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India going up

- Implications of the growing middle-class for the 5 largest mobile manufactures

Abstract

India is today seeing a revolution in the socio-economic conditions, it has decreased the numbers of people below the poverty line and the mid-segment is estimated to increase massively the next two decades. The middle-class will stand for a major part of India's 6-8 percent annual growth and the consumer market will increase with approximately one trillion dollars of value by year 2025. The purpose of this thesis is to see which implications the increasing middle class will have for the five largest mobile manufactures up to date. The thesis is based on an inductive research method and with a qualitative approach. In brief, the author came to the conclusion that mobile manufactures needs to have a clear India strategy as this market will affect the global positioning for each manufacture. The author defines what the mid-segment requires from handsets manufactures and with a SWOT analysis defines what challenges and opportunities that the manufactures targeting mid-segment must face, this is symbolized with either taking the elevator up or down. The author also notices a deficient terminology which might be an obstacle in the discussion regarding mid-segment handsets.

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1. Introduction

1.1 Background

In the last few decades, the mobile telecommunications industry has been going through dynamic changes. In the 1980s, handsets were as large as milk cartons, and in the 1990s, cellular phones became small enough to fit inside regular pockets. Originally, the key distinction between landline telephones and cellular phones was the mobility that handsets offered; the latter was viewed as replacing technology when subscribers were away from home. Today, the handset is no longer seen as only a complement to fixed phone lines, in many parts of the world, cellular phones are already viewed as the foremost everyday communication device.

In the fixed telephone network, innovations have been few and far between. Apart from the landlines offerings internet and television, landline phones still serve as phones, and they are retained until they stop working. Profits therefore primarily arise from network traffic. The mobile industry has seen a different development. Mobiles have turned into fashionable consumer products that rely on replacement demand, rather than original demand, leading to an industry with increasing device sales in contrast to landline telephones.

Reminiscent of the automotive industry, cellular phone producers nowadays produce several handset models based on a single mobile platform. Economies of scale and common technologies in use are in this fashion reducing the average cost per produced unit. It has also paved the way for product portfolios targeting specific market segments like low-end and high-end segments. It is no longer enough to offer one function at a time to consumers, who prefer to have only one gadget in their pockets. This is referred to as the *competition for pocket space*. In order to create market niches and to remain the main pocket choice for consumers, many mobile manufactures includes added-value functions such as: camera, radio, internet capability, games and music storage capacity.

In parallel to mobile communication industry changes, new countries have arisen in economic influence. The four largest, namely Brazil, Russia, India, and China, usually referred to as BRIC. They have all become important markets for the mobile manufactures. India is currently the world's fastest growing market in the mobile communication industry.¹ In March 2008 the country alone added 9 million new

¹ <http://www.di.se> (2008-05-03)

subscribers, taking the stock to 260 million subscribers.² India has thereby passed the US which has 252 million cellular users. Growth forecasts predict that there will be around 350 million subscribers in India by the end of 2008 and by 2010 investments in the Indian telecommunications industry are expected to be worth USD 69 billion.³

The BRIC countries have committed to economic reforms during the 1980s and have experienced strong growth; India has become one of the success stories. With an annual growth of 6-8 percent and a handset penetration of 13 percent the market is attractive. The low-end segment in India has been given much attention but in this thesis I wish to present a new fulcrum segment in the Indian marketplace; the mid-segment.

1.2 Purpose

The main purpose of this thesis is to examine what implications the changes in socio-economic conditions in the Indian market will have for the five largest mobile manufactures. I aim to shed light on the actual situation in India, and to depict contemporary market behavior. I wish to increase awareness and understanding of how firms need to act in order to exploit Indian marketplace conditions. The gathered data will be analyzed with two primary aims in mind: predicting India's mid-segment development and depicting effects for the mobile manufactures. A key objective of this thesis is to detect how mobile manufacturers, which include both low-end and high-end manufactures, can target India's mid-segment.

1.3 Research question

Given the purpose of this thesis a research question has been formulated. The research question will be connected to two sub-questions in order to attain a more in-depth understanding of the main research question.

- **Which implications will India's growing middle-class have for the five largest mobile manufacturers?**

Sub-questions:

- What does India's middle-class demand look like today and what will it look like in the future?
- Which strategies are the five largest mobile manufactures undertaking in India?

² <http://www.di.se> (2008-05-03)

³ <http://www.swedishtrade.se>

1.4 Delimitation

The study will be delimited to only observe the Indian market. This market is selected as it is a market where the socio-economic conditions are likely to change. As a result it becomes important for companies to establish their operations in a way that makes it possible to act after the changes in the socio-economic conditions. The research will be delimited to the mobile industry as this industry is in the forefront of globalization and competition can be seen as swift and tough. The study will only observe the implications for the 5 major manufactures up to date. The thesis will not observe the implications for the operators. This is due to the thesis size limitation which would not allow for an in-depth analysis for both manufactures and operators.

1.5 Definition of terms

Market - is defined as a set of actual and potential buyers of a product or a service.⁴

Middle-class (mid-segment) - concerned with social approval; spends a larger part of their income on discretionary purchases. In the thesis middle-class and mid-segment will have the same term definition.

Discretionary expenditures/purchases - consumer spending on products that one not necessarily need, the product usually have a practical or functional component.

GSM - Global system for mobile communication, a system that is common in Europe and is usually referred to as 2G; there are four different GSM options which have different frequency area.

CDMA - code division multiple access, also known as IS-95, a mobile network technique where all phones are sending over the whole frequency band and are separated with code signals. The technique is an alternative to GSM.

Open platform- Platforms that are based on open source. When software is open source the source codes are distributed with the software, anyone may redistribute the software for free and the software can be modified and be redistributed.

1.6 Expected contribution from research

The aim with the research is to increase the knowledge about the mid-segment in India. The author hopes to contribute with predictions about socio-economic changes, specifically for the Indian mid-

⁴ Hooley et al., (2004)

segment and what implications this will have for the five largest mobile manufacturers. The result will foremost be of use for mobile manufactures but is transferable to similar industries.

1.7 Outline of the thesis

The second chapter of the thesis is method; here a description of the method used to reach the purpose of the paper is provided. It includes a discussion regarding reliability and validity of the study. Chapter three goes through the theory that has been gathered from the academic literature, this becomes the framework that is used in the analysis. The fourth chapter concludes the empirical finding that has been gathered from primary and secondary sources. The fifth chapter is analysis; here the empirical findings in chapter four are connected with the theoretical framework that is provided in chapter three. The main goal of this chapter is to answer the research questions of the thesis. The last chapter includes an ending discussion where the author makes conclusions and discusses implications of the result from the analysis and suggests further research questions.

2. Method

2.1 Study design and selection of method

Selection of method needs to be related to the purpose and research question of the thesis.⁵ Choice of method in this thesis is supported on Holme and Solvang (1991) which states that qualitative method gives a helicopter perspective on a specific situation and helps to increase the understanding for social processes. The qualitative method is most suitable when the researcher wants to go in-dept and create an increased understanding for phenomena of study. This is in line with this thesis purpose and research questions. A quantitative method starts from the researcher's idée, thus a qualitative method in higher degree start from the study objects perspective.⁶ A quantitative method is to prefer when the goal is to make exact measuring of a phenomena. This is not the case in this study and therefore it points to a qualitative method is the most appropriate to use.

2.2 Research approach

There are several alternative research approaches to select from; inductive, deductive, and abductive. Inductive approach is defined as processes where the general position is based on observations and facts. The deductive approach starts with the theory section of which a hypothesis is built, the empirical findings assist to reject or accept the hypothesis. The abductive approach is often mentioned as the golden middle way. It mixes the inductive and deductive way, the process starts with some accepted facts and the empirical findings guides the author in what theories is best used, this process switches back and forth during the research.⁷ In this thesis an inductive approach will be used. The selection of an inductive approach is based on the phenomena of study. The topic needs empirical findings before selection of theory and the theory becomes the guidance tool for analyzing the empirical findings.

2.3 Data collection

In the empirical section of this thesis the data will be based on both primary and secondary sources. The secondary data will be statistics but also articles from industry papers as Business week, Telecom paper and Reuters. Primary sources will complement the secondary sources and be collected with interviews.

⁵ Alvesson & Sköldberg., (1994)

⁶ Alvesson & Sköldberg., (1994)

⁷ Saunders et al., (2003)

2.3.1 Interviews

Interviews are important tools to gather the data in a qualitative study.⁸ The interviews can either be of non-standardized, semi-structured or structured character. As the study is of quantitative character one cannot use standardized questions.⁹ This is to avoid that the researcher is in too much control. The interview questions are of semi-structure which results in that the interview is to some extent controlled by the respondent's answers. The respondent needs to be given flexibility but one needs to make sure that various topics are touched; consequently semi-structure is the most favorable choice. The questions were not identical in each interview due to the respondent's different backgrounds and knowledge base. The selection of interview persons was based on different factors; they are either experts on India, experts on the mobile telecom industry, or representatives for the 5 largest mobile manufactures. The interviews were conducted by either telephone, e-mail or face-to-face; the interviews were all written down and sent back to the interviewee for confirmation of accuracy.

2.3.2 Secondary data

Secondary data will foremost be collected from internet by accessing online newspapers. Newspapers used as secondary data are all from reliable and well known public newspapers as Businessweek, Dagens Industri, Telecompaper, and Reuters. Part of the secondary data contains statistic, it has been gathered from secure sources as CIA, India's government, McKinsey global institute, and the Swedish trade council.

2.5 Research validity and reliability

All researchers goal is to gain results that are valid and reliable. To measure reliability and validity of a research one need to study the elements of the research.¹⁰

2.5.1 Validity

Validity is to what extent the results correspond with reality.¹¹ The key question to ask is: are we studying/measuring what was attended to? This could be symbolized with a dart board, is the arrow actually hitting the board and not ending up outside the board? The qualitative study is focusing on perspective rather than the truth, as the truth may not always be the way that the respondents experience it. The result is based on the respondent's interpretation of the phenomena and the author's

⁸ Yin R.K., (2003)

⁹ Holme I.M. & Solvang B.K., (1991)

¹⁰ Merriam S.B., (1994)

¹¹ Merriam S.B., (1994)

interpretation of the empirics. The difficulty is that the respondents may not give a correct picture of the reality and instead give a picture of what they would like it to be or should be. It is therefore important to understand the perspective that respondents possess to be able to take them into account in the study. There are two aspects of validity: internal and external.

Internal validity

Internal validity is the correspondence between terms and the operational definitions of them.¹² In other words: to what extent does the result correspond with the reality? Does the research study what it intended to measure? An essential part is that you need to be aware of is that the information does not speak for itself; there is always a translator in the researcher. Awareness of this is essential for a good internal validity. Trying to take out translations, own interpretations and giving the reality is the best way should increase internal validity. In the study the author has tried to increase internal validity by interviewing people with different knowledge bases. The different translations become clearer when the respondents have different perspectives on the phenomena of study and it assists the author in detecting translation and taking them out from the research. To increase internal validity the interviews have been written down and sent to the respondent within three days. The respondent has then gone through their down written answers and confirmed accuracy.

External validity

External validity is defined as the area to which a study's findings can be generalized.¹³ External validity is essential for transferability to other situations than the specific situation studied. As this thesis intends to study a phenomenon in-depth the aim of the study is not to generalize the results. The geographical focus on India limits the ability to transfer the data to other countries. Thus, one could generalize it to other similar industries active in the Indian markets for example household electronics.

2.5.4 Reliability

Reliability is to what extent the result from the study can be repeated with the same outcome.¹⁴ It can be described as playing darts; if you hit the dart board in the same place in repeated throws you can say that you have good reliability. In qualitative research the goal is to describe and explain the world from

¹² Eriksson L.T. & Wiedersheim-Paul F., (2001)

¹³ Yin R., K., (2003)

¹⁴ Merriam S.B., (1994)

how people live and experience it.¹⁵ The implication is that there are no reference spots that could be used when repeating the study as a qualitative study is based on several interpretations of the phenomena. There is a time effect on person's interpretation, this mean that if we after some time ask the same questions again to the respondent then the respondents' interpretation of the phenomena might have changed due to new experience. As the study is of quantitative method with semi structured interviews it is unlikely to get the same result if the study was repeated. This is in the nature of the qualitative study and therefore the importance of reliability could be said to be minor.¹⁶

¹⁵ Merriam S.B., (1994)

¹⁶ Holme I.M. & Solvang B.K., (1991)

3. Theory

3.1 Socio-economic theory

Definition of terms

One ought to separate the terms economic growth and economic development. Economic growth is growth that is joined with qualitative structural changes in employment and production. Economic growth can take place without any economic development which is related to the wealth of the population. An example that clarifies this is the oil-exporting countries; they have showed a major increase in economic growth but hardly any changes in economic development. This implicates that with economic growth there is no insurance of increased living standard for the population. Economic development is taking into account economic growth but it adds the effect of decreased poverty and malnutrition.¹⁷

Indicators in growth and development

Szirmai (2005) states nine characteristics that developing countries have in common.

Characteristics of a developing country
1. Widespread poverty and malnutrition
2. A relatively large share of agriculture in output and employment
3. Pronounced dualism in economic structure
4. Very rapid growth of population
5. Explosive urbanization
6. Large-scale underutilization of labor
7. Political instability and corruption
8. Environmental degradation
9. Low levels of technological capabilities

These nine characteristics do not all need to be present in a country for it to be classified as a developing country, it is the degree of each character that is essential as measurement. It is a method of identifying

¹⁷ Szirmai A., (2005)

developing countries and to define which problems they need to overcome to encompass economic development.

Different indicators can be used as measurement for economic development. Gross domestic product (GDP) is commonly measured as the country's economic growth. The development in the GDP gives an indication of the potential productivity in the country but it says nothing about how this will be used in the future. It could be used by the military, foreign payments, conspicuous consumption by the elites, or to healthcare and education, this all depends on the social policies in respective country. Living standards of the poor may despite economic growth deteriorate but it could also be improve despite slow economic growth or stagnation. This signifies that the GDP is not a complete measurement and other indications need to be taken under consideration. Social indicators as life expectancy, literacy, education level, infant mortality, availability to telephones, hospital beds, licensed doctors, calorie access are complements to the GDP to gain knowledge about the economic development. All the complementing indicators to GDP are hard to weight against each other and should be regarded as only indicators and not secure measurements. However there is a link between the GDP and the indicators, if the national income stagnates this will with time be reflected in the social indicators.

3.2 Segmentation

Definition of terms

Positioning and segmentation are distinct strategy concept with one similarity; both are in the beginning an issue of perception. Positioning is defined as the act of designing the company's offerings so it will retain a competitive position in the target customers mind.¹⁸ Constant changes in technology, consumer taste and competition demands that companies proactively revalue their position and reposition if needed.¹⁹ Segmentation is to subdivide a larger market into smaller parts (segments) which provides the company with market targets. Differences in customer needs and attitudes, between groups or individuals in a market are opportunities to segmentation.

3.2.1 Market segmentation

Underlying requirement

Hooley (2004) states that there are three requirements that needs to be fulfilled for it to be possible with market segmentation. First customers need to differ from each other in some aspect to make it

¹⁸ Hooley et al., (2004)

¹⁹ Ghauri & Cateora., (2005)

possible to divide the market. This is the most basic concept, if they do not differ the market would be homogenous and there would be no need for segmentation. Secondly, segments should be measurable with identified characteristics to gain operational use of segmentation. This enables the segments potential value as a market target, its attractiveness, and potential strengths. The third is that segments need to be isolated from the rest of the market which enable companies to target them with specific market offers. Reason for segmenting is that individuals on a market have different needs and react differently on marketing. When a segment has been targeted and isolated the company can easier match the customer's needs.

Market segment attractiveness

There are several factors that can be of use when measuring segments attractiveness. Hooley (2004) has developed a model in the shape of a checklist. Factors that define the attractiveness of segments differ between companies thanks to the differences in company characteristics. Companies should select the factors that are relevant for their target market. The model is subjective as the weights of the factors are made on perceived importance. The below figure summarize the market characteristic that is used to evaluate the market segments magnetism.

Market factors Size; growth rate; life cycle stage; predictability; price elasticity; bargaining power of buyers	Economic & Technological factors Barriers to entry and exit; bargaining power of suppliers; technology utilization; investment required; margins
Competitive factors Intensity; threat of substitution; degree of differentiation	Business environment factors Economic fluctuations; political and legal; regulations; social; physical environment

Figure 3.1 Summary of measurements for market attractiveness

Market factors

The size of the market is a vital factor as high volume market offer great potential for sales expansion and economies of scale, which can be a route to more efficient operations. Many companies have to enter growing markets to reach target growth. Targeting markets in an early stage of development are in general more attractive as they offer more future potential and are less likely to be crowded by existing competitors. However the growth entails large market investments as promotion and distribution. Therefore the short-term returns may be modest. When more immediate profit generation

is sought a mature market may be more attractive, it requires a lower level of investments and short-term returns may be high.

Predictability of the market is crucial for the evaluation of its attractiveness. The more predictable a market is the less likely it is to discontinuity and turbulence, which makes it easier to predict accurate value of the segment and the long-term feasibility of the target. As long as the company do not posses any cost advantage over its competitors a market which is less price sensitive (price elasticity of demand is low) is more attractive compared to market with high price sensitivity. Markets where the buyers possess strong bargaining power are seen as less attractive due to the fact that this puts more pressure on company's margins.

Economic and technological factors

Markets with barriers to entry as protected technology or high switching cost for customers is unattractive to enter. The same is for barriers to exit; markets where the company can be locked into uneconomic positions are unattractive. Level of technological development and usage in the market are for technological advanced companies extra attractive as their expertise is utilized more fully. The investment required to enter a market is important and separates different company's position to enter. If major investments are a must before entering a market it is likely that not all competitors will have the financial strength to enter.

Competitive factors

In a market that is seeing strong competition a competitive edge from the players is needed to gain market shares. Where competition is hard price competition become particularly rife and when products are similar, competition is usually based on price and not functions and quality. To compete successfully you either must have cost advantage, scale of operations or the ability to create valuable uniqueness in the market.

All markets faces threats as new more developed technology take over the existing and make the company's offerings obsolete. In such situations there are two strategies to take; first, seek markets targets where substitution is less likely. Second, identify targets where your company can be part of the substitution. Markets that today have low differentiation in the offerings are attractive for company's that could achieve differentiation in its products.

Business environment

Markets have different exposure to economic fluctuations. Exposure to market fluctuations is denoted as less direct control of the market by the players in it. Markets that are vulnerable to political and legal factors are in general less attractive. Political stability and developed legal system increases the attractiveness of a market. Level of regulation of a market can make it both attractive and unattractive. Typically less regulated markets offers more opportunities as regulations limits the degree of freedom in the market which can be negative for innovating companies. Thus, protection can be good once entered the market as this can become a protection from international competition.

Social acceptability and environmental impact are becoming more important factors for company's survival. Social acceptability of a company's products is essential for its survivor. Companies should look at the broader social implications of the market targets they are planning to enter. This is extra important when a company is active in several markets then it is necessary to evaluate the impact on the companies other activities when entering a new market.

Market segment attractiveness

The factors in figure 3.1 are given a specific weight and are evaluated and summarized in a matrix.

		Market segment attractiveness →		
		Unattractive	Average	Attractive
Current and potential company strengths in serving the segment ↓	Weak	Strong avoid	Avoid	Possibilities
	Average	Avoid	Possibilities	Secondary targets
	Strong	Possibilities	Secondary targets	Prime targets

Figure 3.2 Matrix of market segment attractiveness²⁰

Companies are looking for market targets that are in the bottom right corner in figure 3.2 these opportunities are rarely found. Where the business strength is weak investments should be avoided. Segments that are of medium attractiveness and where the company has medium strength should only be invested into selectively.

²⁰ Hooley et al., (2004).

3.2.2 Socio-economic factors for segmentation

Income, occupation, education, age and social classes are measurement that are easy to measure and can directly be related to segmentation. An underlying belief is that different classes have different levels of material comfort and lifestyles. Detecting segments with help of these parameters assists companies as different socio-economic segments have different likelihood to buy a certain product or service. There are several social class stratification schemes. The underlying assumption of these schemes are that consumers higher up in the social scale are more likely to spend a higher amount of their disposal income on future satisfaction such as investments and insurance, while the lower-end of the social scale are more likely to spend their disposable income on more immediate satisfaction as food and housing. Theories of social classes are of importance when identifying segments for companies active in markets of discretionary goods.²¹

The Warner index is the most widely adopted social class scheme.

Class name	Description	Consumption characteristic
Upper-upper	Elite social class with inherited social position	Expensive, but purchase decisions are not made to impress; conservative
Lower-upper	Highly successful business and professional	Conspicuous consumption to demonstrate wealth, luxury cars, large estates, etc
Upper-middle	Successful business and professionals	Purchase directed at projecting successful image
Lower-middle	Small business people	Concerned with social approval; purchase decisions; conservative; home and family oriented
Upper-lower	Technicians, skilled workers	Satisfactions of family roles
Lower-lower	Unskilled labor, poorly educated, poorly off	Attraction to cheap, "flashy", low quality items; heavy exposure to TV

Figure 3.3 Warner index of status characteristic

Critics argue that the social scheme is not reliable as it is quite possible that members within the same social class have different reason for purchases and different consumption behavior. Other parameters as age has an essential influence on consumption behavior but people in different ages are in the same social class.²²

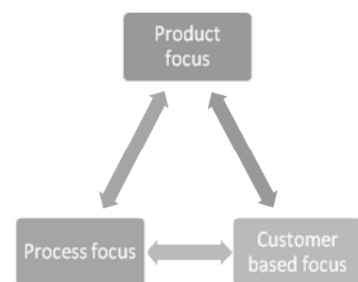
²¹ Hooley et al., (2004)

²² Hooley et al., (2004)

3.2.2 Positioning "The value triangle"

People value different things, some want quality some only look at the price. The value triangle is a tool for companies to position themselves. To become successful one need to satisfy customers need to a value lower than the experienced value. Theory states five guidelines for this. First, it is important to understand customer's needs to be able to develop offerings. Second, different customers have different needs and therefore offerings need to vary. Third, if the offering does not match demands the product will not sell; best product might not be the most demanded. Fourth, if a client can be convinced about the value it will be easier to get paid. Fifth, if the price is low enough deviations will be accepted.

Customers rarely select to buy from a specific company because they are the leading actor in a market. It is the products ability to satisfy a demand that is vital. Theory defines three valued dimension that represent different values for the customer. To become market leader companies must decide on one of these dimensions to focus. *The process focus* relates to customers that value the best price. This does not have to be the lowest price, but it have to be price on a good-enough commodity. One example in this category is IKEA. *The product focus* is where the customer searches for the best performance or the best value for the money. *The customer based focus* is describing customers that are looking for the best solution for their desires. The product should be equal to the demand, not more or less. Theory state that companies need to select one of these three dimensions, which means that you need to neglect two of them. This needs to be done for each product and gives companies an overview of which dimension they supply.²³



3.3 SWOT analysis

The SWOT analysis is part of the strategic planning process at a company, it assist with detecting and evaluating company's strengths, weaknesses, opportunities and threats. The four parts takes into account the internal and external environment surrounding a company. Strengths and weakness is the

²³ Thornell. H., (2007)

internal environment that the company can control. Threats and opportunities are from the external environment and are not controllable by the company.²⁴

Strengths Price Products Brand	Weaknesses Limitations in offerings Lacking knowledge Absent customer services
Opportunities Growth New segments	Threats Regulations Competition

Figure 3.4 Example of a SWOT analysis²⁵

Strengths are an internal opportunity that a company can use to take away threats and increase the efficiency within the company. A weakness is an internal factor that could limit the company's ability to avoid threats and take care of opportunities.²⁶

Opportunities are a positive external circumstance that could increase a company's performance and increase turnover and revenue. A threat is the opposite of an opportunity and it could decrease a company's performance.

²⁴ Jobber. D., (2004)

²⁵ Kotler & Keller., (2006)

²⁶ Jobber. D., (2004)

4. Empirics

4.1 Mobile market development

The market development in the mobile communication industry can be described by dividing it into three different eras. Each of these eras lasted differently depending on the development phase in the specific country. Western countries can in general be said to have gone through these eras five years before developing countries.

Historical development before 1980

The first demand for mobile communication came from the military; they needed to communicate between the troops in the field. It started with wireless telegraphy, which later evolved into one-and-two-way mobile communication. The first handset for civil usage was a car phone. Its massive weight made it an unfeasible alternative for pedestrians. The first “modern” mobile telephone was developed in the 1970s, i.e. a phone that was possible to carry. Mobile calls needed to be directed through a switchboard to tell location and acceptance of calls and phones tended to stop working beyond national borders. The swift development in the 1970s and afterwards was made possible by a series of technological advances, e.g. radio, microelectronics, microprocessors, batteries and telephone switching.²⁷

Monopoly Stage 1G

The first era lasted for almost a century, in the most developed markets up until the mid-1980s, and ended with the introduction of 2G. The era can be termed the *monopoly stage* as the markets consisted of national monopolies, and consequently economies of scope were limited to single country markets. The mobile telecommunications market had for decades been acting in the shadow of fixed-line telecommunication. The developers of the handset believed that market demand would be mainly coming from the business segment and the call for handsets in this segment was viewed as limited.²⁸

In this time period, cellular technological progress and platform evolution were influenced by: national innovation systems, and supply chain design.²⁹ Political decisions, rather than business concerns, steered the telecom development. The United States was the key cluster and lead market in the industry, thanks

²⁷ Åsgård L. & Ellgren C., (2000).

²⁸ Åsgård L. & Ellgren C., (2000)

²⁹ Steinbock D., (2003)

to innovation, competition, and a large domestic consumer base, which made way for economies of scale. In 1991, the US market represented 53.9 percent of the world's cellular phone subscribers.³⁰

The Great Transition 2G

The second era can be named the *great transition*. It lasted for around one to two decades, depending on the country of reference. It started with the introduction of reforms related to GSM (Groupe Speciale Mobile). In Europe, deregulations in the U.K. and the Nordic countries began changing the marketplace; from being highly fragmented in the 1980s to becoming unified through the introduction of GSM. The US market took another direction with the privatization of AT&T, which resulted in a fragmented market, with many different digital system platforms on offer, which caused the demise of the US as the world's leading market.³¹

In the early 1990s, with the expansion and succession of cellular platforms, manufactures and telecom operator duopolies had been created on national levels in many countries. Some examples of these are AT&T and Motorola in the US, Telia and Ericsson in Sweden and Sonera and Nokia in Finland. The pairs bargaining powers were however restricted to their home countries. Mobile telecommunications services achieved rates of growth that consistently surpassed expectations.³² National monopolies were eroding, and globalization and competition increase rapidly in scope.³³ Basic data transfers such as short message service (SMS), evolved in the most advanced GSM markets. The first SMS was sent in 1992, with one function in mind; sending voicemail notifications to subscribers. The idea of connecting subscribers with each other through SMS was not initially considered by the industry, and the success of SMS came as a surprise to the telecommunications community.³⁴

Competitive Era 3G

The third stage, which could be named the *competitive era*, evolved in connection to the 2G standard in the 1990s in most developed countries. Industry leaders started to adopt multiple strategic advantages

³⁰ Steinbock D., (2003)

³¹ Steinbock D., (2003)

³² Meurling J. & Jeans R., (2004)

³³ Steinbock D., (2003)

³⁴ Steinbock D., (2005)

rather than singular types, in order to counter imbalances. The method required a translocal organization with a high level of integration.³⁵

In 1998, a global telecom reform shifted power from national regulation to supranational competition policy authorities, e.g. in the European Union, NAFTA and APEC. Efforts were put into creating global standards within telecommunications. PTT (National post and telecommunication agency) monopolies lost their monopolies in most markets and were often both privatized and restructured. PTTs also lost their positions as centers of innovation, to competitive players with new suppliers and a new generation of market-driven operators. As actors within the industry began to make use of FDI strategically, the innovation process began to internationalize. The formerly national PTTs moved in separate directions. The US market was domestically competitive but isolated in nature, whereas innovative and globally driven clusters were forming in Northern Europe. The Japanese industry was technologically advanced, but without any drive to compete internationally. The Chinese marketplace was technologically primitive, but by opening up its borders, the country's mobile industry was boosted by FDI in the coastal areas. On the consumer market, mobile replacement purchases began picking up speed, although original demand, i.e. first-time buyers, still outnumbered the former.³⁶

4.2 The handset market today

Today, development is guided by corporate international strategies, and mobile producers seek to leverage advantages globally. Innovation has adapted and turned more responsive, specialized in terms of handset advancements, standards, and technological progress. Compared to previously, innovative start-ups, challengers today have stronger incentives to achieve something, as an average project's theoretical payoff is higher than before.³⁷ One of the main changes in telecom during the last years has been the consolidation of the industry.³⁸

Mobile corporations need to strive for excellence in all fields of operation in order to succeed.³⁹ European-based mobile leaders have scrambled to retain vertical control through technology coalitions, in order to shift focus from voice to data. A similar development can be attributed to the IT industry, where IT leaders, moving from data to voice, have struggled to horizontalize the industry value system

³⁵ Steinbock D., (2003)

³⁶ Steinbock D., (2003)

³⁷ Steinbock D., (2005)

³⁸ Interview Mats Nyström

³⁹ Steinbock D., (2003)

by securing control in chips, software and content aggregation.⁴⁰ New players are entering the telecommunication industry as the industries have begun to converge.⁴¹

"During the last years growth markets has gained higher priority among the mobile manufactures. Behind this development is of course the high growth in it self but also the high penetration and the declining demand in mature markets as a result of the economic downturn. At the same time more actors are entering the Smartphone segment which has higher margins".⁴²

Product ranges has become broader and technology are swiftly going forward creating a demand for the latest update in the phone. Today, replacement demand is more significant than original demand in terms of total sales. Fashion and design has gained an increased importance, the result is that a handset should constantly be renewed and replaced.⁴³ It has led to trouble in the shape of the scarce spectrum on offer, a fragmented marketplace, and much outdated technology.

"One thing that has been surprising is the enormous growth that the mobile market has seen. For 10 years ago no one believed that the market could grow as rapidly as it has. One key element is that the market has succeeded in gaining market share and at the same time having a strong turnover of phones. In comparison to the refrigerator market that also is consumer electronics the turnover is much swifter. This is explained by the fact that one does not change refrigerator in the same pace as one switch handsets. A refrigerator you have until it breaks a handset you usually change before it breaks".⁴⁴

Market growth

The handset market is reflected by strong growth. Global sales increased the first quarter of 2008 with 13.6 percent to 294 million handsets. The growth is primarily driven from emerging markets and its new subscribers but also from replacement sales from already current subscribers. The mobile telecommunications industry is anticipating an annual growth of 10 percent, of which 28 percent can 2008 be attributed to China and India, this number is projected to be 32 percent in 2009.⁴⁵ Developing markets are showing stronger growth then the mature markets. Developing markets stood for 26 percent of the growth in 2006; the number for the industrialized regions was 5.6 percent in 2006.

⁴⁰ Steinbock D., (2003)

⁴¹ Steinbock D., (2003)

⁴² Interview Carl Thulin

⁴³ Interview Mats Nyström

⁴⁴ Interview Björn Alsen

⁴⁵ <http://www.di.se> (2008-05-03)

Western Europe is seeing a decline in growth, in 2005 the growth rate was 9 percent and in 2007 the growth rate was under 2 percent. The low-end segment is seeing growing demand in the emerging markets but in markets as North America and Europe the low-end segment demand is declining. There are two factors that have played a major roll on recent development in the mobile market. First the increased numbers of subscribers in developing countries, secondly, the growing importance of data services which today accounts for 19 percent of the revenues in USA.⁴⁶

The five largest mobile manufactures today are, Nokia, Samsung, Motorola, Sony Ericsson, and LG. The mobile manufacturers are today in the battle that could be referred to as *the battle of pocket space*. A handset is not just a phone, it can be a camera, computer, and a MP 3 player. This has broadened competition as industries converge. Entering of Apple into the telecom industry is one example. New players as Apple are creating media attention with their phones and are a potential threat of taking market shares from existing players. iPhone's introduction to the market has had implication on the industry as it added user friendliness of the handset into the market demand. It is the new functions that are driving the market development, the need of different functions differs deepening on market but the handsets function to make phone calls does not differ between country specific markets.⁴⁷ The industry faces other challenges that could revolutionize the industry, open platforms as the Open-source Alliance platform Android could result in a major shift in technology through out the handset industry.⁴⁸

"India is one of the most price-sensitive markets in the world. While brand name and features matter, price takes the highest priority. The recently launched iPhone has struggled to make an impact on the Indian market due to higher price points. Nokia has been very resourceful in adapting to the Indian market. For example, its entry level but legendary model 1100 was an instant hit in the Indian market due to its unique features such as dust-free key pad and in-built torch which are useful in Indian conditions".⁴⁹

Today, Nokia is the largest mobile manufacturer with a market share of 39.1 percent, in the last year they have increased their market share with 3.6 percent. In Asia, Nokia has a market share of enormous 47 percent.⁵⁰ The phones are popular especially in the emerging markets and the lower-end segment

⁴⁶ <http://www.telecompaper.com>

⁴⁷ Interview Björn Alsen

⁴⁸ Hagström & Kennergren., (2008)

⁴⁹ Interview Aravind Venkatesh

⁵⁰ <http://www.di.se> (2008-05-03)

stands for 80 percent of Nokia's revenues.⁵¹ Some of this success for Nokia is thanks to their effort to gain an understanding on how usage differs from market to market.⁵² Samsung and Motorola are traditionally high-end segments mobile manufactures that is slowly approaching the lower segments. LG is active in both segments; in the high-end segment they have premium phones as the successes "Razr" phone. LG are also actively penetrating the emerging markets, focusing on the fast-growing emerging markets.⁵³ Sony Ericsson that has traditionally been in the high-end segment is today seeing decreasing revenues.⁵⁴ They have been strong players in the European region, a region that today are seeing slow growth which consequently effects volume performance from Sony Ericsson.⁵⁵

Manufacturer	1Q08 (Sales)	1Q08 (MS)%	1Q07 (Sales)	1Q07 (MS)%	Main segment focus
Nokia	115,191.8	39.1	92,048.1	35.5	Low-end, emerging markets
Samsung	42,396.5	14.4	32,099.8	12.4	High-end
Motorola	29,884.7	10.2	47,620.7	18.4	High-end (low-end)
Sony Ericsson	23,645.8	8.3	16,009.3	6.2	High-end
LG	22,061.0	7.4	21,771.5	8.4	High-end and low-end
Others	61,103.2	20.6	49,489.8	19.1	
Total	294,283.0	100.0	259,039.2	100.0	

Table 4.1 Five largest mobile manufactures (MS=market share)⁵⁶

"In India Nokia, Motorola and Sony Ericsson are the strongest manufactures. There has been a resurgence of Korean brands in India out of which Samsung and LG are the most proficient. The Koreans have been successful thanks to a good pricing strategy. In India there are a few Chinese brands. There are domestic mobile manufacturers as well, for instance TATA, Reliance, which provides phone equipment, and Bharti".⁵⁷

⁵¹ <http://www.businessweek.com> (2008-05-13)

⁵² Interview Ms. Maya Chaudhari

⁵³ <http://www.reuters.com>

⁵⁴ <http://www.businessweek.com> (2008-05-01)

⁵⁵ <http://www.di.se> (2008-05-28)

⁵⁶ <http://www.di.se> (2008-10-21), (2008-05-28)

⁵⁷ Interview Ms. Maya Chaudhari

4.2.1 High-end and low-end phones

In the mobile telecommunication world one commonly speak about low-end and high-end segments. For these two segments one usually talk about low-end and high-end phones. The definition of these two terms is today unclear. The market has not found any consensus in the definitions and no sufficient research has been made. Thus, manufactures do define some of their phones as low-end or high-end phones, even if there is no consensus of what these two terms means. Three factors that are of importance when dividing phone into segments can be defined: design, functions, and price.⁵⁸ Functions are additional features as camera, music, and data based services.

The below phones are considered to be high-end phones.



Nokia 5310 XpressMusic

Price: 200-260 USD⁵⁹



Samsung SGH-U900 Soul

Price: 400-500 USD⁶⁰



Sony Ericsson G900

Price: 350-500 USD⁶¹

These below phones are considered to be low-end phones.



Nokia 1200

Price: 30 USD



Samsung SGH-X160

Price: 40 USD



Sony Ericsson J100i

Price: 50 USD

Design

Fashion has become an essential issue for mobile manufacturers; it has become a way to differentiate and to target segments. Design is something that cost money and therefore the level of design can

⁵⁸ Interview Erik Johannesson

⁵⁹ <http://www.nokia.se>

⁶⁰ <http://www.samsung.se>

⁶¹ <http://www.Sony Ericsson.se>

separate a low-end phone from a high-end phone. A low-end phone could be said to have lower demands on design as this is a way to push down the price. For a high-end phone the design is an important tool. This becomes clear when we look at the different handsets and what segment they target. The design is clearly different between more expensive phones and the cheapest phones. Design is an abstract measurement as it is the viewer eyes to decide if the design is good. Thus the high-end phones have more details as framing and more advanced polish in comparison to low-end phones.⁶²

Functions

Today there are several different functions available in a phone. The phone can be a traditional phone which main function is to make phone calls. The phone can also be a camera, music player, and a computer. The more functions the more costs have been put into the phone resulting in a higher price on the phone. The level of functions separates low-end phones from high-end phones. The high-end phones above all have cameras, MP 3, computer functions, 3G, GPS, Bluetooth and USB connection except for the Nokia phone that do not have GPS. Observing the functions on the phones defined as low-end phones one can see that the numbers of functions differs. Nokia's phone is plain and is basically built to make phone calls and not so much more. The Samsung phone is as well a basic phone but has a color screen. The Sony Ericsson phone has two functions color screen and WAP function. The market for black and white screen phones has been falling in recent years and is expected to fall 20 percent this year. The mobile manufactures capability to offer color screen phones at reasonable prices is most likely the next big test for handset makers targeting low-end in developing markets.⁶³

"The mobile manufactures ability to offer design and functionality in their phones will be of importance for the potential success".⁶⁴

4.3 Market specific data

Since India's economy was liberalized in 1991, the country has enjoyed a GDP growth of 6-8 percent. India is a multi dimension society, 28 states constitute India's mainland and each state has its own identity in terms of language, culture and tradition. If this aspect is factored into the growth of an economy, it makes the Indian case unique.⁶⁵

⁶² Interview Erik Johannesson

⁶³ <http://www.businessweek.com> (2008-05-28)

⁶⁴ Interview Carl Thulin

⁶⁵ Interview Aravind Venkatesh

One of the interviewees describes the changes in the Indian society as:

*“The major change that has been in India the last two decades is the increased focus on the individual. The market economy has made it possible for individuals to be separated from their group, transforming from a socialistic society to a capitalistic society. The increased focus on the individual has been one of foundations for the amplified numbers going up in their social class. People are more risk taking, both financial and socially. Individuals take more initiative and are not as traditionally attached as historically. Before one usually took the profession that the family had generations back, now many young individuals are choosing professions that differ from their parents. The consumption has increased and a larger fraction of the salary is spent. One takes increased financial risk as one spends more then save and many luxury products are climbing down the social classes”.*⁶⁶

4.3.1 Consumption and population by annual income

In 1985 93 percent of the population lived below the poverty line, which signifies that they earn less than one dollar a day. By 2005 this number had been cut in half with 54 percent of the population below the poverty line, this is 431 million people fewer in comparison if the percentage had remained on 1985 levels. If the economic growth will be 7 percent the next 20 years approximately 465 million people can be spared a life below the poverty line.

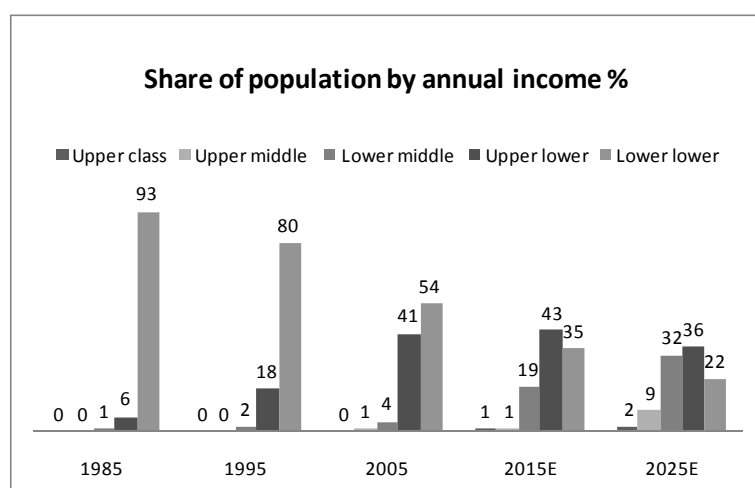


Table 4.2 Share of population by annual income⁶⁷

⁶⁶ Interview Fredrik Fexe

⁶⁷ McKinsey Global Institute analysis

In 2005 5 percent of the population is mid-segment (50 million citizens), if the income continues to increase this class will tenfold, this would make the middle-class 41 percent (583 million) of the population by 2025.⁶⁸

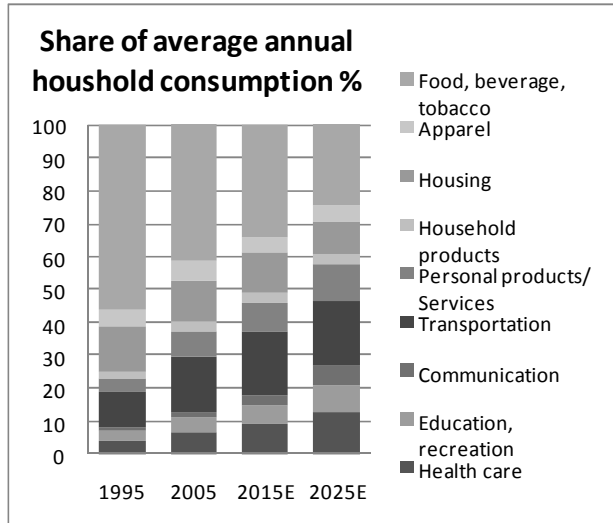


Figure 4.3 Fraction of private spending per consumption area⁶⁹

As a larger part of India's population will get increased spending power and their consumption pattern will change as a larger fraction of their spending will be on discretionary expenditure. Discretionary spending is calculated to go from 52 percent of total spending to 70 percent by 2025.⁷⁰

Four of the experts push on the growing importance of the middle-class.

"India is going to be an important market in the future from both a value and volume perspective. The most important target group will most likely be the upper-lower-end customer that are central for both volume and value growth".⁷¹

"The USD 1 trillion Indian GDP is being driven by the "Great Indian Middle-class." They occupy positions in government and private sectors, particularly IT. This section of India's society will have a bigger role to

⁶⁸ McKinsey Global Institute analysis

⁶⁹ McKinsey Global Institute analysis

⁷⁰ McKinsey Quarterly August 2007

⁷¹ Interview Mats Nyström

*play in the future as average living standard increase. They are characterized by young professionals who are educated, highly skilled, multi-lingual (fluent in English), and ambitious”.*⁷²

*“The big gains to be made for mobile manufactures are in the mid-level market”.*⁷³

*“The Indian middle-class will have a very strong consumer power. The size of the market gives a power situation for the consumers. The products need to be developed for them and their needs; they will not adapt to already set standards from other parts of the world. The one that will become most successful is the manufacture that best can understand and adapt to the Indian middle-class consumer”.*⁷⁴

One of the experts continues with dividing the middle-class into two separate groups: the upper middle-class, and the lower middle-class. While the upper middle-class family usually has a car and in many cases one handset per individual, the lower middle-class family has a two wheeler and shares at least one handset in the household. In general, middle-class people are “*very ambitious*” and today “*see opportunities that they didn’t have twenty years ago*”. They are all part of *consumerism*.⁷⁵

4.3.2 Financial condition

An economic reform program started 1991 and has been developed to build infrastructure to improve life on the countryside, where mainly the poor lives. Rural India has benefited from this economic development, extreme rural poverty has declined from 94 percent in 1985 to 61 percent in 2005, the projection says it will go down to 26 percent by 2025. There are differences in the country; economic development has been slower in the northern and eastern parts in comparison to the south and western parts of India.⁷⁶ A fraction of the population is in the educational system, completing secondary and higher education, but the education system is strained, the opportunities/alternatives to education vary among the population.⁷⁷ India has a slower urbanization compared to other developing countries; India is the least urbanized country of the emerging economies in Asia. Approximately 29 percent of the Indian population lives in the cities; this can be compared to China where about 40 percent of the population lives in the urban areas. The urbanization is projected to be 37 percent by 2025.⁷⁸

⁷² Interview Aravind Venkatesh

⁷³ Interview Ms. Maya Chaudhari

⁷⁴ Interview Fredrik Fexe

⁷⁵ Interview Ms. Maya Chaudhari

⁷⁶ McKinsey Quarterly August 2007

⁷⁷ <https://www.cia.gov>

⁷⁸ McKinsey Quarterly August 2007

“Over the last two decades, the Indian cities have grown at a much more rapid pace than its rural counterparts. The liberalization and exposure to the western culture has had a profound impact on the lifestyle of people. For example, it is more common to witness inter-caste and regional marriages than it was two decades ago. A similar argument is applicable to food habits and lifestyle. In cities, nuclear families have increased rapidly over the last decade”.⁷⁹

In 2007, India's GDP per capita was USD 2700, this can be compared to Sweden's GDP per capita of USD 33,890. In India GDP growth was 8.5 percent compared to Sweden's 2.7 percent. India is the tenth largest economy in the world and is the only BRIC country that is showing an increasing GDP growth. India is expected to grow 6-8 percent the next upcoming years. By 2025, India is forecasted to be one of the fifth largest consumer markets in the world today they are at 12th place.⁸⁰ Average household income will triple over the next two decade and a significant shift will occur as discretionary purchases become a major part of the consumer spending.⁸¹

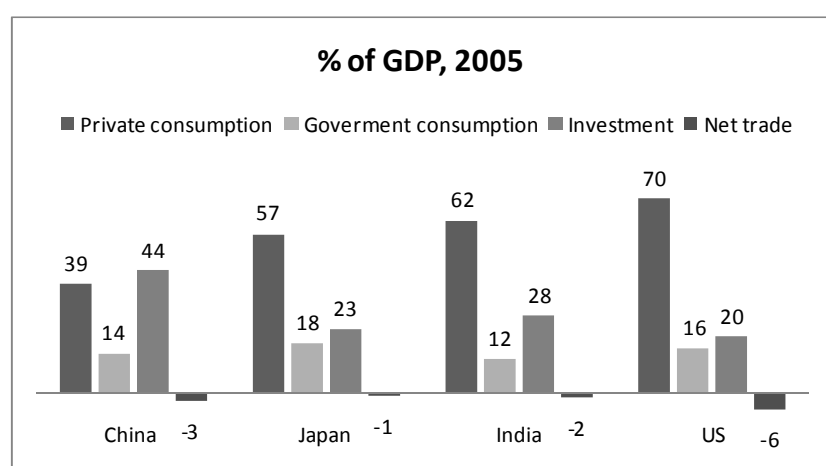


Table 4.4 Consumption divided by sector in percentage⁸²

In comparison to other developing countries the consumption market has played an important roll for the growth in Indian. In 2005 consumer spending amounted 60 percent of the GDP (USD 372 billion), in this perspective the Indian market is much closer to develop markets then the other BRIC countries.⁸³

⁷⁹ Interview Aravind Venkatesh

⁸⁰ McKinsey Quartlery August 2007

⁸¹ <http://www.swedishtrade.se>

⁸² Global Insight; McKinsey Global Institute analysis

⁸³ McKinsey Quartlery August 2007

Today 43 percent of the private spending is in the urban areas; by 2025 this is approximated to be 62 percent.

One of the interviewees describes the situation of the Indian economy as:

"The Indian economy has not yet shown any major signs to be affected by the economic downturn. Thus, it will be affected to some extent. Economic growth in India is enormous and if the growth goes down with 1-2 percent it will still be major. One might see on a short term basis that people increase their saving but there is a need for consumption in India that has been built up during the last decades, this will not be pressed down in a long term perspective".⁸⁴

The buying power in India is weak compared to more developed countries. Numbers from March 2008 shows that India is in the bottom tier in comparison with major cities in the world. Delhi and Mumbai are number 68 respectively number 69 of the 70 cities in the list. Citizen in the lower tier of the ranking usually has a higher GDP growth than the top tier which indicates a stronger growth in productivity. Thus, they do not have the same increase in buying power. The combination of strong growth, easy consumer credits and a real estate boom has boost the inflation concerns, leading the central bank to increase the interest rate to slow down credit growth and decrease the inflation. The prices are moving steeply and take away the buying power arising from higher wages.⁸⁵

"India's population is price sensitive; it's not only the low-end segment that is price sensitive it also holds for the mid-segment. In India one should always make a good deal and always negotiate about the price, it's a cultural tradition".⁸⁶

The experts describe India in the following way:

"I consider India a very unique market. You might not believe me, but up until fifteen years ago, we had all our clothes stitched", and points out that consumers preferred going to fabric stores and to the tailor, rather than to clothing manufactures. "No people in India ever have the same traditional clothes." "We have a mentality of being customized... maybe it's in the blood".⁸⁷

⁸⁴ Interview Fredrik Fexe

⁸⁵ A comparison of purchasing power around the globe/ March 2008 UBS

⁸⁶ Interview Fredrik Fexe

⁸⁷ Interview Ms. Maya Chaudhari

"I do not suggest a customized phone for each state. Nevertheless, as the Indian mind is used to customization an offering around ten customizable standard phones is a good start for a mobile manufactures. Phone shells, ring tunes, and popular phenomena in Bollywood are opportunities to customize the product line".⁸⁸

"With consideration to the strong growth in India the importance of this specific market will increase. In the long term India will become important as replacing demand market".⁸⁹

4.3.3 Subscribers

India is currently the world's fastest growing market in the mobile telecommunication industry. There is in average 5 million new subscribers in India each month, this is like the whole Denmark's population would sign new subscriptions each month. In March 2008 alone, the country added 9 million new subscribers, taking the stock to 260 million subscribers.⁹⁰

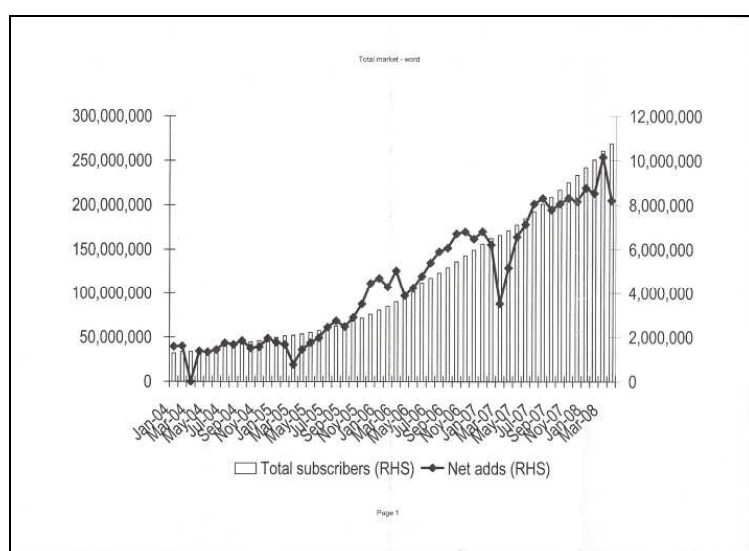


Table 4.5 New subscribers India⁹¹

India has thereby passed the US which has 252 million handset users. Growth forecasts predict that there will be around 350 million subscribers in India by the end of 2008. The mobile telecommunications industry is anticipating a growth of 10 percent during 2008, out of which 28 percent can be attributed to China and India. This number is projected to be 32 percent in 2009. The low-end segment has the

⁸⁸ Interview Ms. Maya Chaudhari

⁸⁹ Interview Carl Thulin

⁹⁰ <http://www.di.se> (2008-05-03)

⁹¹ Data provided by Mats Nyström, SEB

highest number of handsets sales domestically.⁹² In the low-end segment the margins is low, an indication that despite strong growth in low-end segment revenues might not grow as fast as if it had been in the high-end segment which regularly has higher margins. In the future the toughest competition will be the mid-segment.⁹³ The mid- to high-end customer looks for value deals and not cheap phones. Design and fashion parameters is important when India's consumers buy a handset, over 60 percent say this is the parameter they base their decision on. This number is very high compared to other markets.⁹⁴

"The Indian mid-segment is more likely to look at innovative and value added services compared to low-end. Therefore, the mobile packages tend to revolve around data based services, including downloads and media clips on handsets. "All in one" handsets which are positioned as both for home as well as business users are likely to do well in the market. For example, HTC and Asus have recently come up with handsets which are targeted towards business, home makers, and students alike. Easy accessibility to control panel and manoeuvrability are key areas for handset makers. Needless to say, all these features should be made available at a competitive price".⁹⁵

Distribution of handsets in India can be either through vendor distribution network, operator distribution network, or independent distribution network. Today there are robust sales and service networks in the urban areas of India. Throughout India it is about 200,000 retailer outlets. The handset distribution differs depending on what technique the handset is built on. GSM handsets are sold by retailers which are not affiliated with network operators and the handset is not locked to a connection which give the subscribers the flexibility to buy unsubsidized handset from a 3rd party retailer⁹⁶. GSM handsets are distributed through multi-tier networks that are made up of organized retailer and company owned retailer stores, thus the risk of locking a handset to an operator has never been taken. Blackberry and HTC are the exception from this as their handsets are locked and are only sold through the operator's retail network. CDMA handsets are sold mainly through operator's retailer network, the handsets are locked but the price is subsidized by the operators. The CDMA phone is perceived as the "the poor man's mobile phone" and CDMA customers are mainly found in the rural areas. In India Nokia is the leading GSM handset manufacture while LG and ZTE are leaders in the CDMA segment. In the rural

⁹² <http://www.di.se> (2008-05-03)

⁹³ <http://www.di.se> (2008-05-28)

⁹⁴ <http://www.itftgroup.com>

⁹⁵ Interview Aravind Venkatesh

⁹⁶ <http://www.intomobile.com>

areas the handset manufactures have limited retail presence and here the CDMA operators have a strong network of retailers⁹⁷.

One of the experts describes the mobile market as:

"The mobile phone has taken a special place in the common man's life. What started off as a premium service which was meant for the elite in 1995 has become ubiquitous and has penetrated the social fabric to reach the lowest rung of the Indian society".⁹⁸

One of the other experts describes the mobile market as:

"The mobile phone has a great importance for the Indian population. The Indian people are talkative, in fact it is one of the leading countries with the longest mobile conversations. India is a relationship society, the importance of the family and the transformation in urbanization has increased the distance between family members. Thus the level of contact remains much thanks to the mobile phone and some hours per day can be spent on the phone. In India it is quite cheap to make mobile calls which make it possible to spend this amount of time on the phone each day".⁹⁹

"A mobile manufacture needs to make sure that the models that they have are functional in the Indian market. As the Indian market is large and have several different segments, manufactures need to adapt their models to the different segments. Dust protection is one key element that needs to be in the handset. Other functions are SMS and missed-calls which is very popular with the Indian consumers. The vital thing is that the phone is developed to India's society with its diversified population; this puts extra pressure on language and map functions. When it comes to brands the India's population is very curios and open to new brands. Thus, they are all proud to be Indian and the more a brand can reflect their land and culture the more popular the brand usually becomes. The size of India's market puts extra importance on functional distribution networks".¹⁰⁰

In recent years there has been deregulation and liberalization of telecommunications laws and policies in India.

⁹⁷ <http://www.strategyanalytics.com>

⁹⁸ Interview Aravind Venkatesh

⁹⁹ Interview Fredrik Fexe

¹⁰⁰ Interview Fredrik Fexe

"The demand for affordable telecom services coupled with a robust regulatory policy which has facilitated competition in the telecom industry has opened the way for the large numbers of new subscribers".¹⁰¹

This has resulted in a rapid growth within telecommunication. In the fixed telecommunication local and long distance service is provided throughout all regions of the country but with a concentration in the urban areas of India. The fastest growth is seen in the mobile sector while the growth in the fixed line is modest. Combined fixed and mobile telephone density remains low at about 20 for each 100 persons nationwide, a number that is much lower in the rural areas of India.¹⁰² Handset penetration is minor 13 percent.¹⁰³ India has the largest domestic satellite system in the world, *The Indian National Satellite system* (INSAT), it has 6 satellites that support 33,000 small opening terminals. By 2010 investments in the Indian telecommunications industry are expected to be worth USD 69 billion.¹⁰⁴ Thus, the industry faces challenges as 30 percent of the population does not have sufficient mobile signal coverage. Radio spectrum is a rare commodity in India as the military, which possesses most of the spectrum, is reluctant to relinquish control to the masses.¹⁰⁵

4.5 Approaching the market

Today both Sony Ericsson and Samsung are targeting price levels of 50-80 Euros.¹⁰⁶ Critics towards high-end strategies argue that Motorola and Samsung will not reach volume in the market as long as the only focus is on the high-end phones, to become a credible threat to Nokia they need to divide the focus and also include the low-end segment.¹⁰⁷ The main reason why the high-end producers are moving focus to the low-end is that they want to gain market shares. The growth in the market is today coming from countries as the BRIC countries. In these countries there are a large proportion of low-end customers. Consequently to gain market shares one also needs to target this customer group.¹⁰⁸

"To become a successful actor one must have a clear Indian and China approach. These two markets will be standing for such a large fraction of the market growth. The key thing in these markets is that one need to adapt to the market structure, the low-end segment in these markets is big while the high-end

¹⁰¹ Interview Aravind Venkatesh

¹⁰² <https://www.cia.gov>

¹⁰³ <http://www.itftgroup.com>

¹⁰⁴ <http://www.swedishtrade.se>

¹⁰⁵ <http://www.di.se> (2008-05-03)

¹⁰⁶ <http://www.di.se> (2008-05-28)

¹⁰⁷ <http://www.telecompaper.com>

¹⁰⁸ Interview Björn Alsen

segment is undersized. Therefore it is essential for high-end manufactures that enter China or India markets to produce phones for the low-end segment. One needs to sell at the market that exists today. Thus this can be a good strategy for high-end players as we see an increased part of the population that are becoming better off and are going from potential low-end customers to high-end customers. The discussion of the low margins in the low-end segment is not truthful. Look at Nokia they have today a company that is a large player in the low-end segments and are making heaps of money on it. They are the proof that one can make money on the low-end segment. The key thing here is scale, one need to reach scale in production in order to make money on low-end segment".¹⁰⁹

One of the other interviews had another perspective.

"Today one big part of the problem in the industry is that the volume growth subsists where the value growth is weaker. In the market today it is sold roughly 1.1 billion phones of them approximately 180 million is so called Smartphones. Examples on successful Smartphone are Blackberry and iPhone. The importance of Smartphones is minor when it comes to volume growth but major when it comes to value growth. The Smartphones today stands for 50 percent of the market value. Developing countries are important for volume growth but the value growth is today found in the western markets where the Smartphones are mainly sold. The reason why developing countries not stand for a larger portion of the value growth is that in these market price pressure is harsh and thereby the volume growth is not reflected in the value growth. To become a successful mobile manufacture one need to focus on both high-end customers as Smartphones users and the low-end segment to gain both the value and the volume growth".¹¹⁰

"Among the major challenges that the mobile manufactures faces in reaching the mid-segment are price pressure, intensified competition, production and distribution".¹¹¹

4.4 The vendors

4.4.1 Nokia

Nokia have the last years been investing heavily in emerging markets.¹¹² Nokia's strategy has given them a 67 percent market share in India. The other of the five largest mobile manufacturers in India is

¹⁰⁹ Interview Björn Alsen

¹¹⁰ Interview Mats Nyström

¹¹¹ Interview Carl Thulin

¹¹² <http://www.businessweek.com> (2008-05-13)

Motorola (12%), Sony Ericsson (10%), LG (5%), and Samsung (3%).¹¹³ Nokia is today active in all of the products ranges but with a focus on low-end. Nokia was the first to design products especially for India. Their inexpensive handsets had features like dustproof keypads and integral torchlight's, recognizing that rural India faces power outages and dry and hot regions with unpaved roads have dust problems. Nokia's variety of handsets for all segments has made it possible for them to scale down the price of old models when newer models are introduced. Nokia has put effort in marketing and distribution and Nokia phones are sold by almost all the retailers. One way to increase market share according to Nokia is by offering integrated navigation systems in the phones. Nokia's India director Devinder Kishore says:

*"We are targeting a big growth in the Indian market. Around 50 per cent of customers are welcoming the navigation capabilities in this market, Nokia 6110 Navigator has pre-installed local maps for eight cities in India, which help the user to reach a location by car or by foot with the help of voice instructions".*¹¹⁴

Nokia's has a factory in Sriperumbudur in Chennai, India. Since 2006, 30 million handsets across the range have been produced here. One of the interviews describes Nokia's success as following:

*"Nokia's approach to the market has been based on their successful distribution network. This has none of the other largest five players done in same extent. To build the network that Nokia posses today is both expensive and takes time. This gives Nokia a strong advantage in the Indian market. Another reason why they have been successful is their understanding for segmentation. Nokia has developed phones exclusively for customers in low-end segment. Important elements are that the phone should hold for many years in a tough environment, have good battery time as electricity supply is not always certain, and dust protection".*¹¹⁵

*"The important thing is that one need to be able to manufacture at a low cost. The end products need to have prices that attract the low-end segment. Nokia has today a good structure of factories and are globally producing a number of phones of approximately 1 million per day, which is amazing figures. To become a strong player in the developing markets one need to set up a configuration of factories and distributions networks that bear the amount of phones that one need to produce and distribute to become a powerful player in the market".*¹¹⁶

¹¹³ <http://www.businessweek.com> (2008-05-01)

¹¹⁴ <http://economictimes.indiatimes.com>

¹¹⁵ Interview Mats Nyström

¹¹⁶ Interview Mats Nyström

4.4.2 Samsung

Innovation and design are important for Samsung. They have for example developed folding handsets and slide phones and have over the years received several design awards. Samsung has in the past primarily been active in the high-end segment, functionality and multimedia functions have been key product components.

Today, Samsung see a strong trend of diversifying in accordance with customer needs therefore Samsung has divided its handset portfolio into six categories: style, multimedia, essential, connected, business and infotainment. This is done to meet the customers' specific wishes, some desire to use the phone mainly to make phone calls others complementary wish to use it as a camera, an MP3 Player or a computer. It is even possible to use a phone as a complete multimedia station. Not at least there is a strong development of not only style but fashion in the mobile field.

Samsung new strategy allows them to no longer solely target the high-end segment but also start approaching the low-end segment. The goal is to obtain market share in the upper-end of the low-end segment. As phone demand differs from country to country, Samsung plans to broaden its view on focus segments. It is the changes in the marketplace that have forced the need for Samsungs new strategy; largely thanks to the insight that much of Samsung's growth potential lies in developing countries with large low-end customer class.

Samsung's goal is to attain 20 percent of the world market, this drives them to enter the low-end segment but Samsung will not target the very low-end the segment, as they wish to remain an upper-end handset manufacture. Thus, the firm plans to broaden the internal definition of what an upper-end-segment phone constitutes.¹¹⁷

4.4.3 Motorola

The last two years Motorola has studied the rural areas of India to get knowledge of what sorts of phones this part of the populations require. They have found out that the rural consumer like the same kind of ultra-thin design that has been successful in the high-end segment but with additional battery power. This has resulted in the MotoFone that has been designed after the demands from the rural population of India. To access people that cannot read they have built a menu with easy to understand

¹¹⁷Interview Erik Johannesson

icons and software that is loaded with regional languages. The standby time is 300 hours with a talk time of 500 minutes. Firdose A. Vandrevalla, director at Motorola India says:¹¹⁸

"With an immense market opportunity, it was only right for us to take the lead and design a phone targeted at this segment, thus the pricing pressure in India is harsh".

4.4.4 LG

LG has traditionally been active in both segments but the entering of the emerging markets has just started for LG.¹¹⁹ Design is important for LG but quality is also essential and they try to build phones that have a combination of both. LG will launch three new handsets in India, KF510, KP320 and KP110, targeting segments of high, mid and entry level consumers respectively. Anil Arora, Business Group Head said:

*"We are very excited about the launch of these three handsets and expect tremendous response for consumers. KF510 is an exceptionally slim slider phone; KP320 comes with advanced features and is economically priced; and KP110 is a fully loaded music phone. These handsets have been launched to delight our consumers across various consumer segments suiting every budget requirement".*¹²⁰

LG has gone from mainly manufacturing sophisticated models with advance functions to producing cheaper handsets in the price range of 50-60 USD. LG ambition is to gain a 30 percent market share and challenge the market leader Nokia by selling 30 million handsets by 2010 in India. Shin Moon Bum, head of LG Electronics in India says:

*"Given India's low penetration ratio and fast economic growth, the market's potential is enormous".*¹²¹

4.4.5 Sony Ericsson

Sony Ericsson has been targeting the mid- and high-end segment of handsets in India. The company has developed the K series, P series and W series phones to fit these segments. Sony Ericsson has no intentions to enter the low-end segment. Sudhin Mathur, general manager at Sony Ericsson India says:

*"From India's perspective the low-end segment is an important category, but we would rather focus on value than price".*¹²²

¹¹⁸ <http://www.businessweek.com> (2008-05-01)

¹¹⁹ <http://www.businessweek.com> (2008-05-01)

¹²⁰ <http://www.tech2.com>

¹²¹ <http://www.businessweek.com> (2008-05-01)

The new series that Sony Ericsson has launched in India are targeting the mid-segment by offering handsets from 80 euro and up. Hideki Komiyama a top manager at Sony Ericsson says:

*"As we understand India is the fastest growing handset market and we are seeing huge potential in this market, we ought to be part of this boom. It is high on Sony Ericsson's growth agenda to be part of this market. Our new handsets are tailored according to the needs of Indian consumers. Some of the features include high quality sound, sleek design and better functionality. These products are designed and manufactured in India".*¹²³

¹²² <http://www.businessweek.com> (2008-05-28)

¹²³ <http://www.profit.ndtv.com>

5. Analysis

India's population has gone through an amazing transformation, in 1985 93 percent of the population lived below the poverty line, in 2005 54 percent of the population was below the poverty line, this is 431 million people fewer in comparison if the percentage had remained on 1985 levels. In the next 20 years approximately 465 million people can be spared a life in poverty.

India has currently various levels of all of the nine characteristics that identify a developing country. The country is strongly dependent on the agricultural sector; in 2007 16.6 percent of the GDP came from agricultural, 28.4 percent from industry, and 55 percent from services. With only a fraction of the population completing a higher education and an unemployment rate of 7.2 percent in 2007 India has concerns that will limit potential economic development. GDP per capita in 2007 was USD 2 700 (growth 8.5 percent), and compared to Sweden's GDP per capita of USD 33 890 (growth 2.7 percent) India is relatively poor. In comparison to other developing countries the consumption market has played an important roll for the growth in India. Consumer spending amounted 60 percent of the GDP (\$372 billion) in 2005, in this perspective the Indian market is much closer to develop markets then the other BRIC countries. India is also the only BRIC country that is showing an increasing GDP growth. If India continues to develop in the same manner as the last decade the economic development will expand in a positive manner.

The handset

Demand for handsets is not limited to a specific segment in India, what started as a service to the elite has today penetrated the lowest rung of India's society. With an average of 5 million new subscribers in India each month, the Indian market is not to be neglected. It is today the fastest growing market and observing the social economic indicators India is most likely to continue being a fast growing mobile market for decades to come. In mars 2008 India added 9 million new subscribers, taking the stock to 260 million subscribers this can be compared to US with its 252 million mobile users. India is just in the starting face of introducing the handset and the penetration of the market is low (13%) which makes it an attractive market. Why India's handset market is growing this swiftly can be driven from several factors. First India's culture imposes strong importance on family, it is essential to have frequent contact with family members and India has today the longest average mobile conversation in the world. Increased urbanization has splitter families, which limits possibilities to everyday contact. The lack of

investment in the fixed line has made handsets the obvious selection of communication tool. Secondly, India's population is used to technology and has an open attitude towards new technology. Deregulations and liberalization of India's telecom industry has opened the way for more handset users. Thus telecommunication services are today primarily concentrated in the urban areas of India. Improvements are taking place with help from both public and private investors but combined fixed and mobile telephone density remains low at about 20 for each 100 persons nationwide. Despite heavy investments the industry faces challenges as 30 percent of the population does not have sufficient mobile signal coverage. Radio spectrum is a rare commodity in India as the military, which possesses most of the spectrum, is reluctant to relinquish control to the masses.

Distribution

Three issues can be defined relating to distribution; the lacking infrastructure, maintaining margins, and the connection between retailer, operator and manufacture. The distribution system differs from the European system where main parts of the phones are sold through operators. GSM handsets are sold by retailers which are not affiliated with network operators and which give the subscribers the flexibility to buy unsubsidized handset from a 3rd party retailer. It results in handset prices are not subsidized by the operator; handsets that are subsidized are seen as poor man's phone something that might not suit the mid-segments. This gives us an differing view of the Indian society, observing buying power they are price sensitive and are always looking for a good deal but when it comes to the mobile phone the locking to the operator that lowers the price is seen as a sign of poverty. Blackberry and HTC are exceptions to this rule as they are two high-end manufactures that have locked their phones to an operator. Locking the phone has one major advantage for manufactures as this will give them access to the operator's distribution network. Consequently if you want to attract the mid-segment it may not be most beneficial to lock the phone to an operator for the main purpose to cut the price. The conclusion is that the locking of phone is likely to increase but slowly; Blackberry and HTC shows that it's possible for high-end manufactures to lock their phones and this will benefit both operators and manufactures which gives them the incentives to work for this kind of development.

The trend of increased urbanization will move the customers from the rural areas where distribution systems are lacking to urban areas with well developed distribution systems. This is an opportunity for players that today do not have such strong distribution network, merely target the urban areas will demand fewer investments then targeting the rural areas. By 2025 the mid-segment will dominate the

urban areas, around one third of the population living in the urban areas will then be middle-class, today this is around one tenth. As main part of the urban areas will be populated with the mid-segment, the cities are an attractive target for players who mainly target the mid- to high-end customer.

Local adaptation for the mid-segment

India's mid-segment is today minor; around 5 percent of the population can be allocated to this segment. This will change rapidly the next coming years, by 2015 roughly 20 percent of the population will belong to the mid-segment by 2025 it is approximated to be 41 percent. Average household income will triple over the next two decades and by 2025 India is forecasted to be the fifth largest consumer market in the world, today it is in 12th place. Consumption pattern will change with the changes in socio-economic conditions and increased part of the consumption will be on discretionary purchases. The mid-segment is the segment that is most likely to see toughest competition and the mobile manufactures need to be prepared. To gain a part of this value the manufactures need to adapt to the mid-segments customers demands. India's customers have specific demands that are explicit for India's market; they require customization and phones developed for the conditions in India.

Three parameters have been defined as separating phones from different segments: price, functions and design. The Indian customer put strong emphasis on design; about 60 percent buy their handset based on design features. Price is as well essential but the mid-segment seems to be willing to pay for the right design, they look for value of their money deals and not cheap phones. The outcome is that the product focus is the appropriate positioning in the mid-segment according to the triangle model.

India has gone from a socialistic society to a capitalistic society with increased focus on the individual. The individual takes more initiative and social and financial risk. The mid-segment is educated and has positions within government and private sector, especially IT. They are characterized by young professionals who are educated, highly skilled, multi-lingual, and ambitious. The mid-segment are seeing opportunities and are ambitious to take care of the opportunities that has arisen, they are all part of consumerism. Their demands on products are hard to fulfill as they are used to customization, a mentality that the manufactures need to handle when producing phones for this segment. Manufactures need to have several customized phones; phone shells, ring tunes, are examples on ways to customize the phone. India's citizens are proud of their country and culture; when customizing the phones it is optimal to make the customization as Indian as possible, for example popular Bollywood phenomena are opportunities to customize the product line specifically for India's market.

The mid-segment is mainly interested in innovated and value added services as high quality sound, sleek design, language- and map functions, easy accessibility to control panel, maneuverability, and data based services (including download and media clips). The mid-segment demands an "all in one phone" a phone that is positioned for both home and business environment. The mid-segment is very broad and the phone should fit the student, home makers, and business alike. The complexity lays in making the handset available at a competitive price. Even if the mid-segment has better financial conditions than the low-end segment they still have an Indian buying power. Design and functionality play strong importance for this segment and cooperation between luxury design companies may be a tool for manufactures to attract this segments attention. The brand name matters and cooperation with a strong design company could increase the value of the brand. Thus the more the brand can reflect India's culture the more popular the brand usually becomes.

Handset manufacturers

India's importance in the world economy is already visible and it will continue to grow. With an annual market growth of 6-8 percent and a handset penetration of minor 13 percent the potential is huge. Additionally India is an attractive market to be active in for handsets manufactures as a larger part of the population is technological educated. The higher level of technological education the more their expertise will be utilized.

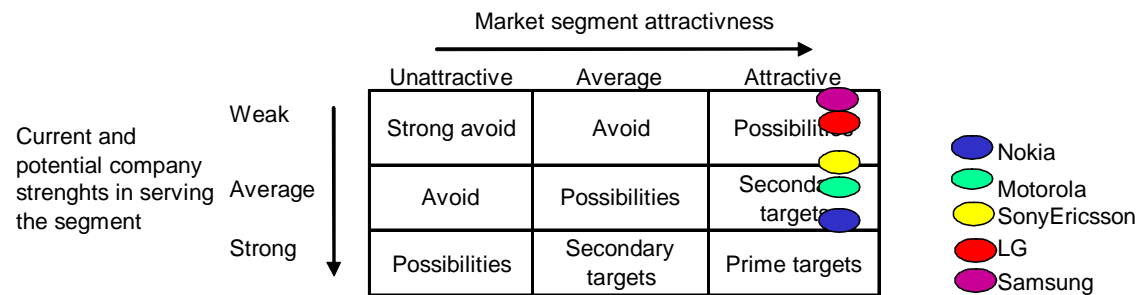


Figure 5.1 Market positioning in mid-segment India

Observing figure 5.1 for the five largest mobile manufactures the market segment is for all of them attractive. They all recognize the importance of being part of the growth in India but they have taken different paths to enter the market. No one of them could be said to have a strong current position in the mid-segment i.e. the fight for the mid-segment is far from being determined.

Current strengths to server the mid-segment varies between the five mobile manufactures. Nokia posses today the largest markets share of 70 percent, it is a result from a successful low-end segment approach. Nokia has been in the forefront of understanding India's consumers and built a strong distribution network. Nokia has today several phones targeting the low-end segment in India while in the high-end segment there has been minor activity. Nokia's strong position as a low-end player is positive as their brand is well established in the group that will become the mid-segment in the future. Thus, it could be negative as when trying to enter the mid-segment their brand will be strongly associated with the lower-end of the socio-economic scale. Nokia has today a well functioning distribution network, factories and good understanding about India's consumer market, something that is a major strength against its competitors. Motorola a traditionally high-end manufacture but today also active in the low-end segment, have the last two years studied the rural areas of India to increase the knowledge about their demands on handsets. Motorola have started to develop phones after these requirements as they attend to be active in the low-end segment. LG has on the other hand traditionally been active in both segments, thus they have only recently entered emerging markets. LG announced that they will launch three new handsets in India, targeting the different segments of high, mid and entry level consumers respectively. For Sony Ericsson, a traditionally high-end manufacture, it has gone better in India, they have targeted the mid- and high-end segment. Sony Ericsson is not interested in dominating the low-end side of the market as Nokia and Motorola, their focus is on value rather than volume. Samsung another high-end player are following the same strategy as Sony Ericsson and will not target the very low-end segment as they wish to remain an upper-end handset manufacture. Samsungs strategy to remain at the upper part of the pyramid might become strategically right as the spending power switches to the mid-segment.

Taking the elevator up

The low-end player has today several strengths when approaching the mid-segment. Their way to the mid-segment can be symbolized with taking the elevator up. One of the experts argues that one need to be active in the market that exists today i.e. low-end segment. This is to some extent truthful but one need to be strategic and see where the growth is ahead in time. For low-end players price is a strength, low-end manufactures are used to manufacturing handsets to a low cost and are used to low margins. They already have an organization that is knowledgeable on how to increase cost efficiency in the production chain. The scale that the low-end manufactures already have will be an advantage when entering the mid-segment as this segment will be massive and they will have the facilities to produce

and distribute large volumes. The margins in the low-end segment are about 2-3 percent, which is much lower compared to the high-end segment, the mid-end segment is likely to have margins that are between the levels of what low-end and high-end segments has today. This would give the low-end players the opportunity to produce phones to a higher margin but still have volume growth. The low-end player are already producing and selling large volumes of handset, so the challenge will instead be on a value perspective, can they produce the same volume of phones with more functions and design features without putting too much pressure on the margins that they can gain from the mid-segment.

The mid-segment has different requirements compared to low-end segment; consequently focusing on mid-segment will demand innovative design, efficient manufacturing, and financial discipline to keep profit margins steady. The products that the low-end manufacturers produce today are too simple to fulfill the mid-segments demand. The handsets need have higher level of functions and design for the phone to become attractive for the mid-segment. The increased level of functions and design that the phones need to have to attract the mid-segment will put strengths on R&D and investments are likely to be necessary. Low-end manufactures that changes to the mid-segment are likely to have the facilities and distribution network to serve the mid-segment, what might be the quandary is instead more intangible factors as brand that can be both strength and threat. One might not want to buy a phone that is traditionally been thought of belonging to the low-end segment when you are in the mid-segment.

If a low-end manufacture targets the mid-segment they will not need to abandon their business model but it needs to be modified to also suite the requirement of the mid-segment. They need to take into account the new demands on functions, design and pricing that the mid-segment has. The value growth that they can find in the mid-segment is a clear opportunity; the mid-segment offers both value and volume. A threat for the low-end player is the competition in mid-segment. The market projects that the hardest competition in India will be found in the mid-segment. Here it is uncertain if low-end player's strengths will hold up for the competition.

Strengths Price Scale Margins	Weaknesses Products Insufficient R&D Brand
Opportunities Value growth	Threats Competition

Table 5.2 SWOT analysis for low-end players approaching mid-segment

Taking the elevator down

For manufactures that today are high-end players the strategy will be different compare to low-end players. This strategy can be symbolized as taking the elevator down. The high-end player is used to manufacturing advance handsets consequently they should have the technological capability and R&D to attract the mid-segment customer. One of the strengths is their brand as this can attract the customers to select their products as it can give them a feeling of being of even higher socio-economic class. The danger in this is that the already existing customers might not find it so attractive that the brand that before was symbolized with high-end is also symbolized as a mid-end brand. The high-end segment has today advanced technological foundation and an R&D department that is built to deliver new advanced functions to fit their high-end phones.

A quandary is if they can produce handsets that are of such quality and functionality that it attracts India's mid-segment as well suits their buying power. The offerings need to broaden as the mid-segment will demand customization, this will demand creative as the mid-segment prefers an "all in one phone". As margins in the mid-segment are lower than in high-end segment the manufactures need to be able to cut cost in the production chain to remain profitability. The move from being a player in a segment of value rather than volume to a segment where volume is essential and where margins is lower will demand heavy investments in distribution, manufacturing capacity and services. The possibility to succeed will depend much on the financial situation of the competitors.

The volume growth that the mid-segment will see is an opportunity to high-end players that need to take market shares. This is attractive as the high-end players do not need to go into the low-end segment to grow and if targeting the mid-segment they do not need to make any major changes in their

business model. The implication is that they can reach growth but remain having relative good margins on their products. An opportunity for players that today do not have such strong present in India is the urbanization trend as it will ease the access to the customers. The rural population is harder to access due to the weakness in infrastructure and the size of the country with large distances. An opportunity is to singly target the urban areas which will demand fewer investments then targeting the rural areas. As main part of the urban areas will be populated with the mid-segment, the cities are an attractive target for high-end players that today do not directly target the low-end which is mainly found in the rural areas.

The competition in the mid-segment will be harsh and the high-end players have both strengths and weaknesses that can be both harmful and beneficial. Not competing in the mid-end segment will be too much of a loss for any of the high-end players as the value of the market is too much to miss out on. A threat for the high-end players is that the socio-economic change will not occur as anticipated. If the majority of India's population remains in the low-end segment it will be too late to enter this segment as the scale that already existing players built up will be too harsh to compete against.

Strengths Products Brand Technology/R&D	Weaknesses Limitations in offerings Margins Distribution
Opportunities Volume growth Increased urbanization	Threats Competition Socio-economic changes

Table 5.3 SWOT analysis for high-end players approaching mid-segment

Value vs. volume

One key issue is the discussion regarding approaching value and/or volume. The size of the mid-segment in India will in the future become so large that it can be considered a volume market. There is prospective value located in the mid-segment as approximately 500 million people in 2025 will belong to a consumption class that put primary part of their income on discretionary purchases. Discretionary purchases are calculated to go from 52 percent of total spending to 70 percent by 2025. Thus the mid-segment will consequently be an important target group as it will constitute for both volume and value

but to reach the value in the market one needs to overcome the complexity of pricing. As India's buying power is low, which also holds for the mid-segment, handset manufacturers need to price products after the Indian buying power. The margins are today higher in the high-end segment compared to the low-end segment that has margins of 2-3 percent. Even if the margins are low one can make money on only being active in the low-end segment, Nokia is the proof of this; thus it demands that you have economics of scale in the market. For a player that is high-end in the Indian market it might not even be attractive to enter the low-end segment. Nokia has too much power in this segment; the pure scale one needs to attain to be able to compete is a tough barrier to overcome. The growing mid-segment can be a great opportunity for high-end manufacturers to take market shares in India, and to become a threat to Nokia that today has a fairly secure position. The demands that the mid-segment has on the mobile phone are tough and this puts pressure on the manufacturers to be able to retain margins. High-end manufacturers need to decide if the volume is worth the decreased value for each phone. Low-end manufacturers need to decide how much investment in R&D they are willing to make to gain a share of the mid-segment. Changing focus to target the mid-segment may be in conflict to already existing premium or low-end business that the manufacturers have today. Thus, the alternative of not competing in the mid-segment will have effect on the manufacturers' global position and give opportunities for competitors.

6. Conclusion

The rapid growth in India has set the fundamentals for a major change among the country's consumer. The energy that has taken millions of people away from poverty and is creating a massive middle-class centred in the urban areas. Opportunities will blossom as many first time buyers enter the shopping districts and the move of consumer spending from scattered rural areas into urban areas. Consumption is expected to shift from informal economy where trades are mainly between two individuals to a more formal organized business. This becomes a more efficient way of trade and it will increase the efficiency in the market which could lower price and boost demand, a positive spiral that will give more and more parts of the population access to efficient consumptions.

The situation in the rural areas is likely to become better with the continued growth, economic reforms, and infrastructure projects. For the urban population many will make the journey from poverty to the middle-class, thanks to the easier access to education and better infrastructure than the rural population. Even if the urban population is not as huge as in other developing countries the urbanization is still expanding rapidly in real numbers, going from 313 millions in 2007 to 523 million people in the urban areas by 2025. The shift of spending power from the rural areas into the urban areas will be beneficial for manufactures that today has an insufficient distribution network as the urban areas are in an easier range for companies.

India's potential is of importance for most consumer goods manufacturers, thus to become successful in this complex market one need to overcome several obstacles. Neither the already existing business nor the entering business will have an easy time to access this potential. The lack of sufficient infrastructure and bureaucratic barriers will be obstacles for both parties. In addition the increased spending will spread across millions households, many that today have low incomes and a sensitivity to price. The five largest manufactures are all active in India and the competition is already extensive. The obstacles are many and the option to not participate is too much of loss for any of the manufactures. The challenge will be for the manufactures to become more dynamic and adapting their products to the Indian market. This will demand changes in the business models that might not be sustainable to the business strategy that the manufacture has today. The business model that one develop need to be able to adjust to the rapidly changes in consumers needs and incomes.

Several of the interviewees state the importance of the mid-segment in India. The five largest mobile manufactures are today not prepared for the change in socio-economic structure in India. There is a clear awareness about the importance of the growth in the low-end segment, thus it is very few of them that have a clear strategy to reach the mid-segment. The manufactures need to consider where growth will spur from in the future. There is unsatisfactory awareness of the importance of this segment. Reason behinds this lack of awareness can be related to the structure of defining phones as high- or low-end. There is no definition of what a mid-segment phone is and the insufficient terms used in the market might be a limitation.

Several of the manufactures that are high-end today are planning to enter the low-end segment but also remain as high-end manufacture. This might be a successful way to reach the mid-segment as the product range will broaden. Thus to get more prepared they need to develop an understanding for the market, customer need and Indian lifestyle. One need to understand the socio-economic changes as when consumer income raises it is likely to affect their needs, desire and brand loyalty. The changes in lifestyle results in the demand from the manufacture products will transform. For a player that is high-end today to be able to reach the mid-class segment need to get lower manufacturing cost, simplify their products or services, and increased their distribution network. Low-end players need to upgrade quality, value-added functions, and design features. To distribute this product to Indian consumers will demand creativity from the manufactures as they need to deliver a product to India's middle-class that have an Indian budget, a problem that intensify the discussion regarding volume and value growth in the manufacture perspective.

Three quarters of India's consumer market in 2025 does not exist today, approximately one trillion dollars of value a year. The five largest mobile manufactures are facing the challenge to be part of this business opportunity. Main factors will be distribution channels and to deliver quality and functions to Indian buying power. The shift in the location of the population from the rural areas to the urban areas will be an opportunity for the other manufactures to swiftly catch up Nokia on its distribution system as urban areas are easier to reach. Customization is something that is sought after in India, open platforms are likely to be market practice in the near future, this would increase the possibility to customize phones to one billion citizens.

The last year we have seen a downturn on the global economy, the effect on growing middle-class in India from this is uncertain. The projections that have been brought up in this thesis are just projections

and are never for certain, thus it is likely that the growth will continue in these markets and if any decline in growth will occur it will be minor. Compared to other countries the growth in India is likely to stay at a level that is considered to be high. On a short time basis there might be an effect of increased savings but the need for consumption has been built up during the last decades and can not be pressed down in the long term perspective.

6.1 Further research

During the work process of this thesis several interesting questions has been discovered but the limitation of the thesis has made it impossible to answer them all. This study has focus on the manufacture perspective and has not taken into account the operator's side. It would be interesting to have the same research question as in this thesis but from an operator's perspective. Another fascinating question is how the socio-economic changes could affect the distribution system. Further exploration of what defines a high-end, mid-end and low-end phone would benefit if it became more extensive. The lack of the consensus of these terms is important and research in this field would be most beneficial for the handset industry. Another fascinating question is regarding what effect would open platforms have on the handset market in India.

Appendix

Background India

India is located in Asia with boarder to countries as Bangladesh, Afghanistan, Pakistan, China, and Nepal. It is the seventh largest country in the world and covers an area of 32, 87,263 square kilometers, from



the snow-covered landscape of Himalayan heights to the south with its tropical rain forests. The location of India with its mountains and seas separates it from the rest of Asia. India became independent from the British colonist 1947 and is strongly affected by their history as a British colony, for example the legal system is similar to the one in United Kingdom. It is a federation consisting of 28 states and 7 union territories. The country is diversified when it comes to language and culture. It has 22 national languages that are recognized by the constitution of India.¹²⁴ English is the most

important language for national, political, and commercial communication.¹²⁵ The variety in race, culture, religion, that is in India is exceptional as different ethnic groups act under one single nation, different social habits and characteristics are seen out over the country.

India's economy is reflected by a broad range of handcrafts, from traditional village farming to modern agriculture. The economy encompasses a wide range of modern industries, and a multitude of services. Major part of the economic growth comes from services, it stands for half of India's output but it only uses one third of the labor force. A large part of the population is active in the agricultural sector, about three-fifths of the work force.

India has increased the economic stability, much thanks to the strong contributions from sectors as agriculture, tourism, commerce, power, communications and science & technology, which has been building blocks of the Indian economy.¹²⁶ One can define three pillars that make India a special market, first, it has a large well educated population, secondly, they have extensive knowledge in English, and third they have access to inexpensive employees. These three factors have made India an attractive

¹²⁴ <http://india.gov.in>

¹²⁵ <https://www.cia.gov>

¹²⁶ <http://india.gov.in>

country for foreign direct investments (FDI).¹²⁷ The FDI amounts to 31.8 percent of the India's GDP. India has reduced the restriction on FDI in telecommunication.¹²⁸ Thus in sectors as agriculture the control is kept to protect the farmers on the countryside, which is considered a sensitive category.

India is a democracy with a population of 1,147,995,898 inhabitants in July 2008.¹²⁹

Age	Percent	In numbers	Sex ratio
0-14 years	31.5%	male 189,238,487/female 172,168,306	1.1 male(s)/female
15-64	63.3%	male 374,157,581/female 352,868,003	1.06 male(s)/female
65 and over	5.2%	male 28,285,796/female 31,277,725	0.9 male(s)/female

Age structure of the Indian population March 2008¹³⁰

The median age for India's population is 25.1 years, and is growing with 1.578 percent a year. On 1000 people there are 22.22 births and 6.4 deaths. The increase in population is not due to immigration; India has a negative immigrations statistics of -0.05 per 1000. The infant mortality rate is 32.3 deaths on 1000 live births. The fertility rate is 2.8 children born per woman. The life expectancy is today 69.3 years; the strong growth of the population is not only positive, it puts strengths on the economy and is the foundation of many social, economic, and environmental problems that India has today. 61 percent of the population of 15 years or older can read, 73.4% of the male population can read and 47.8 percent of the female population. The unemployment is 7.2 percent.¹³¹ The main part of the population has historically been found in the rural areas. This trend is changing as a majority of the population is moving into the urban areas. The urban areas have 318 million citizens which are expected to be 253 million by 2025.¹³²

India is seeing many positive things happening in their country and their impressive gains in economic investment and output are showing a promising future but one must remember that India faces pressing problems such as considerable overpopulation, environmental deprivation, widespread poverty, and ethnic and religious conflict.

¹²⁷ <http://www.swedishtrade.se>

¹²⁸ <https://www.cia.gov>

¹²⁹ <https://www.cia.gov>

¹³⁰ <https://www.cia.gov>

¹³¹ <https://www.cia.gov>

¹³² McKinsey Quarterly August 2007

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