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## Whither cellphone pricing? It's not so transparent

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UNTIL April 1997, SingTel held a legal monopoly over public mobile and fixed-line telecommunications services in Singapore. Then along came M1 as the country's second mobile telephony service provider. Three years later, in April 2000, StarHub entered as Singapore's second fixed-line and third mobile telecoms service provider.

The accelerated liberalisation of the telecom sector brought about intense competition - in terms of services offered, quality and price. There were daily promotions by SingTel, StarHub, M1, and their various retail distributors in newspapers, television and radio. The intense competition yielded huge benefits to Singapore consumers and businesses.

Mobile telephony, for instance, has been transformed from a luxury for bankers and doctors to an almost universal service. By last December, 3.5 million persons here had subscribed to mobile phone services.

February 2004 may prove to be another watershed in the development of Singapore's telecom sector - but in a different direction.

On Feb 21, StarHub took out full-page advertisements for its cellphones, but these did not state handset prices. Promising 'better handset prices than any other advertised', it offered to charge \$1 less than any advertised price.

One week later, SingTel followed suit with full-page advertisements in the Lianhe Zaobao and The Straits Times. These did not publish handset prices either. Instead, the ads declared that 'SingTel's offers are better than FREE! - \$1 will be yours for any \$0 mobile phone advertised'.

The odd man out, M1, boldly advertised a selection of eight handsets - variously made by Nokia, Sony Ericsson, LG and Motorola - for \$0 each.

What do these price-beating offers portend for competition in mobile telecom services? Superficially, offers to beat prices by \$1 may seem to be extremely competitive.

Closer inspection, however, reveals them to be a subtle means of price segmentation. Different customers pay different prices. Consumers who are aware of M1's prices can purchase from SingTel and StarHub and pay \$1 less than M1's prices.

Because SingTel and StarHub did not publish any handset prices, consumers who do not know that these two retailers are offering to better any competitor's price could end up paying more than if they had purchased at M1.

Does the offer to beat competing prices signal low prices? Not necessarily. Indeed, the objective of price segmentation is to focus the price discount at the informed consumers only.

In a perfectly competitive market, there is clear information about value and price. All buyers swing to the seller offering the best value for money. Where prices are not transparent, the forces of competition are blunted.

The next few weeks will be revealing. Will M1 also cease to advertise handset prices? If it does, local mobile telecom providers will have switched to a new mode of competition, one in which price is no longer transparent.

As a market strategy, this is probably not surprising given that 83 per cent of the Singapore population already subscribe to mobile services. There is not much uneaten cake left: SingTel, StarHub, and M1 can each only grow at the expense of one another.

Under these circumstances, it makes sense for them to de-emphasise price. That would be good news for shareholders, but not such good news for business and personal users.

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