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Competitive edge

Jordan's mobile sector is highly competitive, but its fixed sector needs greater liberalisation

It was perhaps no great surprise that Jordan topped a recent index measuring the competitiveness of the mobile sector in each of the Arab countries.



Antonio Carvalho: Jordan's fixed line sector remains a monopoly

Jordan, which was the first country in the Middle East to begin opening up its mobile sector and to privatise its incumbent operator, Jordan Telecom Group, earned top spot in the Arab Advisors' Cellular Competition Intensity Index, gaining a score of 80.7%, placing it ahead of its closest rivals Saudi Arabia and Palestine.

But while the accolade was no doubt welcomed by Jordan's government and telecoms regulator, the operators are probably more concerned with an even more important set of numbers.

As one of the region's most competitive mobile markets, Jordan has experienced stellar growth in the past few years. Indeed, according to data from Delta Partners, a Dubai-based research and consulting firm, Jordan's mobile penetration rate increased about 13% between December 2008 and June 2010, when it reached 101%.

Jordan has three mainstream mobile operators and an IDEN operator, which caters mainly for the corporate sector. Zain, which was the first player to start mobile services back in 1995, has a market share of about 39%, while Orange Jordan follows closely with 34%, and Umniah, a unit of Bahrain's Batelco, has a respectable 26% share, according to figures for June 2010 from Delta Partners. Xpress has a market share of just 1%.

The mobile market also looks set to benefit from the launch of Friendi Mobile, an MVNO that operates on Zain Jordan's network, in June.

Antonio Carvalho, a partner at Delta partners, says that the mobile operators are engaged in "a strong battle" for customers, which is driving competition.

But while he admits that Jordan was the first country in the region to liberalise its telecom market, he adds that plenty of work remains to be done, particularly in the fixed line and broadband sectors.

"It was the first to liberalise its telecom market in the Middle East by privatising the incumbent and opening up the mobile market for competition. It offered licences that allow national transmission and international gateways to be built," he says.

"However, the pace of liberalisation slowed and no other fixed licences were issued, and this has somewhat affected its overall level of competition in the region."

Carvalho describes Jordan's fixed sector, which is yet to introduce Local Loop Unbundling, as an "absolute monopoly" held by Orange, which faces only very limited broadband competition from a few WiMAX operations, including services from Umniah and Zain.

Jordan also lags behind many of its regional peers in the mobile broadband space. The country was late to auction its first 3G licence, which was awarded to Orange in 2009. The incumbent operator launched its 3G service in March 2010 and has exclusivity until March 2011.

While this may give Orange a better chance of extracting value from the \$70 million it paid for the licence, it does little to instigate competition in the broadband space. "There is still room to introduce a more competitive environment," Carvalho says.

"The average connection speed from fixed line internet access is 512kbps which leaves ample space for competitive mobile broadband offering in the coming months."

Furthermore, Orange Jordan's 3G exclusivity period could delay Jordan's mobile broadband sector from catching up with more developed countries until as late as 2012, in terms of penetration, speed and price, Carvalho adds.

"If one considers the regulatory environment a measure of competitiveness, then I agree that Jordan tends to be a competitive market by Middle East standards, but there are still more regulatory steps to be made," he says.

Regulatory issues

Ihab Hinnawi, CEO of Umniah, agrees that there are a number of areas in which Jordan's regulatory climate can be improved. He points to a lack of mobile number portability and a lack of unbundling of the copper local loops, which are necessary for last mile access, as issues that need to be dealt with.

Jordan would also benefit from more regulations to control dominance and anti-competitive behaviour within the telecom sector.

Hinnawi also criticises the heavy tax burden that he says is imposed on the sector. He estimates that the "continuously increasing taxes" on mobile services have reached around 50%.

And Hinnawi is not alone in his grievances concerning the amount of money that the government tries to raise from the telecom sector.

Dr Abdul-Malek Al Jaber, CEO, Zain Jordan is critical of the high fees that the government charged for the 3G licence, and also of the way it was offered as an exclusive licence, effectively giving the winning bidder a monopoly on 3G services.

Dr Al Jaber says changing the mindset of telecommunications authorities not only in Jordan, but across the region, is one of the biggest challenges facing Zain as an organisation. "Unfortunately, governments across the region still view the telecommunications industry from the network access space," he says.

"If you look at the cost of spectrum in Jordan compared to European markets such as Denmark or Sweden, the same spectrum you buy in Jordan for \$50m you buy in these countries for \$1m.

"This is because the business model in these countries is very much applications and solutions based, not network access based. I believe that if you introduce a content- and solutions-based business model, this would reflect positively on the government's revenues, but sometimes it's difficult for authorities to see this initially.

“Despite the fact we are still being charged according to the access-based model we remain committed to launching advanced applications because we believe this strategy is the best means of securing growth moving forward.

“When the pricing structure was announced by the government for 3G services they were still thinking in terms of access to the network rather than access to applications,” explains Dr Al Jaber.

“We expressed this to the government during the application phase and we said we didn’t want exclusive access to the 3G network. We don’t believe exclusivity is necessary - it is an old concept that should be behind us as an industry.

However, when Orange’s 3G exclusivity period ends in February 2011, Carvalho believes there will be “strong progress” in the mobile broadband sector.

Fixed focus

But while broadband is viewed as the main area of opportunity in Jordan, particularly given the country’s large population of young people, and its low broadband penetration, there are serious questions around the potential of fixed broadband.

And this is at least partly due to the increasing competition that will inevitably come from the mobile broadband space, and the speed of regulatory changes, such as Local Loop Unbundling, that could allow fixed ISPs to become more competitive, according to Carvalho.

“The major question is whether these ISPs will have a relevant chance in front of a concerted mobile broadband efforts from the big MNOs in the country, both because of relative performance in fixed and mobile networks and the attitudes and attachment of young public to the mobile networks,” Carvalho says.

In the next few years, Carvalho predicts significant changes in Jordan’s telecom market and believes the three main operators will have to “move outside their comfort zones” as new technologies, regulations and customer behaviour come into being.

In the mobile voice arena, the market is shifting from a period of significant growth to relative maturity in terms of subscribers, and this means that operators will need to focus on customer retention and increasing their ‘share of wallet’ rather than splitting their spend across multiple SIMs, according to Carvalho.

He adds that operators will also need to turn their attention to quality of service and customer experience as the opportunity for differentiation on price is minimal.

The launch of Friendi Mobile Jordan, the first MVNO in the country, and only the second in the Middle East, is also a sign of the maturity of the mobile market.

And while Friendi CEO Mikkel Vinter has said that the operator is only targeting high single digit market share, the presence of an MVNO is likely to make Jordan’s other mobile operators focus more closely on the way they cater to various segments of the population.

Meanwhile in the fixed sector, Jordan is likely to experience continued fixed line substitution and increased revenue pressure in the fixed line voice, particularly as regulatory changes allow competition from VoIP providers.

Migration path

While there is much speculation about where the next mobile broadband offering will come from, Ihab Hinnawi says that his company is currently focusing on expanding its GSM and WiMAX networks, and has not yet decided on its exact path to mobile broadband.

"We are looking into our mid to long-term investment plan evaluating 3G or 4G technologies for the upcoming few years," he says.

"We are still considering whether investing in 3G at this time is the right choice for Umniah in terms of timing or in terms of value to our subscribers."

However, Hinnawi admits that the company sees little potential in LTE at this stage, mainly owing to spectrum issues, and that he sees HSPA+, which can give speeds of up to 21Mbps, as a "less risky choice".

"What benefits LTE can provide are outweighed by the possibility of a much shorter cell radius, which some have reported to be 100-200 metres," he adds.

"Non-harmonised frequency is also a key factor working against LTE; so far there are implementations in 700 MHz band, 880 MHz band, 900 MHz band, 2.1 GHz band, 1.7 GHz band and 2.6 GHz band, and some operators are discussing reforming the 1.8 GHz band for LTE."

Hinnawi thinks it is too early to determine what the "long term future" will hold, and says the operators will decide on its mobile broadband strategy at a time when it can make a more informed decision.

Whatever technology Umniah and Zain decide to invest in to compete with Orange Jordan's 3G service, the thing that looks certain is that mobile broadband and data applications are going to play an increasingly important role in Jordan's telecoms sector.

And for Dr Al Jaber, this means that a change in mindset is essential.

"We must abandon the notion of selling access to the pipe. Instead, we must leverage the content and services found within the pipe. This is the new business model we are implementing in Jordan and this is why our customers are extremely happy," he says.

Dr Al Jaber believes the bulk of this content must also be provided to subscribers for free, with revenues being generated by advertiser-related sponsorships.

"In Jordan, the business model that is in place relies on charging customers for accessing content," he explains. "Now we are saying let's provide the content for free, but generate income by selling sponsorships to advertisers. Premium content should be advertiser-supported. It's a challenge, but we believe this is the best model moving forward."

"Looking forward, we believe that 4G or LTE will most likely prove the best platform for delivering advanced applications to our customers.

"We are following developments around the world with great interest in respect to 4G," Dr Al Jaber adds.