

An Analysis of Radiolinja's Strategy

Klaus Nieminen
Networking Laboratory
klaus.nieminen@hut.fi

Abstract

This paper explores the Finnish mobile communication market focusing especially on Radiolinja and its strategy. The studied market has developed greatly and even the traditional cash cows, Sonera and Radiolinja, are required to fight for their profitability.

Radiolinja believes to success by reducing its operational costs. Market position is intended to be sustained or even improved by strong brand enhanced by the best customer service and service quality in the industry. Also the Vodafone co-operation is seen to be one of the key success factors to reach this goal.

Keywords: Radiolinja, mobile operator, strategy and Vodafone

1 Introduction

The Finnish mobile operator market has changed rapidly during the past few years and it is still evolving. Especially the new regulatory requirements have increased competition and shaken the incumbent operators.

Radiolinja has traditionally been the only real choice and challenger for the market leader Sonera, but its position is threatened by DNA and price erosion introduced by the fierce competition fuelled by the numerous new challengers.

New technologies have enabled faster and more operator independent service creation. The operators need to play their cards right or there will be a risk that their role will be marginalized to a bit pipe providers. Therefore, operators have to plan their strategy carefully. That is, to plan, how they will position themselves and what kind of partnering schemes they will build.

This chapter introduces the reader with the Finnish cellular market. Also some basic facts about the corporate strategy are explored. Chapter 2 presents a short description of Radiolinja and Radiolinja's strategy is studied in Chapter 3. Finally the Radiolinja-Vodafone partnership is further explored.

1.1 The Finnish Mobile Operator Market

In 1990's the Finnish mobile communication market was rather stable, with only Sonera and Radiolinja competing with each other. However, the market situation has changed rapidly during the past five years. Especially, the mobile number portability and the consequences of Sonera acquisition have affected market a lot in the past summer.

Figure 1 presents the Finnish service operator market situation in the end of September 2003. The presented figures are derived from numerous sources [1, 2, 3] and include also some guesses. As it can be seen from the figure, there is only one truly dominant operator, TeliaSonera, and Radiolinja is as clearly the number two.

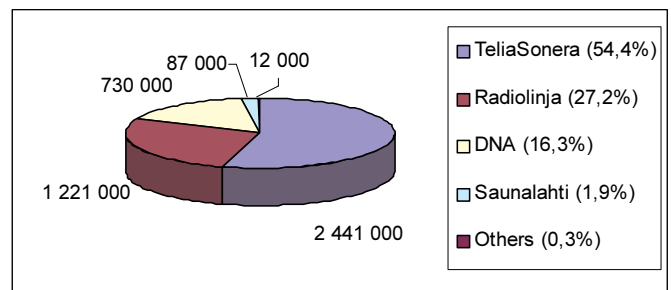


Figure 1: Finnish mobile service operators' market shares in the end of September 2003

Due to the Sonera acquisition, Telia was forced to sell Telia Mobile. Sonera, currently TeliaSonera Finland, has lost small portion of its market share, but is still the clear market leader with 2441 000 mobile subscribers. After acquiring Telia Mobile, DNA is now clearly the third largest operator in Finland with more than 730 000 customers. [4]

Mobile number portability has helped DNA and especially the smaller service operators. For example, Saunalahti has increased its subscriber base from 29 000 to 87 000 this year [4].

In two months nearly 155 000 subscribers have ported their mobile numbers [5] and the phenomenon has attracted also new service operators to the market. Therefore, the competition has become much fiercer lowering the call and SMS prices.

The nation wide GSM networks are operated by TeliaSonera, Radiolinja and Suomen 2G. The market shares of these operators are presented in Table 1.

Table 1: Network operators' market share

Network operator	No of users	Market share
TeliaSonera	2 536 000	56,47 %
Radiolinja	1 375 000	30,62 %
Suomen 2G	580 000	12,91 %

In addition, Ålands Mobiltelefon posses a license to operate a GSM network in Åland Islands. The UMTS licences are currently held by TeliaSonera, Radiolinja, Suomen 2G and Tele2. The mobile service operators are presented in Table 2 and the coming Virtual Mobile Network operators (MVNO), entrants that are not yet operational, in Table 3 [6].

Table 2: Mobile service operators

Service operator	Used network
Cubio	Radiolinja
DNA	Suomen 2G
Globetel	TeliaSonera
FinnetCom	TeliaSonera
Radiolinja	Radiolinja
Saunalahti	TeliaSonera
TeliaSonera	TeliaSonera

Table 3: Coming new VMNO entrants

Service Operator	Used network
ACN Europe	TeliaSonera
Fujitsu	Suomen 2G
PGFree	Suomen 2G
Tele2	Radiolinja
Teraflex	TeliaSonera
Wireless Maingate	Suomen 2G

1.2 Strategy

Strategy has traditionally been defined as an integrated set of actions that leads to a sustainable competitive advantage. Strategy is defined in long term and it may not be easy to change.

Strategy matches the organisation resources and strives to maximise the return, e.g. profit, turnover or growth, of those resources. Typically, the organisation needs to focus on one of these measurements, such as growth, improved margins or being able to introduce new innovative products and services to its customers.

The success of the chosen strategy is tested in the real market environment that has been in a rapid change especially in the telecommunications sector. Due to the constant change, the organisation should first form a clear vision, in which direction it believes the market to be evolving.

When the vision has been formed, the organisation can determine, what actions it should take to get the most desirable results. Obviously, if the vision goes badly wrong, the consequences can be quite devastating. The German UMTS auctions can be considered as an example what happens when the vision is wrong.

2 Radiolinja

Radiolinja is the second largest mobile operator in Finland with approximately 30% market share. The distance to the market leader, TeliaSonera, is around 27% and to the number three, DNA, nearly 11%.

Radiolinja was established in 1988 and it was the first company to open a GSM network in the world in 1991. Currently Radiolinja is part of the Elisa Group. In the third quarter of this year Radiolinja made 195 million euros revenue and 25 million euros EBIT (earnings before interest and tax) [2]. Thus, it seems that Radiolinja is making profit, even though its average revenue per user (ARPU) was decreasing due to the fierce competition and despite of removal of Telia's subscribers from Radiolinja's network.

2.1 Organisation

The Radiolinja Group consists of business units and business subsidiaries, as presented in Figure 2. Radiolinja Suomi Oy is group's service operator and Radiolinja Origo Oy runs the network. Radiolinja Origo Oy is also responsible for developing up-to-date wireless services that fulfil the service operator requirements.

Radiolinja Aava Oy is a IT company developing and selling telecommunication and IT solutions related to mobile services. Mäkitorppa Oy, Kamastore Oy, Radiolinja Piste Oy and Radiolinja Solutions Oy

belong to the Radiolinja's sales chain. In addition Radiolinja owns a profitable GSM operator, Radiolinja Eesti AS, that has about 163 000 subscribers in Estonia [2].



Figure 2: Radiolinja's organisation [7]

2.2 Elisa Corporation

Elisa Corporation, later Elisa, is the second largest telecommunications service and solution provider in Finland operating on both local and national level. In international operations the main focus lies on Germany and the Baltic states. The core parts of Elisa are the following:

- **ElisaCom:** Elisa's service operator including the regional companies
- **Elisa Mobile** (Radiolinja Group)
- **Elisa Networks:** Elisa's fixed network operator
- **Elisa Kommunikation:** Elisa's subsidiary in German

In 2002 Elisa made 1,56 billion euros revenue and employed approximately 7,400 people. Elisa is listed on the Helsinki Exchanges.

3 Radiolinja's Strategy

The analysed strategy is derived from the last annual report [7], press releases and articles. However, one must take into account the latest changes in Radiolinja's and Elisa's organisations, because the

new CEO and board may have a different vision compared to their predecessors. This study is focused on Radiolinja's Finnish service operator strategies.

Radiolinja's current vision is to be a leading mobile operator in Finland and a significant operator in selected foreign markets. This statement can be considered as an indication that Radiolinja will develop its foreign subsidiaries in the Baltic Countries.

The competitiveness is build on strong partnerships with Vodafone and leading Finnish companies, such as S Group, Stockmann and A-lehdet. Also the co-operation within Elisa Group gives Radiolinja more resources.

Other success factors are declared to be:

- Radiolinja brand
- Existing customer base of over one million subscribers
- Own strong sales chain
- Best customer service in the industry

The main strategic areas are described as following:

- **Vodafone co-operation** is targeted to enhance Radiolinja's international service portfolio
- **Profitability** is taken as a strategic objective meaning increased cash flow and operating profit
- **Customer orientation** is announced to be one of the main goals and it is strived for by reinforcing the regional operations and investing to the customer service experience and service quality

3.1 Analysis of Radiolinja's Strategy

The described strategy is compiled from the press sources and it may give a bit polished picture about Radiolinja's strategy. However, the description is used as a basis of this analysis.

Profitability

Radiolinja has responded to the price erosion by decreasing its operational costs. In the summer 2003 Radiolinja decreased its personnel by 290 people, which means nearly 17% of Radiolinja Group's employee resources.

Cost reduction can also be archived through co-operation, especially in the research and development area. Elisa Corporation is Radiolinja's

the most natural partner and activities in this area can be expected in the near future due to the Radiolinja's technology director moved to run Elisa's research activities.

The strong brand can be seen to help to retain the existing and gain new customers, and therefore also to increase the profitability.

Brand

Due to the number portability and increasing pressure from the new service operators the strong own brand is becoming more and more important.

Radiolinja sees its brand to one of its success factors. Brand was further reinforced by the extensive marketing campaign when the Vodafone partnership agreement was signed. It can be seen from the Radiolinja's marketing material that Radiolinja believes its brand to be enhanced by the Radiolinja - Vodafone dual brand linkage.

The recent regional activities can also be seen to enhance Radiolinja's brand in provinces that have traditionally belonged to DNA (Finnet).

Customer orientation

Radiolinja has reinforced its regional operations by establishing five regional units. With this action Radiolinja hopes to strengthen its local presence and dimension.

Radiolinja claims to have the best customer service in the industry and there may be some truth behind this argument. It seems also that Radiolinja handles the service quality issues better than some of its smaller challengers.

The Vodafone co-operation is studied further in Chapter 4

4 Case Study: Radiolinja-Vodafone Alliance

First this chapter introduces the reader with Vodafone Group and presents the agreement signed between Radiolinja and Vodafone. In the end some possible future scenarios are described.

4.1 Vodafone

Vodafone Group Plc, later Vodafone, is the largest mobile telecommunication operator in the world with 122,7 million subscribers worldwide [8]. Vodafone has grown aggressively by buying equity shares from leading operators around the world, and over the past

six years it has changed from a practically unknown UK-based operator to its current shape. As said, Vodafone is the largest operator and it is using this strength in defining new services either through standardisation or making standards of its own.

More recently Vodafone has signed many partnering agreements. Currently Vodafone has 16 subsidiary mobile network operators, nine associate operators, in which Vodafone has less than 50 per cent share and nine partner operators including Radiolinja's networks in Finland and Estonia. Similar global partnering strategies have typically been used at least by the large vendors, such as, Cisco, Microsoft and Nokia.

4.2 Radiolinja-Vodafone Partnership

Radiolinja and Vodafone signed Vodafone Partner Agreement in 14.2.2002. In addition, the co-operation was expanded to apply also Radiolinja Eesti in 3.12.2002.

According to the agreement, "Vodafone and Radiolinja will co-operate in developing, marketing and offering international products and services. Radiolinja will promote Vodafone's global products and services under a dual "Radiolinja Vodafone" brand to its international travellers and corporate customers in Finland" [9].

The benefits of this partnership to Vodafone are: [9]

- Offer Vodafone's customers seamless access to their Vodafone products and services while travelling in Finland and Estonia
- Further leverage of Vodafone brand
- Increase of inbound roaming on Vodafone networks

The benefits of this partnership to Radiolinja are: [10]

- Partnership improves Radiolinja brand
- Simplifies the roaming charges in Vodafone Group's partner network by introducing Vodafone Eurocall service
- Enables Radiolinja's customers to use their short numbers, such as 777 and 118 when roaming abroad
- Ready partnership network for roaming agreements, e.g., GPRS and MMS
- Possibility to sell Vodafone's global services
- Increase of roaming traffic on Radiolinja network

This partnership carries also some risks and possible drawbacks. First of all, Radiolinja has to fulfil the service requirements imposed by Vodafone or Vodafone may find another partner. This means investing in Vodafone architecture and technology, which may not be fully compatible with Nokia's service portfolio.

For example, Nokia's handsets may not support all the features in the beginning and launching a service not supported by Nokia's mass-market products is rather impossible in Finland due to Nokia's extraordinary high market share.

Some future scenarios for this partnership are further elaborated in the next chapter.

4.3 Alliance Scenarios

Vodafone has signed new partner agreements in the countries, in which it is not yet operating. Vodafone's strategy seems to be to increase the number of partnering operators by developing more attractive set of service offerings for its partners. Therefore, it is very likely that Vodafone is willing to continue and further elaborate the partnership with Radiolinja.

Scenario 1: Acquisition

Vodafone has invested to many network operators around the world, but in it is unlike that Vodafone will acquire Radiolinja or share of it. This statement is supported by the following facts:

- Vodafone has announced that its strategy is to increase the number of partnering operators.
- It is unlike that Elisa is eager to sell Radiolinja, while its future seems to be brighter than Elisa's fixed network business with decreasing number of customers.
- Elisa has decided to merge all its core subsidiaries, including Radiolinja, into Elisa Corporation. Therefore, Radiolinja will cease to be an independent company before July 2004. [11]

Scenario 2: Co-operation in product and service development and offering

Vodafone partnership enhances Radiolinja's international service selection by allowing Radiolinja to offer Vodafone's global services to its customers. Also the easy to make roaming agreements and cheap roaming tariffs are a real advantage for Radiolinja.

The partnership benefits for Radiolinja are clear and they can become a real competitive advantage. Also Vodafone can be considered to benefit from its partnering agreements. However, the crucial question is how, Vodafone want them to evolve.

The partnership can evolve into deeper research and development co-operation, even though there have been no indications in this direction yet. Eventually co-operation could possibly allow Radiolinja to export its services to global markets.

Another attractive alternative for co-operation could be shared or coordinated network and service platform investments that could give real cost savings. This option will of course bind Radiolinja tighter to Vodafone's service architecture that may not always be the best choice in the Nokia occupied Finnish mobile handset market.

Other way around, the Vodafone architecture may not support all Nokia phone features, which leads to a difficult question: Is it feasible for Radiolinja to invest in both architectures or do Radiolinja have to cope with only the services offered by Vodafone architecture.

Co-operation enables Radiolinja to offer global services that it may not otherwise be able to offer. These services improve Radiolinja's service portfolio and its position in the value chain. Eventually the alliance will reduce the risk of being reduced to a bit pipe.

However, the partnership has also some limitations that can be removed only by at least partly acquisition. One such barrier can, for example, be the independent brand. As stated earlier, Radiolinja sees its strong brand to be one of its success factors and the fully Vodafone branded services and products like handsets won't support the smaller independent brand. Therefore, the dual branding seems to be the ideal solution.

5 Conclusions

It seems to be likely that the mobile operator market will continue to change in the near future due to the new challenges posed by the new challengers and technologies, such as WLAN and open IP access including VoIP.

Radiolinja is focused on profitability and not growth, even though the Vodafone co-operation may attract especially new global corporate customers.

Radiolinja believes to at least sustain and even improve its market position by the best customer service, strong own brand and local presence and own sales chain. Considering pricing, Radiolinja uses a proactive strategy and is not even trying to be the cheapest operator in Finland. However, the Vodafone co-operation has unified the roaming charges to a very competitive level.

Vodafone co-operation is likely to evolve further and it is interesting to see how Vodafone wants to develop its partnering program.

6 References

- [1] TeliaSonera, Interim Report Jan - Sep 2003, 29.10.2003
- [2] Elisa, Interim report 7-9/2003, 28.10.2003
- [3] DNA, Press release: dna Prepaid nyt myynnissä kautta maan, 17.10.2003
- [4] Kari Räisänen, TeliaSonera menetti asiakkaita parissa kuukaudessa 30 000, Helsingin Sanomat, 2.10.2003
- [5] Suomen Numerot Numpac Oy, Press release, 1.10.2003, <http://www.numpac.fi/index.php?site=114>
- [6] Tapio Kivistö, Suomen kännykkämarkkinoille pyrkii runsaasti uusia yrittäjiä, Helsingin Sanomat, 3.10.2003
- [7] Radiolinja, Annual report 2002
- [8] Vodafone Group, Key Performance Indicators announcement for the first quarter, 28.7.2003
- [9] Vodafone Group, Press release: Vodafone welcomes Radiolinja to its wireless community, 14.2.2002.

[10] Radiolinja, Press release: Radiolinja Vodafone Co-op, 13.6.2002

[11] Elisa, Press release: Elisa Group subsidiaries to be merged into Elisa Corporation, 28.10.2003