World Report in Turkey
An interview with Attila Vitai, CEO of Telsim Vodafone (March 2007)

World Report: Given that the ICT sector is an indicator of the level of development and sophistication of a country, how is Turkey doing, especially compared to other EU countries?

Attila Vitai: We have found in the last year that the level of Internet penetration is much lower than in Western Europe, probably similar to the level of Eastern European countries such as Romania or Bulgaria. ADSL penetration is quite low because computer penetration is quite low in Turkey.

With regards to mobiles, the mobile market is nowhere near as fully penetrated as in Western Europe, but it's heading there rapidly so we are experiencing significant growth. Usage, however, is significantly higher than it is in Western Europe, which means that people, especially in rural areas, are already using mobiles instead of fixed telephony.

Growth figures for the ICT sector show considerable growth in the past few years. The figures that we found averaged close to 12% yearly. To what factors would you attribute this success?

We are seeing growth in ADSL lines for sure, and also in computer penetration. But I still think that the majority of growth in the ICT sector is due to mobile telephony. Last year the market was booming, and we participated fully in that growth. In Turkey, this year has started very strongly for us, and from what I understand for our competitors as well.

We have publicly stated that the rate of penetration is in the high 60s, but we know that as many as 30-35% of Turkish people have more than 1 Simcard. Penetration is calculated on the basis of Simcards, and if you add this into the calculation, real penetration is in the low 50s. So we still have significant growth potential in the market.

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At the time of the takeover, you stated that the Telsim brand is below that of Vodafone on a global level. How is the rebranding process going, and when do you expect it to be completed?

We won't rebrand to Vodafone until the services that we are able to give to our customers meet the criteria for a Vodafone operation. Telsim was a tarnished brand, partly due to the lack of investment, and partly due to the problems that they had with the prior owners.

We felt that if we just changed the brand without doing anything about the quality of service or the customer's experience of our service then all we would do is destroy the Vodafone name. I think we have come a long way since the acquisition. This is evidenced by the fact that since the 1st of January we have had a dual Telsim-Vodafone brand, so the Vodafone brand is half out there already. This is a testimony to the fantastic performance the team has achieved in the last 6 months. We have built a great deal of network infrastructure, replacing much of the old one, we have invested in IT and switching capability, in the distribution channel, the shops, and in the training and development of our own staff and of the dealers who have day to day contact with customers. We think customer experience today is completely different to that of one year ago.

We are not quite at the level we would like to be, but we are not a million miles away from it either.

Is 2007 going to be the year?

Yes, we will certainly finish rebranding this year. We are confident customers will notice the difference since they are already telling us that by the thousands. A good example is the holiday travellers coming from the UK to Turkey. They are very satisfied with the experience. And according to our research, we have the best performing network in Istanbul. I'm sure our competitors are saying the same though.

How are you doing for example in terms of dropped calls?

Coverage, dropped calls and all the other key performance indicators we have to achieve are given to us by the Telecom Authority. I can assure you that in Istanbul and in all of the major areas, we are comfortably within the guidelines. When we acquired the company we were not meeting some of the criteria in 300 towns, or more, but as of December that number has decreased considerably. We had an agreement with the

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Telecom Authority that we would meet all of their requirements by the end of this summer. We have made fantastic progress in that respect and we will meet the guidelines set by the Telecom Authority. We have achieved this because we have invested heavily in our network and in our people. We are building the network. We are cooperating very closely with our partners who are supplying the equipment in Turkey: Nokia and Motorola. We are investing for the future, and our customers are telling us they notice the difference. People can come from abroad and use our network. We can assure users that the quality is very good throughout our network. Furthermore, we believe that we have the best network in Istanbul.

Our competitors might dispute this but the point that is important is not so much whether we do or don't, it is that one year ago we weren't even close. Today we can make this claim because we are confident that we have the best network. However, in order to inject some objectivity into our claim, we are in the process of getting an independent German testing company to carry out various studies, and we will publicize the results. This is a sign of things to come.

One billion dollars have been earmarked for 2007, correct?

$850 million capital investment will be made by the end of 2008, which will include network infrastructure, both radio access plus all the core network as well as all IT infrastructure. At the end of this process, we will have the most modern network in Turkey. We will have a network that has been designed to be the best, and to support traffic for 30 million people. This is better than designing a smaller network and having to continuously expand it. There are 75 million Turks, and we feel confident that in a matter of years we will reach 30 million customers. We are thinking ahead. Secondly, our network will be 3G ready, designed for large capacity, offer great coverage, and green because the energy consumption is much lower.

At the same time we are investing hundreds of millions of dollars in new IT infrastructure which will be used to bill customers for 3G products and services, whether they are fast internet access, mobile TV, or video conferences.

Is 3G licensing scheduled for this year?

I was told by the Ministry that they will issue the licenses soon.

Corporate customers and individuals who want high speed data access are likely to be the main beneficiaries of 3G with its higher data speed and this will be of significant interest to customers in rural areas who cannot easily secure ADSL lines. Another benefit for Turkey in general is that 3G will result in new jobs being created in content development.

An additional factor that should be noted regarding 3G in the Turkish market is that currently we see price elasticity close to 1, indicating that a vast majority of people within the prepaid segment have a fixed monthly budget. When that budget is gone, they don't top up their SIM card.

Where you have this kind of price elasticity, the only way new applications or services are likely to take off is if they substitute some other customer expenditure. In other words, if he has to budget more for his mobile, he will have to stop spending on other things. Furthermore I'm not expecting a significant increase in our customer base as a result of 3G.

In short, I think the consumer benefits of 3G in Turkey will be basically the higher speed of internet access, or data connectivity, as opposed to content and fancy applications or lower prices.

Will it be the same for postpaid users?

For the corporate market we will be able to provide new services, principally higher speed data connectivity. The corporate market in Turkey is relatively small, but they will see benefits.

A lot will depend on the creativity and innovation of the content providers. What did you bring from Barcelona?

Content is an important area that we can differentiate ourselves in from competitors and we are focussing strongly on this. We will be introducing Vodafone live! in the near future, which will bring us to the level of the rest of Vodafone group. Then we will have the standard entertainment part, plus all the other information services such as news, financial market updates, horoscopes – the usual suspects.

Everything is geared up to be worthy of the name Vodafone. What other benefits and synergies will Vodafone bring to Telsim?

Being part of Vodafone has huge benefits. You have to look at the benefits of our global scope and size. The size brings benefits by leveraging our costs, by providing good

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discounts on equipment purchases. So this is good for consumers because they will get lower prices. The other thing is that we have access to content and technologies that we probably wouldn't have if we were not part of Vodafone Group. Everyone wants to do a deal with Vodafone first because we are the largest in our industry. We have the benefit of the content and technology players coming to us, and offering a group wide deal.

The third, and one of the biggest advantages we have, is knowledge. We are a huge company with operations all over the world. We share information on network designs, content, tariffs plans, marketing programs and advertising programs between Vodafone's operating companies. We have access to a huge database of information which helps us to bring products and services to the market faster, and to adapt them better to what our customers are likely to want and need. This sharing of best practice is really one of the key benefits of being part of the Vodafone Group.

We still have to interpret the data we have however, and apply it to our market but it is a huge advantage for us, and certainly our local competitors do not have this insight. In a practical way we can use the power of Vodafone.

On top of that, we have the emotional aspect of Vodafone, which is a global brand, that you can see everywhere. Here in Turkey people are very keen on quality brands and therefore being part of Vodafone is a huge benefit for us.

If market penetration is hovering around 50%, what are the main markets that remain to be conquered? Younger and older groups?

I agree that both of these market segments have growth opportunities for us. In Turkey it's a slightly different demographical situation than in Western Europe. We have a growing population, with 45% aged under 25. It's a huge population of young people, and it's still growing because of high birth rates. I think the rural, middle aged and older people who are still sticking to their fixed phones represent a market for possible substitution that is still in its infancy, and there is a great deal of potential there. The same applies to small businesses. So there are still lots of growth opportunities.

Would number portability be desirable for you?

My experience of number portability is not so much that it is good for us, rather it is good for customers in that it gives customers a choice.
In Turkey, you have to understand the history of this market. You had 4 players but number 3 and 4 were terribly unsuccessful. They had low single digit market shares,

shareholder issues and never got the business going. Consequently, they combined to form the 3rd operator. In the last few years, they have not been a very strong competitor.

The problems of Telsim are well documented, and apart from the last couple of years when we had strong promotions, before that for many years we were not a serious player in the market place. So you had the situation where you had a good operator, but his success of 70% market share had less to do with his quality and abilities, and more to do with the fact that he was the only serious player in the market.

People joined this operator by default because there was no choice. I think by having mobile number portability, those customers who feel the only reason they chose that operator was because there was no choice, now have a choice. It's reassuring for them in that if they prefer our service, they have the choice to change operator without losing their phone number which for many customers is vital.

I have been pushing number portability not because we expect millions of customers to join us, but because I think it's appropriate in this market, given its history, to give customers choice. Vodafone is all about giving the customers choice; we are not forcing anyone to change operators. We believe that in such an environment we will create far more healthy competition, and we are confident that we will rise to the challenge and that we will do well in this environment. And that's where our motivation for number portability comes from.

Do you think that competition will increase now that TurkTelecom has been privatised and AVEA has a strong shareholder?

I hope so because competition is good. We have experienced that in those markets where there is strong competition, we are quicker to come up with new things. I think as a CEO I want that competition so that both my staff and I remain on our toes.

The Vodafone Group has a good track record, a solid reputation when it comes to sponsorship, especially for sporting events. What is your reputation here, and what is your intention for the future?

Since I've been here in Turkey I have been asked more often about which football team we would sponsor than about any other subject, apart from when we intend to introduce free phones. We have a problem here because one of our competitors sponsors the

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Turkish national team and the Turkish league, and the other sponsors the top 4 clubs. So we are left with only the minor clubs available for sponsorship.

I would be interested in sponsoring one of the big clubs if we had the opportunity but at present it is difficult for us to find a club that is available for us to sponsor that also meets our sponsorship requirements. However knowing how passionate people are about football in Turkey, we have been working with one of the big Istanbul football clubs, and have agreed to work with them to develop young Turkish stars of the future. So we will invest in the future of Turkish football.

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