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Russia's Holding for the iPhone

Wireless operator VimpelCom is looking at a number of ways to keep up its rapid revenue growth. Adding the Apple smartphone is one of them

by [Jay Yarow](#)

Will VimpelCom ([VIP](#)) be the first wireless operator to sell the iPhone in Russia? If Chief Executive [Alexander Izosimov](#) has his way, it will. "Nobody's struck a deal with Apple yet, but we would love to," he says. Izosimov says no negotiations are taking place, and he has no idea whether his company will win the rights to sell Apple's ([AAPL](#)) coveted device. But in a wide-ranging interview with *BusinessWeek*, the CEO makes it clear that he's looking at many avenues to maintain the rapid growth his company has seen in recent years, from adding new devices like the iPhone to expanding into the broadband business.

VimpelCom, which operates under the Beeline brand, is Russia's second-largest wireless provider, with 52 million subscribers. In early June, it reported a \$601 million profit in the first quarter, up 117% from the year-earlier period, as revenues increased 42%, to \$2.1 billion. This follows an 80% increase in net income for 2007, to \$1.46 billion, as revenues rose 47%, to \$7.17 billion.

Despite the strong performance, Izosimov has reason to be concerned about VimpelCom's growth. Virtually all of the company's revenues come from providing wireless service in Russia, and that business is showing signs of maturing. After years of rapid expansion by VimpelCom and its two major rivals, most Russians have mobile phones. One research report by [UralSib Financial](#) puts the penetration rate at more than 100%, though it cautions the figures may be skewed by unreliable data. VimpelCom's stock has slid from a high of nearly \$45 last year to about \$30 now.

CLUSTERING THE COUNTRIES

Izosimov has a number of ideas for keeping up growth. At the top of the list is international expansion. VimpelCom now operates in six countries beyond Russia—Kazakhstan, Ukraine, Uzbekistan, Tajikistan, Georgia, and Armenia—and Izosimov would like to expand into other countries in the former Soviet Union, as well as a few strategic spots beyond. "We have opportunity in neighboring markets," he says. "Our prices are the lowest and our margins are the highest in the industry."

Beyond the former Soviet Union, Izosimov says he'll look for markets where wireless penetration is low and there's an opportunity to group the operations of several adjacent countries together. "It is important to have a cluster of countries," he says. That allows VimpelCom to save on infrastructure, management, and marketing costs.

VimpelCom plans to invest \$1 billion in Vietnam. "Vietnam will be able to provide 10 million new subscribers in three to four years," Izosimov says. "It positions us well to expand into Cambodia, Laos, and when they open it up, Myanmar, which will all be natural extensions."

Konstantin Belov, a telecommunications analyst at UralSib Financial, thinks expanding into Vietnam would be wise. "Russia is close to saturation in subscriptions, almost in usage, too," says Belov. He adds, "Vietnam's market has growth prospects, the country is quite large, so it's quite good to be there."

APPLE'S NEW APPROACH TO THE MARKET

Getting the rights to sell the iPhone may be the trickiest part. VimpelCom wants to join with Apple to tap into the expected strong demand from consumers for the device. But its two major rivals, Mobile TeleSystems ([MBT](#)) and [MegaFon](#), are interested in the iPhone, too. "Obviously we would love to [sell the Apple phone this year]," says a spokesman for Mobile TeleSystems. Apple has most often struck a deal with only one operator in each country, although it's not clear that it will follow that strategy in all markets. An Apple spokesman declined to comment on its plans for Russia.

Izosimov is relieved that Apple has modified its original approach to the mobile-phone market. When the Silicon Valley company first cut deals to sell its phone in Europe—to France's Orange ([FTE](#)) and Germany's T-Mobile ([DT](#))—Apple insisted on taking a cut of the service revenues that the carriers collected. Now Apple is moving away from that strategy and collecting money primarily by selling the phones themselves. Izosimov calls that approach "a much more natural model, where the money is up-front for them."

Selling sophisticated mobile phones like the iPhone is important not just because consumers want them, but also because they use them differently from traditional phones. Izosimov says that when people get phones with advanced capabilities—such as the ability to surf the Net or check e-mail—their data usage grows by four times. "So, clearly the right device can trigger behavior," he says. "The next frontier is not voice, but data." More data usage on mobile phones means more revenue for wireless operators like VimpelCom.

FIRST-MOVER ADVANTAGE IN RUSSIA

The company is taking big steps to become a bigger player in Internet services more broadly. Last year, VimpelCom paid \$4.3 billion for Golden Telecom, which sells broadband Net access. VimpelCom plans to use Golden's technical expertise and its own marketing prowess to greatly expand its broadband offerings. "The broadband story is the story in Russia," says Izosimov.

There is plenty of opportunity. UralSib analyst Belov estimates broadband penetration is 50% in Moscow and 4% to 6% in the rest of the country. "VimpelCom has a nationwide presence, a strong brand, strong sales, so it's natural to try to catch this growth opportunity," says Belov, though he cautions that Golden was a pricey acquisition for VimpelCom. Izosimov says the company's first-mover advantage in this realm will be strategically important. His company is focusing on installing fiber in urban high-rises in Russia, where highly active consumers reside.

Near the end of his interview, Izosimov reflected on what he believes are serious long-term challenges in the fast-changing wireless market. Apple, Google ([GOOG](#)), and Microsoft ([MSFT](#)) are all making aggressive moves in the mobile-phone business, as they see more people using their phones to tap into the Internet. Ultimately, he thinks the mobile Internet will become more like the mainstream Net, with tech companies playing a central role in the business. "We need to search for completely different business models. The only value we have is our subscribers and our depth of knowledge and our ability to transact," he says. But that is years away. "Before the day after tomorrow, you have tomorrow, which is where we are now," he says.

With Jason Bush in Moscow.

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