

Intensifying Competition in Telecom Sector in India

*M.M.K. Sardana**

[Abstract: Having armed itself with the best spectrum portfolio for 4G transmission, Reliance Jio entered the telecom market in September 2016 with free voice calls and tiered data tariff plans, thus changing the business model from voice-centric to data-centric. On entry, Jio maintained all of its services free of charge for six months, impacting the revenues of the incumbent players in the market who, in turn, were compelled to reduce their voice and data rates. The customer base of Reliance Jio did not fall as much as some analytics foresaw—even when it started charging for its services. The large-scale disruption thus caused indicates that the market needs to shift to a more consolidated ecosystem and that the incumbent players unfold their plans of regrouping. The government on its part foresaw that the final five players in the field would be good and there would be enough competition. Further disruption was caused by Reliance Jio when it offered 4G enabled telephones virtually free, targeting users of feature phones for using data at tariffs which would be within the budget they incur on voice phones. This move of Reliance Jio pushed the incumbent players to come forward with matching offers. Competition in telecom is becoming intensive.]

According to a technical analysis of the spectrum auction held in 2016, it was concluded that Reliance Jio had built up the best 4G spectrum portfolio on a pan-India basis (except for Punjab) which would make network management better and easier.¹ Having strategically positioned itself, Reliance Jio entered the telecom market in September 2016 as a 4G operator, introducing aggressive tariff plans with free voice calling and low-cost data, thereby ushering in a phase of exponential growth in data.

Traditionally, the Indian telecom sector has been voice driven. Reliance Jio with its free voice calls and tiered data tariff plans would shift the business model from a voice-centric to a data-centric one. Already the consumption of data on the back of affordable smartphones has been steadily on the increase and is gaining momentum with the growth of net banking and digital banking payments ecosystem.² Upon entry,

* The author is a Visiting Fellow at the Institute.

¹ Damani, V. (2016), "The Spectrum Auction 2016 Analysis," *Technology Personalised (TECHPP)*, October 11.

² Singhal, P. (2016), "An Overview of Indian Telecom Industry in 2016 and Outlook for 2017," *ET Telecom*, December 28.

Jio, on a promotional basis, offered free services till December 31, 2016, which was further extended till March 31, 2017. This move by Jio proved disruptive and shook the telecom operators, forcing them to devise ways and means to survive and face the stiff competition.

Jio has been aggressively focusing on its data business as it offers growth opportunities over voice calling business which has already matured. Also, Jio's network, as brought out above, is technologically more sophisticated for high-speed data business compared to other players in the market. Therefore, the disruption pricing strategy of Reliance Jio, at the time of the launch itself, impacted the financials of all telecom operators in a big way. The three majors, namely, Bharti Airtel (31.7%), Vodafone (22.7%) and Idea Cellular (20.2%) together held 74% of India's market share. In the quarter ending December 2016, all of these companies suffered a major setback in their bottom-line performance. Overall, their profits declined. The managements of these companies attributed their losses to the unprecedented disruption caused by offers of free voice calls and mobile data by the new entrant in the sector, Reliance Jio. Resultant intense competition led to this phenomenon. The decline in profitability was caused by the decline in margins as well as increased investments. These companies had to reduce their voice call and data rates to retain their existing customers.³

Belying the expectation that Reliance Jio's user base will fall once it begins charging for its services, almost two-thirds of its subscribers had signed up for its so-called Prime Membership by the end of March 2017.⁴ By July 2017, its customer base swelled to 125.5 million.

Large-scale disruption in the telecom sector indicates that the fragmented structure of the sector would require a shift towards a more consolidated ecosystem. Mergers and acquisitions are inevitable in the hyper-competitive telecom sector in India. Not surprisingly, Idea Cellular Ltd. and Vodafone decided to enter into a merger

³ Vishnani, S. (2017), "Recent Developments that Disrupted Indian Telecom Space," *Business Today*, March 16.

⁴ Pathak K. (2017), "Reliance Jio Subscriber Base at 109 Million, Says Capex Will Decline," *Livemint*, April 25.

to create the world's second largest and India's largest telecom company to better their chances of competing with Reliance Jio, wherein \$20 billion had already been invested till March 2017. Idea Cellular and Vodafone would have reckoned that with its aggressive tariff structure, Reliance Jio had signed up 100 million subscribers within three months of its launch. Thus, the former adversaries Idea Cellular and Vodafone decided to join forces. Their combined entity would have 400 million customers with 35% customer share and 41% revenue share. It will have revenue of Rs 81,600 crore and an operating profit of Rs 24,400 crore. The merging entities feel that their combination would ensure sustainable consumer choice.

Even Bharti Airtel adopted a similar strategy and has agreed to buy Tikona Digital Networks Pvt. Ltd's 4G business, including its broadband wireless access spectrum and cellular sites in five telecom circles. Bharti Airtel also agreed to acquire the assets of Telenor South Asia Investment Pte Ltd's India business by taking upon itself its liabilities relating to licence fee and lease obligations for phone towers and thus would increase its customer base to 307 million.

Reliance Communications Ltd. (R.Com) and Aircel Ltd. have also announced their merger in the mobile network operations. Declining profitability, mounting debt and the need to be financially flexible to face competition primarily from Reliance Jio are forcing telecoms to merge and harness operational and financial synergies.⁵

The process of consolidation, which requires regulatory hurdles to be overcome, will take a couple of years. In the medium term, any reduction in competition in the industry remains unlikely as large telecoms would keep the intensity high. In the long term, consolidation would be positive for the industry as it would, to some extent, restore pricing power and provide better bargaining terms. Effectively, the industry is likely to be left with five major telecoms: four in private sector and one in public sector.⁶ The government feels that the presence of five

⁵ D'Monte, L. (2017), "It's the Survival of the biggest in India's Telecom Industry," *Livemint*, April 07.

⁶ Business News (2017), "Five Telecom Operators in India is Enough Competition in the Market: Telecom Secretary," *Scroll.in*, February 27.

operators in India would ensure enough competition in the market and industry consolidation is going to be very good for India.⁷

Not content with the disruption it caused by its launch of free voice calls, low-cost services in September 2016, Reliance Jio's move to offer a feature phone virtually free addresses the nearly 50 crore users of such phones who sit on the fringes of the data revolution sweeping India. On July 21, 2017, Reliance Jio announced that it would launch a phone with free voice calls and unlimited data at Rs 153 per month. The phone will be available on a refundable security deposit of Rs 1500 which can be reclaimed after three years. So, in effect, a feature phone user can transition to a data user with minimal monthly investment and no expenditure on buying a new handset. With this announcement, Reliance Jio has not just promised a data-filled life for the low-end telecom customers, but rather it will shake up the telecom market like never before. The move will also cause consternation in the 500 million feature phone market. The 4G capable feature phone has optional TV streaming as well. The launch of 'JioPhone' will hurt phone makers. Thus, the offer of JioPhone rings in disruption that goes beyond the telecom market, particularly when it includes entertainment features that would eventually affect broadcasting and cable TV providers.⁸

With a phone being offered virtually free with attractive data plans, other telecoms seem to be caught unawares and will not be able to escape the heat. As it is, Jio's entry in September 2016 with freebies minus the offer of virtually free mobile phone had substantially impacted the ARPU (Average Revenue Per User) of other telecoms both for voice earnings and data earnings. Reliance Jio has promised that voice calls will always be free on the Jio network. Before the entry of Jio in the market, feature phone users were being charged Rs 1.20 to Rs 1.50 per minute for basic voice calling, which brought their monthly expenditure to Rs 150–200 for just 150 minutes of basic voice. Now, Reliance Jio is promising unlimited voice calls and data for just Rs

⁷ *Ibid.*

⁸ Khanna, S. (2017), "With JioPhone, Reliance Jio Rings in Disruption Beyond Telecom," *Livemint*, July 23.

153 a month with a cap of half a GB of data per day. Even for those who cannot afford to pay Rs 153 in one go for month, there are affordable weekly and two-day sachets.

The offer is a win-win one for Reliance Jio also as it binds the customers to its network for a period of three years in one go, which is an additional challenge that the other telecoms have to reckon with.⁹

⁹ Bhattacharya, S. (2107), "Reliance Offers JioPhone Virtually Free: Mukesh Ambani's Big Disruption Could Change Telecom Market Completely," *Firstpost*, July 22.