

**NATIONAL UNIVERSITY OF SCIENCES & TECHNOLOGY
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**FINAL THESIS REPORT:
“LAUNCHING 4G MOBILE BROADBAND
FOR LARGE SCREENS AT ZONG”**

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Abstract

3G/4G services were launched in June 2014 in Pakistan. All telecom operators have invested heavily to increase their revenues and start a new era of growth for this industry. All operators are advertising about the need of fast mobile internet and its benefits so the awareness of internet is increasing every day. Zong is the first & only operator that has bought 3G and 4G licenses by investing \$ 500 Million. Since using internet is associated with SEC A, B class customers at the moment because smartphones are expensive and lower classes are less aware of internet and its utility. Zong customers are primarily SEC C and a small amount of B class. Zong needs to define a thorough strategy to acquire internet customers (specifically 4G base) to earn revenue and thereby safeguard its investment. My project will be to define a comprehensive 4G mobile broadband strategy for Zong that will cover all 4Ps i-e product, price, promotion & placement so that it can acquire SEC A & B class subscribers. Zong being the only 4G operator carries a big burden of increasing 4G device subscribers using 4G services since it has invested heavily (\$ 210 Million) so that it can generate revenues from 4G data stream and breakeven. The biggest barrier to increasing this customer base is the high handset price which is \$ 150 in the market and brand image of Zong. This project takes a look at the performance of 4G mobile broadband product by Zong so as to see how Zong is performing towards achieving their 4G targets and provide a way forward for this portfolio based on the analysis of this product.

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Chapter # 1

Introduction

Zong is the only licensed 4G operator in Pakistan thereby it is responsible for setting up 4G market in the country as well. It has a role of becoming a keystone in the ecosystem of 4G market in order to get return on its investment and also provide premium services to the customers of Pakistan. When Zong launched 4G services in 2014, the biggest barrier towards increasing the 4G customers in the country was the 4G handset costs which range to about \$150. Due to this price premium majority customers could not experience 4G and its benefits. In order to resolve this issue and also inline to their strategic objectives Zong launched 4G mobile broadband product with its own devices. The basic idea behind 4G mobile broadband launch was to reduce the entry barrier of 4G device to as low as \$20 by giving subsidy on the device and hope to recover the subsidy through subsequent recharges from the customers banking on sustainable competitive advantage of 4G LTE speed. This product really helped Zong to attract a lot of 4G customers thereby fulfilling its strategic objective of getting more and more 4G base and empower the society.

What is 4G LTE technology and why launch it?

LTE, short for Long Term Evolution, is the next big thing. It's a part of 4G, or the fourth generation of mobile technology (after the 3G used for smartphones, 2G used for digital phones, and 1G used for analog phones). Carriers around the world have upgraded—or are in the process of upgrading—their networks to the new technology.

LTE networks are to mobile Internet connectivity what broadband was to dialup. Remember the Internet before broadband? It was a very different, often dreadful experience of thumb twiddling while waiting for pages to load.

With LTE, we'll be able to stream music and video, upload, download and essentially do anything on the Web using our mobile phones and tablets almost as fast as if we were at home on a broadband connection. This standard, unlike previous ones, is not just focused on improving download speed, but has been designed to improve upload speed, too.

LTE delivers a peak speed of 100 Mbps for download. Though that's the theoretical speed limit and consumers will realistically be on lesser bandwidth, LTE still promises a giant leap forward. LTE's faster upload and download speed, in turn, will give application developers more options for creating better user experiences on mobile for gaming, banking, socializing, shopping, and watching videos and more via the Web or apps. So, in the future when you use mobile banking, you'll be able to have a live video chat with an advisor about which loan is best for you, or doctors will be able to use telepresence on their mobile to provide consultation to patients anywhere on the globe.

How will LTE change the oldest telephony service: voice? With 3G, voice calls over a mobile phone are circuit switched, which means there is a dedicated circuit-to-voice session. So, even when you're not talking, the resources are dedicated to your conversation, eating up the limited bandwidth in the network, and increasing the chance that the network will run out of capacity. If you've ever tried to make a call in a crowded space like a music festival, where too many people have to share the available bandwidth, you know the pain of not being able to make a call.

LTE, on the other hand, supports "packet voice". Because LTE is an all-IP system, it has to turn voice calls into digital data, and send them over the network as voice-over-IP (now often called voice-over-LTE, or VoLTE). This is a fundamental shift, and will improve network capacity because operators can share packet voice links between many communication sessions and conversations. At a crowded music festival, LTE can shuffle and re-allocate bandwidth in real time between many different callers. In effect, the pregnant pause in your conversation doesn't waste bandwidth.

In short 4G LTE is the state of the art most advanced technology which will empower the society to do tasks that took hours in minutes and at the same time it will help telecom operators manage their resources in a cost effective manner which is a win-win scenario.

Telecom Industry of Pakistan

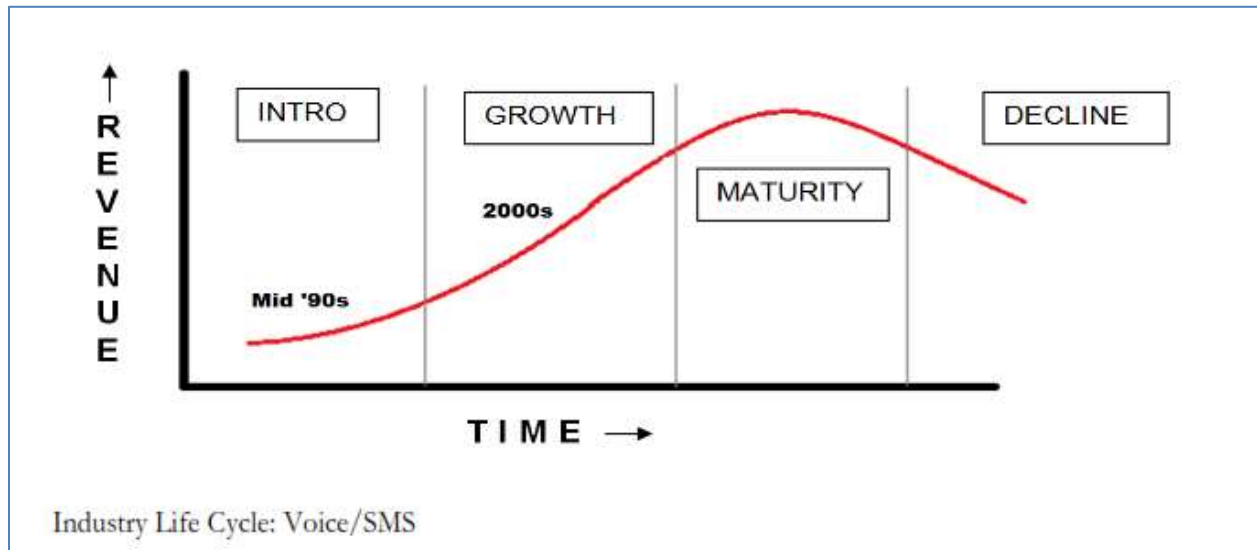
History

The introduction of mobile services for masses was made in Pakistan in sometime around 1993 when the Government gave licenses to couple of local and foreign groups allowing them to offer the services within the country (Wikipedia, 2015). These two emerged as Mobilink and Paktel. Initially due to the affordability and newness of the technology in Pakistan, the penetration was very slow and having a mobile phone became a symbol of status more than anything however, the potential was huge due to the growing population and those firms kept firm and slowly and gradually the penetration took pace and due to that few foreign firms as well as the Government of Pakistan realized that they could also venture into this field and hence since early 2000s three more operators were licensed and started offering mobile services within the country. As of now there are five major operators in the country offering cellular services namely:

- Mobilink
- Telenor Pakistan
- Ufone
- Zong
- Warid

All of the aforementioned companies have enjoyed a very healthy penetration for mobile services since their inception and continue to reap the revenues out of the market even today (Investopedia, 2013). Allowing several mobile operators in the country gave way to a health competition among the players thus erupting price wars and aggressive marketing ploys all for the sole benefit of the existing and potential customers. The SIM card became cheaper than an average one time meal and the call

rates are among the lowest in the world. The Industry life Cycle for Voice/SMS services in Pakistan is shown below.



The Telecommunication industry was thriving in Pakistan as it was in the 'Growth' phase of the Industry Life Cycle hence the costs were high but the profits were humongous thus the profit margin was also heavy that allowed the firms to focus more on increasing revenues than on reducing the costs. Therefore the strategy at that time was more focused towards driving the revenues and as Pakistan is frequently listed among the Third World countries therefore the advancement in the cellular technology around the world and its upgrade requirements here were not of that importance because the mobile device was nothing more than a means of staying connected through voice and SMS services with peers hence the change required at that time was minimal and the strategy was primarily focused towards improving profits because sustaining them was not an issue. Also when an industry is in the growth phase the focus is on innovation, cultivation, nurturing and mentoring and since the profits are coming in the focus is to explore new ways of making the overall user experience better which usually results in firms coming up with innovative products. In this regard, Apple and Google stand out as the biggest examples. They have been innovative for such a long time that their respective markets always seem to be in the growth stage. Also during the growth phase, the focus also shifts towards benchmarking and comparing with competitors and being best in class.

As the penetration was very high in 2000s hence since the start of 2010s the growth had slowed down due to majority of the population owning a mobile phone with multiple SIMs if not one due to the aforementioned price wars. This is the reason why today the percentage of mobile subscribers in Pakistan is more than the literacy rate of Pakistan which means that an average person who cannot read or write might still own a mobile phone. Also the prices of voice/SMS packages is on an all-time low for all mobile operators hence it doesn't really matter which operator's SIM card one is using due to the call/SMS rates being almost the same. This drives the industry towards thinking of alternate ways of generating revenues hence now every major player in Pakistan had to think out of the box. This is where a dramatic change in strategy was required for those who didn't align

themselves with the ongoing environmental changes and hence a thorough and comprehensive change management process was required. (Schwab, 2012)

3G/4G Launch

Looking at the Telecom industry of Pakistan from 2010 to 2016 the market matured, and there was a dire need to launch 3G/4G data services in Pakistan, as the Voice, and Value Added services offered could not be further developed. Since the technology has been advancing all over the world the need for high speed mobile internet has also been recognized in Pakistan. Countries adopting 3G & 4G experienced higher levels of GDP per capita and job creation in the telecommunications sector. Moreover 3G & 4G was also necessary for Pakistan as it expands a country's opportunities in the business sector, contributing to increased competitiveness and promoting innovative new wirelessly enabled businesses and services. Finally, 3G & 4G provides the country's citizens with richer, more compelling communications services. Access to convenient, affordable and highly customizable mobile broadband devices and services makes life more productive, secure and meaningful and empowers people to transform the way they live, learn, work and play. (PhoneWorld, 2014)

Hence the Govt. of Pakistan auctioned 3G/4G Licenses in Pakistan in April 2014. All operators except Warid acquired 3G License, with Zong being able to acquire an additional 4G license to become the first and only 4G operator in Pakistan.

Launch of 3G/4G Services completely changed the dynamics of the Industry. All the operators now focus on Increasing their Data Penetration and 3G foot print across the country. Mobilink and Zong having purchased 10MHz of 3G Spectrum have advantage over Telenor and Ufone for being able to cater to more customers in the long term with more Bandwidth.

In addition to the launch of very high speed Data, another challenge faced by the Telecom industry is the worsening political, economic and security situation in the Country. Due to these factors and the extreme measures taken by the Pakistan Telecom Authority after the Terrorist Attack on Peshawar the Operators are finding it difficult to generate profit margins.

China Mobile Communications Corporation (CMCC)

China Mobile Communications (CMCC) incorporated in the year 2000, is the world's largest telecom operator dominating 66.5% of Mainland China's market share. It operates as a 100% state owned entity in 31 different provinces and employs in excess of 175,000 people. CMCC network covers 99.7% of China's population and has over 900,000 BTS sites. Its customer base is over 826 million (4G base of 312 million) and has operating revenue of \$668 million with a EBIDTA margin of 36%.

CMCC is perhaps the only cellular network that provides uninterrupted, reliable coverage through tunnels, on highways, inside sky scraper elevators as well on top of Mount Everest. It has a global presence in Hong Kong, Pakistan, San Francisco and London and currently has international

roaming partnerships with 406 operators in 237 countries and regions. The company is listed on the New York Stock Exchange as well as the Stock Exchange of Hong Kong Ltd. By the end of 2015, 4G base stations exceeded 1.1 million covering country level and above cities which strengthened the depth and contiguous coverage in the main districts.

Brands

The four main brands for CMCC are; Gotone (for high-end subscribers), Easy-own (for mass), M-Zone (for youth), G3(for 3G). TD-LTE is the future network, which will carry high bandwidth and high quality wireless broadband business. The development of TD-LTE is a core component of CMCC's development strategy, where the Group will actively promote TD-LTE scale-trial and commercialization and drive the technical and supply chain integration of TDD and FDD.

Business Strategy

The Group endeavors to contribute to the implementation of the "Internet+" action plan. By way of specialized operation and cultivation of innovation, we are making active expansion in the areas of mobile internet, cloud computing, big data and IoT. We have established multiple specialized business units, including MIGU, CM Internet and CM M2M, which focus on exploration in digital content and applications, and conduct customer-oriented, independent product research and development. We further consolidated the product lines including "and-Entertainment", "and-Communication" and "and-Life", and promoted centralized operation of products such as unified communication for corporate customers, IDC and internet television. We also introduced industry specified informatization products including "and-Education", "and-Health" and Internet of Vehicles, and commercially launched Mobile Cloud. At the same time, we have built the world's largest public IoT which has a terminal capacity of several billions.

ZONG (A CMCC Subsidiary)

Zong is CMCC's first overseas 100% subsidiary in Pakistan. Zong came into being through an acquisition of license from Millicom in 2007 to operate a GSM network in Pakistan.

At present Zong is Pakistan's leading provider of voice and data services, bringing more people together through service excellence and product innovation. With more than 25 million subscribers, Zong maintains a position of 3rd highest operator in terms of market share and is Pakistan's first and only 4G licensed operator in addition to having a 3G license as well. Zong has over 5 million 3G subscribers and over 0.5 million 4G subscribers (highest in the industry) in Pakistan.

Housing Pakistan's largest distribution and contact center networks and an unparalleled 6,500 base stations, Zong has already invested over US \$500 million in the country to acquire 3G/4G licenses, with another USD 2 billion planned for being invested in network modernization. Zong provides uninterrupted countrywide connectivity, unmatched customer services and international roaming in over 140 countries. As a responsible corporate citizen, Zong offers a range of socially inclusive products and services dedicated to enhance access to information.

Strategic Intent

Zong's Vision

To become an indispensable digital life partner of our customers. (Zong Website)

Zong has an inspiring vision: ideas that simplify. It is committed to empower the society in their everyday life by becoming eyes and ears of their customers.

Zong's Values

Integrity & Accountability: Take ownership and responsibility

Openness: our people are transparent, open & candid. They employ effective communication channel.

Perseverance: our people strive hard and never give up and maintain positive spirit at all times.

Passion: our people go above and beyond and demonstrate dedication and drive.

Efficient execution: our people have clear goals and deliver measurable results. They strive for flawless execution.

Business Definition

Zong offers an extensive range of telecom-related services plus core services provided to its customers and enterprises all around the country

- Voice in mobile communication services
- Data in internet services (2G/3G/4G)
- Content in TV services and mobile content

They also provide a wide range of innovative services such as Mobile Interaction (health-line, community information centers, child internet protection) Mobile Commerce (mobile banking, remittances, cell bazaar, and bill-pay) and Mobile Content Based Apps.

Strategic Objectives

Zong's overall ambitions are straightforward; we shall create growth by being preferred by customers, and we shall deliver the services required in a highly cost effective manner"

Bravely confront Competition

- Love competition, which fuels our passion to go beyond the limits, to reach new heights of success and glory.

- Structure the organization and train the team to channelize the intensity of market competition within the whole enterprise.
- Enhance our strategic sensitivity to continuously improve business intelligence with up to date market insight.

Devoted to refine execution, lead the competition

- Seek refinement in execution capability
- Remain open to reiterate detailed process of decision making to refine judgments and conclusions.
- Strengthen the result oriented & close loop management.

Optimize Resource Allocation

- Refine the alignment of departmental goals with overall organizational strategy by systematic approach rather than ad-hoc manner.
- Implement performance development by 360 degree assessment and timely feedback for continuous improvement.
- Develop knowledge management by consistently aggregating staff's wisdom, experience and expertise for enterprise growth.
- Perform comprehensive budget management by optimizing resource planning and allocation for efficient utilization.

Refine Processes & Policies

- Adhere to principle of efficiency during process design.
- Realize the limitations of processes and policies incorporate best practices for improvement.
- Eliminate bureaucratic procedures and overheads to increase productivity and simplicity.

Environmental Scan (PEST Analysis)

Political and Regulatory Forces

In 2013, Pakistan underwent its general elections. The new government that took office in June 2013 quickly signalled restoring economic sustainability and rapid growth as high priorities for its 5-year term which include dealing with the energy crisis, boosting investment and trade, upgrading infrastructure, and ceding most economic functions to the private sector. Two elected governments back to back bring solidarity in business and policy continuity. Domestic and foreign investment are gaining confidence to initiate new business activities on a peaceful democratic transition that aims to increase production, employment and stability in the economy.

But this was the situation in 2013, in 2014 the political conditions of the country worsened when the Opposition Parties got into prolonged processions to over throw the democratic government, this continued from August to December, and resulted in greatly slowing down the revenues for the entire Telecom Industry. Primary reason for the negative growth in revenues during this period is lack of activity, blocked motorways and roads during this period and Network shutdowns requested by the government.

In addition to this the year 2014-2015 have proven to be the worst for the entire telecom Industry. After the Peshawar Terrorist Attack on Dec-16 2014, Pakistan Telecommunication Authority decided to bring in New Rules and Regulations on Telecom. Starting with forcing all the cellular operators to get their existing Subscribers Biometrically verified through Nadra. In 2014, PTA had already imposed Biometric Verification (BVS) on New SIM Sales made by every operator that also had a huge cost associated with it as the companies had to import BVS devices on their own without any help from the government. But the process of verification of existing base has been way more difficult and associated with it is High Capex and Opex. It started on 12-Jan-2015- and ended on 12th April 2015. During this time the companies were asked to block all Non-BVS Verified SIMs, resulting in Revenue loss and Subscriber base, and also there was a restriction on selling new numbers from Jan-April.

Expected Revenue Loss of Telecom Operators due to BVS Blocking and Restrictions

Operators	Revenue Loss Millions PKR Year 2015	% Share in Loss
Zong	6,631	19%
Telenor	8,089	23%
Mobilink	9,185	26%
Ufone	6,466	18%
Warid	5,016	14%

Total	35,387	100%
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In short the Telcos in Pakistan have to face new challenges every day because of the instability of Political conditions in our country, making it very difficult to maintain their profit margins. The government however sought some measures in increasing the data penetration by allowing 5+3 sims for each subscriber i-e customer can get 3 additional data only SIMs to meet their internet needs.

Economic Forces

With GDP of US\$ 222.7 billion, and GDP per capita: US\$ 1,368, the economy of Pakistan is the 27th largest in the world w.r.t purchasing power parity (PPP), and 44th largest w.r.t nominal GDP. Stock market reached all-time high at 22,000 plus points in May 2013. Euro bond oversubscribed from \$500 million to \$750 million. Pakistan's service sector is currently the largest contributor to the nation's GDP, followed by agriculture. In spite of dire scenarios, the economy over the last five years grew on average at the rate of 2.9% per annum. (BMI, 2013)

Economic Conditions of Pakistan greatly impact the working of the telecom firms. To assess the local situation, we see that the wage rates of the people of Pakistan have not been increasing majority of the population is below the poverty line, disposable income in reducing day by day as the government imposes new taxes and increases in WHT, GST etc the purchasing power of the people is declining their pocket size is shrinking, unemployment is high, and the transportation is worst. The worst problems are of Fuel and Electricity. Due to extreme shortage of electricity Telco's have to rely on fuelling their sites which increases the operational expense manifold. The government has imposed heavy taxes (as high as 30%) on internet which is a great disappointment and it will create a major barrier towards internet penetration in the country. Moreover telecoms are reluctant for additional investment on infrastructure/network which will impact growth as well.

Social Forces

Pakistan is the sixth most populous country in the world, with an estimated population of over 180 million at a growth rate of 2%. The median age in Pakistan is 22 years, which means Pakistan is a young country. In recent years, many rural residents have been migrating to cities in search of better paying jobs. If the current pattern of urbanization continues, the urban population of Pakistan will cross the figure of 122 million by 2030, which is 50% of total population.

Social factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce (thus increasing the cost of labor). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers). In Pakistan, the health consciousness is low and the population growth rate is high which has resulted in young population hence the immigrants and combined that with

low literacy rates, it is a very weak matrix. The corruption is frequently listed among the highest as stated by Transparency International.

The following are some of the key concerns in the social environment: ecology (e.g., global warming, pollution); demographics (In Pakistan the population growth is very high, majority of our population is young, because of which the educational demands of the country are very high that are not being fulfilled); quality of life of Pakistani's is poor, primary issues are lack of education, government is unable to provide safety to its people; terrorist attacks are increasing exponentially, health care system in Pakistan is being constantly neglected; conditions of government hospitals is unacceptable, standard of living is extremely different between classes, the rich are getting richer, poor are becoming worse and can't even fulfil their basic survival needs). Despite of all these and noneconomic activities such as charity and philanthropy are very high in Pakistan. All the telecoms are spending a lot of money on the CSR programs and trying to give back to the society in which they are operating. Also given the fact the majority of the population is youth in this country who's very receptive on experiencing new technologies and also they realize that technology can makes their lives better along with fulfilling their entertainment needs, this market becomes very attractive for telecom companies.

Technological

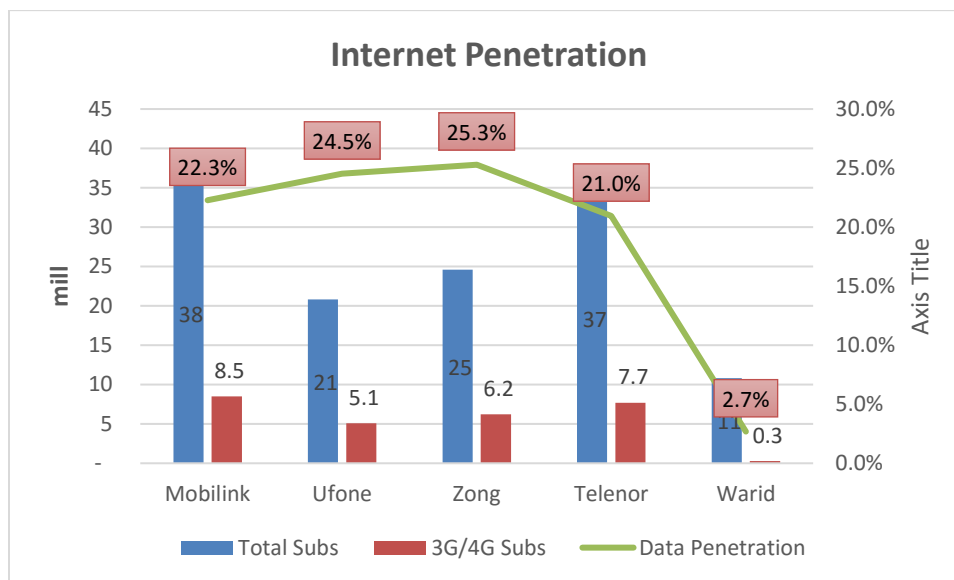
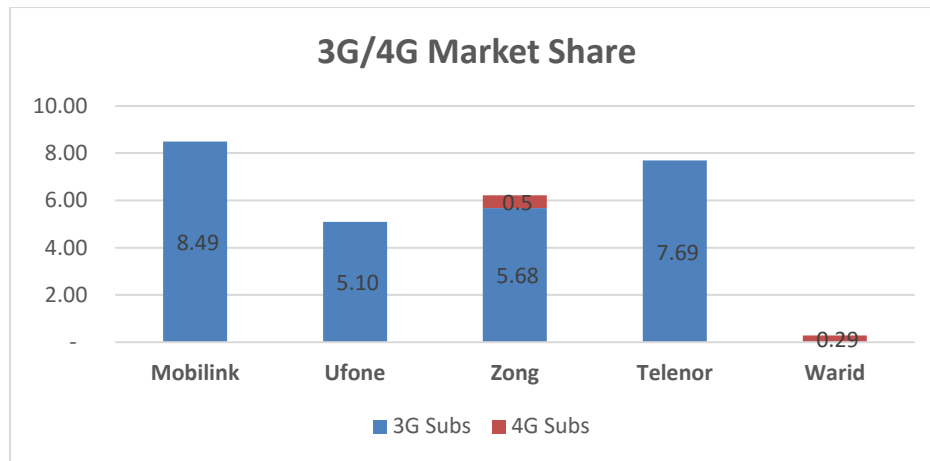
Pakistan's IT industry's global share is estimated at USD 2.8 billion The tech sector is primarily driven by growth in cellular business which has grown by 300% during last 6 years. With a skilled workforce of 110,000 English-speaking IT professionals in the economy, of which 24,000 are engaged in export. Telecom sector of Pakistan has attracted substantial investment after deregulation. For the last seven years, more than USD 12 billion has been invested in the telecom infrastructure and new technologies (Pakistan Telecommunication Authority, 2015)

Telecom and Broadband

Broadband growth has been exceptional in last few years, as subscriptions increased from a meagre 168,082 in June 2008 to 3.8 million in FY2013-2014. After the launch of Mobile broad band technology these subscribers have gone up to 28 M in April 2016. All telecom operators have seen significant growth in number of Data using subscribers. Internet Technologies: ADSL, EvDo, WiMax, GPRS/EDGE, 3G/4G Data revenue for mobile operators has been increasing and in 2013, it accounts for *9% for the mobile industry revenue Availability of low cost (< \$80) smartphones will help in further growth of the data market Internet Subscribers: 30 Million

3G/4G license auction was held on April 23, 2014. Mobilink paid 100% upfront fee for the 10MHz spectrum along with Zong while Telenor and Ufone paid 50% upfront fee. Only Zong managed to secure 10 MHz of 4G spectrum from the 1800 Mhz Band during auction. 3G/4G technology has opened an era of prosperity and development in the country. According to a study, more than 0.9 million job will be created, which will accelerate business activities in the country.

Below is the snapshot of current market shares of broadband for telecom operators.



Zong stands at number 3 in terms of 3G subscriber share but tops the ranks in 4G market. These market shares are off course in direct relationship with kinds of customer base an operators has and its 3G/4G coverage strategy. As mentioned in the abstract Zong customer base is primarily SEC B & C which do not have data enabled handsets and also the brand image of Zong is not high to attract high value customers (HVC). Zong's coverage strategy has been to cover the complete city before going to the next one whereas competition tends to launch multiple cities in one go without covering the complete city hence they got benefit of scale at the cost of experience.

But in terms of internet penetration i-e how many internet users out of the total customers for a telecom operator, Zong stands at number 1 with an internet penetration of 25.3% which is a very good number.

PORTER FIVE FORCES

Rivalry among Competing Firm (Very High)

Zong has the following competitors Ufone, Warid, Mobilink, and Telenor. The intensity of competition increases as the no of competitor increases, and the competitor become expand their networks and become more mature. Rivalry also increases when customer start switching to other connection when cost is high. This is the major issue that the management of the company has to face all the times.

Potential Entry of New Competitor (low)

There are already 5 operators in the telecom industry. Right now the potential entry of a new competitor cannot be that significant. The industries which pay higher returns attract new entrants in the market however this doesn't always apply in the telecommunications industry as the cost of capital for a new entrant is quite high because mobile services are supposed to be offered in the whole region where that new entrant wants to operate hence the network coverage requires capital requirement so the threat of new entrant is low, however bigger groups and conglomerates who can afford to launch mobile services can still jump into the business. In short, the overall threat is low.

Potential Development of Substitute Products (high)

There is a potential development of substitute's product because all the competitors are provided almost same services at cheap rates as the Mobilink is providing so in order to be the most attractive it has to cover all those areas where the competitors have not yet covered in order to be the leading and the most favorites company of its users.

It is crucial for a firm to continually innovate in order to avoid substitutes. In the telecommunications industry, all of the means of digital communications are a substitute to the mobile services as the basic purpose of the mobile service is connectivity and the emergence of WiFi & VoIP at almost all of the places has become a substitute to the traditional mobile services. People today use Skype, Whatsapp, Viber, Facebook etc. to make calls instead of using their cellular operator hence the threat of substitutes is high here. As internet becomes more and more common, operators must ride this wave of change or else they will be left behind and customers will end up using their networks without paying them a lot of money.

Bargaining Power of Suppliers (high)

Suppliers can also influence the industry by either raising the rates or reducing the quality of the supplies. For the telecommunication industry, the supplier includes those providing technical equipment, SIM manufacturer, Business Support solution providers etc. and all of them can have a big impact both on the launch of the firms and its regular operations based on the voice and data quality which their equipment and solutions provide. Also the number of suppliers is also low hence the bargaining power is high.

Bargaining Power of Customers (high)

Buyers have their own power of influencing the industry as they can increase the demand of a product or service and they can also demand for a higher quality thus pushing the firms to do what they ask for. In the telecommunications industry, the bargaining power of buyers is high because they are increasingly asking for internet related packages. The advent of internet and its usage has also pushed the cellular service providers to keep the prices low so that customers stay on their network instead of using substitutes all because of the power the customers have. Also the fact the switching cost is very low for the customers hence making it very easy to switch between operators.

Zong SWOT Analysis

Strengths

- Zong in the market leader in 4G market
- It is the only operator to have separate band of 3G and 4G with highest capacities and offers fastest internet speeds.
- The value proposition of Zong internet is very customer centric. It has same offerings for 2G/3G/4G customers (technology neutral portfolio)
- Zong has the highest cash flows from its parent company CMCC.
- Affordable operator
- Experienced Human Resources
- Only Mobile service in Pakistan offering coverage on M1 motorway.

Weaknesses

- Cheap brand (low brand equity)
- Very poor device program
- Coverage not at par with competition.
- Existing customers are not tech savvy/high value customers.
- Conservative marketing spend on internet products despite having high cash flows.

Opportunities

- Improve brand equity/image for zong 4G (re branding required)
- Acquire high value customers from other mobile operators using 4G offerings.
- Migrate existing high value customers to 3G/4G via attractive device programs
- Enhance 3G/4G coverage
- Educating people about usage of data services.
- Launch augmentation services like content to engage customers
- Leverage learnings from parent company CMCC.

Threats

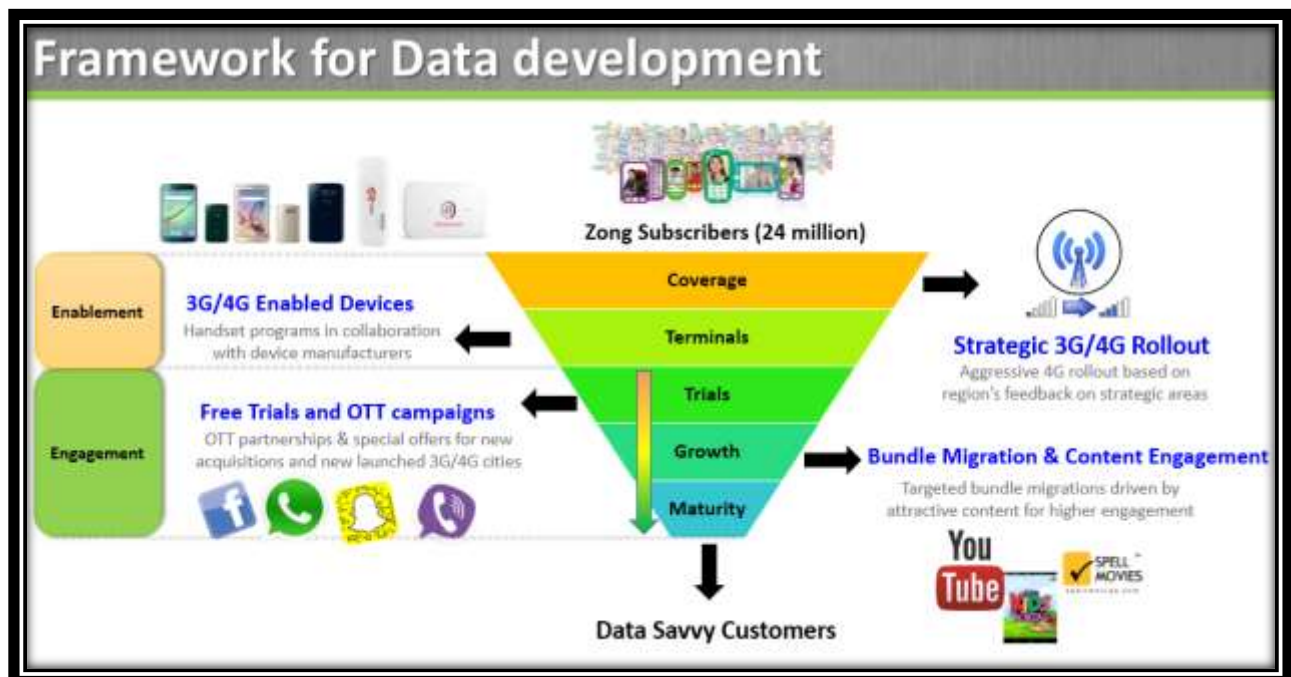
- Low price offers by competition.
- Aggressive device programs by competition
- Competition brand uplift programs (e-g 10 year celebration by Telenor)
- High value customers already with competition.
- Rapid rise in Taxes on telecommunication services.
- Security condition is the biggest threat.
- Power outage increases the cost of services due to heavy usage of generators.

Chapter #2

Zong Internet Strategy

Framework for Data Development

Below is a framework of Zong data development strategy which shows how Zong wants to achieve success in internet business.



The highlights of this framework are given below:

- 3G/4G Enabled devices-** Launch new low price device (3G/4G) offers to reduce barrier to entry with lucrative data offers. The devices program will be comprehensive and will cover all segments and kinds of devices including broadband devices like wingles & Mifis.
- 3G/4G coverage-** Expansion of 3G/4G rollout will be based on regional teams feedback and strategic emphasis will be given to areas where high value customers of Zong and other competition are located. Best user experience will be ensured especially in SEC A+ urban areas.
- Data Operations & Tariff strategy-** Move to experience based marketing and introduce free trials for new user's acquisition and charge 4G as premium. Find innovative ways to develop new data avenues for incremental value addition.

4. **Partnership strategy-** form strategic partnerships with OTTs (over the top players) to increase data penetration (e-g Facebook free basics program). Initiate affinity programs with device vendors for cross promotions. Explore new non-conventional partners such as joint ventures with HORECAS and fashion outlets with the help of broadband devices.
5. **Content Strategy-** Introduce engaging local content to create stickiness. Create differentiation by enriching high value data bundles with free content.

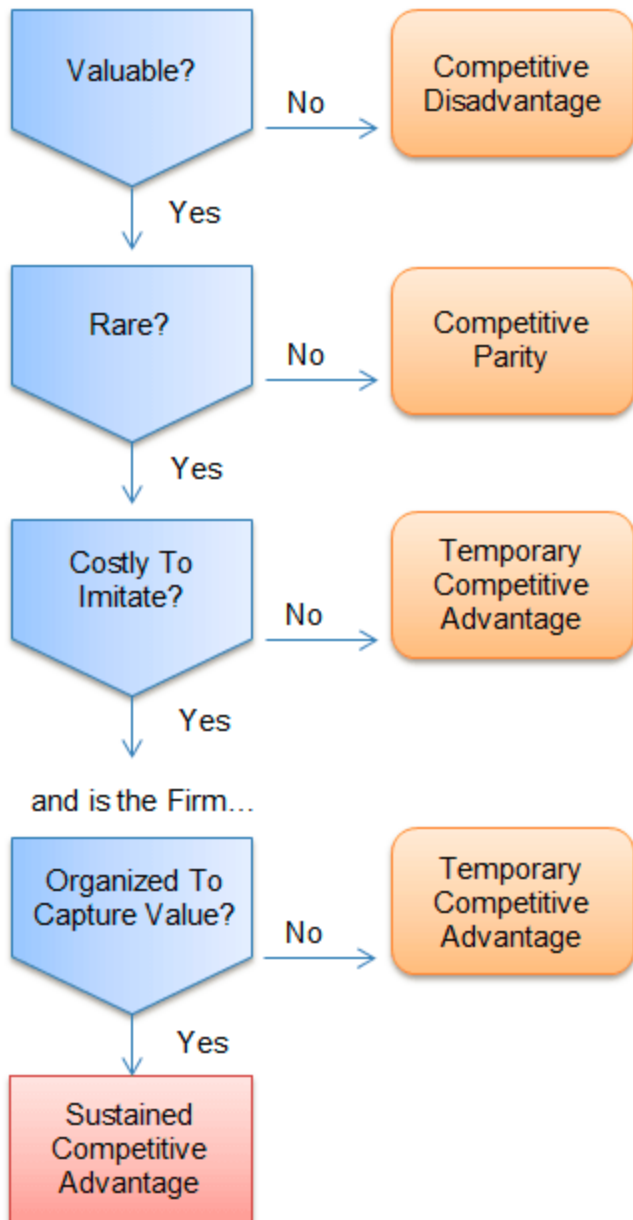
VRIO Analysis of Zong

VRIO Definition

It is the tool used to analyze firm's internal resources and capabilities to find out if they can be a source of sustained competitive advantage. In order to consider any resource or internal capability of the organization to have a sustained competitive advantage that resource must be:

- **Valuable-** How expensive is the resource and how easy is it to obtain on the market?
- **Rare-** How rare or limited is the resource?
- **Imitability-** how difficult is to imitate the resource?
- **Organization-** Is the resource supported by existing arrangements and can the organization use it properly?

Is the Resource or Capability...



I have taken two resources of Zong and applied VRIO analysis on them to find out if they can be of sustained competitive advantage and below are the results.

Resource	Valuable?	Rare?	Costly to Imitate?	Organization?
4G Internet Speed	Yes	Yes	Yes	Yes
Low prices	Yes	No	No	Yes

As per the above analysis we can say safely that Zong's 4G internet speed is a resource that can be a sustainable competitive advantage because of below reasons:

1. Internet speed is considered very valuable by all its target customers. People want to get things done quickly and with minimum hassle. Zong internet is the fastest option available to the customers hence it carries the highest importance.
2. Zong is the only licensed 4G operator in Pakistan hence the 4G speed is rare in the market as no one offers it.
3. 4G license cost is very high. Zong spend USD 210 million to acquire the 4G license hence we can safely say that 4G internet speed is very costly to imitate.
4. Zong is positioned as a 4G operator and it is doing all the technical upgrades keeping this aspect. Customers recognize that it is the only 4G operator hence Zong is using this resource aptly.

In conclusion Zong's internet speed is their sustainable competitive advantage and they should use this to their advantage.

Chapter #3

Launching Zong Mobile Broadband (MBB) service

Background

Zong launched their 4G services in September 2014. As per the Zong's internet strategy 3G/4G devices will act as a key enabler towards increasing internet penetration of the network and thereby increasing their market share in the industry. Zong has a unique sustained competitive advantage of 4G speed which should be leveraged to become the first the preference for customers internet needs when it comes to 4G technology.

The major challenge for Zong towards increasing 4G subscriber base was the handset minimum price for the customers being at very higher side roughly between \$ 100-150 at that time. In order to resolve this issue Zong decided to launch their own 3G/4G device program (major focus on 4G devices) specially targeting the basic need of internet for its target customers. The main idea was that Zong will launch 3G/4G broadband devices with subsidy to lower the entry barrier for customers to achieve scale of 4G subscribers. The subsidy recovery strategy was that due competitive advantage of speed customers will do more recharge and will tend to use the device longer and thus subsidy will be covered.

Zong Mobile Broadband service was launched in **June 2015**.

Market Research

In order to understand the needs and requirements of the potential customers, Zong conducted a detailed market research exercise to gauge below aspects:

- Device preference
- Data volumes
- Willingness to pay
- Importance of speed
- What is the acceptability of Zong in mobile broadband business
- Which offer will give maximum market share

Market Research Methodology

Conjoint Analysis was used to help find answers to the above questions. Conjoint analysis is an advanced market research technique that gets under the skin of how people make decisions and what they really value in products and services (it also known as Discrete Choice Estimation, or stated preference research). Conjoint analysis involves presenting people with choices and then analyzing what were the drivers for those choices. The output from conjoint analysis is a measurement of utility or value and is perfect for answering questions such as "Which should we do, build in more features, or bring our prices down?" or "Which of these changes will hurt our competitors most?" In addition these utilities are used to build models that enable forecasts to be made of what the market would choose given different product or service designs.

The principles behind conjoint analysis start with breaking a product or service down into it's constituent parts (called attributes and levels - see the section on how) then to test combinations of these parts in order to find out what customers prefer. By designing the study appropriately using carefully chosen statistical designs (also known as experimental designs) it is then possible to use statistical analysis to work out the value, or utility score, of each part of the product or service in terms of its contribution to the customer's decision.

For example a computer may be described in terms of attributes such as processor type, hard disk size and amount of memory. Each of these attributes is broken down into levels - for instance levels of the attribute for memory size might be 1GB, 2GB, 3GB and 4GB. These attributes and levels can be used to define different products by choosing different levels for different products so the first stage in conjoint analysis is to create a set of product profiles (possible combinations of attributes and levels) to produce a set of options from which customers or respondents are then asked to choose - know as choice sets. Obviously, the number of potential profiles increases rapidly for every new attribute added as the number of possible combinations increases, so there are techniques to simplify both the number of profiles to be tested and the way in which preferences are tested so that the maximum amount of choice information can be collected from the smallest set of choice tasks. Different type or flavors of conjoint analysis such as choice-based conjoint (CBC), full-profile, adaptive conjoint analysis (ACA), menu-based conjoint, adaptive choice based conjoint, and other approaches have different ways to manage the balance between the number of attributes that can be included and the relative complexity of the choices that need to be shown in order to get good quality data.

After the choice tasks have been completed, a range of statistical tools can be used to analyze which items customers choose or prefer from the product profiles offered in order to quantify both what is driving the preference from the attributes and levels shown, but more importantly, give an implicit numerical valuation for each attribute and level - known as utilities or part-worth and importance scores. These utilities give a measurement of value for each level in terms of its contribution to the choices that were made and so show the relative value of one level against another

Target Segments

3 target segments were identified for target segment.

1. Professional Consumers

- a. Employed for last one year SEC A+, SEC A and SEC B
- b. MNC entry level or local companies at mid management or above
- c. Age 26 to 45
- d. Active internet user (use internet daily), use internet on the go as well
- e. Evo or DSL/ Wimax (50:50 Split) we need readability for both professional who use evo vs who do not use EVO and use DSL or Wimax
- f. Both Male or female • KLI

2. Urban Youth/students

- a. Students age 17-25 SEC A+, SEC A and SEC B
- b. Active users of internet (use internet daily), use internet on the go as well
- c. Evo or DSL or 3G users
- d. Both Male or female
- e. KLI

3. Households

- a. Age 26 to 45, SEC A+, SEC A and SEC B
- b. Decision maker for internet category in home, i.e. what ISP internet will be used in home
- c. DSL or wimax
- d. KLI

Sample Size

The sample size for the research was 1,000 as per below split.

	Professionals	Urban Youth	Households	Total
Karachi	150	100	100	350
Lahore	150	100	100	350
Islamabad	100	100	100	300
Total	400	300	300	1000

Research Design

- In order to Identify the optimal plan and Package mix for Zong, choice based conjoint technique was used in this research
- This research was done using CLT following CAPI (Computer Assisted Personal Interviews)
- Respondents were recruited using the household route
- Agency made transportation arrangement for the respondents from their residence to the CLT and back to their homes
- At CLT, field supervisor will screen the respondents once again before interview.
- Each respondent will be asked to select different options based on their preference.

Project - Wings QTPS-14120 Screening Questionnaire

تعارف:-

اسلام ٹیکم ایئر ٹیم _____ ہے۔ میں Markematics (Pvt) Ltd. کی طرف سے آیا رآئی ہوں جو کہ پاکستان میں ریسرچ کا ایک نمایاں ادارہ ہے۔ ہم مختلف قومی اور بین الاقوامی کمپنیوں کے لئے مختلف ایشیا ماورسوز کے بارے میں معلومات اکٹھی کرتے ہیں۔ جس کے نتیجے میں یہ کمپنیاں اپنی ایشیا ماور خدمات کے سپارک کو بہتر بناتی ہیں۔ آج کے ہمارے اس انٹرویو کا مقصد انٹرویو تکشن استعمال کرنے کے بارے میں آپ کی پسند یا پسند کو جاننے اور اسے جاننا ہے۔ میں اس سلسلے میں آپ سے چند سوالات پوچھنے کے لئے آیا رآئی ہوں۔ امید ہے آپ تعاون کر کے شکر یہ کام موقع دیں گی۔ کیا میں سوالات کا آغاز کر سکتا کرکتی ہوں؟

شہر کا نام: _____	کراچی (1)	لاہور (08)
جنس: _____	مرد (1)	عورت (2)
(کوٹھے کے مطابق)		
ID نمبر (صرف دفتری استعمال کے لیے): _____		
انٹرویو کا نام: _____	انٹرویو نمبر: _____	دائیں نمبر: _____
تاریخ انٹرویو: _____	وقت آغاز انٹرویو: _____	
جواب دہندہ کا نام: _____		
فون نمبر: _____	مکان نمبر: _____	اسٹریٹ نمبر/نام: _____
پلاک: _____	علاقے کا نام: _____	قریبی تال: _____

S-1 کیا آپ خود یا آپ کے گھرانے کا کوئی فرد یا قریبی عزیز یا دوست ان میں سے کسی جگہ کام کرتے ہیں؟ (جوابات پڑھ کر سنائیں)

1	باریکنگ ایئر اور دیگر ایئر کی اشتہارات بنانے والی کمپنی
2	ہماری طرح سروے اور ریسرچ کرنے والی کمپنی
3	میڈیا (اخبارات، ٹی وی، انٹرنیٹ اور ریڈیو)
4	ٹیلی کمیونیکیشن کی کمپنی
5	ان میں سے کوئی نہیں

S-2 کیا جیسے چہاہ کے دوران آپ یا آپ کے گھر کے کسی فرد نے ہماری طرح کی کسی کمپنی کو کوئی انٹرویو دیا ہے؟

1	ہاں
2	نہیں

S-3 برے سر یا پائی آپ پر بتائیں کیا آپ انٹرنیٹ استعمال کرتے ہیں؟

1	ہاں
2	نہیں

S-4 جیسا کہ آپ نے بتایا کہ آپ انٹرنیٹ استعمال کرتے ہیں برائے سر یا پائی مجھے بتائیں کہ آپ کس طرح کا انٹرنیٹ استعمال کرتے ہیں؟ (جوابات پڑھ کر سنائیں)

1	نیمل سبٹ
2	DSL/Broadband
3	Dongle / Evo
	دیگر _____

Conjoint Profiles

Below were the profiles which were given to target customers to choose from.

Observation	Brands	Products	Data Limit	Speed	Startup Fee	Monthly Fee
Profile1	PTCL	Wingle	20 GB	9.3 Mbps	Rs.2,750	Rs.1,250
Profile2	Zong	Wingle	24 GB	21 Mbps	Rs.2,500 - get Double the volume for 1st 3 months	Rs. 1,500
Profile3	Mobilink	Wingle	30 GB	21 Mbps	Rs.2,500	Rs.1,500
Profile4	Telenor	Wingle	20 GB	21 Mbps	Rs.2100	Rs.1100
Profile5	PTCL	MiFi	20 GB	9.3 Mbps	Rs.3,250	Rs.1,250
Profile6	Zong	MiFi	24 GB	21 Mbps	Rs. 3,000- get double the volume for 1st 3 months	Rs.1,500
Profile7	Mobilink	MiFi	30 GB	21 Mbps	Rs. 3,200	Rs. 1,500
Profile8	Telenor	MiFi	20 GB	21 Mbps	Rs.3099	Rs.1100
Profile9	PTCL	Wingle	24 GB	36 Mbps	Rs. 4,000	Rs. 1,500
Profile10	Zong	Wingle	24 GB	150 Mbps	Rs. 3,500- Get double the volume for 1st 3 months	Rs. 1,500
Profile11	Warid	Wingle	15 GB	36 Mbps	Rs. 4,000	Rs. 1,500
Profile12	PTCL	Mifi	24 GB	36 Mbps	Rs. 5,000	Rs. 1,500
Profile13	Zong	Mifi	24 GB	150 Mbps	Rs. 4,500- Get double the volume for 1st 3 months	Rs. 1,500
Profile14	Warid	Mifi	15 GB	36 Mbps	Rs. 5,000	Rs. 1,500

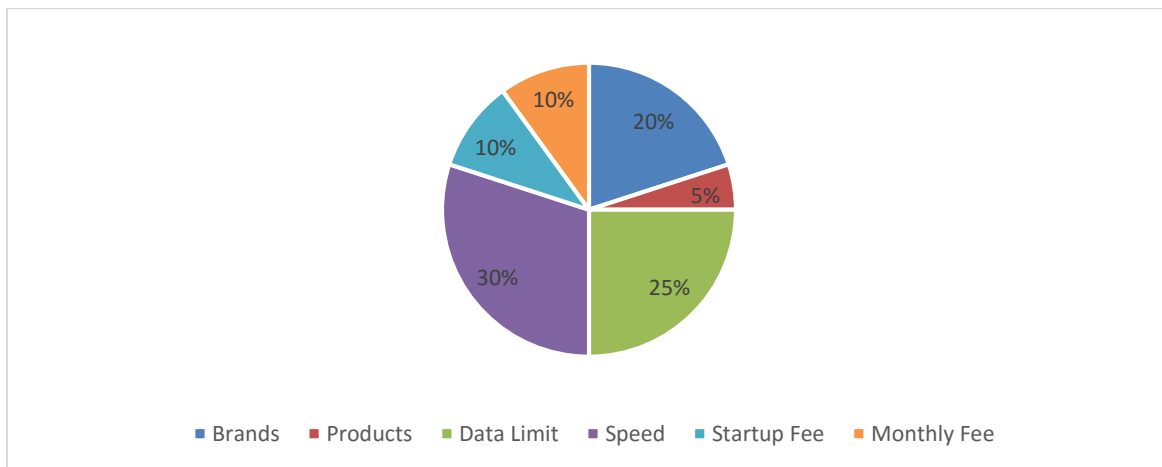
From these profiles the overall utilities of individual profiles were determined and simultaneously the utility of every respondent on each profile.

Utility is defined as the part worth of each element that account for preference in the offering. Higher the utility higher the preference, Lower the utility lower the preference of an attribute. The sum of individual utilities determines the overall preference of a package.

Research Findings

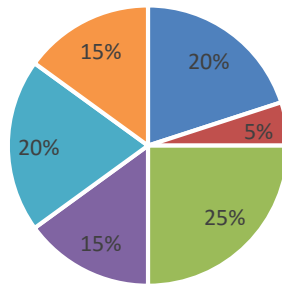
The summary of major findings of this research is given below.

- Among all factors “**speed**” & “**Data limit**” are the most important elements among consumers while selecting any offering regarding internet connectivity followed by “**Brand**” and “**Startup Fee**”.



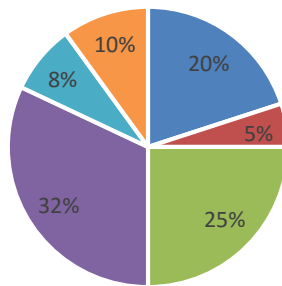
- The above factors clearly indicate that consumers prefer speed and data volumes the most when using internet. Brand also plays a part when it comes to delivering the promise.
- In terms of different target segments the importance of each attributes varies a little bit e-g students are more concerned about startup fee, while professionals needs high speed while data limit is the most important for households.

Youth/Student



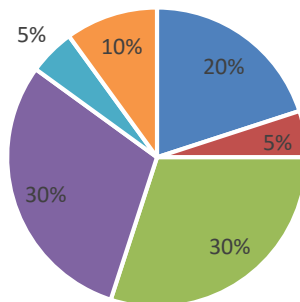
■ Brands ■ Products ■ Data Limit ■ Speed ■ Startup Fee ■ Monthly Fee

Professional



■ Brands ■ Products ■ Data Limit ■ Speed ■ Startup Fee ■ Monthly Fee

Household



■ Brands ■ Products ■ Data Limit ■ Speed ■ Startup Fee ■ Monthly Fee

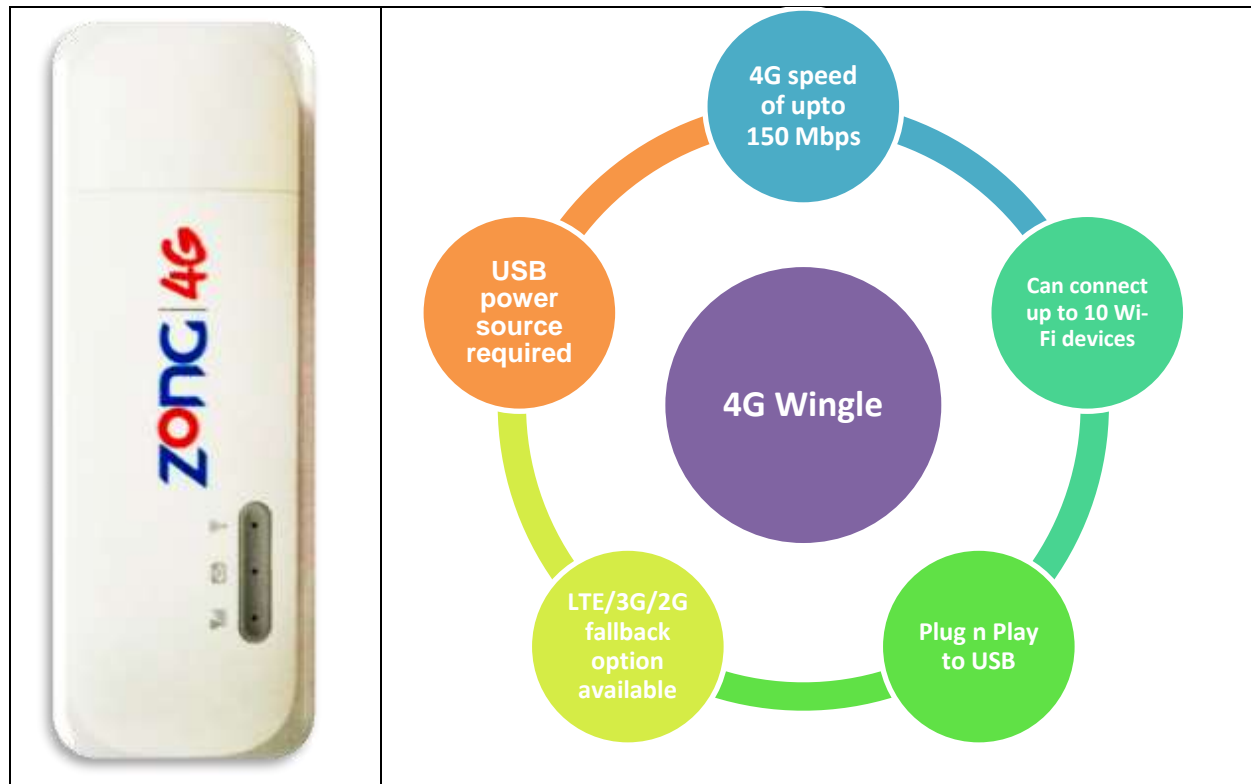
- The second most preferred attribute data limit for which highest utility is 20GB because of current usage of consumers.
- In terms of 4G offerings Zong has the highest utility score followed by PTCL and Warid
- In terms of 3G PTCL has the highest utility score.
- In terms of products Wingle has the highest utility score depicting its sheer preference by the consumers given low cost of the device.
- Offers with startup fee has higher utility as compared with no offers when you buy the service. Zong was giving double the volume which were favored by the consumers.
- In terms of monthly fee customers are willing to pay a little high price if they have good brand and speed. So in short they are willing pay a premium if quality service is given to them.

The 4 P's of Zong Mobile Broadband

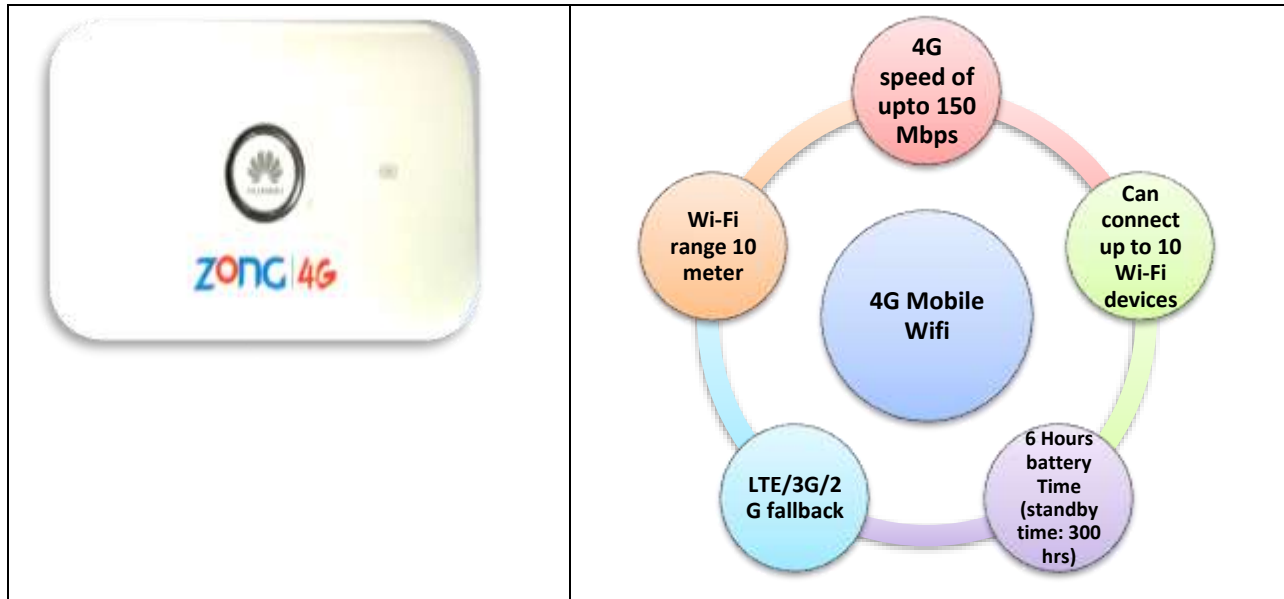
Product

Following the feedback from the research and also as per the internal Zong's objectives the operator decided to launch below devices.

1. 4G wingle



2. 4G Mifi



3. 4G Router

- a. Can connect upto 32 users
- b. 4G speeds of upto 150 Mbps
- c. 3G/2G fallback

4. 3G wingle

- a. All features of 3G wingle are same as that of 4G wingle except speed which 21 Mbps and it does not support 4G network.

5. 3G Mifi

- a. All features of 3G mifi are same as that of 4G Wifi except speed of 21 Mbps and it does not support 4G network.

The main focus will be on 4G devices and majority of the devices to be ordered will be 4G devices. The main objective of launching 3G devices was to target areas where in future Zong has no plans to launch 4G services and only 3G will remain there.

Zong initiated RFQ to procure these devices through an already defined RFQ process by Procurement team. Till January 2016 Zong has ordered **450k** devices with 85% of these devices are 4G devices i-e 4G wingles and Mifis.

Price

The price is divided into two parts:

- Device prices
- Data bundles prices along with offerings if any

Device Prices

The price of the devices were decided keeping in view two important factors competition and Zong's internal objective of increasing 4G subscriber base. Below are the prices

Device	Price (Rs.)
4G Wingle	2,000
4G Mifi	3,000
4G Router	4,500
3G Wingle	1,000
3G Mifi	1,500

All the bundles are inclusive of all taxes and no tax is deducted when customer recharges. This is a big plus for consumers and Zong is taking a hit on taxes to give advantage to the customers.

Below is the comparison of device prices with other competition players.

	Zong	PTCL	Telenor	Warid	Mobilink
3G Wingle	1000	1500	1,000	N/A	1000
3G Mifi	1500	2000	2,000	N/A	1700
4G Wingle	2000	2500	N/A	2500	N/A
4G Mifi	3,000	3500	N/A	3500	N/A

Zong offers the cheapest devices in the industry making it the most affordable device operator in 4G market. The average subsidy per device is **Rs. 2,000**

Data Bundles & Offers

The prices of data bundles along with volume was decided keeping in view consumer demand for data consumption that came through market research and also the fact that it should not hurt the broadband business of Zong given the fact that these bundles is something that customers will subscribe again and will play a major role towards recovering the subsidy of the device. Also the competition prices were also kept in mind.

Below are the detailed mobile broadband portfolio of Zong along with special offers which provoked buying by the customers.

Bundle	Price (Rs.)
Monthly 24 GB	1,500
Monthly 50 GB	2,000
Monthly 100 GB	3,800
Monthly 150 GB	5,000
Monthly 200 GB	6,000
3 monthly 24 GB	4,000

The bundles were kept monthly only keeping in mind customer centricity in mind since customers need not to worry about when their bundle will expire. So the portfolio is kept convenient for the customers and also it guarantees higher minimum revenue for Zong as well which is important keeping in view the subsidy recovery in mind.

Double the volume Special Offer

As per the research consumers were attracted towards buying if there is any offer So Zong launched double the volume offer with all their bundles. Customers buying the device with any bundle will get double the volume for the next 3 months on the subscribed bundle.

Example: if customer buys 24 GB with any device he will get 48 GB/month for next 3 months (including the purchase month).

Below is the comparison of bundles with other competition as well.

MBB Internet Bundles & ARPMB (Average Revenue/MB)						
	Zong 4G	PTCL 4G	PTCL 3G	Telenor 3G	Warid 4G	Mobilink 3G
3GB				300 (0.10)		
10GB			1000 (0.10)	750 (0.07)		
15GB					1500 (0.10)	
20GB			1250 (0.06)	1100 (0.05)	2000 (0.10)	
24GB	1500 (0.06)	1500 (0.06)				
30GB				1500 (0.05)		1500 (0.05)
35GB			1500 (0.04)		3000 (0.08)	
50GB	2000 (0.04)	2000 (0.04)	2000 (0.04)			2000 (0.04)
60GB						
100GB	3800 (0.04)					
150GB	5000 (0.03)					
200GB	6000 (0.03)					

Zong portfolio is simple and it is the only operator that is capable of offering high denominations of bundles i-e upto 200 GB which no one is offering in the industry. Zong offers 3G/4G technology neutral portfolio giving a hassle free option to the customers and they do not need to worry about which bundle is for which technology. So management of bundles become very easy. In terms of prices Zong portfolio is in line with competition when compared with 4G. This aspect combined with better speeds give an edge to Zong.

Promotion

The go to market plan for Zong MBB was conceived keeping in mind of that fact that this is a new business for Zong and it needed heavy media presence in order to register in the minds of the target consumers. A comprehensive 360 campaign was designed as per below guidelines.

1. What to Sell?

- a. Zong mobile broadband devices with special emphasis on 4G devices (Wingle & Mifi)
- b. Special offer of double the volume with the subscribed bundle
- c. Register that Zong is the fastest internet provider in town.

2. Who to Sell (Target Market)?

- a. Professionals
- b. Urban youth/students
- c. Households

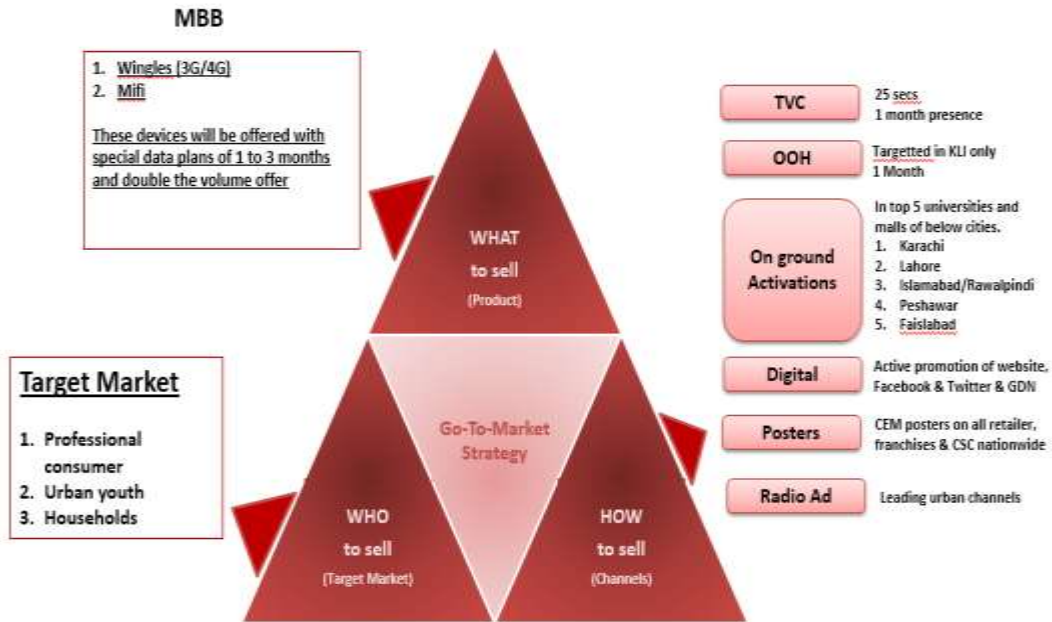
3. How to Sell (Channels)?

- a. **TVC (television ad)**- The ad depicted the utility of the devices, 4G speeds and its benefits and it registered that Zong is the fastest internet provider. It also highlighted double the volume offer. It was aired on leading channels which are watched by the target market in urban cities.
- b. **Out of Home (OOH)** – large billboards were procured in top urban cities of Pakistan showcasing the device and its benefits along with double the volume offer. The speed aspect of 4G was also highlighted.
- c. **On ground activations**- Claiming to be the fastest operator Zong needed to give the actual experience to its target customers which could only come from the fact that the product should be experienced by the target segments themselves. Zong launched a complete on ground activation campaign in 3 leading cities of Pakistan i-e Islamabad, Karachi & Lahore. Huge kiosks were set up in malls, busy plazas etc to attract the target customers where live demos were given to the customers. This further solidified the claim of fastest internet provider.
- d. **Radio Ad**- Youth and students listen to radio a lot. Attractive radio ads were made to entice this target segment and the radio ad was made in English & Urdu and was aired in leading channels of urban cities.
- e. **Digital**- This channel hold primary importance after the launch of 3G/4G services in Pakistan since many customers have started using social media like Facebook, twitter etc. Digital banners were made to advertise this product on these digital channels through a paid campaign that made sure all ads are displayed on the top of the browsers and mobile apps.
- f. **Posters & Banners**- posters and banners were displayed at the retail, Zong franchises & service centers to provide visibility at the local bazars and attract

customers. The major message on these posters and banners were device, its price and utility.

All in all a total of **135 Million PKR** was spent in the advertising campaign of mobile broadband across all these channels.

ZONG MBB GO TO MARKET PLAN



Place (Channels)

MBB business was a new business in the country for Zong and their channels were not trained to handle such a high tech business of devices and internet. Below channels were equipped with MBB devices and service after many rounds of training sessions.

1. Zong CSC (customer service centers)

There are a total of 22 service centers of Zong located in main urban cities of Pakistan that come in 3G/4G coverage areas of Zong. These service centers are Zong owned and are operated by Zong's employees. All Zong services are sold through this touch point.

2. GSM Franchise

GSM Franchise is Zong's business model and is operated by a third party keeping the Zong brand name. At the launch of Zong MBB in 2015, 150 Franchises were in 3G/4G coverage areas and all of them were provided MBB devices to sell. Currently there 257 GSM franchises selling MBB devices. GSM Franchises are selling MBB devices through their retail which is about 1,000.

3. MBB Franchise

Zong launched a dedicated franchise model that only sold MBB devices and people managing it would be specliazed in data business and a minimum education level required was graduate. They were also responsible in selling these devices door to door at customers' homes. **21 MBB Franchises** were inducted in 3G/4G areas.

4. Distributor

Retail channel was the most important channel for MBB business to gain scale and none of the existing Zong channels had experience of selling devices at retail channel. Also the profile of Zong's current retailers does not fit the profile of MBB device selling retailers and target customers would never visit the existing Zong retailers to buy an MBB device since the shop of the retailer was not high tech. in order to resolve this issue Zong hired a distributor that managed the distribution of PTCL devices at retail and had the relevant retail market. Initially 700 retailers were taken on board to sell MBB devices which were later expanded to 1500.

5. Corporate Sales

This channel takes care of all corporate and SME accounts since it requires special management and interaction with such corporate customers.

MBB launch started with 7 cities i-e provincial capitals and currently MBB is being sold in over 160 cities of Pakistan.

MBB breakeven analysis

Below is calculation of breakeven for a single sales to get an idea when does one sale starts to give profit.

Device	4G Wingle				
Cost To Zong inc tax (Rs)	Issuance Price to Channel (Rs)	Subsidy (Rs)	Subsidy in %	Consumer Price	
3,700	1,500	2,200	59%	2,000	

	M1	M2	M3	M4	M5	M6	M7
Device Consumer Price	2,000						
Data Bundle (24Gb)	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Total Price Paid by Customer	3,500	1,500	1,500	1,500	1,500	1,500	1,500
Zong Device Revenue	1,500						
Channel Margin	500						
Bundle Revenue Zong	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Bundle Revenue after Tax	1,101	1,101	1,101	1,101	1,101	1,101	1,101
Comission	-	551	275	275	275	275	110
Recharge Commission (4%)	-	60	60	60	60	60	60
Misc Cost	321						
Communication Cost	250						
Zong Net Profit	(1,670)	(1,180)	(414)	352	1,118	1,884	2,814

Device	4G Mobile Wifi (FH) with LCD				
Cost To Zong (Rs)	Issuance Price to Channel (Rs)	Subsidy (Rs)	Subsidy in %	Consumer Price	
4,615	2,500	2,115	46%	3,000	

	M1	M2	M3	M4	M5	M6	M7	M8
Device Consumer Price	3,000							
Data Bundle (24Gb)	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Total Price Paid by Customer	4,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Zong Device Revenue	2,500							
Channel Margin	500							
Bundle Revenue Zong	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Bundle Revenue after Tax (AIT+GST)	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101
Comission	-	551	275	275	275	275	110	110
Recharge Commission (4%)	-	60	60	60	60	60	60	60
Misc Cost	321							
Communication cost	250							
Network cost	-							
Zong Net Profit	(1,585)	(1,095)	(329)	437	1,203	1,969	2,899	3,830

Device taxes

- Sales tax: 17%
- Additional sales tax: 3%
- Income tax: 5.5%

- Others include insurance handling costs

Miscellaneous costs (Rs. 321)

SIM Issuance Tax	Cost of SIM	Packaging of SIM & Device	HLR 4G	Contract Print and Storage
250	26	15	15	15

Commission

Comission Slab	M1	M2	M3	M4	M5	M6
%	0	0.5	0.25	0.25	0.25	0.25

Internet Bundle tax

MBB Bundle	price (Rs.)	Service + admin fee	GST on Service fee	AIT (14%)	Revenue with GST	GST (19.5%)	Net Revenue
24GB	1,500	-	-	184	1,316	214.71	1,101.08

Breakeven point

Seeing at all the calculations breakeven points for each device is given below

1. 4G wingle- 4th month
2. 4G Mifi- 4th Month


Chapter #4

Zong Mobile Broadband Post Launch Analysis

MBB services were launched by Zong in June 2015. We will analyze the performance of Zong MBB service till April 2016 (11 months) and will also give my opinion along with the way forward for 2016 on MBB product.

MBB Industry and Market Share Q1 2016

Below is the snapshot of monthly gross ads for each major operator in 3G/4G broadband market industry.

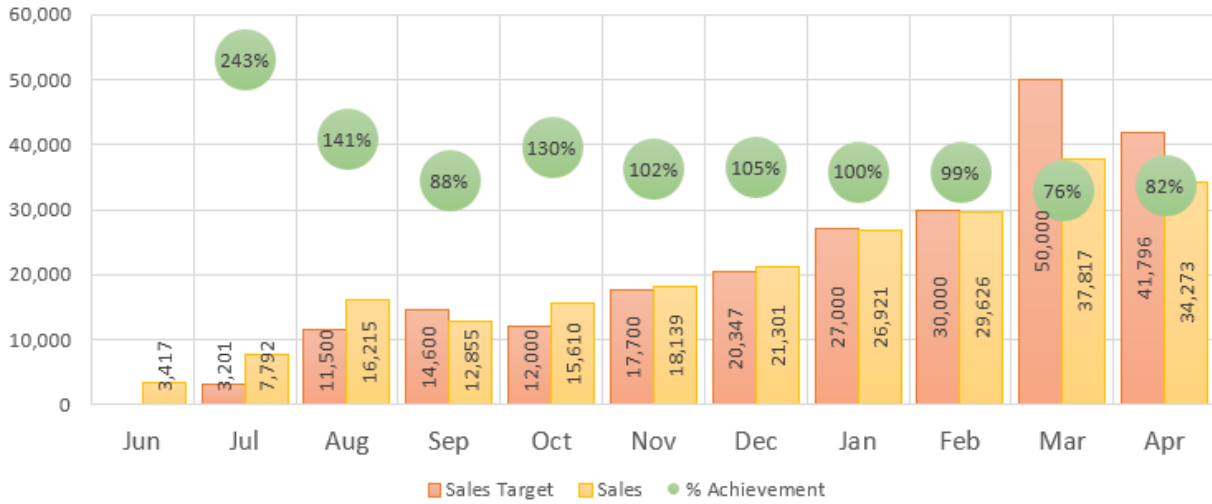


	Zong		PTCL		Mobilink	Telenor
	3G Devices	4G Devices	3G devices	Chaar ji	3G devices	3G Devices
Jan	541	26,300	40,000	3,500	4,500	1,500
Feb	201	29,400	41,000	3,000	5,200	2,000
March	4,236	33,581	43,000	4,000	5,700	2,200
Total	4,978	89,281	124,000	10,500	15,400	5,700

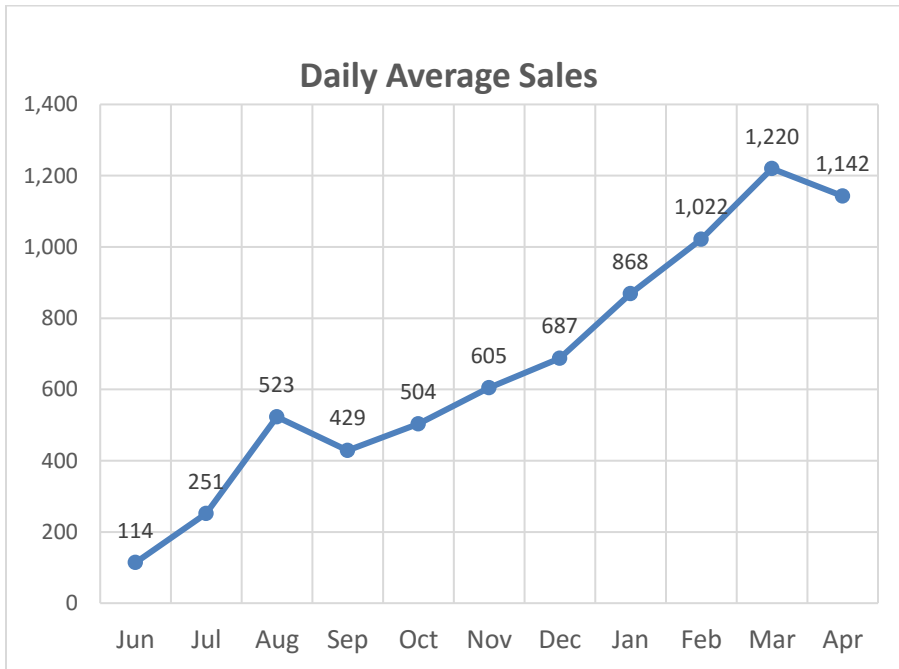
- Overall market size per month is 100k devices and Zong share is 41%. This is a big achievement since Zong just entered the market almost 1 year ago and challenging a major player like PTCL is commendable.
- Zong's market share in 4G devices only is the highest and stands at 93%. We can say safely Zong has been very successful in getting the 4G scale which was their primary objective of Zong while launching this service.
- PTCL focuses mainly on 3G devices.
- Other telecom operator's market share is very minimum i-e 9%.

Zong MBB Sales Performance

MBB Sales Performance

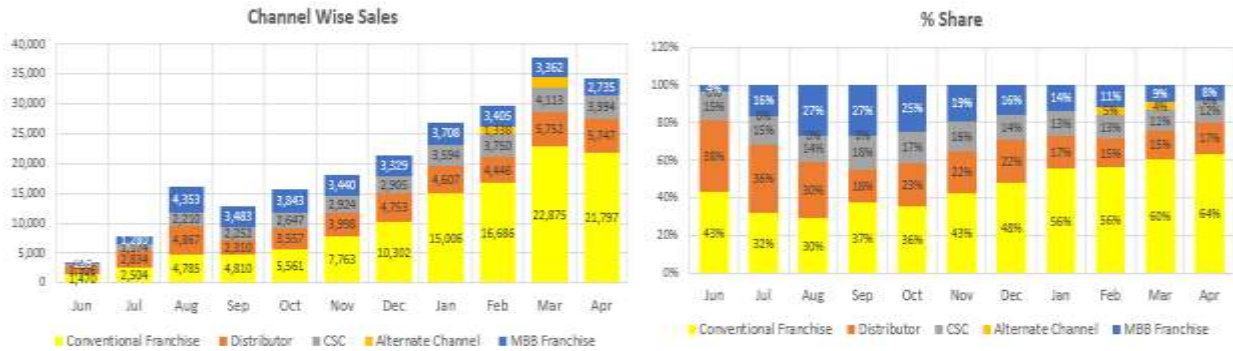


Daily Average Sales



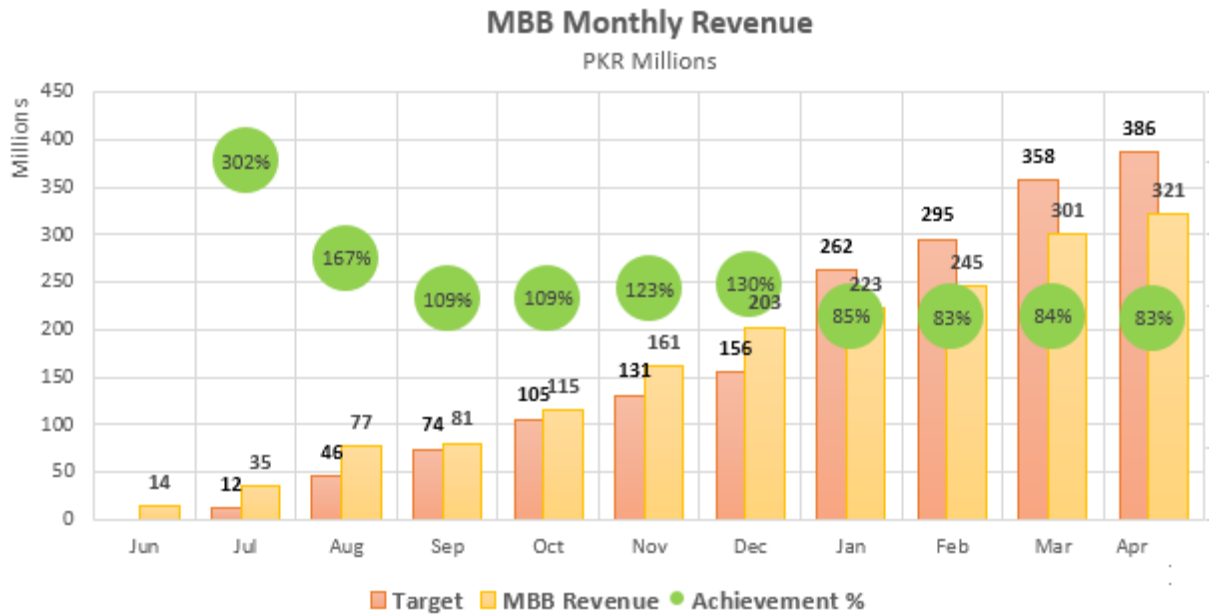
1. Total sales from Launch till date is: 224 K
2. Daily average sales have been increased from 114 in June 2015 to almost 1200 in 1200 in April 2016.
3. Sales vs target achievement has been over 100% except in March and April 2016 because of 4G wingle stock issues (enough stock was not available) and target increase as well.
4. In absolute terms sales have been increasing month on month basis.
5. Zong has already ordered more 4G wingles.

Zong MBB Channel sales Performance



- In terms of sales Conventional Franchise (50%) and distributor (20%) are the top two selling channels for MBB. Conventional franchise share is constantly increasing due to more focus on this channel by all regions.
- In terms of target vs achievement conventional franchise and CSC are the top two channels.
- Performance of Distributor and MBB franchise is constantly on the decline in terms of target vs achievement stats.

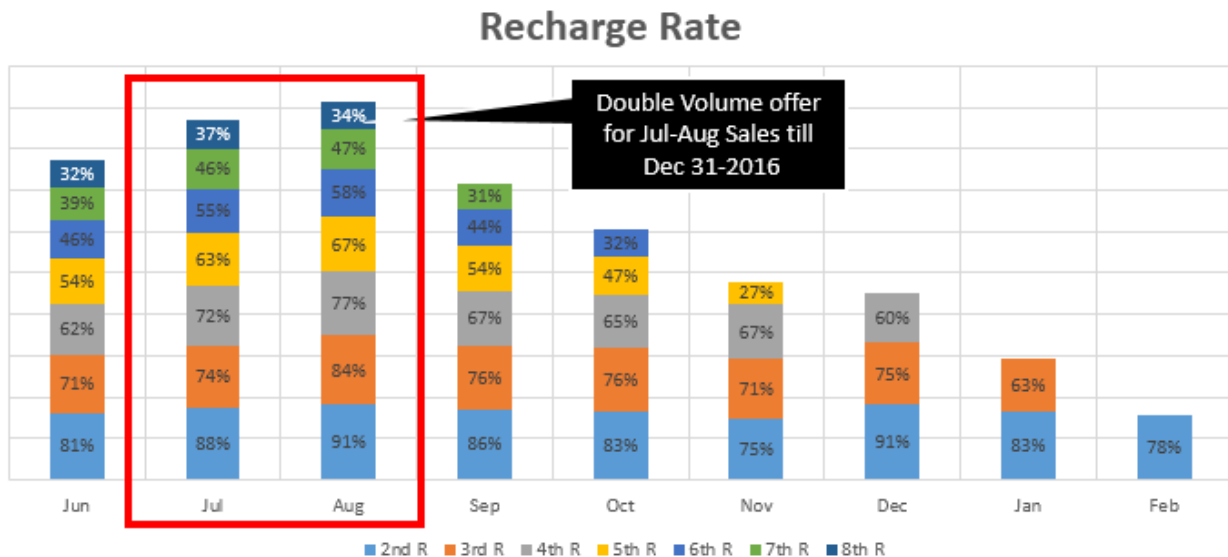
Zong MBB Revenue Performance



- Total Revenue from launch till date **PKR 1.5 Billion**
- Revenue in absolute terms have been increasing and has grown by **58%** in April as compared to Dec 2015 last year.
- Major contribution in revenue has been recharge revenue due to increase in active customers.
- Monthly revenue achievement for 2016 has been around 80% due to:
 - Sales target not met
 - Tax adjustment on bundles since Zong is absorbing taxes on MBB internet bundles.

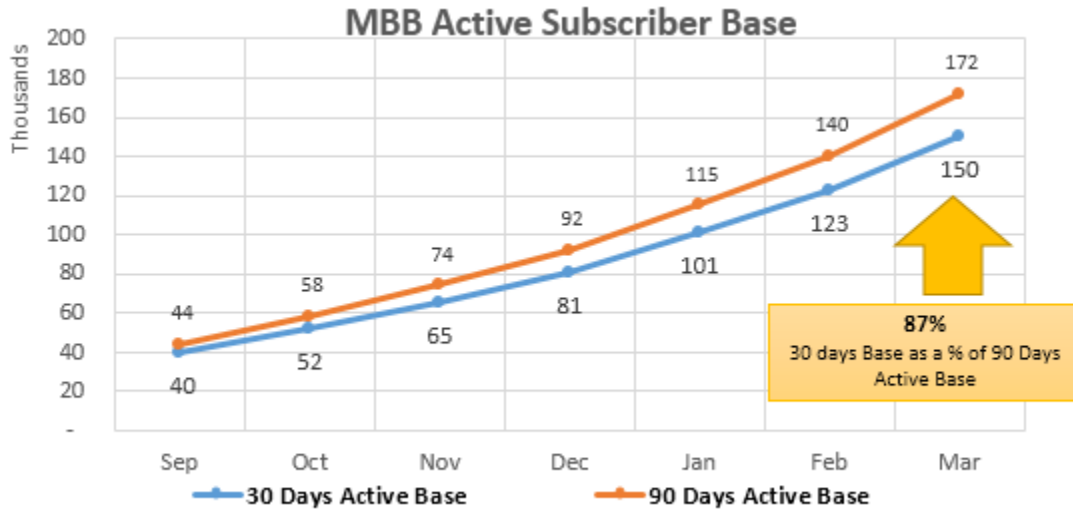
Zong MBB Recharge Performance

MBB recharge is the most important aspect of this business. Customers have to recharge at least 4 times in order for Zong to breakeven a single sales. Special focus was in place to ensure this happens since it was necessary for the survival of this business. Zong's competitive advantage of speed also played a role and pushed customers to continue using this product.



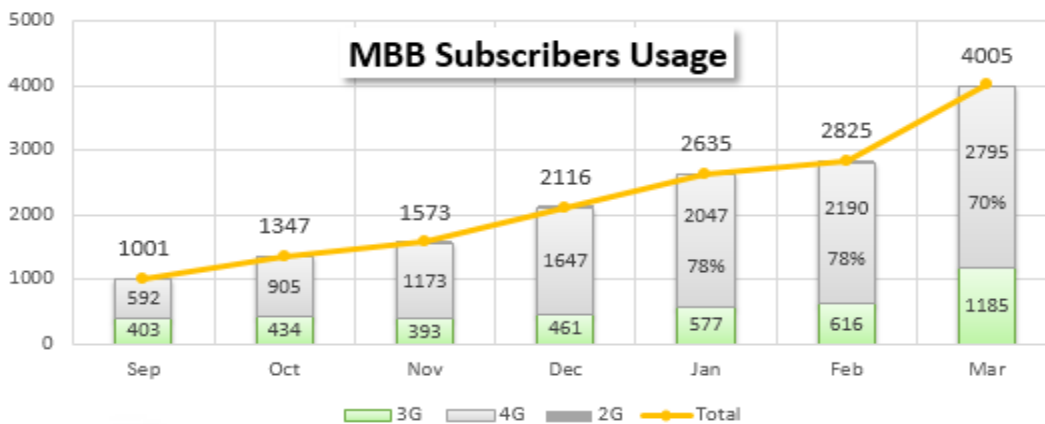
- Average **Life Cycle of MBB Subscribers** Launch till date is **8 Months**
- Average **Gross Churn % of MBB 1.6%**
 - **Only (7.8K) subscribers**
- **2nd Recharge Rate more than 80% for all sales**
 - Average Number of Days for 2nd Recharge approx. 40 Days
 - 78% of these subscribers take 30-33 Days
- 4th & 5th Recharge needs improvement but there are customers who recharge more than 1 time in a month.

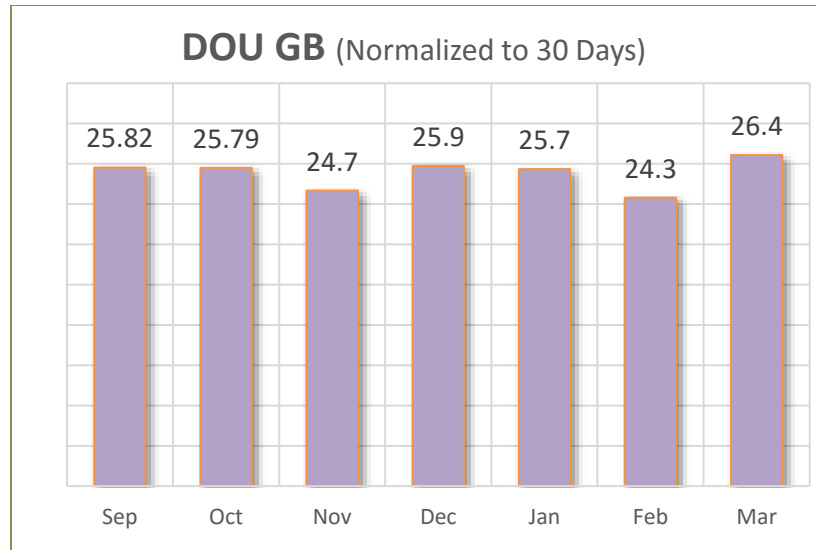
Zong MBB Active Base



- MBB 90 day active base has been increasing steadily to reach 172k in March (88% total sales till march-190k is Active)
- 87% of the total 90 days base are 30 days active which suggests a good recharge rate.
- 90% of the 90 days active base are 4G customers

Zong MBB Usage Analysis





Prepaid User Behavior 30 Days Active	Data Subscribers (Mar)	% Share in Overall Data Subscribers	Usage (TB) (Mar)	% Share	Data Revenue (Mar)	% Share
Handset	7,942,141	97%	3,164	41%	522 M PKR	61%
MBB	150,183	2%	3,994	52%	301 M PKR	35%
Internet SIM	60,282	1%	477	6%	36 M PKR	4%
Total	8,152,606		7,634		859 M PKR	

- MBB usage constitutes 52% of the total network usage and it is increasing on month on month basis.
- Average usage/subscriber is 26GB/month
- 35% of the total data revenue is generated by MBB users that are 2% of the total 30 days data active base. This needs to be improved when you consider such high usage.
- 7% of the total company revenue is being generated by MBB users that are only 0.7% of the total 30 days active Zong base.

Zong MBB Profitability

Every business is in the end about earning profits and Zong MBB is not different. Zong's management expects some good returns from this business since they have invested a lot of Capex both in procuring devices and on promotion.

Below is the details of MBB business profitability.

Launch Till April 2016	
<i>Description</i>	<i>Actual</i>
<i>Device Revenue</i>	465,687,738
<i>Bundle Revenue</i>	382,276,968
<i>Renewal Revenue</i>	644,929,595
Total Revenue	1,492,894,300
<i>Direct Cost</i>	<i>Actual</i>
<i>Bundle commission</i>	161,822,344
<i>Royalty</i>	36,575,910
Total Direct Cost	198,398,254
Earnings After Commission	1,294,496,046
Margin	87%
<i>Sales & Marketing Cost</i>	<i>Actual</i>
<i>Nadra</i>	5,077,043
<i>SIM Issuance Tax</i>	55,185,250
<i>SIM Direct Cost</i>	7,063,712
<i>Device Cost</i>	994,361,914
Total Sales & Marketing	1,061,687,919
Gross Margin	232,808,127
	16%
<i>Advertising & Promotion Cost</i>	135,916,667
<i>Turnover Tax</i>	14,928,943
Net Margin	81,962,518
Net Margin %	5%
Total Commission	161,822,344
Total Commission as a % of Revenue	15.75%

From launch till date in April 2016, net profit is **81 Million PKR** (5% margin). Total commission paid out to the selling partners is 161 Million PKR (15.7% of Total revenue). Breakeven month was March 2016. Given such a high cost business we can term MBB business a success.

Chapter #5

Zong Mobile Broadband 2016 Strategy

Introduction

As per our analysis Zong MBB business have been a huge success making Zong the top grossing MBB operator in the industry. Moreover Zong has now become profitable as well with an earnings of 81 Million PKR.

Zong has been able to sell 224k MBB devices in 11 months. This success has prompted more expectation by the management from this MBB business. This year of 2016 is much tough in terms of sales and revenue targets. Below are the targets of MBB in 2016.

MBB Sales Target 2016- 500k (470k active subs)

MBB Revenue Target 2016- 5.2 Billion PKR

To achieve these targets a proper strategy needs to be in place to attract masses now since in terms of technology adaption life cycle the SEC A technophiles have been acquired. Below are the **key focus areas** which Zong should work on to achieve these targets.

1. Increase Sales

- a. Maintain effective float of MBB devices in the retail market
- b. Lower the entry barriers so that it becomes attractive to the masses
- c. Expand channel footprint so that products reach is increased

2. Profitability

- a. Improve recharge rates (especially 4th Recharge onwards)
- b. Reduce commission (currently commission takes 15.7% of the total MBB revenue which is on the higher side)
- c. Revamp portfolio of MBB internet bundles

3. MBB Usage control

- a. Control MBB usage to balance the usage with revenue and eventually increase average revenue per MB
- b. Launch lower denomination bundles

Zong MBB Strategy Program

Zong MBB should be given proper direction so that all people working on this project should be clear about what is expected from them and how to take this product forward. Below is MBB diamond framework which highlights key priorities and ways to achieve them.

1. Arenas (Where will we be active?)

- a. MBB for large screen (Wifi, wingle, Routers)
- b. 4G LTE technology with very limited 3G
- c. Tier 1-2 & 3 regions
- d. Target household, professionals & youth customers (SEC A, B & C)
- e. HORECAS and SME by corporate channel

2. Vehicles (How will we get there?)

- a. Purchase devices from best vendors.
- b. Best 4G coverage including indoor
- c. Purchase best systems to support MBB with extensive reporting
- d. Develop the best channels to achieve maximum reach

3. Differentiation (How will we win?)

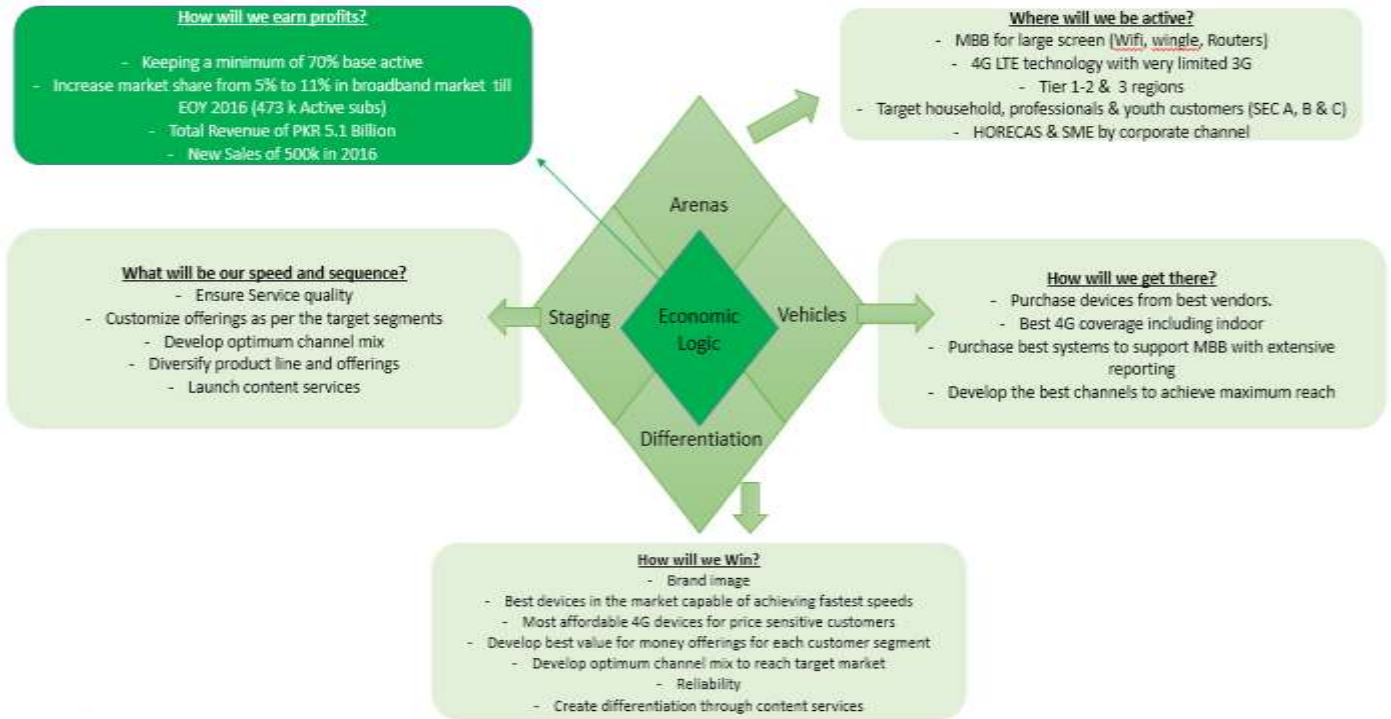
- a. Brand image
- b. Best devices in the market capable of achieving fastest speeds
- c. Most affordable 4G devices for price sensitive customers
- d. Develop best value for money offerings for each customer segment
- e. Develop optimum channel mix to reach target market
- f. Reliability
- g. Create differentiation through content services

4. Staging (what will be our speed and sequence?)

- a. Ensure Service quality
- b. Customize offerings as per the target segments
- c. Develop optimum channel mix
- d. Diversify product line and offerings
- e. Launch content services

5. Economic Logic (How will we earn profits?)

- a. Keeping a minimum of 70% base active
- b. Increase market share from 5% to 11% in broadband market till EOY 2016 (473 k Active subs)
- c. Total Revenue of PKR 5.1 Billion
- d. New Sales of 500k in 2016



Zong MBB Channel Strategy

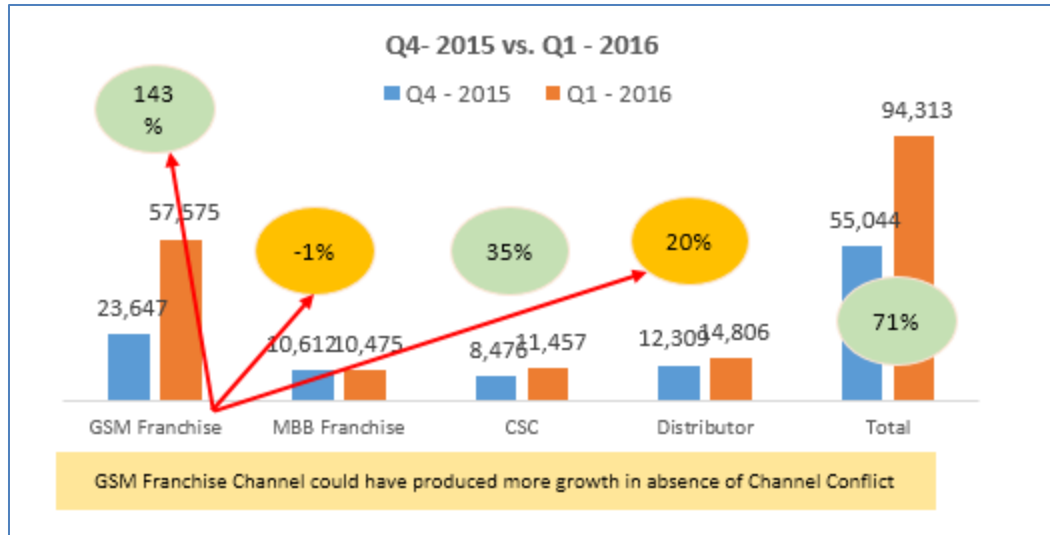
Currently there are too many channels through which MBB is being sold which are listed below.

1. Zong owned service centers (CSC)
2. Zong GSM Franchises
3. Zong MBB Franchises
4. Distributor

Zong CSC is its own property and it provides all kind of Zong services. This channel is here to stay since people operating it are Zong employees. These are situated in main urban cities of Pakistan and there are 22 CSCs of Zong in Pakistan. They are not very effective in reaching the scale but provide the best customer experience.

Meanwhile the remaining three channels GSM Franchise , MBB Franchise & Distributor are serving the same market which are creating following challenges:

- Infiltration of Stock / Price Fluctuation of Devices
- Channel conflicts and territory violation
- Impact on Channel Profitability
- Loss of Organizational Resources



As evident from the above graph the performance of GSM Franchise and Distributor has not been similar to that of GSM franchise.

Convergence of MBB channels

In order to resolve the above issues we propose below actions.

1. Merge MBB Franchise with GSM Franchise since GSM franchise performance has been the best among all MBB channels. Moreover GSM franchise sells other Zong products as well such as SIMs, voice services etc. Converging MBB franchise with GSM franchise will help manage the channel better.
2. Territory definition of each GSM franchise and its retailers. Territories will be defined for each Franchise and retailer and they can sell only in that territory.
3. Eliminate distributor channel through a phased approach with consent of regional teams. The current retail footprint of distributor is 800 outlets will be served via GSM franchises.
4. GSM franchises will have to do additional investment of 102 million PKR in order to cover the delta of after eviction of MBB franchise & Distributor.

Expansion of MBB footprint

Below is the expansion plan for MBB channels footprint after consolidation of channels

Channel	Q1	Q2	Q3	Q4
GSM Franchise	257	270	280	300
MBB retailers	4,000	4,500	5,000	6,000
CSC	22	22	23	23

Channel Management

Focus on below aspects to be successful.

1. Quality of sales i-e keeping an active ratio of 70% of total sales done by each channel
2. Commissioning should be based activation ID and not on issuance ID to avoid channel conflicts
3. Zong should focus on improving data selling capabilities of channels
4. Communication of all aspects of the product at all touch points

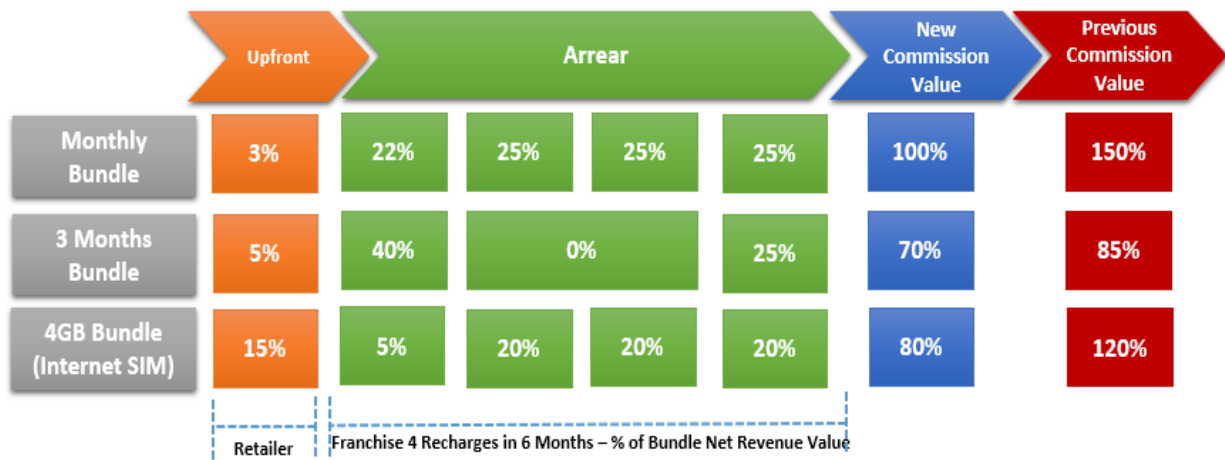


MBB Commission Strategy

As mentioned in the profitability analysis, MBB commission constitutes **15.75%** of the total MBB revenue which is on the higher side since in 2016 the directions my CMCC group is not to increase commission cost by 8% of the total revenue. Also MBB product is sold through PULL mechanism and word of mouth by friends given the performance of the product. Keeping these two facts in mind below is proposed commission structure of MBB.

Upfront Device margin: Rs. 500

Bundle commission is given below:



- Reduction of MBB commission from 150% to 100%
- Abolish MBB retention commission of 2-10%
- Commission will be applicable with new definition i-e activation ID

The new proposed commission model will help an annual saving of Rs. 200 Million

Zong MBB Product Strategy

The product team needs to support channel in develop attractive offerings so that it is demanded by the customers and also in order to achieve scale (sales) below offers are suggested.

Launch new 10 GB bundle

Launch a new 10GB bundle at Rs. 1,000 which will be available after sales (2nd recharge) to cater below strategic areas.

1. Improve recharge rates especially 4th recharge onwards.
2. Balance between usage and revenue issue i-e 52% usage and only 35% revenue contribution.

The best part is that launching this bundle will not hurt the profitability of the business since we are also proposing a reduction in commission. Below are the breakeven analysis of 4G wingle & 4G Mifi.

Device	4G Wingle							
Cost To Zong (Rs)	Issuance Price to Channel (Rs)	Subsidy (Rs)	Subsidy in %	Consumer Price				
3,700	1,500	2,200	59%	2,000				

	M1	M2	M3	M4	M5	M6	M7
Device Consumer Price		2,000					
Data Bundle (24Gb)		1,500	1,000	1,000	1,000	1,000	1,000
Total Price Paid by Customer		3,500	1,000	1,000	1,000	1,000	1,000
Zong Device Revenue		1,500					
Channel Margin		500					
Bundle Revenue Zong		1,500	1,000	1,000	1,000	1,000	1,000
Bundle Revenue after Tax		1,101	734	734	734	734	734
Comission		275	184	184	184	-	-
Recharge Commission (4%)			40	40	40	40	40
Misc Cost		321					
Zong Net Profit		(1,420)	(910)	(399)	112	806	1,500

Device	4G Mobile Wifi (FH) with LCD				
Cost To Zong (Rs)	Issuance Price to Channel (Rs)	Subsidy (Rs)	Subsidy in %	Consumer Price	
4,615	2,500	2,115	46%	3,000	

	M1	M2	M3	M4	M5	M6	M7	M8
Device Consumer Price	3,000							
Data Bundle (24Gb)	1,500	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Price Paid by Customer	4,500	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Zong Device Revenue	2,500							
Channel Margin	500							
Bundle Revenue Zong	1,500	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Bundle Revenue after Tax (AIT)	1,101	734	734	734	734	734	734	734
Comission	275	184	184	184	-	-	-	-
Recharge Commission (4%)		40	40	40	40	40	40	40
Misc Cost	321							
	-							
Zong Net Profit	(1,335)	(825)	(314)	197	891	1,585	2,279	2,973

New Portfolio	Name	Volume	Price (Rs.)
	MBB Monthly 24 GB	24 GB	1,500
	MBB Monthly 50 GB	50 GB	2,000
	MBB Monthly 100 GB	100 GB	3,800
	MBB Monthly 150 GB	150 GB	5,000
	MBB Monthly 200 GB	200 GB	6,000
	MBB 3 months 24 GB	24 GB/month	4,000
	MBB Monthly 10GB (not available at sale)	10GB	1,000

Launch 6/12 months bundle plans

MBB business is still risky given its subsidy model and it is still dependent on customer's recharge. In order to mitigate these risks we propose a hassle free 6/12 months plans which will help Zong breakeven at the time of sales with 0 risk. Below are the proposed plans.

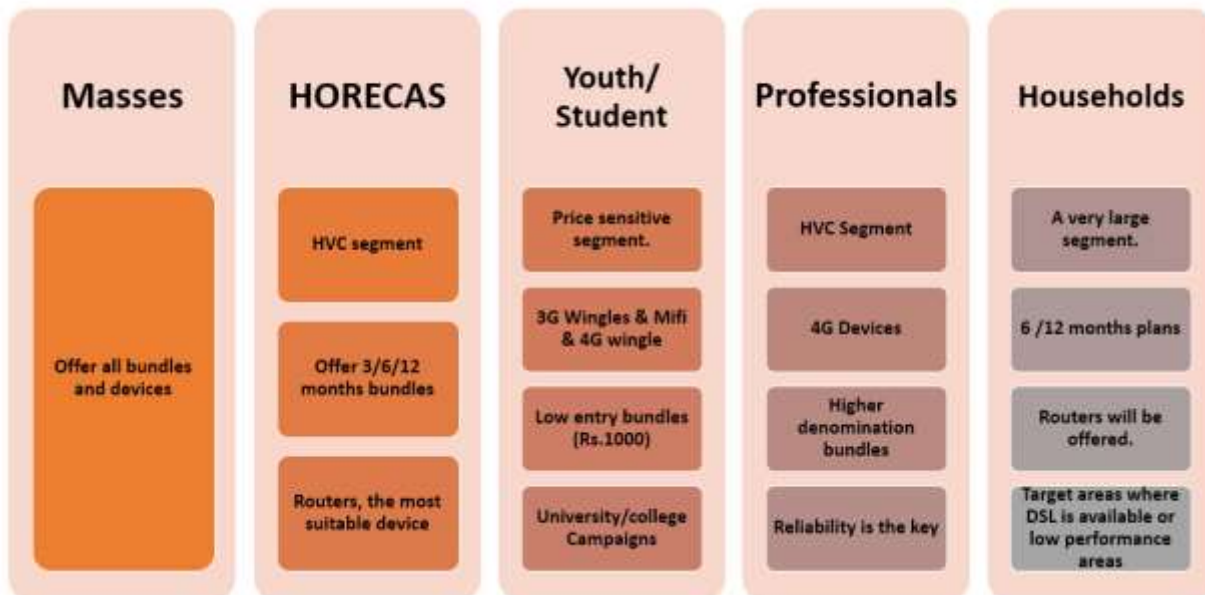
Shout- Buy 6/12 months MBB plans and get device FREE



	Denomination	Total Customer Price (Rs)
4G Wingle	24GB 6 Months	9,000
	24GB 12 Months	18,000
	50GB 6 Months	12,000
	50GB 12 Months	24,000
4G Mifi	50GB 6 Months	12,000
	50GB 12 Months	24,000

Zong MBB Segmentation Strategy

Below is the proposed segmentation strategy which help position MBB product better in the eyes of the target customers. Also it will help the sales and channel partners better understand which product to offer to which segment.



Zong MBB Brand Strategy

Zong really needs to work on repositioning of its mother brand. As of now it is not conceived as brand for SEC A & B and youth & professionals the most relevant target markets for MBB do not think of Zong as a modern brand which is hampering the growth of MBB and Zong's data business as a whole. Zong is still considered to be a cheap brand and low quality.

A major re positioning is required to refresh the brand around the lines of modern, lively and high quality brand. The brand messages should be focused around internet and not voice.

Conclusion

The future of telecom business lies with uptake of internet. All operators are focusing heavily on this business in order to revive this telecom industry from saturation. Zong being the only 3G & 4G operator in the country is in a position that can take maximum advantage from the booming demand of internet. Zong MBB business will play a major role in taking this advantage and Zong's management should focus on this business to take higher market shares of data business and flourish on their vision of becoming the digital life partner of their customers.

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