Would telephony bring cheper rates in india

On August 23rd 1995, Jyoti Basu, the then Chief Minister of West Bengal, made India’s first cellular phone call to Telecom Minister, Sukh Ram, from Kolkata on Modi Telstra network at INR 16/minute. Initially, Indian government imposed a heavy license fee for providing mobile services. To recover such huge license fee, mobile operators had no choice but to keep very high tariff rates. Thus, the growth of cell phone services was sluggish in the first few years due to high price of handsets and high tariff structure.

An average handset was costing around INR 15, 000; outgoing and incoming call rates were INR 16/minute and INR 8/minute respectively. Because of these reasons very few customers at that time were willing to jump on to a new revolution, called the mobile telephony. Up to mid1990s mobile phones were used only by the affluent. Only 3, 000 people possessed mobile phones in 1995–96 (Exhibit I). Even 4 years later, when the Government planned to introduce a new telecom policy called NTP 99, mobile subscribers in India numbered less than 2 million. The mobile phone industry was in heavy losses.

In 1999, with the introduction of a new telecom policy by the Government of India, the telecom industry moved to a revenue sharing regime. The license fee was reduced, which helped in the reduction of call rates by 60%. More importantly, incoming calls were made free. The fall in call rates increased the number of mobile subscribers in the following years. The mobile subscriber base in India has risen from less than 2 million to 90 million within a span of 7 years from 1999–2006 (Exhibit I). An estimate at the end of 2008 shows the mobile subscriber base in India at 346. 9 million. 1

This case study was written by Hepsi Swarna under the direction of Akshaya Kumar Jena, IBSCDC. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources. © 2009, IBSCDC. No part of this publication may be copied, stored, transmitted, reproduced or distributed in any form or medium whatsoever without the permission of the copyright owner. Background Reading: Chapter 4, “ Applications of Supply and Demand”, Economics (Paul A. Samuelson and William D. Nordhaus)

But in spite of decreasing ARPU, the telecom service sector in India generated total revenue of INR 867. 2 billion in 2004–2005, an increase of revenue by 21% from 2003–2004. 10 Manoj Kohli, joint managing director, Bharti Airtel opines, “ At a tariff of one-and-half cents per minute, it offers a reasonable margin, which has flabbergasted the world. ” 11 The falling tariffs of SMS have increased the SMS volumes in India from 12. 3 billion in 2004 to 89. 4 billion in 2008 (Exhibit V). It is being predicted for 2009 and 2010 that SMS volumes will continue this increasing trend and rake in increased revenue.

Demand for mobile phones in India is price-elastic as a 10% price increase is found to have reduced demand for it by roughly 21%. When mobile service was introduced in India, only the affluent could afford it, owing to high call rates. All the mobile players were incurring huge losses, and then it became very clear that volumes only could bring profitability. And volumes in a rice conscious country like India could be achieved by reducing the call rates. Gradually mobile carriers started shifting their focus to mass markets by

reducing the tariffs by around 93%. A call that used to cost INR 16/minute now costs INR 1/minute and sometimes even less than that. This has resulted in decreasing Average Revenue Per User (ARPU) for the companies.

Demand for mobile phones is thus almost independent of fixed phone prices. There are many reasons for this. It is very easy to get a mobile connection. More importantly, one can be contacted anytime, anywhere. Airtel, India’s largest mobile service provider, underscored this point by flashing an advertisement where a girl’s plane crashes in a jungle; and when she thinks there is no way of contacting anybody, she looks at her mobile, sees Airtel signal still strong and then makes the life saving call. Mobile comes with loads of features, which an ordinary fixed phone does not have.