

## Cellphone Psychopaths

**Philippines becomes a world leader in something.**

The mobile telecommunications sector is one of the few in Philippines that has been allowed to develop within a relatively fair and competitive environment. The 2 main players, Smart and Globe (with Sun on the way), have created a world-beating 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 telco 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 Philippines would never be a player of any significance in the mobile telco sector. The demographics are such that only 5% of the population would have the financial means to support an industry. Therefore, the experts felt that if the number of Filipinos using cellphones (the penetration rate) ever reached 15%, this would be a tremendous achievement. It was considered irresponsible to anticipate any progress beyond this level.

Today, roughly 30% of the population are active cellphone users in Philippines and this rate should reach 40% within the next year or so. (This is astounding if you consider that supposedly advanced countries like Canada only have a 5% penetration rate.) Smart and Globe are currently 2 of the most profitable telco organizations on the planet (by return on assets). As an example, Smart generates \$2M per day in free cash flow, roughly \$700M per year. Various SMS technologies like electronic loading (pioneered by Smart Buddy Load) were first developed in Philippines and copied elsewhere.

Industry players continue to win numerous international technology awards.

Another fellow I got to know recently has a 100M-euro business selling handset customization utilities (mainly downloadable ringtones and icons) to fashion crazed young people. Of the many countries in which he operates, 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.

It is inspiring to hear the awe with which the Philippine industry is regarded by senior telco people in the Asia Pacific region and Europe. Our Philippines is considered a world leader in key areas of mobile telephony like SMS. (North America, by the way, knows nothing about any of this since these people are still in the stone age of cellular technology.)

Many Filipinos give self-deprecating reasons for this bona fide achievement. They say texting became so popular because using telephones to talk to people doesn't work very well in Philippines and, even if it did work, it's far too expensive for poverty stricken Filipinos to afford. This is all nonsense. There are plenty of poor

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countries in the world with dysfunctional fixed-line telco monopolies but none of them became world leaders in cellular. The Philippine industry is an achievement on a worldwide scale and Filipinos are the reason it happened.

The current opinion among the telco experts is that subscriber growth and revenues in Philippines will plateau over the next couple of years. Philippines, it is thought, will not be a player in the newer multimedia cellular technologies that are coming into fashion these days. "Everybody knows" that Filipinos can't afford cellphones costing 500 euros.

**Well, let's just wait and see.**

People who are leaders in something today usually continue to be so tomorrow. 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 of the mobile telco industry is clear. If Philippine companies are allowed to compete in a truly market-driven and level playing field, then Filipinos are capable of creating world-class industries in a reasonable time span - Smart and Globe did it in 5 or 6 years. If companies in other industries were allowed/forced to compete in a likewise manner, we would certainly have a lot more world beating industries in Philippines than we currently have.