SOUTH/SOUTH-EAST ASIA: Region set for telecoms growth

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SUBJECT: The scope for an expansion of telecommunications services among low income groups in South and South-east Asia.

SIGNIFICANCE: A regional survey has found surprisingly high levels of telephone usage among low income groups, as well as significant unmet demand and considerable purchasing power. This largely untapped client base offers opportunities and challenges for the telecommunications sector.

ANALYSIS: A survey of low income groups in South and South-east Asia by Lirneasia, a Sri Lankan-based research organisation, has identified considerable demand for, and awareness of, new types of telecommunications technology. The findings challenge a widely held assumption that customers for high technology goods are only found in developed countries and among the growing middle class in developing countries:

- The study focused on the lowest two socioeconomic quintiles in India, Pakistan, Sri Lanka, Thailand and the Philippines (as defined by the chief wage earner's educational and occupational status).
- Over 8,600 people between the ages of 18-60 were interviewed about access to, and usage of, telephones.
- Half of those interviewed kept a diary of their telephone usage over a two-week period.
- A series of focus group discussions also took place.

Access. The research indicated that the majority of people in these socioeconomic groups have access to telephones, even if they do not own them:

- More than 90% of respondents had used a telephone in the last three months.
- Over 75% said they could access a telephone in less than ten minutes using a fixed line or mobile telephone that they own, borrow or which are available for public use.
- Rural and urban access rates were more similar than expected.

There are significant differences in how telephones are accessed. In South Asia, the most common type of telephone used was public, for 30% of respondents in Pakistan and Sri Lanka and 70% of those in India. In South-east Asia, the majority use their own mobile phones (more than 70% in Thailand and over 55% from the Philippines).

While mobile telephone penetration is much lower in South Asia, it is still significant, as slightly more than 20% of respondents in Pakistan, as well as some 18% in Sri Lanka and 8% in India reported that they had their own mobile phones. Conversely, in both Thailand and the Philippines, less than 10% of respondents reported using a public telephone.

Usage. The study also found surprisingly high levels of telephone use:

- Respondents in India and Pakistan averaged more than 30 calls per month, compared to 23 and 16 for Sri Lanka and the Philippines respectively.
- The calls made were predominantly local (for over 80% of respondents in the Philippines and Thailand, over 70% in India and Pakistan and around 60% in Sri Lanka) Long distance calls make up the balance, with very few respondents making international calls.
- Across all countries, the calls were short, at about two-three minutes on average. Except in Thailand, some 80% of respondents made telephone calls for social purposes. Calls for business purposes were made less than 20% of the time, except in Thailand where this accounted for about 30% of calls.

Market potential. The unmet demand for both fixed and mobile telephones is substantial. More than 80% of respondents in India, 64% in Pakistan, and 59% in Sri Lanka do not own either a mobile or a fixed line telephone. The corresponding figure for the Philippines and Thailand is lower, at 38% and 23% respectively. The focus of growth is likely to be mobile phones:

- While fixed line telephones offer lower unit costs per call, it is unlikely that services will expand quickly enough to meet this demand due to expensive infrastructural outlays (see INDIA: Telecoms expansion forces consolidation - August 23, 2005). Fixed line penetration has stagnated in many countries (see INDIA: Political factors threaten infrastructure plans - April 2, 2007).
- Mobile phones are more popular, with about 66% of Pakistanis and Indians and 90% of Filipinos who do not currently own a telephone stating that they intend to buy one. The exception is Sri Lanka, where slightly over 50% of respondents stated that they would prefer a fixed line telephone, and only 40% would opt for a mobile.

The study also challenged the notion that the poor are unable to afford, or are unwilling to pay for, mobile phone services. Of those who do not own a mobile phone, approximately 40% of respondents in India, the Philippines and Thailand state that they plan to buy one in the next two years. In Pakistan and Sri Lanka, this figure is above 50%.

Furthermore, the mobile phone market can grow vertically as well as horizontally. In addition to attracting new consumers, existing owners or households can get additional connections. In Pakistan and Thailand, approximately 20% of households have more than one mobile phone, and this climbs to more than 40% in the case of the Philippines. There is scope for millions of new connections to be established, including potential for:

- 1.5 million in Thailand and Sri Lanka;
- 9.7 million in the Philippines;
- 30.0 million in Pakistan (where a sizeable population represents a largely untapped market); and
- 100.0 million in India.

Challenges. While these countries offer wide and deep markets, they also pose a challenge to telecommunications companies that may have to alter their business models. In addition to being extremely cost-conscious, potential clients in these income groups have different needs:

- **Market**. There is considerable demand for cheaper handsets. In order to lower costs, purchasing second-hand devices is an established practice -- over 25% of respondents in Sri Lanka and India, approximately 33% in Pakistan and Thailand, and 40% of respondents in the Philippines reported using a second-hand mobile phone.
- **Charges**. They have less capacity to pay high monthly charges. Average spending among these income groups is under 10 dollars per month. Respondents spent over seven dollars per month in Sri Lanka, Thailand, and Pakistan, but an average of five dollars per month in India and only two dollars per month in the Philippines (this may be linked to a preference among Filipinos for short messaging services rather than telephone calls).
- **Payment**. Established monthly payment models are unlikely to suit them. Over 90% of respondents (99% in Pakistan and the Philippines) use pre-paid plans. The most cited reason was to limit or plan expenditure for usage.

Opportunity. Revenues per consumer for traditional services may be lower in this market segment, but its interest in new value-added services may boost its earning potential for telecommunications companies. While more than nine out of ten respondents have used a phone in the last three months, 14% of Filipinos, 29% of Sri Lankans and 36% of Thais and Pakistanis have not heard about the internet. This figure climbs to 72% among Indian respondents. Thus, as telecoms operators in the Philippines have found, these consumers are able and willing to use their mobile phones for services traditionally restricted to the internet, such as sending remittances, making airline reservations or receiving weather forecasts (see PHILIPPINES: Pre-poll spending poses fiscal threat - December 27, 2006 and see SOUTH-EAST ASIA: Money transfers pose fiscal threat - July 31, 2006).

CONCLUSION: Contrary to popular perceptions that the poor in developing countries are unable or unwilling to access telecommunications, there are signs that these consumers are willing and able to acquire and use phones. The market potential for telecommunications equipment and services, if correctly tapped, is huge, but usage patterns and consumer preferences will challenge traditional business models.

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