

Advancing Enterprise 2005

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Speech by Arun Sarin, Chief Executive, Vodafone Group at Advancing Enterprise 2005.

Trade and technology: the business response to the new global economy.

Good morning, ladies and gentlemen. It's a real privilege to be here. I first want to thank all the speakers here this morning who laid out a very good case as to why the economy is changing, how the economy is changing and at what pace the economy is likely to change. And of course this session is about so what are we as businesses doing about it and how we're readying companies and we're readying our employees for this change that's going to occur.

Before we get too far down, I want to introduce my star-studded panel here with me. I'd like to introduce Sir Terry Leahy first. Terry became Chief Executive of Tesco in 1997. Every time I hear of Tesco's financial results, I am impressed. They're becoming a larger and larger piece of their business and a larger and larger piece of the overall economy. I have huge respect for what Tesco does. Terry's story actually is a Cinderella story because he joined Tesco as a marketing executive in 1979 and has risen to the top job at Tesco. You'll hear from him. 20% of his revenues come from overseas sources today and 50% of the space that his retail stores occupy are also outside the UK, so truly becoming a bigger and bigger international company.

After Terry we'll have Rod Eddington. Rod is the Chief Executive of British Airways and obviously almost by the nature of the business he is in, he is a highly global company, and born in Australia. 60% of his business comes from outside of the United Kingdom. He is a Ph.D in engineering from Oxford and I'm very much looking forward to hearing from as to what's going on in the world and in India and China in particular.

After Rod, we'll have Mervyn Davies who is the Chief Executive of Standard Charter, where 95% of Standard Charter's business comes from outside the United Kingdom. They have a massive presence in India, China and Korea and that part of the world, and in Africa, and he is a member of many associations and has a deep relationship in Hong Kong, in Singapore, in India and we will benefit from his vast experience in that part of the world, so those are my panellists. I'm very much looking to having a discussion with you.

Now, the format is each of us is going to stand up here for a few minutes, tell you a bit about how we are dealing with this changed economy sector by sector by sector. You heard this morning from a broad macro-economic perspective what's going on in China, what's going on in India, what large businesses are doing. I think the story becomes really interesting when you kind of drill down what's going on in each of these sectors, because there's actually a different story by sector. Obviously I'm going to tell you the telecommunications story from that point of view. Before I go there, there were two or three things that were said this morning that I think are absolutely key in terms of role of government and then role of enterprise.

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In the role of government clearly having and insisting on a level playing field is absolutely central. The second role that is absolutely central is in the area of skills and education. We have to constantly stay ahead of the skill and the education levels we have to be able to meet the challenges that we have in the future. And the third is, we have to stay competitive, whether it's taxes, whether it's labour regulation. We have to make sure that our economies are healthy and thriving and competitive not just today but five years from now and ten years from now, as various economies compete in the world around us.

Now, as for business, business has many responsibilities as well, and I'd say the first thing we have to do is be prepared for new business models, which simply means we all have business models that we operate in. We offer it in 26 countries, we've got 26 different business models, but most of them are very similar. One of the things that the rise of these new economic powers will force us to do is think about the world differently and how we make money in these countries differently. The second thing I'd ask you to kind of fine tune your ear to is building options to play. How do you play in these markets? How much do you need to play? Not everybody can have 100% equity-owned enterprise of a massive size in China or India, but there are many different ways to play these economies, so the question is, what options are we developing to play in these economies? The third is around flexibility and speed. Things are changing and we have to basically get our organisations to be ready, to be nimble, to be fast, and I think JP and Jeff Immelt talked a little bit about what they're doing to their companies to make sure that they stay nimble. You'll hear that theme coming through as well.

And finally the changes in these economic forces will force changes in industry structure, and I will illustrate that with a couple of examples that are very live in our telecommunications business, which simply means that the total number of competitors in any market is likely to change, and therefore there may be consolidation, there may be M & A activity, there may be investment activity. We should get ready for industry changes as time goes on here. Moving straight into telecoms, first of all today there are 1.6 billion mobile phones on the planet. In just a few years, we will have 2 billion mobile phones. In 6 or 7 years we'll have 3 billion mobile phones on the planet. It's one of the fastest-growing things out there. China today has approximately 300 million mobile phone customers. In a few years, they'll have 500 million mobile phone users. This is a massive market that exists, and most of the growth that's occurring is actually occurring in non-OECD countries because frankly here in the UK we're 90% penetrated already. In Italy we are over 100% penetrated. In Germany we are 90% penetrated. For those of you who may be wondering how you could have more than one, it's because of multiples devices. You know, you've got phones, you've got blackberries, you've got P.C.'s that have phone cards. People have second sims, so there is a vast proliferation but we are quite saturated, and all we're trying to do in our markets now is actually find interesting ways, whether it's music or video or games or e-mail to get people to use our services in a bigger way.

Now, so if you think about China for a second and you say, 'What's going on in China?' you have 300 million subscribers today going to 5 or 600 million. The

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Chinese government is very interested in making sure that there are standards developed that have a lot of Chinese IPR in it, so there's a standard called TDS CDMA. We are on a world standard that's called WCDMA. The Chinese are trying to develop a new standard which they can then bring into China, turn that around on to the world stage. So the point here is, right now it looks like, yes, there's a lot of import of ideas and technology and all of that, but in a matter of a few years, we might see that actually this turns around 100% and we're going to see lots of standards, best practices, business models coming out of China, coming out of India.

That's the thing that we have to kind of watch as we kind of move our businesses into the future. There are some small telecommunications companies that manufacture equipment like Huawei and ZTE. They don't compare with the Ericssons and the Nokias and the Siemens and the Lucent and the Nortels of the world, but in 4 or 5 years, I can actually imagine the ZTE's and the Huaways becoming much larger, and to be candid with you, I wouldn't be surprised if they actually end up buying some of these companies. Much like Lenovo is trying to buy the IBM PC division, you will see some of these companies buying some of the companies that are not as healthy because there's over-capacity in these businesses. We shouldn't be surprised. We have a 3% partnership with a company called China Mobile. China Mobile has 200 million customers. We shouldn't be surprised if China Mobile wants to extend outside of China and do something in Asia or do something around the world. We have to be prepared for these companies to become bigger and compete very, very effectively with us on a going forward basis.

Let me change gears to India for a moment. In India we talked about new business models. The new business model in India is, here our typical revenue from a customer is about €40, and we make roughly a 40% margin on it. In India the revenue we get from a customer is close to €8 which is going down to €3 in a few years, and they make a 50% margin. Now, I understand 50% of €4 is less than 50% of €40, but the question is, how do you make that kind of margin on that thin revenue base? They are obviously distributing things differently, the way they deploy their technology is different, they've completely out-sourced to Ericsson and a bunch of other folks their network and IT infrastructure, so there are new ways of doing business that we can learn from our models in India and in China. So in summary, all I'd say is, please prepare your companies to play in this market-place, learn, teach and be sure that you are part of this new ecosystem that's being created both in India and in China. Hopefully we'll have a chance to talk more about this. Without further ado, let me introduce you to Sir Terry Leahy. Terry.