

WIRELESSFORUM
by Richard Mills

Philippine cellcos thrive in open environment

The mobile telecommunications sector is one of the few in the Philippines that have been allowed to develop within a relatively fair and competitive environment. The two main players, Smart and Globe (with Sun on the way), have created a world-class industry in terms of consumer usage, technological sophistication and profitability.

I had lunch a few weeks ago with a very nice fellow who runs one of the large telecoms equipment suppliers. He has many years of experience in the Asia-Pacific region and explained to me why the progress in Philippines has been so extraordinary.

He said that a few years ago, most knowledgeable people in the industry came to the conclusion that the Philippines would never be a player of any significance in the mobile sector. The demographics are such that only 5% of the population was thought to have the financial means to afford service. Therefore, the experts felt that if the number of Filipinos using cellphones ever reached 15%, it would be a tremendous achievement.

Today, roughly 30% of the population are active cellphone users, and this rate should reach 40% within the next year or so. Smart and Globe are two of the most profitable telcos on the planet (by return on assets). Smart generates \$2 million per day in free cash flow (EBITDA), roughly \$700 million per year – a lot of money in a poor country like this. Various SMS technologies like electronic loading (pioneered by Smart Buddy Load) were first developed in Philippines.

Another fellow I got to know recently has a 100-million-euro business selling handset customization utilities (mainly down-

loadable ringtones and icons) to fashion crazed young people. Of the many countries in which he operates, the Philippines accounts for 54% of his worldwide transactions. Understandably, the Philippine revenue contribution is much smaller than this but it is still a major factor.

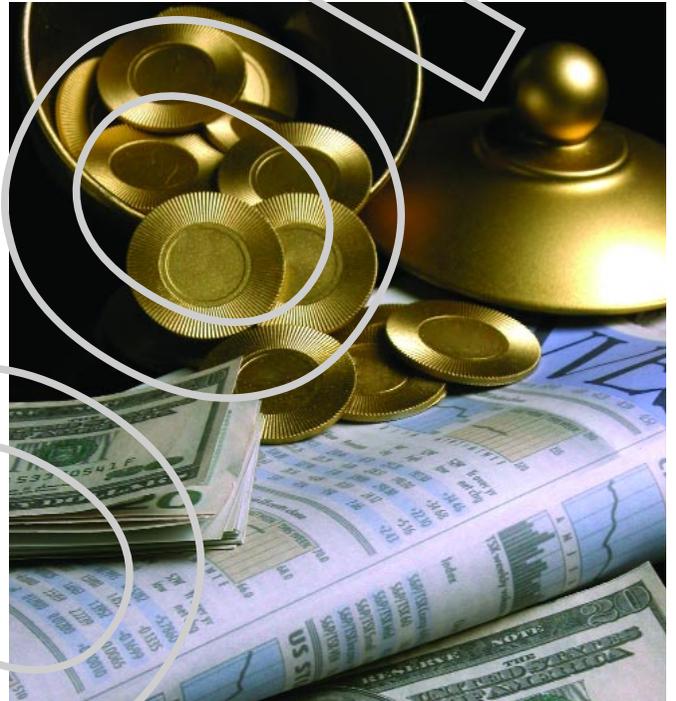
I also happened to speak to a prominent movie executive in Los Angeles with a major film production house. We got on the topic of cellular competition, and he certainly understands the threat his business faces in the Philippines. He explained that young people only have so much money. If they spend a big part of it sending text messages to their friends, they will have less for buying movie tickets, VCDs and associated merchandise. He was already documenting lost revenue due to “this texting thing” and was specifically watching the situation as an indicator of what could follow elsewhere in Asia.

Not just a cost issue

It is inspiring to hear such talk about the Philippine GSM industry. Filipinos give self-deprecating reasons for their bona fide achievement. They say texting became so popular because using telephones to talk to people doesn't work very well and, even if it did, it's far too expensive for most Filipinos to afford.

This is all nonsense. There are plenty of poor countries in the world with dysfunctional fixed-line telecoms monopolies, but none of them became world leaders in GSM. The Philippine industry is an achievement on a worldwide scale and Filipinos are the reason it happened.

I am told that the current opinion among the telco experts is that subscriber growth and revenues in the Philippines will



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plateau over the next couple of years. The Philippines, it is thought, will not be a player in the newer multimedia cellular technologies that are coming into fashion. “Everybody knows” that Filipinos can't afford cellphones costing 500 euros (\$608).

Well, let's just wait and see.

People who are leaders in something today usually continue to be so tomorrow. Most Filipinos living in Philippines may not be able to afford expensive handsets, but 7 million of their relatives working overseas surely can. A 500-euro unit might be a good investment if a Filipina nurse working abroad can be assured of receiving weekly audio-visual clips of her children and seeing

progress on a home construction project she is financing.

In any case, the lesson from the cellular industry is clear. If Philippine companies are allowed to compete in a truly market-driven industry on a level playing field, then Filipinos are capable of creating world-class firms in a reasonable time span – Smart and Globe did it in about six years. If companies in other industries were allowed/forced to compete in a likewise manner, we would certainly have a lot more top companies in the Philippines. ●

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