

Will O₂ be able to stay on top? An analysis of the largest integrated telecommunications provider in the Czech Republic

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Will O₂ be Able to Stay on Top?

An analysis of the largest integrated telecommunications provider in the Czech Republic

Danielle Pillon
Fall 2014

ABSTRACT

O₂ is the one of the largest mobile operators in the Czech Republic, with over eight million fixed and mobile lines in operation. The company also offers home phone, television, and internet services (O₂ corporate website, 2014).

Prior to an acquisition by investment company PPF, O₂ Czech Republic was primarily owned by Telefonica, a Spanish company which is present in 21 countries and retains over 316 million customers worldwide (Telefonica corporate website 2005, 2014). The three main competitors in the country's telecommunications market include world-known T-Mobile, the UK powerhouse, Vodafone, and U:fon, the newest member of the market. With an ongoing decline in mobile profits, pressure to cut prices from virtual operators, and new legislation introduced by the European Union, will O₂ be able to stay on top? To analyze this question, I will conduct a SWOT analysis, apply Porter's Five Forces Model, and examine O₂'s current marketing strategies. Lastly, the results from a survey and two interviews, both conducted at the University of Economics in Prague, will be presented to determine exchange students' opinions toward the current mobile providers in the market.



INTRODUCTION

O₂ officially entered the Czech market in 2005, after going through several name changes and mergers with companies including Eurotel and Telefonica. As one of the first mobile operators in business within the country, O₂ was able to acquire market share through first-mover advantage. The company's continued innovation and strategic marketing strategies, including loyalty programs, have allowed O₂ to maintain clear success. In 2012, O₂ became the first operator in the country to open its market to virtual operators and in 2013, it transformed the market by offering unlimited FREE tariffs to consumers (O₂ corporate website, 2014). This paper will examine the history and financial status of the company, as well as the strengths, weaknesses, opportunities, and threats that O₂ is currently facing. Finally, I will provide some recommendations on how I believe O₂ can strengthen its position within the industry, and relate these approvals back to the results of the survey and personal interviews, which both measure current students' perceptions of value and quality.



HISTORY OF TELECOMMUNICATIONS IN THE CZECH REPUBLIC AND THE FORMATION OF O₂

According to Funding Universe (2004), the story behind O₂ Czech Republic begins in 1989, at the start of the Velvet Revolution, when communist power collapsed in the former nation, Czechoslovakia. During the same year, SPT Praha was formed, which stands for "Sprava post a telekomunicaci Praha," better known as The Ministry of

Posts and Telecommunications. This state-owned company was created as a monopoly for all postal and telecommunication services in Prague. The revenues gained from this sector were used to subsidize postal services. In 1990, SPT entered into a joint-venture agreement with two American companies: Bell Atlantic (presently known as Verizon Communications Inc.), and US West (Verizon corporate website, 2014). Through this agreement, the new company, Eurotel, was established as a mobile service provider in the Prague region. Then, at the start of 1993, the “Velvet Divorce” occurred, which separated Czechoslovakia into two nations. This separation of countries instituted the split of SPT, into SPT Telecom and Czech Post. Subsidies were put to a stop, and SPT Telecom gained full control of the telephone network. Unfortunately, the network was deteriorating, as no investments were made in communication infrastructure during the communist period. Despite this, SPT Telecom still managed to report CZK 6 billion in profits. In 2000, SPT Telecom was renamed to Cesky Telecom, prior to the market opening up to competitors in 2001. This was considered a huge success, as the company had struggled for many years to privatize the market. In the fall of 2003, Cesky Telecom gained full control of Eurotel, which would become its new mobile operator. Two years later, Telefonica acquired 51.1% of Cesky Telecom for approximately EUR 2.7 billion (Telefonica corporate website, 2005). Following this action, the two companies merged into one legal entity to increase customer benefits by offering mixed fixed and mobile line services. This was necessary as the demand for mobile phones increased rapidly, along with the use of internet services. The company was officially renamed “Telefonica O₂ Czech Republic AS” from this acquisition (Fiserova & Dudikova, 2006). Since PPF’s acquisition of O₂, the company has since been renamed to “O₂ Czech Republic,” as of June 2014 (O₂ Half-year Report, 2014).

O₂ TODAY: A LOOK AT THE FINANCIALS

To measure the company’s current financial position, I conducted a quantitative analysis by calculating three ratios to measure liquidity, solvency, and profitability based on the company’s 2014 half-year report. As of June 2014, O₂ Czech Republic’s current assets were valued at approximately CZK 10.6 billion, in comparison to CZK 15.9 billion in current liabilities. This amounts to a liquidity ratio of 0.67, which indicates that the company is currently not in a good state to pay their short-term bills. One way to increase this ratio would be for the company to pay more of their debt, or convert their short-term debt into long-term debt. Secondly, O₂ Czech Republic reported total debt of CZK 21.5 billion, and total equity of CZK 51.8 billion, amounting to a 0.42 debt to equity ratio. This is a 9% increase from 2013, which indicates that the company is experiencing increasing interest expenses, and may have difficulty raising more debt in the future. Additionally, the company suffered a 26% drop in profits from the previous year, with a 16% decrease in mobile operating revenues. Based on these calculations, it does not appear that the company is performing very well; however, these numbers can be attributed to an increase in investments. O₂ Czech Republic spent CZK 6.5 billion this year in cash on investing activities in areas with growth potential. In particular, the company focused its efforts on increasing the capacity and quality of their data network, with particular focus on 4G/LTE network coverage and the Slovak market.

Finally, I assessed the operating performance of O₂’s fixed assets to determine whether or not O₂ has been efficient at managing their investments. Based on O₂’s property, plant and equipment (PP&E) of CZK 38.5 billion, and total revenues of CZK 21.8 billion, the company has a fixed-asset turnover ratio of approximately 0.57. Again, this number may seem very low; however, due to the capital intensive industry, it is acceptable. To ensure this, I compared the ratio with that of T-Mobile’s fixed-asset turnover ratio for the same period, which is 0.47 (T-Mobile Annual Report, 2013). Therefore, O₂ is clearly making better use of its investments than one of its closest competitors. Overall, financial results in the mobile segment have been lacking, but this is in line with the expectations of both the market and financial analysts, according to Tomas Budnik, acting CEO of O₂ Czech Republic (O₂ corporate website, 2014).

SLOVAKIA

O₂ Slovakia is the O₂ Czech Republic Group's largest subsidiary, reporting operating revenues of over CZK 4.4 billion for the first nine months of the year. The company began operations just seven years ago, in 2007, and since then, it has remained a key growth region for the group. Slovakia's customer base increased to over 1.6 million users, which is an 11.3% increase from 2013. O₂ is currently the third largest mobile operator in Slovakia (O₂ corporate website, 2014).

NEW PLANS FOR O₂: PPF'S ACQUISITION OF TELEFONICA CZECH REPUBLIC

According to a press release on the O₂ corporate website, on November 5, 2013, Telefónica announced the sale of 65.9% of its share in Telefónica Czech Republic to PPF, a Czech investment group, for a total value of 2.467 million euros. The deal later closed at the end of January 2014, after the European Commission's approval. The transaction is expected to have a positive impact on the company, with hopes of reducing the company's net debt, thereby increasing its financial flexibility. A similar agreement was made in Ireland in an attempt to strengthen operations in O₂'s core markets: Spain, the UK, Germany, and Latin America.

Telefonica still maintains a 4.9% stake in the company at the present time, and will remain an industrial and commercial partner for the next four years (Telefonica corporate website, 2014). Despite this change in ownership, O₂ claims in its 2014 half-year report that PPF has provided a new outlook for the company in all areas of operations. The company is expected to implement a simpler, and more effective operating model to improve customer experience and respond to shareholder demands.

MARKET ANALYSIS AND O₂'S COMPETITORS

Currently in the telecommunications market, consumers care most about data services. Specifically, fast mobile internet speeds. In February, the Czech Telecommunication Office allocated the 800, 1,800, and 2,600 MHz spectrum to the top three local mobile operators, which enabled such companies to begin implementation of the new 4G/LTE network in mobile phones. O₂, Vodafone, and T-Mobile had all placed bids for the spectrum in an auction last year, and are currently investing in technologies to improve the network speed and availability within the Czech Republic. O₂ hopes to reach 93% of the population with both 3G and LTE services by the end of the year (O₂ Half-year report, 2014). Please see the appendix for a complete coverage map of the country.

Additionally, the market has seen a new trend with regards to MNVOs, or virtual operators. During the first half of 2014, 15 new virtual operators entered the market, totaling the amount to 71 MNVOs in the region (O₂ Half-year report, 2014). A further explanation of the impact of MNVOs on the market will be discussed later.

Legislation issues have also had an impact on the telecommunications market. Recently, a provision was made to the Electronic Communications Act, which granted users the right to terminate their fixed-term contract early. In addition to this, a limit was imposed which restricts contract users to pay no more than 1/5 of the sum of monthly subscriptions. This may or may not have a positive effect on the market, as it limits spending amounts; however, it removes the incentive to keep customers loyal. Finally, a new international roaming regulation was passed by the European Parliament and EU Council in 2012, which lowered the regulated amount of voice, SMS, and data prices. These rates will apply for the next ten years (O₂ Half-year report, 2014).

In the Czech Republic, four main mobile operators exist in the market, including O₂. O₂'s main competitors are T-Mobile, Vodafone, and U:fon, which is operated by Air Telecom.

T-Mobile

According to the T-Mobile corporate website (2014), T-Mobile has been in operation in the Czech Republic since 1996, and has been owned by Deutsche Telecom since 2002. 2014 has been a huge year for T-Mobile; the company reported CZK 17.9 billion in total revenues, of which CZK 14.2 billion can be attributed to mobile services. As of this year, T-Mobile also has the largest customer base in the Czech Republic, with almost 6 million users, approximately 3.5 million being loyal contract customers. Additionally, T-Mobile has received many awards for its outstanding performance, including Employer of the Year and the VIA Bona award for their employees' participation in volunteer events. As for student plans, T-Mobile offers 40 minutes, 40 SMS messages, 100MB of data, and an additional offer of free calling and SMS between 7 P.M. – 7 A.M. among the T-Mobile network for 234 CZK. T-Mobile is especially appealing to foreigners, as the company has a large world-wide presence. The company's website even features an "Information for Visitors" section, making it easily accessible to this target group. T-Mobile also has the most partners for direct-dial prepaid roaming out of all Czech operators. The list of roaming partners contains 87 countries, everywhere from Argentina, to Denmark, to Hong Kong. In May of 2014, O₂ reached an agreement with T-Mobile in regards to 4G/LTE network sharing. Both operators will benefit from improved broadband connection and major savings, which will allow each company to further invest in their networks and services. Despite the sharing of the new network, both O₂ and T-Mobile will continue to use their own network infrastructure, and pursue separate business strategies as normal (O₂ Half-year report, 2014).



Vodafone

Vodafone currently holds the title as the world's largest mobile network. The Vodafone Group currently has operations in over 30 countries around the world, and has over 360 million users, 19 million of which are in the UK. Originally known as Oskar, Vodafone Czech Republic quickly became the fastest growing operator in the region when operations began in 2005. It was also regarded as the most customer-orientated company in the country (Vodafone Czech Republic corporate website, 2014). In particular, Vodafone is known for its exceptional customer service abilities, both in store, online, and on the phone. Above all, Vodafone makes a commitment to its customers to be transparent with information, manage costs, protect privacy, and even filter out adult content for kids (Vodafone UK corporate website, 2014).



In an attempt to capture market share from visitors to the Czech Republic, Vodafone introduced a prepaid "Data SIM for Visitors" plan. Visitors may use up to 10GB of data over a 30-day period, and can call all other Vodafone users free of charge (Vodafone Czech Republic corporate website, 2014). This was a strategic move on the company's part, as it attracts many students and expats studying or working in the Czech Republic for a limited period of time. In addition to this, Vodafone also offers a student tariff: 1.2 GB of data, 600 minutes, and unlimited SMS for 494 CZK (Vodafone corporate website, 2014). This deal applies to all individuals under twenty-six years of age. This plan is also strategic as young people in this age bracket use data and SMS most often.

U:fon

Previously known as MobilKom, U:fon is currently the fourth, and the newest player in the Czech telecommunications market, with mobile operations beginning in June of 2008. Similar to the past agreement reached between Eurotel and Cesky Telecom, Air Telecom became the sole owner and operator of U:fon in December of 2012 (TeleGeography, 2012). The new owners introduced a range of voice and Internet data packages to kickstart operations, and retain the company's existing 100,000 members.



In comparison to the other top three companies, U:fon's plans have the best value. The cheapest and most popular plan featured on the U:fon website is the "Air Junior" plan, which includes 70 minutes of calling, 10 free

SMS messages, and 50 MB of data within the Czech Republic for only CZK 149 per month. This rate is based on a 2-year commitment; however, the price for the same plan with no commitments is only CZK 100 more per month. If users exceed the given parameters, extra charges will apply: CZK 1.50/minute call, and CZK 4 per SMS message. For added flexibility, users are able to add on packages based on their preferences to make their plan more flexible, for example, an extra 50 MB of data for CZK 49, or 50 SMS for CZK 65.

Unlike the main three mobile operators which use a GSM network³⁸, U:fon operates under the CDMA network. According to Sascha Segan (2013), GSM, Global System for Mobiles, and CDMA, Code Division Multiple Access, are the two major radio systems used in cell phones, which are unfortunately incompatible with each other. Under GSM networks, it is easier to swap phones, as all customer information is placed onto a removable SIM card. Therefore, any user of this network is able to put their SIM card into any unlocked phone. CDMA networks do not have this convenience. Although it is still common for CDMA phones to have a SIM card slot, its use is intended to strengthen 4G/LTE networks. In addition, 3G CDMA networks are not able to transmit data at the same time that a voice call is being placed, unless the network has an “SV-DO (Simultaneous Voice and Data Optimization)” option. The following table summarizes some of the four companies’ best value plans, which are intended for students.

Table 1: Student Plans Amongst the Top 4 Players

	Minutes	SMS	Data	Special Offers	Cost
O₂	120 ³⁹	Unlimited ⁴⁰	1 GB	-	399 CZK
Vodafone	600	Unlimited	1.2 GB	-	494 CZK
T-Mobile	40	40	100 MB	FREE call/SMS from 19-7 in T-Mobile Network	234 CZK
U:fon	70	10	50 MB	-	149 CZK

*Data for this table was taken from each of the mobile operator’s corporate websites, as indicated in the text.

MARKETING STRATEGIES

“FREE” Tariffs

In the spring of 2013, O₂ announced it would offer *FREE* tariffs to its customers, where all those subscribed have unlimited calling within the Czech Republic. This triggered a revolution in the Czech mobile market. Due to this strategic advertisement, the company saw many of its customers, both new and loyal, upping their monthly spending to take advantage of the incredible offer. The campaign has specifically had an effect on voice traffic: customers utilizing the promotion make approximately 66 minutes more worth of calls in a monthly cycle. This is a 27% increase in the amount of calls made on the O₂ network from 2012. Additionally, the company saw a 30% increase in the amount of data traffic on the mobile network. Above all, O₂ managed to sign 158,000 new customers, a 3% increase from 2012, which can be largely attributed to the free tariff strategy (O₂ annual report, 2013).

Mobile Internet

O₂ presently has the fastest mobile internet in the country. With the implementation of the new 4G/LTE network, users are now able to download materials up to 110 Mb/s. This is much faster than 2G/EDGE, which downloads at 236kb/s, or 3G/HSPA, which downloads at a speed of 43 Mb/s (See Appendix III). Due to the large fixed asset

³⁸ O₂ users have access to both CDMA and GSM networks.

³⁹ 120 minutes within the O₂ network; CZK 3.50 otherwise.

⁴⁰ Unlimited to O₂ network only; CZK 1.50 per SMS message applies otherwise.

investments made by O₂. O₂, the company is able to offer this new network to the majority of the country, including Prague, Brno, and Ostrava, the Czech Republic's three largest cities.

Loyalty Programs

O₂ also prides itself on being a company which is able to maintain its loyal customers. So far, over one million customers have taken advantage of O₂'s loyalty program, *Extra Vychody*, which allows customers to enter discount codes to receive additional credits. Being an O₂ customer myself, I have personally used a discount code which was offered to me through a text message. I submitted this word/number combination and was granted free SMS messages between other O₂ users for one day. Since the creation of this program in 2012, the O₂ customers have saved over 400 million CZK (O₂ annual report, 2013).

Phone Choices

By choosing O₂, users have over fifty-three featured smartphones to choose from with the best price guarantee, and will receive all phone settings free of charge. Additionally, O₂ has an exchange program, which allows customers to trade in their old phone for a discount on a new device. The price of the used phone is calculated based on wear and damage, and the determined value is deducted from the price of a newly chosen device (O₂ corporate website, 2014).

Partnerships

In June of 2014, O₂ entered into a partnership with Apple. The latest models of the iPhone will go on sale in O₂ stores the same day they are launched in the Czech Republic. Due to the added publicity, the company is likely to see an increase in revenues, as many loyal Apple customers will be lined up around the store to receive the new product. Due to this partnership, users also have access to the latest models of Beats headphones, which are extremely popular amongst young adults (O₂ corporate website, 2014).

PORTER'S FIVE FORCES MODEL

In an attempt to further analyze the telecommunications market in the Czech Republic, I have chosen to apply Porter's Five Forces Model. According to Porter (1985), this model suggests that a firm develops its business strategies in order to obtain a competitive advantage within the industry. In order to do so, a company must respond to five key primary forces: (1) the threat of new entrants, (2) rivalry among existing firms in the industry, (3) the threat of substitutes, (4) the bargaining power of suppliers, and finally, (5) the bargaining power of buyers, or customers, in this case.

Generally, the threat of new entrants is relatively low within any telecommunications market as the fixed costs are so high. In particular, significant investments are required to build and maintain the new 4G/LTE frequencies. However, Mobile Virtual Network Operators (MNVOs) have become a new trend in the telecommunication market. These types of companies do not own the network they are operating in; instead, an MNVO enters into an agreement with an existing mobile network operator at a given wholesale price. The MNVO then has the opportunity to set its own retail prices at a much cheaper rate. On-net calling rates start as low as CZK 0.39 per minute. Popular MNVOs in the Czech Republic include Opencall, TescoMobil (O₂'s Mobile Network) and Connectica (T-Mobile's Network) (Matthews, 2014). This type of competition could pose a threat as it is an attractive method for foreigners who wish to make international phone calls. Fortunately, virtual operators who use O₂'s services rank amongst the key players in the MNVO market (O₂ Half-year report, 2014).

- 1) Currently, there is an extremely high level of rivalry amongst firms in the Czech telecommunications market. As mentioned before, three main competitors exist: Vodafone, T-Mobile and U:fon. Currently, O₂

is leading in terms of revenue, with over CZK 21.7 billion reported for 2014, while T-Mobile has the largest customer base. Alternatively, U:fon offers the cheapest plans in the industry, and Vodafone is known for its exceptional and consistent customer service.

- 2) The threat of substitute products is quite high within this particular industry. With the never-ending limits of technology and its rapid evolution, it becomes easier every day to get in contact with others. Alternative communication services can include instant messaging, email, and VoIP (Voice over Internet Protocol) carriers such as Skype. With the increasing availability of public Wi-Fi hotspots, many individuals are able to resort to their tablets or laptops as a means of correspondence. MNVOs can also be thought of as a substitute in this category.
- 3) The bargaining power of suppliers is relatively low within this market. The companies themselves are responsible for both selling the products, and providing the network for the products to operate on. The only suppliers involved are the makers of the smartphones, or the hardware utilized to maintain network function. As indicated in O₂'s half-year report for 2014, the share of smartphones in the O₂ network increased to 38% during the period. As such, there is intense pressure on suppliers to provide new and innovative products to keep up with consumers.
- 4) Finally, the bargaining power of buyers, or customers, is also very high within this market. As mentioned previously, users have a number of substitutes to choose from, which implies that companies need to be consistently updating their offerings to adjust to consumer preferences. It is crucial that telecommunication companies focus on a clear and positive brand image for themselves, while differentiating their product. O₂'s initial offering of FREE tariffs is a perfect example of this power, as all three competitors found it necessary to offer the same deal to remain active in the market.

Next, I compiled key information about O₂ into a SWOT analysis, to identify areas to focus on, and those of concern in order to effectively provide a recommendation for company's future marketing strategy.

Figure 1: SWOT Analysis

Strengths	Weaknesses
Only operator investing in fixed accesses	Weak financial results as a result of excessive investments
Ability to maintain loyal contract customers through <i>Extra Vychody</i> promotion	Language availability
Fastest mobile internet in the Czech Republic	
Opportunities	Threats
Customer service enhancement	Takeover by MNVO networks
Adapting to competitor's offerings	Increasing T-Mobile customer base
Growing student segment	EU roaming regulations

STRENGTHS

O₂ is currently the only competitor out of the four companies that is investing in fixed assets in the Czech Republic. Due to this, O₂'s customer base is able to benefit from a faster connection for a comparable price. In a speed survey conducted by DSL.cz in May 2014, O₂ placed first among mobile internet providers with 6.4 Mbps, and maintained its leadership for LTE speed (26.3 Mbps) (O₂ 2014 Half-year report). To add to O₂'s success, the number of contract customers has grown 2.5% each year for the past few years. This demonstrates the company's strength in maintaining customers and their ability to convert prepaid users to contract users.

WEAKNESSES

As mentioned, the company has not been performing well financially this past year as a result of large investments made towards the implementation of the new 4G/LTE network. Fortunately, the company recognizes this, and has succeeded in lowering operating costs by 5.6% from 2013, through streamlining and a cut in employee wages.

Although O₂'s website offers an English language option, there are several elements within the website that are only readable in Czech. In addition to this, all messages sent to customers' phones are in Czech, making it difficult for foreigners to decode and respond appropriately.

OPPORTUNITIES

O₂ currently has a relatively good reputation for customer service; however, improvements can be made to match competitors, Vodafone in particular. In response to this, O₂ trained and deployed more than one hundred "O₂ Guru consultants" this year. Users are able to contact O₂ Gurus through Facebook, Twitter, an O₂ forum, or in-store (O₂ corporate website, 2014).

In April of this year, T-Mobile started offering insurance coverage for devices purchased through the company. This insures the devices against loss, damage, and theft. Payments for the coverage are included in a user's monthly bill, which increases its appeal (T-Mobile corporate website, 2014). O₂ now has the opportunity to offer a similar coverage plan, and expand on this offer to attract customers. For example, O₂ could charge a lower monthly price for the coverage, or reimburse users for specific impairments such as water damage. Given O₂'s partnership with Apple, the company may also be able to utilize the popular "Find My iPhone" app to assist with retrieving phones lost to theft.

According to Andrea Kabelova (2011), the number of foreign students attending universities and colleges in the Czech Republic is four times higher than it was ten years ago. Specifically, there is close to 6900 individuals who study at Charles University in Prague, roughly 5600 at Masaryk University in Brno, and over 3000 people at the University of Economics in Prague. O₂ should take advantage of the large number of incoming international students and penetrate this segment further by offering even lower calling, SMS, and data rates.

THREATS

The number of prepaid O₂ customers dropped 5.3% from the previous year, which can be attributed to users migrating to the contract segment and transitioning to MNVOs (O₂ Half-year report, 2014). In the most recent financial quarter, T-Mobile reported a customer base of almost 6 million on its annual report, which is roughly 1 million more customers than O₂ currently has. As such, a definite threat is T-Mobile taking over market share. Finally, the company may see a decrease in the amount of contract customers and level of revenues due to the EU regulations mentioned in the market analysis section.

WHICH MOBILE COMPANY ARE STUDENTS MOST ATTRACTED TO?

In order to get a better understanding of students' opinions towards the Czech telecommunications market, I chose to conduct a survey targeting current exchange students. The survey consisted of six questions, which were aimed at measuring students' satisfaction with their chosen mobile provider in comparison to their mobile provider in their home country in terms of quality and price. The results revealed the following:

Out of the 21 respondents, 7 individuals reported that they were currently using O₂'s mobile services, while 9 people listed Vodafone as their current provider. Based on this information, Vodafone captured 42.86% of the market share in this survey, and is the clear favourite amongst students studying abroad. 80% of O₂ users reported being "satisfied" with their chosen mobile provider, while the remaining 20% expressed being either "dissatisfied" or "extremely dissatisfied" with their choice.

In the survey, I asked respondents to rate their level of perceived quality about each company. The results concluded that Vodafone has the highest level of quality, with T-Mobile, O₂, and U:fon following respectively.

Additionally, I asked respondents to compare both the average price per month, and level of quality of their mobile provider in their home country to their current provider. As predicted, 60% of respondents indicated that they were more satisfied with their mobile provider at home, while 25% said they were equally satisfied with both mobile providers. In terms of price, 65% pay more for their mobile plans per month at home. According to OpenMedia (2010), Canadian users pay on average, \$572.86 US per year, in comparison to Czech consumers who pay approximately \$413.15 US per year for a mid-range cell phone package (See Appendix IV). This shows that Canadians pay roughly 38% more for their phone plans per year than inhabitants of the Czech Republic. To be clear, these numbers are based on individuals who submit to contracts. Whilst on exchange, I found that many European students, including myself, often opt for prepaid plans as it is a much more viable option. Additionally, it is important to note that GDP per capita rates differ largely between the countries; Canada reports a GDP of \$39,000 US, while the Czech Republic is sitting at \$13,800 US. Therefore, although it may seem cheaper for international students, Czech students may have great difficulty paying for an average plan per month.

Lastly, I asked students to indicate which companies out of the four listed they had heard of prior to taking this survey. Out of the 21 respondents, 20 specified that they had heard of T-Mobile, which shows it is the most widely known company amongst incoming exchange students from around the world. Alternatively, only one respondent indicated that they had heard of U:fon.

Additionally, I conducted two interviews with anonymous users of both O₂ and Vodafone mobile services to verify the results of the survey:

"I love how easy it was to set up my account, and it is comforting to know that there is no contract tying me down. Although, I wish language preferences were offered to make things more accessible." – Anonymous O₂ user, 2014.

"Vodafone is really cheap which is what attracted me to the plan, and as far as I know they have a very good reputation and brand awareness; I have seen billboards on many buses and trams in Prague." – Anonymous Vodafone user, 2014.

Like the O₂ user, the Vodafone user also expressed her concerns about the lack of language preferences; all texts received are in Czech which neither of the users are able to understand and use to their advantage. In comparison, the O₂ user mentioned she had received mixed levels of in-store customer service, while the Vodafone user boasted about how helpful the attendant was when she was having difficulties with her SIM card. Both users complained about not being able to allocate their credit to their preferences. For example, O₂ users

are required to pay 90 CZK per week for data regardless of personal usage. Overall, both users were satisfied with their chosen mobile provider as each company offers cheap plans in comparison to their mobile provider in their home country, which is consistent with the results of the survey. See Appendix I for a full list of the survey questions, and Appendix II for an outline of the interview questions.

RECOMMENDATIONS AND CONCLUSION

In response to PPF's new acquisition of O₂, I would expect that the company is about to endure some restructuring. To save money and increase profits, I suggest that the company remove certain members of middle management and focus efforts on strengthening customer service units.

As indicated in the results of the survey, Vodafone was the clear favourite mobile operator in the Czech Republic amongst students. To regain revenues, I recommend that O₂ focus on penetrating the young adult community, which consists of students and expatriates. As specified prior, the growing foreign student sector is an easy choice, as many foreigners find the rates in the Czech Republic to be much lower than in their home country. By doing so, O₂ may be able to exceed T-Mobile's large customer base. In addition to focusing on a new student segment, the company should continue to invest in O₂ Slovakia to increase overall revenues for the O₂ Group as a whole.

Based on the results of the interviews, I would suggest that O₂ put more of a focus on visible advertisements and increase translation options. The Vodafone user mentioned she had seen a variety of ads on different forms of transportation around the city; however, the O₂ user had only noticed the O₂ arena, which hosts many concerts and hockey games in Prague. In order to penetrate the student segment further, it is crucial that the company put out ads that will effectively reach this type of user. Most students don't have the time or the money to watch television, or listen to the radio; therefore, billboards advertising O₂'s FREE tariffs and mobile data packages in English would surely be effective.

Despite a recent downturn in financial performance, and mixed reviews about customer service levels, O₂ still retains the highest revenues out of all mobile operators in the Czech Republic. Given the economic situation, I expect that the current investments being made by the company will soon pay off, and profits will begin to increase once again. However, if O₂ wants to avoid being taken over by one of the three key competitors, I ultimately propose that O₂'s marketing department focus its time and money on penetrating the young adult segment to remain the Czech Republic's number one telecommunications company.

APPENDIX

I. [Survey Sample:](#)

1. Which mobile company are you currently using while on exchange?

- O₂
- Vodafone
- T-Mobile
- U:fon
- Other

2. If using O₂, how satisfied are you with your chosen mobile service?

Extremely satisfied – satisfied – dissatisfied -- extremely dissatisfied

3. Please rank the following telecommunications companies based on your level of perceived quality:

- O₂ (1,2,3,4)
- Vodafone (1,2,3,4)
- T-Mobile (1,2,3,4)
- U:fon (1,2,3,4)

4. Please compare your mobile provider in your home country to your current provider while on exchange:

- I am more satisfied with my mobile provider in my home country.
- I am equally satisfied with both of my mobile providers.
- I am more satisfied with my current mobile provider.
- I am equally dissatisfied with both of my mobile providers.

5. Please compare the average price/month of your home provider to your current mobile provider:

- I pay more for my mobile provider in my home country.
- I pay approximately the same price for both providers.
- I pay more for my current mobile provider.

6. Check off all telecommunications companies you have heard of prior to this survey:

- O₂Vodafone
- T-Mobile
- U:fon
- I have never heard of any of these companies.

II. [One-on-One Interview Questions:](#)

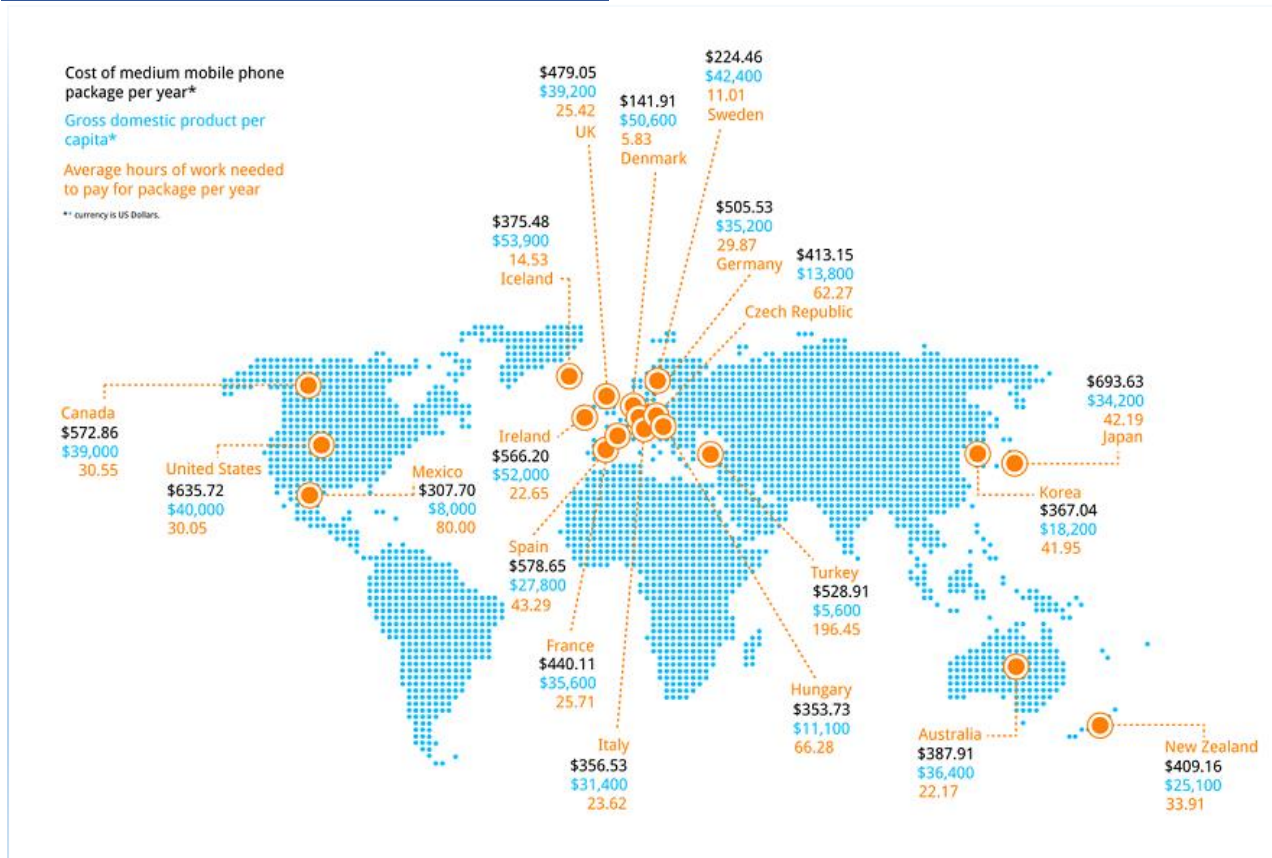
1. What initially attracted you to your mobile provider?
2. Is there anything you dislike about your mobile provider?
3. Have you noticed any advertisements for the company?
4. Please describe the quality of the customer service you have received from your mobile provider.
5. Overall, are you satisfied or dissatisfied with your mobile provider?

III. O₂ Mobile Internet Coverage Map:



*Taken from the O₂ corporate website, 2014.

IV. CBC Chart of Cell Phone Plan Costs by Country:



*Taken from OpenMedia (2010).

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