AN ASSESSMENT OF THE EFFECT OF CONTEMPORARY POLITICAL AND ECONOMIC ENVIRONMENT OF VODAFONE

"Our vision is to be the world's mobile communications leader enriching our customer's lives through the unique power of mobile communications." (Vodafone Group Public Limited Company). This sums up Vodafone's mission and vision. Vodafone is a multinational mobile phone operator situated in Newbury, Bershire, United Kingdom and Dusseldorf, Germany. It is considered as the largest mobile telecommunications network company in the world. It has equity interests in 28 countries and Partner Networks in 14 other countries. (Wikipedia). There are six countries where it has more than ten million proportionate customers. These are Germany, United States, Italy, United Kingdom, Japan and Spain. (Wikipedia).

The evolution of the mobile phone is a product of the globalization of the world economy. About a decade ago, the mobile phone's function is limited to a communication tool utilized by individuals who are always on the move. Today, with the fast paced lifestyle and demands of our professional life, the mobile phone has transcended its conventional use and is perceived as an indispensable commodity. The development of the mobile phone is seen with the variety of functions it now has, it can send and receive emails, record sounds, document events, take pictures and at times function as a personal computer (Wikipedia).

The mobile phone has become a reflection of the owner's character, fashion sense, status symbol and personal preference. According to higher management," This has been another successful year for Vodafone." The company lays down all the rosy figures that state it plain and simple, "We closed the year with nearly 155 million proportionate customers, having generated £7.8 billion of free cash flow from £12.7 billion of operating cash flow. Cash shareholder returns increased to £6 billion as we doubled the dividend and purchased £4 billion of our shares.” (Vodafone Group Public Limited Company).

In the real world, everything has a cost, and one of the greatest strengths of mobile communications is low cost. The information superhighway concept envisions the extension of digital networks into homes across the country. Telephone and cable TV companies are vying for the right to bring this service to every home. However, the economics are very complex, and the current media hype has extrapolated the possibilities way beyond what can actually happen. It will happen, but not until the cost vs. performance of networking is advanced by several orders of magnitude.

A SWOT analysis is a quick, circumspect way of examining a company’s viability by examining its (internal) strengths and weaknesses and matching these to its (external) opportunities and threats. Collecting these facts and ideas together into one place enables you to see the bigger picture at a glance, identify all major factors affecting your company’s competitiveness and acts as a decision-making aid to formulating a cogent marketing strategy. Each company will have its SWOT profile and the process requires an iterative approach to reflect the ever-changing internal and external relationship (Erven, 2003).

Consider, for example, the fact that last year, Vodafone outlined six strategic goals that were designed to ensure the provision of more value to customers and shareholders alike. They have even made more visible progress as Vodafone launch of the 3G and implementation of the One Vodafone programme.

Moving to the top right quadrant, filling in all weaknesses or areas in which the business may be exposed, one needs to be honest. These are essentially macro environmental issues that surround and affect a company, product and position. Here one can identify several questions: What opportunities exist for the company? When one looks at the state of the current market, what does one see? What niches has the company spotted that rivals have missed? Where are the gaps that one is proposing to fill? Is the market moving in the right direction? Does one anticipate a shift in taxation/demand/the economy/product supply? (SWOT Analysis). For Vodafone, there is a "full roll-out of consumer 3G offering across 13 markets." (Vodafone Group Public Limited Company). This move alone provides a good stepping stone in the 3G strategy which follows quite strategically the success of the Vodafone Mobile Connect 3G/GPRS data card introduced in February last year. Thus, the enhancements that 3G bring will enable them to "build on the success we have achieved with Vodafone live! since the service started in October 2002." (Vodafone Group Public Limited Company). Today, Vodafone has almost 31 million active Vodafone live! users and a total of 2.4 million 3G devices registered on their networks.

Meanwhile, the PEST Analysis is used to analyse the Political, Economic, Social and Technological macro environmental factors which as worth. The political environment of Vodafone needs some re-examination. In considering the political arena upon the regulation of the business, key issue in using this PEST Analysis is looking into how stable the environment is. It will also determine whether the government policy will influence laws that regulate or tax the business.

Political - In the case of Vodafone, the "One Vodafone initiatives are targeted at achieving £2.5 billion of annual pre-tax operating free cash flow improvements in the

Group's controlled mobile businesses by the year ending 31 March 2008." (Vodafone Group Public Limited Company).

One Vodafone initiatives are targeted at achieving £2.5 billion of annual pre-tax operating free cash flow improvements in the Group's controlled mobile businesses by the year ending 31 March 2008. The Group also expects mobile capital expenditure in the 2008 financial year to be 10% of mobile revenue as a result of the initiaitives. These targets, and the analysis below, have been prepared on the basis of UK GAAP.

"Cost initiatives are anticipated to generate improvements of £1.4 billion, with a further £1.1 billion from revenue initiatives. Of the £1.4 billion of cost savings, £1.1 billion relates to savings in operating expenses, being payroll and other operating expenses, and tangible fixed asset additions. The remaining cost saving, of £0.3 billion, relates to handset procurement activities."

Social - Vodafone has bridged territories with these recent social developments. People with special communication needs are lucky to have a distinct and services for the others. Products such as converting text to speech, known in English speaking markets as Vodafone Speaking Phone, which is now available in six markets. This gives users who are blind or visually impaired access to all handset features, including text messaging. Technological - Technological Analysis involves the recently number of joint projects in order to bring global services to customers. Verizon Wireless customers use their phone in more than 100 countries. Vodafone and Verizon Wireless have also signed joint contracts with key media companies for their content and have several initiatives underway to further improve their service to multinational corporations. It is thus, evident that Vodafone management is always on the look out for every item of information that comes their way. They are receptive to everything even if the source is untraditional and the facts are controversial. (Vodafone Group Public Limited Company). Therefore, being open to information means taking in a tremendous diversity of facts. Thus, it was able to promptly respond to the need to launch common services across so many markets all at the same time. This clearly shows that Vodafone is "beginning to deliver the advantages of scale and scope and, in particular, show the benefit of creating central marketing and technology functions" (Vodafone Group Public Limited Company).

Within the current industry, one can then look more closely at forces within the business and those coming from directly outside it. A quick and easy way to assess the Vodafone business is to use some form of 'SWOT' analysis. The planning part emphasizes cost leadership strategy emphasizing competing in the industry by providing a product at a price as low as or lower than competitors. This strategy requires a constant concern with efficiency (reduction in per unit costs). Several essential actions are associated with a cost leadership strategy. (1). Utilizing facilities or equipment that yield high economies of scale; (2) constantly striving to reduce per unit overhead, manufacturing, manufacturing , marketing and following up service costs; (3) minimizing labor-intensive personal services and sales forces, and (4) avoiding customers whose demands would result in high personal setting or service costs. High volume and/or rapid growth often are needed for profitability with the cost leadership strategy.

Vodafone creates a balance between transactional and relationship-driven business. Transactional businesses attract customers who only care about one thing: buying the cheapest product. In every market, there are customers who fit this description, and the information revolution has certainly made the lowest price more attractive to them. Moreover, "For Vodafone, corporate responsibility is about understanding the expectations of our stakeholders and taking appropriate action to meet those expectations. We are, therefore, integrating corporate responsibility into the business and this is reflected in our strategic goals, our values and our Business Principles." (Vodafone Group Public Limited Company).

Chairman Lord MacLaurin of Knebworth states it well when he notes, "Our ability to launch common services across so many markets at the same time is evidence of how Vodafone is beginning to deliver the advantages of scale and scope and, in particular, shows the benefit of creating central marketing and technology functions last year. We are building on these achievements through our One Vodafone programme to drive further benefits from our global footprint (Vodafone Group Public Limited Company).

The economy of scale in the mobile phone industry is seen with respect to the approaches employed by mobile phone manufacturers in employing means to make their production process more efficient and keeping their cost of production at a minimum level. The highly technical nature of mobile communication poses a critical hindrance for other firms from entering the industry. Only firms with technical expertise were able to manufacture mobile phones. More importantly, the availability of financial resources and investments in human capital are imperative in order for a firm to succeed in the industry. These economies of scale have stymied other players from engaging in the manufacture of mobile phones. As such, said economies of scale have acted as barriers of entry for potential players (Rappaport. T. S. 1996).

Barriers of entry are variables that make it difficult for new firms to enter the industry. These barriers come in the form of restrictions imposed by the government such as tariffs, quotas and regulations of government agencies. Said regulations are incorporated in the monitoring of product standards specifications and business operations of manufacturers. Other pertinent cost that should be considered by prospective firms would deal on advertising and marketing requirements. However, with the advent of globalization, technological breakthroughs and innovations in the manufacturing process have been made available to a variety of firms in the international community. As a result, small firms are given the opportunity to compete with larger firms because they now have access to relevant and affordable technology as well as other resources needed to enhance their respective production process.

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Some changes and economic development have led to the collapse of barriers in the mobile phone industry. The growing subscriber base in the third world and highly developed countries have led to the expansion of the market for mobile communications. Governments have eased requirements in the operations of mobile phone manufacturers because these firms contribute to the growth of their domestic economy. The emergence of Original Design Manufacturer (ODM) has resulted in the presence of more firms in the industry. ODMs sell their own finished products to other firms, which in turn sell them under their own brand. (The Economics 2004) The production process for mobile phones became simpler and fewer requisites are needed in terms of investments for manufacturers because components for mobile phones are made cheaper. Firms are not only competing for operators and mobile phone subscribers but they are competing for ODMs and phone components. The reduction of barriers to entry could augur well to the development of the industry because it would result to more choices available to the consumer and a better product as a whole. The viability of each mobile phone manufacturer is base on its ability to exploit its comparative advantage against its competitor. The highly liberalized business environment to which firms operate largely contributed to the increased outreach and diversification of its market.

The worldwide industry for mobile communications will continue to rise as manufacturers reconfigure the mobile phones with varying features that appeal to the needs of discerning consumers. Manufacturers would be competing for price, such that production cost should be maintained at a minimum without compromising product quality and ensuring a modest profit on the side. Small firms could eat up a portion of market shares held by more established firms by exploiting the ODMs. It is clear that the market structure for mobile phones would be driven by the manufacturers' increased ability to adapt to the dynamism and continuous demand for mobile phones.

The competition among manufacturers is manifested by added value and added services in their mobile phones such as prolonged warrantees, durable cases and a ready supply of spare parts and service centers. These value added services are critical as this is another area in which mobile companies could provide incentives to operators and subscribers. The growth of the mobile phone market would serve as an impetus for small and large manufacturers to provide added investment to make their production and marketing processes work at optimum levels. With the fast-paced changes in the mobile phone industry, manufacturers are compelled to increase their respective product lines, more models of mobile phones would be introduced at a short period of time. Mobile phones with more capabilities would in effect perform a host of functions tailor-made for specific market segments that will enter the market. The ranking of the top four firms in mobile phones might change over the long run and these changes are based on the firm's capacity to compete and exploit the weaknesses of the other firms. New inventions can likewise have implications on the industry; a new product to replace mobile phones can have serious repercussions. Manufacturers should be wary of this particular development because it might lead to the obsoleteness of their product in the market. They should devise means to further enhance the viability of mobile phones (Rappaport. T. S. 1996).

Vodafone seems to be experiencing its most critical competency – that is, that they need to be business-smart in technology and technology-smart in business. They have continued to pursue selective opportunities to expand their geographic stronghold. Focus had been on Central and Eastern Europe. Just a few months ago, Vodafone had entered into conditional agreements with TIW of Canada. In that agreement, they were able to acquire 79% of the share capital of MobiFon S.A. in Romania, where Vodafone already has a 20% interest, and 100% of the share capital of Oskar Mobil in the Czech Republic. What strikes one here is that both companies are fast growing mobile operators. They stand to get many other benefits from these transactions and scale benefits that Vodafone can deliver. (Vodafone Group Public Limited Company).

Dealings of this kind does not stop there. The merger of Vodafone Holdings K.K. and Vodafone K.K. in Japan was completed following the successful tender offer to increase shareholdings in both companies. This move, according to several key officers clearly shows the long-term commitment to the mobile market in Japan which hopefully will prove well over the long haul. Here we readily see the company's flexibility through every project by setting flexibility and simplicity in every corner of the environment. Together with this they closely scrutinize the true costs and benefits of exception. Expanding even more, Vodafone "signed a Partner Network Agreement with SmarTone in Hong Kong, bringing the number of Partner Networks to fourteen. SmarTone is now fully rebranded as SmarTone-Vodafone. At present, it is one of Hong Kong's leading mobile operators in multimedia services." (Vodafone Group Public Limited Company). It is obvious now that Vodafone is on high gear.

In terms of the effects of the political environment of Vodafone, it is true that the soft stuff is really the hard stuff. That means, the most challenging aspect of managing a company, as most leaders know, is marshaling the will and talents of the ultimate software assets of an organization: its people. Winning the loyalty of a team, aligning its strengths with the mission of the organization, maintaining a sense of dedication, installing agreements about ethics and values, measuring the effectiveness of a team, compensating individuals appropriately: that's the hard stuff that keeps managers up at night. The task of developing or selecting and deploying the right technology, while difficult and challenging in its own right, is comparatively trivial (Vodafone Group Public Limited Company).

Key people see strong growth prospects for the business. They have increased the dividends and re-purchased £4 billion of our shares in the year to March 2005. The result was an increase in cash returns to shareholders compared to the previous year from £2.3 billion to £6 billion. The shareholders returns policy will continue to provide shareholders with a mix of dividends and share purchases. This done, it will continue to be flexible within its debt capacity to pursue selective acquisition opportunities if and when it arise.

Meanwhile, Vodafone is committed to support research aligned with the World Health Organization's priorities, thus making it concerned about the people using their technology. The company is also committed to provide customers and local communities all around the globe with reliable and up-to-date information in plain language. High on their list is to ensure that people have the information they want to make decisions on mobile telecommunications.

Today, with the increasing emphasis on decentralized business units and with the rate of technological change in the global economy, technology and information have become as critical as capital, research and development, marketing and other previous drivers of success. For Vodafone, they take their corporate responsibility seriously. They understand the expectations of their stakeholders and take appropriate action to meet those expectations. Even reaching out to charitable institutions have been part of the corporate goals. According to the chairman, Vodafone and its operating companies made charitable contributions of £33 million to The Vodafone Group Foundation, local Vodafone Foundations and social projects. More recently, following the Asia Tsunami disaster, Vodafone, its employees and Foundations committed total funds of £2.5 million, including the provision of free calls to and from the affected region. (Vodafone Group Public Limited Company).

Chief Executve Arun Sarin expounds, “For the year ahead, we see continued good growth in mobile revenue. We expect to add approximately a further £5 billion of fixed assets as we continue to expand our 3G networks. Free cash flow is anticipated to be in the £6.5 billion to £7 billion range, with a lower level of dividends expected from Verizon Wireless combined with higher cash expenditure on taxation and fixed assets offsetting growth in operating cash flow.” (Samuelson, P & Nordhaus. 2001).

CONCLUSION

Technology developments do not become valuable until they find a market. Markets are always looking for improvements and they will embrace the right new developments, but these are not necessarily the same as what the technologists are doing. If such a mismatch exists, technical developments will fail. Thus, one must study markets and what they want to see where things may go in the future. For Vodafone, competitive advantage should not be the goal. It should be the result of something more basic: offering customers a product or service that saves them time, makes their lives easier or enriches their relationships. Companies derive competitive advantage from doing that well.

Indeed, no matter how we look at it, we are embarked on a course that leads to more and better mobile communications. The opportunity is there for those who utilize this exciting capability. Indeed, Vodafone continues to grow at record-breaking speeds. There has never been anything like this unprecedented level of change. By and large, Vodafone as a company geared towards mobile communications, continuously show an unbelievable level of improvement as time goes on.

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