTER I

INTRODUCTION

1. Research Background

Telecommunication industry In Lao PDR was established in 1980's and has not much developed, due to the small computer user market. Since 1994, the Lao Government (GoL) has opened the door policy for JVs and private investments in telecommunication businesses, four more telecom operators exists with more than 2,000 employees as a whole (World Bank, 2007).

In 2000, The Lao National Internet Committee (LANIC) is responsible for national internet policy and regulation, including the approval of ISP licenses and Internet café licenses. LANIC issued regulation No. 141/pmo on the implementation, service and usage of Internet systems in Laos. In 2001, the entire GoL is particularly regulated under the Ministry of Communication, Transport, Post and Construction referred the Law on Telecommunication of Laos (President's Office of Lao People's Democratic Republic [PO Lao P.D.R.]). Decree No. 047/PMO, date 16/2/2009.

This thesis is about exploring the Porter's Five Forces the telecommunication industry in Lao PDR. All of which are of great importance for an organizations long term survival in an increasingly competitive world. This thesis is Telecommunication industry because this is a market with rapid technological changes, a market which is continuously liberalized throughout the world, and because it is a market with outstanding growth both in developed and

in developing countries. Lastly, the thesis is about Laos because the telecommunication market in Lao PDR is as growing markets for mobile telephony in Asia.

1.1 Telecom Operators and its Market in Lao PDR

In the previous decades GoL promotes the growth telecommunication sectors by a number of ways, which can make a significant change to the telecommunication sector: Since 1994, GoL has started to allow foreigners to do joint venture investment. For this result the number of telecommunication provider has been increased significantly. There are four mobile phone operators in Laos today with their own net;

- 1). Lao Telecommunications Company Ltd. (Lao Telecom or LTC);
- 2). Enterprise of Telecommunications Lao (ETL);
- 3). Lao-Asia Telecom (LAT or Unitel); and
- 4). MilliCom International Cellular (Tigo Lao).

They operate throughout the whole country in a highly competitive market are successful strategies and have been crucial for their survival in the constant changes. After this brief overview of the Laos market we will next formulate the subject of this thesis.

1.2 The Trend of Telecom Development of Lao PDR

The telecommunication industry is growing a very fast pace all over the world. It is a market with an extremely high rate of development. In Lao PDR, the telecom services have been updated to international norm (standard) in all districts and provinces. Based on the population of 5,609,000 people estimated in 2004, the telecom density was 20 percent per 100 inhabitants or only 1,812,289 telephone capacity line (1,120,830 using lines), and 42,021 internet capacity lines (4,638 using lines), referred by MCTPC, 2006. The telecom operator provides a much faster and more efficient service, particularly in PSTN (IDD), ensuring quantity and quality. The telecommunications system has been shifted from analog to digital, using a microwave system through satellite and an earth satellite station, IP start gateway, providing PSTN, public telephone, mobile phone and internet services. Districts and provinces have now access to automatic telephone system, and foreign long distance calls to 175 countries, with an IDD system able to access 238 countries. A fiber optic network to access six countries is under construction, and internet services have been opened to the general public in many districts. So far the average use of telephone in Lao is 100 people for every five telephones.

This in turn creates a need for well developed strategies in the four mobile phone companies in order to be competitive in the market and keep or increase the market shares. Our interest in the Lao market lays in its high speed development and how the four mobile phone companies try to compete in it.

In 2005, The GoL was increasing very important project for Data Collection is mainly recorded by operator, management information system section of LTC and other operators, especially, LTC is now setting up intranet in order to provide the information to the management level, however, human resource and capital is still limited (World telecom, 2005).

Table 1.1 : Number of telecom service subscribers in Lao PDR

Telecom provider	LTC	ETL	LAT	MilliCom (Tigo)
Fixed	70,771	9,837	1,147	
Mobile	204,191	60,273	10,473	31,386
Internet	2,291			

Source: LTC, 2005

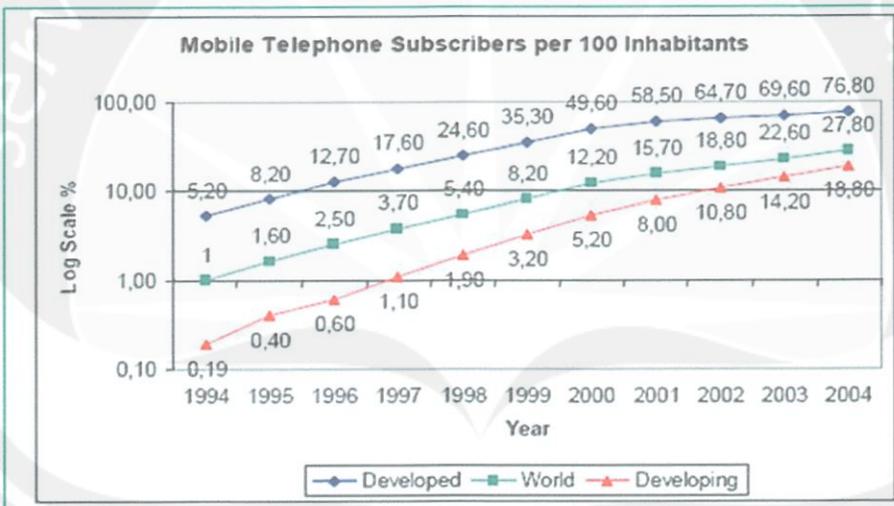
1.3 The Telecommunication Industry

The Telecom industry is growing all over the worldwide. More and more people are gaining access to the telecom services such as cellular phones, broadband and fixed telephones. Many developing countries are starting to invest more into this sector and it is becoming an important factor for their economy. The prosperity within the sector attracts newcomers and the competition increases.

Therefore the companies within the telecom industry, as well as other industries, have to work hard to stay competitive in order to prosper in the market.

The figure below describes the global growth of the mobile industry throughout the world and the growth separated to in developed and developing countries. The digital divide in 1994 was 27 times between developed and developing countries and has been reduced 4 times up to 2004.

Figure 1.1 : Digital divide over developed, the world and developing in mobile telecom



Source: ITU, 2004

After 2005, the world-wide market of services in telecommunications will reach the US1.240 trillions and for year 2010 the hope is that it reaches US1.400 trillions. The income of fixed telephony will, on the contrary, have a low rate of growth and their participation in the total will decrease slightly. The movable telephony industry will continue growing, while the participation of the income by

sales of services of Internet and data transmission will stay constant. The total income of the telecommunication industry in the first semester of 2005 reached the \$6.86 trillion, which represents a real growth of 15,1% with respect to the first semester in 2004.

1.4 Research Problem

Today the telecommunications sector seems trapped in a web of tension between development assistance bodies, private investors, inter-ministerial rivalry and state planners. Reconciling these forces will be a major challenge. The nation also faces immense technical and commercial challenges in expanding telecommunications. Most of the population resides in rural areas, transport and electrical infrastructure are scarce and incomes are low. The traditional money earner for the industry, international telephone calls, is under mounting pressure globally and local tariffs have not kept up with the recent pace of inflation and currency devaluation.

Telecommunication industry has two main characteristics, technological innovation and externality (the economic impact of a transaction on a group or party that is not directly involved in the transaction externality may be positive or negative) due to this characteristic telecommunication industry is unique in its nature. As Telecom sector always played an important role in employment so it give in-depth information about the development Priorities of the country (Molano, 1997). Due to variation in nature of telecom sector we consider it as the prime factor for this study.

There are many earlier studies discussing Porter and his five forces. Porter's theories are among the most well-known within management schooling and they are tested in many different settings. One article very much like this thesis is the one written by Kim, Nam and Stimpert (2004) investigating the applicability of Porter's five forces in the digital age. Also Wright and Parsinia (1988) have done real case studies about Porter's five forces. We will make use of these studies both in our theoretical section and in our analysis.

Based on the description of Porter's five forces include – three forces from “horizontal” competition: threat of substitute products, the threat of established rivals, and the threat of new entrants; and two forces from “vertical” competition: the bargaining power of suppliers and the bargaining power of customers.

- a. Rivalry among existing competitors (Segment rivalry) was existing competitors serving the same space. Rivalry among existing competitors is especially intense when competitors are numerous and fairly equivalent in terms of ability to deliver. When industry growth is slow, competitive intensity increases.
- b. Bargaining Power of Suppliers (input) this is not much of a concern due to our backward integration. However, there may be resources required that we does not provide.
- c. Bargaining Power of buyers/Customers (input) is bargaining power (e.g., length of contracts, procurement squeeze); Decision making processes (e.g., length of sales cycle); Decision makers and key decision factors.

- d. **Threat of New Entrance into the industry** is entities that might potentially enter the market. They have an opportunity to position themselves differently and threats are based on entry barriers (e.g., infrastructure, technology)
- e. **Threat of Substitute Products or Services**, this a particularly difficult section to explore-these are alternatives to satisfy the need. For Consider is completing the project with operator resources, forgoing the project, developing well site solutions.

1.5 The Purpose of this Research

The Purpose of this research are investigating how the mobile phone operators in a high speed developing market, such as the Lao PDR, compete with each other in terms of their strategies. As Porter's five forces analysis deals with factors outside an industry that influence the nature of competition within it, the forces inside the industry (microenvironment) that influence the way in which firms compete, and so the industry's likely profitability is conducted in Porter's five forces model. Porter, 1980a defined the forces which drive competition, contending that the competitive environment is created by the interaction of five different forces acting on a business. In addition to rivalry among existing firms and the threat of new entrants into the market, there are also the forces of supplier power, the power of the buyers, and the threat of substitute products or services. Porter suggested that the intensity of competition is determined by the relative strengths of these forces.

The Original competitive forces model, as proposed by Porter, identified five forces which would impact on a company's behaviour in a competitive market. These include the following:

- a. The Industry rivalry between existing sellers in the market.
- b. The Power exerted by the customers in the market.
- c. The Impact of the suppliers bargaining power on the sellers.
- d. The Potential threat of new sellers entering the market.
- e. The Threat of substitute products becoming available in the market.

1.6 Scope of the Research

In Order for this research can be more focused on subject matter, it is necessary to limit the problem as follows:

1. The Five forces analysis will be studied only from the perspective telecommunication industry.
2. In this Study the research object is limited to the four telecommunication companies in Lao PDR.

1.7 Benefits of Research

This Research is expected to bias provides the following benefits as:

1. Provide information to the telecommunication industry players about the types of strategies that bias is used to achieve the company success of each.

2. The Governmental process of the telecommunication industry and its impacts on performance and development i.e.

- **Impact on growth**
- **Impact on profitability**
- **Impact on competition**
- **Impact on employment**

3. As a Reference for other researchers wishing to conduct research in the field of development of the telecommunication industry.

1.8 Porter's Five Forces Analysis

The Basic tool we will follow for analysis will be the Porter's five competition forces analysis, which will give in-depth information about the internal and external environment of Telecommunication industry, and will also help us in formulating our suggestions for future strategies of Telecommunication industry. "A frame work developed by Michael Porter that captures the dynamics of the prevailing environmental forces in which a company operates" (Argenti, 2002). These factors can be explained in better way by Porter' five forces which must be considered while analyzing any industry.

For Instance the rivalry always cast its impacts on profitability, if the rivalry among the industry is intense, than the profitability is low, if the firms wants to avoid price wars than they need to reconcile, for instance take an industry which is comprising of firms large and small firms, small firms mainly adopt low

prices to get his share in the market, on the contrary the larger firms also decrease their prices.

Bargaining power of suppliers and customers is the second important force, while evaluating any industry. The innovation of technology especially in the telecom sector has given the opportunities to the customer to bargain as per their expectation, the innovation of technology in mobile phones is an example in this regards. The induction of new features in mobile always gives a strong bargaining power to customers and suppliers.

The Threat of substitutes is also a vital force while evaluating about an industry. The inductions of internet in the advertising has large adverse impacts on the Advertising of electronic and print media or just consider the example of online shopping which have totally transformed the traditional methods of shopping. The last force regarding porter model is the entry barrier, where firm faces various barrier while entering the market. For Example we can look into the example of American Auto market where the intense rivalry has made it impossible for the new one to enter the market and established a brand like GM or Ford (Mishra, S.). Understanding the nature of each of these forces gives business the necessary insights to enable them to formulate the appropriate strategies to be successful in their market (Thurlby, 1998).

When developing strategies, analysis of the telecommunication industry and its environment in the future, is important. The Analysis has to be executed at an internal level as well as an external level to identify all opportunities and

threats of the external environment as well as the strengths and weaknesses of the companies. There are several factors to assess in the external situation analysis:

1. Market (customers)
2. Competition
3. Technology
4. Supplier markets
5. Labor markets
6. The economy
7. The regulatory environment

1.9 Structure of Dissertation

The Analysis consists of 5 parts

1. Chapter I: Introduction

This Chapter contains the description of the research background; Telecom operators and its market in Lao PDR; The Trend of telecom development of Lao PDR; The Telecommunication industry; Research problem; The Purpose of this Research; Scope of the Research; Benefits of Research and Porter's Five Forces Analysis.

2. Chapter II: Literature Review

This Chapter describes the Literature Review; Theoretical Approach; Performing a Five Forces Analysis; Strategy Definition; Competitive Advantage; and Strategic Competitiveness.

3. Chapter III : Research methodology

This Chapter describes Research Methodology; Data Collection; Data Analysis Technique; and Data Analysis Process.

4. Chapter IV: Data Analysis of External and Internal Environment of Telecommunication Industry in Lao PDR's

This chapter makes an overview of telecommunication industry in Lao PDR base on the Data collection of four operators' telecom; Industry Environment of Lao PDR's Telecommunication; Analysis of Industry Environment (Five Forces Analysis); and Porter's five forces theory.

5. Chapter V: Conclusion

This chapter describes the final conclusions of the research results and recommendations. From the results of these studies a conclusion drawn from the results of data analysis and provide advice to the parties relating to the research.