

Competitive rivalry in indian telecom sector



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Telecom industry in India has undergone a revolution in the recent years and is ranked second worldwide in terms of having the largest telecommunication network, after China. Projection by several leading global consultancies is that it will overtake China's in the next 10 years. The Indian telecom industry is one of the fastest growing in the world and is projected that India will have 'billion plus' mobile users by 2015. With the on-going investments into infrastructure deployment, the country is projected to see high penetration of Internet, broadband and mobile subscribers.

Telecom's Rural Penetration According to analytical study on the sector "Indian Telecom Analysis (2008-2012)", mobile telephony continues to fuel growth of the Indian telecom sector, with mobile subscribers projected to grow at a CAGR of around 11% between 2009-10 and 2013-14. Other segments of the industry such as Internet and broadband are also anticipated to witness strong growth in terms of both subscriber addition and network infrastructure deployment over the forecast period. Tele-density in India has improved significantly over the recent years and has reached around 51% in the fiscal year 2009-10, owing to improving network infrastructure.

The launch of advanced telecom services like 3G and IPTV are now driving the growth in Indian telecom subscriber base. Mobile handset market is also witnessing a robust growth.

To highlight some of the major milestones of the Indian Telecom sector:

Mobile user base surpassing 500 million According to the Telecom Regulatory Authority of India (" TRAI), India's mobile customer base crossed 506 million at the end of November, 2009

Staggering 17. 7 million new activations in Nov 2009

43 out of every 100 Indians own a cell phone. Including roughly 37 million fixed lines, India now has a total of 543 million telephone lines, a penetration rate of around 46%

There is considerable headroom for growth given the under penetrated rural regions. In 2008-09, rural India outpaced urban India in mobile growth rate

A large population, low telephony penetration levels, and a rise in consumers' income and spending owing to strong economic growth have helped make India the fastest-growing telecom market in the world.

TELECOM SECTOR: A GLOBAL SCENARIO

The Indian telecom market has been displaying sustained high growth rates. Riding on expectations of overall high economic growth and consequent rising income levels, it offers an unprecedented opportunity for foreign investment. A combination of factors is driving growth in the telecom market, promising rich returns on investments.

India is second largest telecommunication network in the world in terms of number of wireless connections after China.

The Indian telecom network is the eighth largest in the world and the second largest among emerging economies.

The Indian telecom market size of over US \$30 billion. The expansion of the telecom industry in India has been fuelled by a massive growth in mobile phone users, which has reached a level of 10 million users in December 2002, an increase of nearly 100 per cent in 2002.

This exponential growth of mobile telephony can be attributed to the introduction of digital cellular technology and decrease in tariffs due to competitive pressures. For the first time in India, the growth of cellular subscriber base has exceeded the fixed line subscriber base. However, cellular penetration is still 1 per cent as compared to world average of around 16 %.

INDIAN TELECOM SECTOR

Indian Telecom sector, like any other industrial sector in the country, has gone through many phases of growth and diversification. Starting from telegraphic and telephonic systems in the 19th century, the field of telephonic communication has now expanded to make use of advanced technologies like GSM, CDMA, and WLL to the great 3G Technology in mobile phones. Day by day, both the Public Players and the Private Players are putting in their resources and efforts to improve the telecommunication technology so as to give the maximum to their customers.

The Indian telecom sector can be broadly classified into Fixed Line Telephony and mobile telephony. The major players of the telecom sector are experiencing a fierce competition in both the segments.

The major players like BSNL, MTNL, VSNL in the fixed line and Airtel, Vodafone (Hutch), Idea, Tata, Reliance in the mobile segment are coming up with new tariffs and discount schemes to gain the competitive advantage.

The Public Players and the Private Players share the fixed line and the mobile segments. Currently the Public Players have more than 60% of the market share.

BUSINESS GROWTH

Industry leaders of Indian telecom in 2009:

Bharti Airtel (market leader) - roughly 116 million mobile customers recorded at the end of Nov 2009

Reliance Communications - 91 million

Vodafone Essar - 88. 6 million

Tata Teleservices (a joint venture between NTT DoCoMo (DCM) and India's Tata Group) - maximum number of new customers with 3. 3 million in November

Idea Cellular - strong period with 2. 5 million new additions

Bharat Sanchar Nigam Ltd (BSNL) - added up in 1. 4 million new subscribers for the month.

Demographic Characteristics Fuelling Growth:-

€ According to the Vision 2020 document of the Planning Commission of India, the country will witness continued urbanization. The urban population

is expected to rise from 28 per cent to 40 per cent of total population by 2020.

€ Future growth is likely to be concentrated in and around 60 to 70 large cities having a population of one million or more. This profile of concentrated urban population will facilitate customized telecom offerings from operators.

RESEARCH INDUSTRY GROWTH RATING:- The First Research Industry Growth Rating reflects the expected industry growth relative to other industries.

Indian telecom industry growth is now dependent two factors.

By overseas expansion since that will add more subscribers.

3G auction will give new dimension to dominate the domestic market and scale to new heights of Indian telecom business.

The FDI into telecom sector was up 5. 9% during the period. Apart from adding up new subscriber base Indian telecom has been partly in doldrums particularly with 3g auction matters.

2. Porter's Five Forces Analysis of India's Telecom Industry

Porter's Five Forces is a framework for the industry analysis and business strategy development formed by Michael E. Porter of Harvard Business School in 1979. It draws upon Industrial Organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market. Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability. A

very unattractive industry would be one approaching “ pure competition”, in which available profits for all firms are driven down to zero.

Porter referred to these forces as the micro- environment, to contrast it with the more general term macro-environment. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally requires a company to re-assess the marketplace.

Competitive Rivalry within Telecom sector – HIGH

The wave of industry deregulation together with the receptive Indian capital markets due liberalized economy of the late 1990s paved the way for a rush of new entrants.

New technology (Internet) is prompting a raft of substitute services.

All competitors operate with lower prices and more exciting services. This tends to drive industry profitability down.

It also suffers from high exit barriers, on account of its specialized equipment which have swift obsolescence and difficult liquidation.

There are some TSPs that are into the business of providing Internet like MTNL, Airtel etc.

There are three types of players in telecom services:

State owned companies (BSNL and MTNL)

Private Indian owned companies (Reliance Infocomm, TataTeleservices)

Foreign invested companies (Vodafone, Bharti Tele-Ventures, Idea Cellular, Spice Communications)

Competitors

Important Dates

Details

October 1, 2000

Department of Telecom Operations, Government of India became a corporation and was renamed Bharat Sanchar Nigam Limited (BSNL). BSNL is now India's leading telecommunications company and the largest public sector undertaking. The state-controlled BSNL operates basic, cellular (GSM and CDMA) mobile, Internet and long distance services throughout India (except Delhi and Mumbai).

Established in 1985

Bharti has been a pioneering force in the telecom sector with many firsts and innovations to its credit, ranging from being the first mobile service in Delhi, first private basic telephone service provider in the country, first Indian company to provide comprehensive telecom services outside India in Seychelles and first private sector service provider to launch National Long Distance Services in India

July 7, 1995

Bharti Tele-Ventures Limited was incorporated for promoting investments in telecommunications services. Its subsidiaries operate telecom services

across India. Bharti's operations are broadly handled by two companies: the Mobility group, which handles the mobile services in 16 circles out of a total 23 circles across the country; and the Infotel group, which handles the NLD, ILD, fixed line, broadband, data, and satellite-based services

IDEA Cellular Ltd. has a new ownership structure and grand designs to become a national player, but in doing so is likely to become a thorn in the side of Reliance Communications Ltd

Established on 1st April 1986

MTNL was set up by the Government of India to upgrade the quality of telecom services, expand the telecom network, and introduce new services and to raise revenue for telecom development needs of India's key metros - Delhi, the political capital, and Mumbai, the business capital

launched on December 28, 2002

An integrated telecom service provider with licenses for mobile, fixed, domestic long distance and international services. Reliance Infocomm offers a complete range of telecom services, covering mobile and fixed line telephony including broadband, national and international long distance services, data services and a wide range of value added services.

Tata Teleservices is a part of the \$12 billion Tata Group, which has 93 companies, over 200, 000 employees and more than 2. 3 million shareholders. Tata Teleservices provides basic (fixed line services), using CDMA technology.

Power of Buyers: High

Many players and product/service differentiation is generally, not much.

Least cost is generally preferred. Demographically it may vary.

Switching cost is lower individual users than for business customers.

Landline subscription has been in decline in favour of wireless connections.

Availability of Substitutes: Moderate

Products and services from non-traditional telecom industries

Cable TV and satellite operators and Railways and energy utility companies are laying miles of high-capacity telecom network alongside their own track and pipeline assets in countries like US. This may take shape here too.

“ Internet telephony” – video conferencing, video chat etc are becoming popular and Internet Service Providers are taking a big bite out of telecom companies’ core voice revenues. The government has also taken steps in past for increasing speed of internet and this will help in Internet usage & its subscriber base increasing.

Bargaining Power of Suppliers – Low

Telecommunication is a service based industry which is intangible, so in this case there are fewer suppliers or we can say the role of suppliers is almost negligible. There are three types of suppliers in the telecom industry.

Mobile hand set suppliers: –

Nokia

Sony Ericsson

Motorola

Siemens etc.

Many big telecom giants have gone for back ward integration i. e. in house manufacturing of handsets like Reliance Classic, Tata Indicom or they have collaboration with some known companies like Reliance communication have tie ups with Samsung and LG for their CDMA services.

Optical fibre suppliers, Aluminium suppliers (aluminium is required for the tower), Hardware requirements like switching equipment's but their bargaining power is limited.

Software Assistance Suppliers

Software solution providers like TCS, Infosys, Wipro, Satyam etc. Here, again giants like Reliance and Tata have their own units for software solution and companies like Vodafone, Spice are taking services from above stated companies.

Software providers have bargaining power so here suppliers can have edge over the companies.

Threat to New Entrants – HIGH

The Indian telecom sector offers unprecedented opportunities for foreign companies in various areas, such as 3G, virtual private network, international long distance calls, value added services, etc.

It is a capital-intensive industry and hence the biggest entry barrier is the access to finance.

Obtaining a Telecom license can represent a barrier to entry. Though license fee has been reduced for new entrants. This enabled operators to reduce service fee to make it affordable to most people.

Getting a good amount of radio spectrum to support voice and data services.

It offers tremendous opportunities in areas like VPN, Rural Telephony VAS, Infrastructure sharing, 3G and ISD, to name a few. This has welcomed foreign investors (Virgin etc) and has led to M&A deals (Hutch, Vodafone). It attracts 3rd largest FDI in India post-liberalization.

The market is witnessing M&A activities that are leading to consolidations in the industry. This trend has assisted companies in expanding their reach in the Indian telecom market to offer better services to customers.

In India large numbers of players are emerging in the market on the national level from its state level existence such as: Aircel, Virgin, Spice, Idea, Unitech, Significant Forces

***** Two of the most important forces for the industry are Buyer's Power and Competitive Rivalry**

This is mainly due to the fact that services provided are more or less the same across the TSPs. People can easily switch between service providers.

With Mobile Number Portability in the picture, people can retain their mobile phone numbers even if the service provider is changed, for a nominal fee.

People also look for value for money. Hence, they require reasonably good

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service but at lower costs. Due to cut-throat competition from within the TSPs and also from other traditional as well as non-traditional communication sources, TSPs are lowering tariff rates very rapidly to grab as much market share as possible. They are fighting to get market share and profitability takes a backseat at times. A huge population and very less penetration rates in India, are the major facilitators to this cause.

Key certainties

With the ever increasing population and rise in disposable income levels of Indian people, communication requirements are only going to increase.

Technologically, the up gradations will keep happening as in past (2G to 2.5G to 3G and more)

Key uncertainties

It may happen that the internet becomes absolute. People may prefer to use internet provided real time communication services rather than phones. The government has also taken steps to improve internet services in India and expand its reach across the country.

Laptops currently are not very handy. Future technological innovations in consumer electronics goods may result into portable laptops and this may act as a support system for increased competition from Internet for communication.

Key Success Factors

Liberalized economy acted as a facilitator for Indian and Foreign Operators to flourish. The government has promoted private players by reducing license fee.

TSPs' foray into rural areas which is an almost untapped market but with huge potential.

We wish to study the Telecom Sector from the Perspective of the Competitive Rivalry Model

Competitive Analysis

COMPETITIVE LANDSCAPE:-

Demand is driven by technological innovation and by growth in business activity. The profitability of individual companies depends on efficient operations and good marketing.

Large companies have big economies of scale in providing a highly automated service to large numbers of customers, and have the financial resources required building and maintaining a large network.

Smaller companies can compete effectively only in small markets or by providing specialty services

Market Commonality: It is concerned with the number of markets with which firm and competitor firms are involved. Market for Telecom sector can be divided into two major markets.

Residential market

Business market.

The Residential Market can be segmented by Age, Households, Income, Occupation Distributions, Income Cohort, geography (state), Behavioral segmentations (based on traffic and value information (such as number or duration of calls, service usage, value spent per service, etc. Ex: students)

The Business Market can be segmented by type of business, Employment, Establishments, State, type of services offered (data/voice), Country

Further they can be segmented by Fixed-line Telephone Market, Mobile Telephone Market, Internet Services Market, Broadband Services Market. All these can be segmented on basis of type of Subscribers, Region (Rural and Urban), Circle, Technology, Recent Developments.

Now let us look into the market commonality of major telecom providers in India

Fixed-line Telephone Market

Airtel, BSNL, Tata,

Mobile Telephone Market

Airtel, BSNL, Tata

CDMA

Reliance, Tata

GSM

Airtel , BSNL, Tata, Vodafone, Idea, Aircel, Reliance

Prepaid

Airtel , BSNL, Tata, Vodafone, Idea, Aircel, Reliance

Postpaid

Airtel , BSNL, Tata, Vodafone, Idea, Aircel, Reliance

Internet Services Market

Airtel, BSNL, Tata, Reliance

Broadband Services Market

Airtel, BSNL, Tata, Reliance

By studying the markets and technologies they are using, and services provided, we can conclude that, market commonality is very high.

Resource Similarity: Resource similarity is medium to high for common mobile services. Most of the firms are having strong base of infrastructure needed, financial resources, innovative employees. So this tells us that, resource similarity is high.

MARKET STRUCTURE

MARKET LEADER

Airtel

MARKET CHALLENGER

Vodafone, BSNL, Reliance

MARKET FOLLOWER

Idea, TATA

Bharti Airtel Ltd. (Market Leader)

Tangible resources:

Financial resources: It has high ability to generate financial resources from internally and externally. However, due to its positive profits and high revenue, it has stable financial resources.

Organizational resources: Airtel has integrated organizational structure which is suitable for innovation and effective knowledge sharing, communication between functional departments.

Physical resources: Airtel has strong relationships with Nokia Siemens and Ericsson to manage its mobile network while the fixed line network is being managed by Alcatel-Lucent. Besides that, Bharti Airtel's Network services which have decided to integrate all of its telecom and satellite infrastructure gives support to achieve operational and cost efficiency on the network side.

Technological resources: The company offers mobile voice & data services (GSM), fixed line, high speed broadband, IPTV, DTH, turnkey telecom solutions for enterprises and national & international long distance services to carriers. It is operating in 23 circles and got license for 3G spectrum in 13 circles.

Intangible resources:

Human resources and Innovation resources: As an outcome of a restructuring exercise conducted within the company; a new integrated organizational structure has emerged; with realigned roles, responsibilities and reporting relationships of Bharti's key team players.

Reputational resources: Perceived as Market leader and known for its quality in services offered. Besides this it has good reputation for customer service and meeting delivery of promised services/offers to customers.

Vodafone Essar Ltd: (Market Challenger)

Tangible Resources:

Financial resources: Its parent company Essar is one of India's large corporate houses with 20, 000 staff and business interests spanning high growth infrastructure sectors of steel, oil & gas, power, telecommunications, shipping & logistics and construction. Besides this, with its 2nd position in Indian telecom market increased its revenues. So it's capability to increase financial resources is high.

Physical resources: Vodafone signed a MOU with Bharti Airtel relating to sharing of infrastructure.

Technological resources: Vodafone offers mobile services (GSM), integrated wire line communication, voice and messaging services. It is operating in 16 circles and got license for 3G spectrum in 9 circles.

Intangible resources:

Human resources and Innovation resources: Vodafone known for its innovative ad campaigns (happy to help, zoo zoos) and aggressive sales force. It is leveraging highly on its human resources to create brand recall and to increase brand image. Its customer focused (customer knowledge/feedback driven) programs like customer delight, gave them opportunity to enhance the quality of their services.

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Reputational resources: Vodafone is known as market challenger and known for its innovative advertisements. It is perceived as a brand with high “ value added services”.

BSNL: (Market Challenger)

Tangible Resources:

Financial resources: BSNL is financially stable with its permanent revenue sources of land line customers, but due to huge payments (Rs. 10, 178 crs for 3G and Rs. 8313crs for BWA) to government, it has gone into crisis in 2010.

Physical resources: BSNL is one of the oldest service providers in India. It has pan India coverage for wired network services with established infrastructure. BSNL has set up a world class multi-gigabit, multi-protocol convergent IP infrastructure that provides convergent services like voice, data and video through the same Backbone and Broadband Access Network.

Technological resources: BSNL offers wire line, GSM Mobile, Internet, Broadband, Carrier service, MPLS-VPN, VSAT, VoIP services, IN Services etc. Presently it is one of the largest & leading public sector unit in India. Being a government owned company. BSNL is the only service provider, making focused efforts and planned initiatives to bridge the Rural-Urban Digital Divide ICT sector. In fact there is no telecom operator in the country to beat its reach with its wide network giving services in every nook & corner of country and operates across India except Delhi & Mumbai. It is operating in all 23 circles and also has permission to offer 3G services in all circles.

Intangible resources:

Reputational resources: BSNL wired/internet service is known for its reliability and trust. It is perceived as market challenger. However due to its licensing advantages (public/govt owned), it is known for low cost services and introducer of any new service.

Reliance Communications Ltd: (Market Challenger)

Tangible Resources:

Financial resources: Reliance communications is a subsidiary of Reliance group lead by Anil Ambhani. Because of its parent company's diverse portfolio and strong administrative relations, it has good capability for raising financial resources.

Technological resources: It has established a pan-India, high-capacity, integrated (wireless and wire line), convergent (voice, data and video) digital network, to offer services spanning the entire infocomm value chain. It is operating in 22 circles and got license for 3G spectrum in 13 circles.

Intangible resources:

Human resources and Innovation resources: Reliance being known for its aggressive corporate image has similar workforce and resources because of its corporate policies.

Reputational resources: It is market challenger, known for its imitation of services and integrated services. However, with frequent change of subscriber plans, it has lot of complaining customers.

Tata Teleservices: (Market Follower)

Tangible Resources:

Financial resources: Tata teleservices which is subsidiary of parent group TATA has financial support. However, due to its poor performance and low market share, its internal revenues are low and pose challenge to its financial services.

Technological resources: It is pioneer in CDMA technologies and also entered GSM services with collaborations with JAPAN's NTT DoCoMo. The Tata Teleservices Limited bouquet comprises four other brands as well-Virgin Mobile, Walky (which is the brand for fixed wireless phones), the Photon family (the company's brand that provides a variety of options for wireless mobile broadband access, and T24. TTSL recently entered into a strategic partnership agreement with Indian retail giant Future Group to offer mobile telephony services under a new brand name-T24-on the GSM platform. It is operating in 20 circles, got licenses in 9 circles

Intangible resources:

Reputational resources: Although it is a group of Tata which are known for their reliability and trust, it could not carry similar image in telecom services due to quality issues. However, due to its variety of services (like integrated mobiles with network, Tata photon, etc), it known for variety of services.

Drivers of Competitive behavior

It is the extent to which competitors recognize the degree of their mutual interdependence that results from awareness, motivation and abilities.

Abilities:

Below are the abilities created by each competitor using their resources to create competitive advantage and to gain market share.

Bharti Airtel Ltd

Due to its prime focus on Quality services and long term contracts with infrastructure providers, it has ability to deliver better services compared to its competitors with reach in all circles in India.

BSNL

Being a government owned firm and also due to large consumer base it has advantage in providing services in lower cost over its competitors. Being strong in telecom infrastructure adding to its motive, it has high ability to reach in rural.

Vodafone Essar Ltd

Due to its strong human resources, talent pool which lead to innovative advertisements and better value added services.

Reliance Communications Ltd

Better financial resources due to backing of parenting company, focused services , integrated marketing strategies (mobile and network together)

Tata Teleservices Ltd

Pioneer in CDMA technology, Focused services, gave it ability to tap new set of customers who are looking for integrated/bundled services. Its technology and infrastructure gave advantage in providing broadband services.

Idea Cellular Ltd

It's Stake in telecom infrastructure market, and it's innovative team of employees created abilities for coming up with better advertising campaigns which increased brand recall.

Aircel

Its talent pool and Innovative marketing strategies (use of icon players, etc.) gave it competitive advantage to tap customers with new and low cost plans.

Inter-Firm Rivalry and Likelihood of Attack

Marketing Warfare Point of View

According to Al Ries and Jack Trout, there are four kinds of marketing warfare strategies:-

1. Principle of defensive strategy – Adopted by Market leader
2. Principle of offensive strategy – Adopted by Market challenger
3. Principle of flanking strategy – Adopted by Market follower
4. Principle of guerrilla strategy – Adopted by Market follower

PRINCIPLE OF DEFENSIVE WARFARE

ADOPTED BY MARKET LEADER: AIRTEL

SUBPRINCIPLE 1:- Only the market leader should consider playing defensively.

Airtel as a market leader already occupies the highest position. They have a strong relationship with the customer and intermediaries. So Airtel being a market leader can go for defensive strategy just to maintain its market share.

Airtel introduced the concept of minute tariff (Rs 125 and Rs 200 STD free) which replaced the lower down rates plan (STD in Rs 2 or Rs 1.5) from the market.

SUBPRINCIPLE 2:- The best defensive strategy is the courage to attack itself.

Initially Airtel was also involved in establishment of its own tower business, but later it shifted its business to the "Industrial".

Airtel replaced the Post paid mobile concept by prepaid mobile connection. This move cannibalised its own product initially. But Airtel was willing to sacrifice the short term profits to gain increased market share.

SUBPRINCIPLE 3:- Strong competitive moves should always be blocked.

Airtel introduced various value added services just after Vodafone e. g. "Chota Recharge" concept and "Night Calling" concept were introduced by hutch (now Vodafone) and then immediately followed by Airtel

PRINCIPLE OF OFFENSIVE WARFARE

ADOPTED BY MARKET CHALLENGERS:- VODAFONE, RELIANCE, BSNL

SUBPRINCIPLE 1:- The main consideration is the strength of the leader's position.

Airtel concentrates on the value added services which are of premium use. So Vodafone concentrated more on the different kind of value added services i. e. cricket commentary, fashion tips, voice sms, beauty tips, caller tunes, ringtones download to attract the youth.

Airtel is market leader in the GSM sector. Reliance came with CDMA technology and captured a large chunk of market.

SUBPRINCIPLE 2:-Find weakness in the leader's strength and attack at that point.

Airtel used to charge Rs 50 as roaming charges. BSNL spotted this weakness and eliminated roaming charges

SUBPRINCIPLE 3:- Launch the attack on a narrow front

BSNL captures a very big market by giving the mobile SIM free of cost

Vodafone focuses mainly on the value added service and marketing.

Recently Vodafone launched the new ZOOZOO ads, which has helped it in gaining a lot of customers.

PRINCIPLE OF FLANKING WARFARE

ADOPTED BY THE MARKET FOLLOWERS:- TATA, IDEA

SUBPRINCIPLE 1:- A good flanking move must be made into an uncontested area.

Airtel is primarily concentra