

Carphone Warehouse

In the ubiquitous mobile phone market you might think it hard to differentiate yourself. When Charles Dunstone set up Carphone Warehouse in 1986 with his savings of £6000 he was only 24 years old. His original vision was to sell mobile phones from shops so that people could browse before they bought. Nobody else was selling mobile phones in this way at the time.



Whilst making the most of a high growth market, the real opportunity to differentiate the firm came when Vodafone and Cellnet started offering packages with different combinations of rental and call charges.

Customers had to decide which tariff was best for them and many were confused about the packages on offer. Carphone Warehouse set itself up to offer independent, reliable advice, something few other retailers offered. In what has become a highly competitive marketplace the firm was able to claim some element of differentiation, a claim that it used extensively in its advertising.

Part of the success of the company comes from the emotional and personal involvement of Charles Dunstone - he still cannot let go. He has been described as:

- 'a mono-focused, workaholic....a retail-detail obsessive with a calm exterior....in love with the great Carphone Warehouse: its shops, its products, its people, its advertising and, above all, its customers and its sales' (*The Sunday Times*, 28 July 2002).
- 'driven by anxiety and a tough competitive streak. That way he remains always alert to rivals and constantly worried about strategy' (*The Sunday Times*, 16 April 2006).
- one of the most straightforward and least pretentious of chief executives, always accessible, always open, always willing to admit to his (few) mistakes....Dunstone has remained remarkably unchanged' (*The Sunday Times*, 15 October 2006).

Although he enjoys sailing – he owns two big boats - he is quite likely to spend a weekend as a duty manager in one of the shops and will serve at counters if he finds customers waiting on one of his frequent store visits. Not unexpectedly he was still unmarried in 2006 at the age of 42. Pierre Danon, former Chief Executive of BT Retail and now advisor at JP Morgan says: 'Charles is clever, he is customer focused, he has very good strategy allied with a down-to-earth management style' (*The Sunday Times*, 16 April 2006).

By 2006 Carphone had some 1,771 stores across Europe (669 in Britain) and is considered one of the country's great retail successes with a turnover of some £4 billion. Charles Dunstone is now a millionaire, estimated to be worth over £300 million. He sold £56 million worth of shares when Carphone floated in July 2000 but still holds 34% of the equity. However, like most telecom shares, the share price has dropped since its float price of 200p and with mobile phone ownership across now Europe averaging 70%-75% it looks unlikely to ever return to these levels. However, the arrival of 3G networks which allow music and pictures to be downloaded and sent to other phones has rejuvenated this market to some extent. Dunstone's response to this has



been to reposition the company to be less dependent on new phone sales. Over 45% of revenues now come from 'recurring revenues', generated from managing customers for the networks.

Consistent with this strategy, in 2006 he launched his latest venture – 'free' broadband connections in Britain. Actually it was only 'free' if purchased as part of his fixed-line service, called *Talk Talk* (launched 3 years previously), which also offered unlimited landline calls all for a fixed line rental. Dunstone rationale for 'selling cheap' comes from his belief that phones, television and internet are all converging, so what is important is to build market share as quickly as possible, since economies of scale will become increasingly important.

Next came his surprise purchase of AOL UK for £37 million. And that is when the network providers started to realise the threat from Carphone. Within days Vodaphone decided to enter into a strategic relationship with Phones 4U which means that Carphone's rival will have sole rights to sign up contract customers – the profitable end of the business. Vodaphone accounted for 10% of Carphone's contract business. And other networks might do the same thing. All of which starts to unravel the basis for Carphone's differential advantage – its independence and its ability to recommend all or any packages.

The reaction has happened because Carphone is starting to turn itself from a mobile-phone retailer into a telecoms services provider. This has increased the tensions between the networks such as O2, Vodaphone, Orange and T-Mobile as they realised that Carphone was turning into a competitor. They had not reacted to the launch of the *Talk-Talk* service as this fixed-line service was seen competing mainly with BT. However, as *Talk-Talk* expanded into broadband and as the barriers between fixed and mobile communications blur, Carphone was increasingly seen as a competitor and as a source of mobile customers. After all, many of the mobile providers now also offer broadband.

Talk-Talk is already a substantial business in its own right. As fixed and mobile services converge, it is interesting to speculate whether it can continue to be part of the mobile-retailing group.

Case questions:

1. What market is Carphone in – what is it selling? Who are its competitors?
2. If you were Charles Dunsmore, how would you react to these competitive threats? Explain why.
3. If you were Charles Dunsmore, what would be your vision for Carphone in 10 years time? Explain why.