Chapter Case Study
From Monopoly to Competition **

Bangladesh's mobile phone subscriber base expected to reach 18 million by 2007 following massive surge of foreign investments in booming cellular market. Report author Mr. Priyam Shah explains that Bangladesh's mobile phone market has achieved exceptional growth since the beginning of 2004, registering a massive 100 % growth in its subscriber base during 2004, and 137% during 2005. This trend is forecast to continue over the coming years, bringing the subscriber base to 18 million by 2007.

According to Mr. Shah, recent growth in the Bangladesh mobile market can be attributed to factors such as the deregulation of the telecommunication sector, low levels of tele-density, inadequate fixed phone infrastructure, high competition following the entry of two new operators (Banglalink and Teletalk) and, particularly, massive foreign direct investment (FDI) by telecom giants like Telenor, Telekom Malaysia (TM), Orascom, SingTel, and most recently by UAE-based Warid Telecom.

Mobile Price War: Bangladesh is in the awkward stage of moving from a monopoly to a liberalized telecommunications environment. In this transition, there are numerous obstacles that are symptomatic of the difficulty associated with the transition in the absence of an independent regulatory body. The following excerpt from the Bayes et.al. (1999) report summarizes the situation precisely:

For decades, the Bangladesh Telegraph and Telecom Board (BTTB) assumed the role of the natural monopolist for the provision of telephone services. Originally, there were two reasons for encouraging a state monopoly: first, given the magnitude of the start-up investments and the cost of maintaining services, only a state monopoly had the possibility of doing the job properly, and second, it was believed that a monopoly enterprise would be able to convert the economics of scale into improved services at lower costs. With the passage of time, however, digital and cellular-phone technologies have eroded the bases of these arguments. The advent of these technologies has given rise to a certain euphoria, also in Bangladesh. Some private operators are now making their mark in the country, demonstrating that "small is beautiful" may sometimes hold true in the telecom sector as well. On the other hand, it is argued that private, competitively managed firms are vastly more efficient (World Bank and BCAS, 1998). This one change in perception has brought about a shift away from a state-run monopoly to greater competition

Pacific Telecom Company was the first mobile connectors in Bangladesh. At that time this company was charging the maximum price to the customers with very small network coverage. At that time the price per connection with handset was 50 thousand taka to 1.5 lakh taka. In November 1996, licenses to operate cellular mobile phone networks were issued, and Grameen Bank, Telecom Malaysia, International Bangladesh Ltd. and Sheba Telecom Ltd. entered the market. The basic assumption was that their operations would increase competition and consequently reduce the costs of cellular mobile phones considerably. It should be mentioned that all of the above are joint-venture companies in which Bangladeshi units collaborate with foreign companies. Thus, in the private sector, there are 7 different operators providing different services (Planning Commission 1998) (p.8). The offer of Pacific Telecom is now available at less than 10,000 taka.

According to Mr. Shah, the entry of Banglalink in February last year (2005) has sparked a price war. Banglalink's attractive launch offer included a new connection and handset at a low start-up cost of Tk 3,400 with 1000 SMS free. Following Banglalink, 3 (three) other private operators GrameenPhone, Aktel and CityCell have also come up with various value-added offers resulting in an intense price battle. All the mobile operators have different packages to meet different needs of the people. For example, GrameenPhone offers mobile to mobile (Easy Pre-paid), mobile to mobile plus T&T incoming and outgoing in pre-paid mode (Easy Gold), Post-paid package (GP Regular) etc. Price of SIM is maximum in a post paid offer due to its maximum vaiue added services and is minimum in Djuice or Pre-paid packages due to less value addition. Every company charges different price for SIM from their customers for different packages. Even the call rate varies per package and depending on the time of the day they are making call. For example, call rate at pick time is higher than that of off-pick time and holidays. Most of the mobile operators have offer where a consumer can buy two SIM cards at a reduced price and the call charge between those two SIM is comparatively low. Like Grameen Phone offers Djuice, Aktel Offers Joy etc. A customer of Grameen Phone can transfer his or her SIM from Pre-paid to Easy Gold by giving some extra migration charge. Most of the mobile operators are providing incentives to the customers who talks more in the mobile phone. Like, 'Thank you' program of GP, bill discount beyond 2000 taka per month bill by Aktel etc. Every mobile operator celebrates the yearly festivals with a price reduction of their SIM cards or call rate. Important to note that, the price of SIM card and tariff rate of the operators don't vary in geographic locations of the country.

The development of a competitive mobile phone market is expected to prompt an easing in cell phone tariffs going forward, after years of escalation in what was a captive market. Consumers will also benefit from cheaper connection and call rates. State-owned operator Teletalk, however, is expected to struggle in this new environment as it is still grappling with poor network coverage and inefficient management.

Mobile Handset Market

In tandem with the growing subscriber base, sales of mobile handsets has increased at a phenomenal pace. However, nearly 70 per cent of mobile handsets available in the local market have been entering through informal channels, depriving the Government and importers of a huge amount of revenue each year.

In a serious bid to turn around this drastic situation, the Bangladesh Government reduced the tax on mobile handset imports from Tk 1,500 to only Tk 300 in mid 2005. Mr. Shah explains that although this initiative has revived the situation to a certain extent, the effect on the grey market has not been as significant as was expected by distributors and importers. Interviews conducted by BIS Shrapnel with leading distributors reveal that the grey market is currently holding around 40% market share, but they are hopeful this will diminish over the coming months.

As with many other Asia-Pacific countries, the Bangladesh mobile handset market is predominantly captured by global handset giant Nokia (approximately 52% market share) followed by Siemens. Mr. Shah explains that the success of these 2 (two) vendors can be attributed to excellent handset quality, ease of use, an efficient sales and distribution network, dedicated after-sales service, and regular launches of low-priced handsets to meet market demand.

*** **Source: BIS Shrapnel Pty Ltd (01.02.2006)***

Questions for Discussion:

1. What factors the mobile operators consider while charging the price a package?

2. Which new product pricing strategies were followed by different mobile operators in Bangladesh? Do you think they were correct in doing so?
3. Do you thin the mobile operators are using product mix pricing methods? How? Explain.
4. What are the price adjustment strategies followed by the operators? Justify their strategy.
5. Should the companies go for geographic pricing policy or segmented pricing policy? Why or why not?
6. What is the importance of captive product pricing in mobile industry? Do you think that strategy works well? Why or why not?
7. Do you think price cut is the best strategy suits with this type of competitive industry? Why or why not? Explain.