Challenger Strategies: Case DNA Finland Ltd.

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Abstract

Competition in the mobile operator business is harsh. There are ongoing debates about: how the future will look like, how the mobile business will change, what are the next killer applications, who will be the big players, and what will be the technology related issues in the future. It's not easy for a challenger company to establish a presence in the mobile market. Mobile operator challengers need to have a well formulated strategy to even try to enter the mobile market or else the consequences will be fatal.

This paper begins by presenting some theory about the possible strategies that a challenger company may and can use to improve its situation in the marketplace. The mobile operator business is then looked upon, but at a superficial glance. The focus of this paper is mainly on the case study of DNA Finland Ltd., a Finnish challenger in the mobile operator business.

Keywords: challenger, challenger strategies, mobile operator, services, pricing, DNA Finland Ltd.

1 Introduction

The roles of different companies in the competitive environment can be quite different. There are the industry leaders who have competitive positions that are stronger than the average company. There are the market challengers who fight hard to increase their market share and there are those that play the role of followers, the ones who are satisfied with their current positions. There are also companies that do not belong to any of the three roles mentioned above. These companies usually compete in their own small market segment, a segment that is not served by the companies mentioned above. This paper focuses on the role of market challengers.

1.1 The Challenger

Market challenger companies, or shortly challenger companies, are those who challenge and fight other challenger companies and the market leaders for a bigger market share and stronger market position [1]. The companies that are 2nd, 3rd or lower in the marketplace usually adopt market challenger strategies.

For a challenger company to improve its market standing, it will need a strategy aimed at building a competitive advantage of its own. According to Thompson et al. [1] a challenger company can rarely improve its competitive position just by trying harder or by imitating what a leading company in the industry is doing. They also argue that in cases where large sized yields significantly lower unit costs and give large market share companies a significant cost advantage, small market share companies have only two viable strategic options: move to increase the market share or withdraw from the business. This is obvious, a company can not survive in the long run if the cash flow is negative. Hence, strategic decisions to increase market share are needed.

1.2 Challenger Strategies

Strategies that are usually being used to increase market share are: the strategy of cost leadership, i.e. a low cost strategy, and the strategy of differentiation (e.g. better quality services and/or products, superior technology, innovation). These strategies are aimed at creating differences between a company's position relative to those of its competitors. [2]

A cost leadership strategy is about offering products or services to customers at more affordable prices than the competitors do. Companies competing by differentiation again try to offer products or services that are viewed as different in ways that customers feel are important. [2] There are even situations where companies try to win customers through offering free products or services to increase their customer base.

The challenger company can attack the market leader. This is a high risk but potentially high-gain strategy that makes good sense if the market leader is not serving the market well enough. To succeed with such an attack, a company must have some sustainable competitive advantage. Alternatively the challenger can attack firms of its own size or smaller. [3]

The challenger may launch a full frontal attack, matching the competitor's product, advertising, price and distribution efforts. They attack the competitor's strengths rather than weaknesses. The market challenger can also make an indirect attack at the competitor's weaknesses or gaps in the market coverage. It might target new geographic markets or poorly served segments. Sometimes, rather than copying the competitor's product and going for a costly frontal

attack, the market challenger might diversify into unrelated products or leverage new technologies to replace existing products. [3]

1.3 The mobile operator business

The mobile operator business is about big investments and fierce competition. There are many issues a challenger in this market needs to carefully consider. There are regulatory issues, investment issues, technology related issues, marketing issues, organizational issues, distribution channel and purchasing issues that need to be considered associated with managing a mobile operator company, to name a few.

A big issue in the mobile operator business, perhaps one of the most important issues, is pricing, and even more so for market challenger companies. How should a challenger in the mobile operator business price for voice, data, message, and location-based services to increase the amount of subscribers and reach a targeted market share?

Pricing can be very complex but also very powerful. The business environment that we live in today is changing and creating pricing challenges for both market leaders and challengers. Changes in the business environment can be observed for instance as falling average revenue per user (ARPU). Falling ARPU is nowadays a real problem in many countries. Pricing offers a rich field of opportunities, but targeted pricing initiatives require deep understanding of key revenue drivers. [4]

In the mobile operator business the players have traditionally been mobile operators who have owned their own network and paid for their own licensed frequency spectrum. This is the traditional mobile network operator (MNO). Due to the opening of the competition and the movement towards 3G, another type of service provider business model has emerged, the mobile virtual network operator (MVNO) or the mobile service operator. A MVNO owns no license for spectrum but will own or operate its own switches, customer care and billing systems that connect into another provider's radio system. [5]

2 Case DNA Finland Ltd.

2.1 The Finnish Mobile Operator Market

The Finnish communications market has seen many changes during the last few years towards lighter regulation and more effective competition. Mobile network operators need a license granted by the Ministry of Transport and Communications for their operations. National GSM networks are held by TeliaSonera Ltd., Radiolinja Ltd., and Suomen 2G Ltd. Finland was the first country in the world to grant licenses for 3rd generation (UMTS) mobile networks in March 1999. The UMTS networks are currently being built in Finland but not open to end-users yet. The licenses for building UMTS networks in Finland are held by TeliaSonera, Radiolinja, and Suomen 3G. There was also a license granted to Telia Mobile Finland, but the operations of Telia Mobile Finland has since that been bought by the Finnet Group. Suomen 2G is now the owner of this license. [6]

At the end of year 2002 there was 87 mobile subscriptions per 100 inhabitants, i.e. approximately 4,5 million subscriptions [6]. The trend has been that Finnish people use more and more mobile phones when making phone calls.

2.2 The Finnet Group

Finnet Group is a Finnish telecommunications group that consists of 33 telephone companies, Finnet Ltd. and Finnet Association. Finnet Group operators offers telecommunication services ranging from fixed-line, mobile, to Internet. Finnet employed some 4000 people in 2002 and its turnover was 770 million €. Finnet's main market area is Finland. [7]

Finnet's target is to increase its market share from 15% to 25% until the years 2005-2006. In May 2003 Finnet bought the businesses of Telia Mobile Finland. By doing so Finnet has now over 700 000 mobile subscription customers.

The turnover mobile business of Finnet Ltd. (i.e. DNA Finland and Suomen 2G) grew by 318% to 130 million € and last years result improved by 60% to -42 million €, still being negative though (table 1). [8]

Table 1: The mobile business of Finnet Ltd. (Pro forma –result 2002).

DNA Finland Ltd.	**2002**	**2001**	***change***
Turnover	130	31	318%
Profit	-45	-101	55%
Result	-42	-104	60%
Investments	19	31	-40%
Personnel	216	270	-20%

2.3 DNA Finland Ltd.

DNA Finland Ltd. is Finland's third largest mobile operator utilizing GSM, GPRS, and UMTS-technology. DNA is owned by Finnet Ltd. and it has a sister company, which is Suomen 2G Ltd. Suomen 2G holds licenses for both GSM and UMTS in Finland. DNA

Finland was established in November 1999 and started its commercial activities in February 2001. The turnover in 2002 was 111 million €. DNA is a mobile service operator and its services work in Suomen 2G's GSM/GPRS network.

The co-operation between DNA and Suomen 2G is as follows [9]:

> DNA Finland Ltd. functions as a mobile service provider:
>
> - builds the products which are visible to the end-user
> - is responsible for customer service, distribution, pricing, marketing, and billing
> - develops customer relations
> - commercializes new technological possibilities.
>
> Suomen 2G Ltd. functions as a GSM/GPRS/UMTS network operator:
>
> - builds a nation-wide GSM/GPRS/UMTS network and service
> - is responsible for connecting traffic with other networks
> - is responsible for international co-operation and roaming
> - mobile service provider customers are DNA Finland Ltd., Wireless Maingate Ltd., Fujitsu Invia Ltd., and PG Free Ltd.

The goal of DNA Finland Ltd. is to be the most interesting service provider in Finland and lead the way when Finnet Group increase its share of the Finnish telecommunications market. DNA Finland Ltd. wants to be found in the hearts and thoughts of its customers. This by goal is achieved by being able to offer individual, impersonated, easy-to-use, and affordable mobile services to its customers. [10]

According to the CEO of Suomen 2G, Seppo Hänninen, Suomen 2G was the first company who acted strictly as a GSM network provider [11]. "It seems that the separation of the network and service provider activities will be distinctly separated when UMTS networks will emerge at the earliest", says Hänninen.

According to Kai Friman from DNA, the end-users feel that today's operators are all the same, their approach is only based on technology and not segmented. DNA Finland Ltd. wish to see things from the end-users perspective and segment their services accordingly. [11]

DNA Finland Ltd's services are mainly targeted for small and medium sized companies, large companies, and for unprejudiced customers that are willing to try new things. Instead of competing with low prices, DNA Finland Ltd. thinks that its advantage compared to other mobile operators is in services, i.e. in differentiating from competitors. At the moment much of mobile operators revenues comes from voice services, but according to prognosis this is going to change. The demand for value-added services will grow, which in turn will create opportunities for service providers around the world.

When DNA Finland Ltd. started its activity the goal was to have a positive cash flow after three years of operation. The market share was targeted at 15%. This target has been achieved as DNA Finland Ltd. subscriber base reaches over 700000 today.

2.4 The Building of the GSM/GPRS network

Suomen 2G Ltd. opened its national GSM network in January 2001 for the company's first customer, i.e. the mobile service provider DNA Finland Ltd. The network was built in less than 12 months and was much more extensive than originally promised to the Ministry of Transport and Communications a year before. The network made it possible for to launch a national GPRS service very quickly.

Suomen 2G's GSM/GPRS network is based on latest technology forming a basis for UMTS and covers geographically approximately 98 % of the Finnish population. Suomen 2G offers 3 types of services: [12]

- Speech telephony and all related services: all domestic and international calls, call forwarding, barring of calls etc.
- Multi media services: short messages, voice mail, WAP-gateway, positioning/navigation
- Data services: Basic data (9,6 kbps), HSCSD 14,4 - 38,4 kbps, nation-wide GPRS.

The network is open for new service operators, which promote competition and brings alternatives to the market. Service providers in Suomen 2G's network, other than DNA, are Wireless Maingate, Fujitsu Invia, and PG Free.

2.5 Pricing for Voice

DNA wants its pricing model to be as simple as possible. The subscriptions are competitively priced, at least compared to the main competitors, namely Radiolinja ad TeliaSonera. But the competition is harsh and mobile service providers such as Saunalahti Group Ltd. and Cubio Communications Ltd. are placing pressure on lowering the prices. From table 2 the reader can easily see that challenger mobile operators in Finland put pressure on the market leaders, which may have to lower prices even more.

Table 2: Pricing policys for voice by mobile operators in Finland.

	Call Charge (€/min)	Monthly Charge (€/month)
TeliaSonera		
• Classic Duo	Min. 0,16/ Max. 0,24	3,50
• Privat Duo	Min. 0,13/ Max. 0,41	3,66
• One	0,16	3,99
Radiolinja		
• Tandem	Min. 0,12/ Max. 0,26	3,20
• Tandem Aina Plus	0,15	4,95
DNA Finland		
• Subscription	Min. 0,12/ Max. 0,17	9,92
• Basic Subscription	Min. 0,13/ Max. 0,22	3,20
• Basic Subscription (with DNA Maraton)	Min. 0,00/ Max. 0,22	39,00
• Basic Subscription (with DNA Standard)	0,16	3,20
Saunalahti		
• GSM	Min. 0,15/ Max. 0,25	4,90
• Tasahinta Plus	0,12	5,95
Cubio		
• Cubio 1	Min. 0,12/ Max. 0,16	3,00
• Cubio 2	0,14	3,00

As of February 2003 DNA Finland Ltd. announced that it was going to make the pricing model even more simple. There is now only two subscription types, one for the consumer market (DNA Basic Subscription), and one for corporate customers (DNA Subscription). The idea behind this model is that both subscription types should be as simple as possible and that the end-user can further customize the subscription, by adding additional services (such as DNA Inner Circle, DNA GPRS and DNA Maraton) according to his or her needs.

In February 2002 DNA launched a voice service that was based on a fixed monthly charge. The service, called DNA Maraton, offers private customers an unlimited number of voice calls and SMS messages between DNA subscriptions in Finland. At least at that time DNA Finland Ltd. was the first operator in the whole world who had ever provided a similar service. This is a good example of challenger strategy; offer something new, in a way never done before. Customers like fixed prices because they know exactly what they will get and how much it will cost. The monthly charge for the DNA Maraton service is 39 € and the service can be added to the DNA Basic Subscription. According to Harri Hovi [11], Marketing Director of DNA at that time, the reason behind the launch of DNA Maraton service was that DNA wants to launch clear and user-friendly pricing entities. DNA Maraton is also a direct addition to the pricing model for DNA's GPRS services, which also is based on a fixed monthly charge.

2.6 GPRS Pricing

DNA Finland Ltd's pricing policy for GPRS services differs from that of other mobile operators providing GPRS services in Finland. The users of GPRS service will only pay a fixed monthly fee for a service offering unlimited data traffic (DNA GPRS for consumer customers an exception). DNA does not guarantee data transfer at a certain speed, nor does DNA guarantee its usability at any time, though.

DNA offers two types of GPRS service:

- DNA GPRS:

  The DNA GPRS service meant for hardcore users. As of July 2003 the pricing of the consumer DNA GPRS service has changed. The fixed monthly fee stays as such, but only to a certain amount of data (100 MB), the exceeding amount is priced based on sent MB's (1,22 €/MB). No changes to the subscription for corporate DNA GPRS customers. The fixed charge is 16,65 €/month.

- DNA WAP-GPRS:

  DNA WAP-GPRS is a GPRS service meant specifically for WAP users. The usage is unlimited for a fixed monthly charge of 4,90 €.

DNA offered GPRS for a 11 month trial period without limitations to find out if there is customer demand for such a service. According to the feedback, the customers have been really satisfied with the offered service, says Kai Friman, Executive Vice President of DNA. Because of the positive feedback DNA decided that it wanted to provide its GPRS service as under the trial period, in a way different from the competitors. [11]

Despite the fact that DNA changed its policy for the DNA GPRS service for consumer customers, DNA is still the most affordable GPRS provider on the market (table 3). As mentioned earlier, customers like fixed prices, but that does not necessarily means that fixed, or flat-rate pricing is the best alternative. First of all, it's not a fair way of providing data traffic to the end-users. Some end-users use it more than others, i.e. some will pay more for the used data than others. Another reason is congestion, the network must be able to function properly and offer the end-users at least some quality. There is a big risk for losing customers otherwise. By putting a limit for the DNA GPRS service for consumers DNA can now charge the end-users more fairly.

Table 3: Pricing policys for GPRS by mobile operators in Finland.

	Data Traffic Charge (€/MB)	Monthly Charge (€/month)
TeliaSonera		
• Basic Features of GPRS	10,24	0,00
• Open Data	2,374 (>1MB)	6,10
• Pro Data	1,749 (>10MB)	18,30
Radiolinja		
• GPRS Basic	4,88	0,00
• GPRS Plus	2,14	4,88
• GPRS Pro	2,14 (>100MB)	19,95
DNA Finland		
• DNA GPRS (corporate customers)	0,00	16,65
• DNA GPRS (consumer customers)	1,22 (>100MB)	16,65
• DNA WAP-GPRS	0,00	4,90

During the summer of 2003 Suomen 2G updated its nation-wide GSM/GPRS network. By updating the network, Suomen 2G can offer better quality for its service, i.e. less congestion. A probable reason being the DNA GPRS customers with their unlimited use of GPRS traffic. Usually there is no use in building too much capacity at a time, operators often try to optimize their networks and build more capacity when needed.

2.7 Acquisition of Telia Mobile Ab's Finnish Operations

Finnet Ltd's mobile operators reached at May 12, 2003 an agreement with TeliaSonera Ltd. about the acquisition of Telia Mobile Finland's operations. The agreement covered Telia Mobile Finland, to be divested as a result of the TeliaSonera merger, and Telia Product Ltd's entire operations: 2G operations, customer base, network infrastructure, retail chain, and 3G operations in their entirety. [11]

The result of the acquisition was that DNA had now over 700000 mobile phone customers. Its market share of the Finnish mobile communications market grew instantly and is now at about 15%. The acquisition combined the resources of two challenger mobile operators. Most of the customers of Telia came from the large cities in the south of Finland and most of DNA's customers again from the rest of the country.

The current market situation and the acquisition of Telia Mobile Finland led to restructuring in Finnet Ltd's mobile operations. Over 100 people lost their jobs.

2.8 The Distribution Channel

DNA Finland Ltd. makes use of both traditional and totally new types of distribution channels in distributing mobile subscriptions. The new types category include: e.g. Filmtown, Helios, and R-Kioski. According to Ville Hyvärinen from DNA Finland Ltd., DNA wants to be as active as possible in the distribution of mobile subscriptions. DNA doesn't want to wait passively in stores, but wants to approach the customers actively. DNA wanted to find distributors who customers visit anyway, on a regular basis. [11]

But traditional distribution channels are also used. The number of DNA's outlets offering mobile subscriptions, including those of local telephone companies who own DNA, is currently about 550 across Finland. At the beginning of September 2001 DNA expanded its distribution channel by starting to sell its mobile subscriptions over the Internet as well.

2.9 The Future as viewed by DNA Finland Ltd.

Future trends of the Finnish mobile market according to Ari Tolonen, CEO of DNA: [9]

- 3G network infrastructure will be limited to urban areas and (E)GPRS networks will be dominant elsewhere in Finland
- Service and network operators will see increased traffic margins will decrease:

    - Voice ARPU reduces but ARPU for messaging and value-added services will increase
    - Potential ARPU at 2007 is 47,0 € (today 40-42 €)
- Mobile device will substitute fixed telephone in voice traffic
- MMS (mobile messaging service) services will really take off in 2003
- By 2007, 90% of the users have 3G handsets due to the fact that nearly all handsets released to the market supports GSM/(E)GPRS/UMTS networks
- In 2005 3G starts to accelerate and by 2007 more than 50% of mobile traffic volume is 3G based

If these are the views of the CEO of DNA, these should be taken seriously. How do these views reflect the future of DNA? One thing is clear, mobile data will be the future. But when this will really break trough is the question. Year 2003 was not yet really the year for the MMS service.

3 Conclusions

Mobile communications is here to stay. The mobile operators have to be able to make wise strategic decisions if they are to survive. The traditional mobile operator, who function both as mobile network and mobile service providers will be tested by new operators who concentrate only on the value-added part of the business. These will be the challengers of the future, the question is: how will these companies succeed?

DNA Finland Ltd. has been able to build a brand that the Finnish people are very aware of today. As a market challenger company in the very competitive Finnish mobile communications market, DNA has made it very well. You could say that everything has gone according to the plans. DNA's mobile subscriptions have reached the targeted 15% and DNA is now one of the three big players in the Finnish market, still being a challenger. The year 2004 will tell if DNA will be able to make positive cash flows. If this will be the case you could start talking about DNA Finland Ltd. more or less as a success story.

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