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Ericsson edges ahead of rivals in emerging markets

By Daniel Thomas

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LONDON (MarketWatch) -- Sweden's Telefon AB LM Ericsson ([ERIC](#)) is edging ahead of its Western rivals for business in India and China, two of the world's biggest and most lucrative mobile-phone markets, in part by pitching biofuel-power solutions and offering good financing terms to extend infrastructure to rural reaches.

In China and India, Ericsson aims to exploit a growing demand for mobile communications in untapped rural areas, and in one Indian region is helping operators use local crops like cotton and fish oil to power phone transmitters in areas beyond national electricity grids.

Outside China's major cities, less than 30% of the population has mobile phones, and in India where 72% of the people live in rural villages that mainly lack a mobile network, less than 15% of the population owns a mobile phone.

Earlier this week, Ericsson Chief Executive Carl-Henric Svanberg, China's President Hu Jintao and Wang Jianzhou, chief executive of China Mobile, the country's largest mobile phone operator, penned a \$1 billion deal to supply telecom network equipment in 19 regions in China.

In India, Ericsson - the world's largest wireless equipment maker - looks set to pick up the majority of an estimated \$4.5 billion contract with India's third-largest mobile phone company, Bharat Sanchar Nigam Ltd., despite Motorola Inc.'s ([MOT](#)) attempts to defeat the deal in Indian courts.

Svanberg says China, with 460 million mobile phone subscribers, is expected to double its telecom market by 2012, while India is adding 6 million new mobile phone users a month and is estimated to have 500 million users by 2010.

While analysts believe Western rivals Alcatel-Lucent ([ALU](#)) and Motorola might be losing market share to Ericsson in emerging markets, Ericsson faces a challenge from home-grown equipment makers, including Huawei Technologies Co., based in China's southern region of Shenzhen. Last month, Huawei said it was targeting 36% growth in overseas revenue in 2007 to \$15 billion.

Svanberg, who since joining in 2003 has helped turn Ericsson around from near bankruptcy to a net profit of 26.4 billion Swedish Kronor (\$3.72 billion) last year, is undeterred. Having already captured 35% market share in China's GSM mobile phone market, Svanberg says, Ericsson has the power to compete with aggressively priced Chinese rivals.

GSM, or Global System for Mobile communications, is the most popular mobile phone standard in the world, and is often referred to as second generation, or 2G, mobile phone technology due to its reliance on digital radio signals.

"India and China today have more minutes of use on 2G phones than the whole of Europe does, because there's no fixed-line telecoms," says Svanberg.

In the Pune, Maharashtra region of India, Ericsson is working with mobile operator Idea Cellular ([532822.BY](#)) and the GSM Association, an industry body, to develop biofuels using local non-edible crops. By reducing the dependence on more expensive diesel power, Ericsson hopes to lower the cost of rolling out mobile phone infrastructure to rural areas. Cleaner fuel will also reduce engineer site visits and prolong the life expectancy of generators, says the company.

The Swedish telecommunications equipment maker also is drawing more mobile operators by offering a more economical technology that needs fewer base stations to cover a network. And Ericsson's mobile handset joint-venture, Sony Ericsson, in which Japan's Sony Corp. ([SNE](#)) holds the remaining 50% stake, also is targeting rural India and China. In the past two months Sony Ericsson has inked contracts to supply phone distributors China Postel and Shenzhen Telling Communications - deals worth \$600 million and \$500 million respectively.

In February, Sony Ericsson also unveiled four low-cost handsets aimed at mobile phone customers in emerging markets who want a mobile but can't afford more expensive models.

Richard Windsor, a London-based telecom analyst at Japan's Nomura Holdings Inc., says that Ericsson has also been using its working capital to help many of these growing operators fund projects. Although it's not providing a loan as such, Ericsson is agreeing to longer payment terms on many of these projects, giving operators more time than many European operators to pay for services and infrastructure.

Despite the approach raising concerns among some investors, Windsor says that Ericsson isn't short of cash and can make a 17% return on the investment and still grow revenues.

Windsor says that while Ericsson rival, Nokia-Siemens Networks ([NOK](#)) ([SI](#)), is gaining some ground in India, the majority of its business comes from Siemens's former relationship with operators in the region. The Finnish-German joint-venture has developed Village Connection, a product it claims brings affordable voice calls and text messaging to rural villagers that can only afford to spend \$2 to \$3 a month.

In comparison, Ericsson is grabbing share from Alcatel-Lucent in the emerging-market GSM sector, says Windsor, and the company currently is installing a new base station every 25 minutes in India.

Alcatel-Lucent, which has posted two profit warnings since its merger late last year, said in May that revenue declines in its wireless business were largely driven by low volumes, especially in its 2G GSM radio in some emerging markets. However, it said it had increased its market share in China. It declined to divulge its actual market share or figures for India. Motorola declined to give market share figures for India or China, but said it was experiencing strong growth in the Middle East and Africa.

In China, however, Ericsson faces two potential threats. While the majority of China's mobile phones currently operate on GSM networks, the government and China Mobile are currently testing a home grown version of third generation - so-called 3G technology - known as TD-S CDMA, which differs from the common standard being adopted across Europe and North America.

Ericsson only has an approximate 1.4% share of the total TD-S CDMA contract. ZTE Corp. and Huawei are among

the local vendors that picked up a large part of the deal. Nomura says that there is a significant risk that TD-S CDMA can become the dominant technology in China, and if this happens, Ericsson won't have the cost advantages it has in other mobile technologies.

Sandy Shen, a Shanghai-based telecom analyst for research group Gartner Inc. ([IT](#)) , disagrees.

"If it does take off it will work in the favor of the local vendors. But we're skeptical about TD-S CDMA, not so much because of the technical standards but more the commercialization of it, as it doesn't have the support of many of the vendors and the handsets aren't available," says Shen.

However, Shen believes that due to Huawei's closeness to the Chinese government and its aggressive pricing, it could still gain share over the Western vendors even if China adopts the more likely 3G standard wideband CDMA that is more popular around the world.

But Ericsson's Svanberg is unphased by the new kids on the block.

"We do look at them with absolute full respect and we do assume that they will be a challenge over time. They're a very significant competitor but there are no short cuts in terms of learning," he says.

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