

Vodafone ceo interview essay sample

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Marten Pieters, MD and CEO, Vodafone India, speaks about the challenges facing the telecom sector, the 3G auctions and why the government needs to get its policy right soon. This Idea Exchange session was moderated by Managing Editor, Financial Express, Sunil Jain 1. Sunil Jain: How has the 2G case changed things for the telecom sector? India has had this licence system for very long. So a lot of entrepreneurs have this feeling that once you get a licence, that's the way to make money. So a lot of investors and entrepreneurs thought that they need to get this licence. If anyone has studied the model in the rest of the world, you would realise that it is not true. Even in the most affluent countries in the world, there are typically no more than four or five operators and typically number five doesn't even survive. In India, when this opportunity came in 2008 or 2007, based on this drive of 'get me a licence and I will make money', all of them jumped onto it. But then, of course, everyone started to discover very quickly that this is a tough game to be in. It is typically a long-term capital investment. And since it is a sunk cost, you would have to generate some revenue.

So pricing is not based on long-term cost recovery, it is based on the need to generate some cash flow, based on 'I need to pay my salaries next month'. So in the first few years, you saw these new operators really driving topline, very hard, at the cost of results. This simply doesn't work because these operators get customers only because tariffs are very low. And because they dropped the prices so low, it had a huge impact on the results of the telecom sector since everyone else also had to cut prices to compete. So profit-and-loss was destroyed by this wave of new licences. Then came the 3G auctions. All serious operators realised that you need 3G if you want to have a future

in the business. But there were only three 3G slots available in most circles and that led to very intense competition and crazy pricing. The 1 paise-per-second type of tariff rates destroyed the profit-and-loss of operators and then 3G auction and BWA (broadband wireless auction) destroyed the balance sheet. Then last year, two things happened that were good for the industry. One was that everyone started to realise that you could not pay more to acquire a customer than what the customer would give you.

Cash flows depleted into the negative. That happened in August-September (2012) where everybody stopped this 'washing machine' where you take in literally 10 customers to keep one. So the whole industry then moved on to a more sustainable model. What then happened is the new verification norms that came in November which were based on security worries. It had a huge impact, because it was suddenly very difficult to sign up a new customer. After November, you could not walk in for a top-up and walk out with a new SIM. That's why the industry dropped so many customers. Not because people did not make any calls anymore, but they stopped playing this game of having two or three SIMs. That was good news for big operators as well. This is not just a business where you make money as a businessman. It is a very basic infrastructure for the country. So I think the country has a vested interest to get it right. Last year, China invested \$55 billion in telecom whereas India invested only \$3 billion. 2. Sunil Jain: What did China do that we didn't do?

First of all, China gave spectrum virtually free of cost. For eight years in a row, they have been investing \$50 billion every year. They have 9, 00, 000

base stations in the country. There is coverage everywhere, broadband everywhere. So the Chinese government has not taken any money (from the operators). They have stimulated the companies to re-invest and now China Mobile is the most profitable mobile company in the world. It is also the most valuable telecom company in the world. So it is also the political choices you make. The sad part is that in certain government departments (in India), you would expect them to understand the basic dynamics of the industry, but they hardly understand. They get it wrong all the time. Take the 3G ICR (intra circle roaming). When the government auctioned 3G spectrum (in 2010), there were only three slots. Since we assumed that not everyone can get spectrum everywhere, we asked the government if we can then do roaming afterwards. We asked that twice and got written answers saying roaming is allowed.

And what do they do? They try to stop it later. That's bad for the customers as well as operators. 3. Sunil Jain: Is there a level of change in the government's thinking? We should ask the government to study what is happening in the world and apply the lessons to India and not keep thinking that India is completely different. There was this draft CAG report which said that even 2G ICR roaming is bad since operators will not buy any spectrum if they are allowed to roam, costing the government money. This is a complete misunderstanding of the situation. The issue is not spectrum, but to get coverage in rural India, you have to share infrastructure. We are talking of villages with 500 customers where building a new network will not make a prudent business case. Every site that we operate costs me Rs 50, 000 per month, leaving aside investment cost, depreciation, etc. So 2G ICR is not to

avoid spectrum cost...it's just a very economical, viable model and keeps tariffs low. Also, since this guy will earn some revenue, it is also good for the government which will get a percentage of that as licence fee. The government has started to realize this and they are taking steps to make it better.

Now how much room for manoeuvring do we have? If you look at spectrum pricing, it is not that they did not realise that the price was high, but no one put up a finger to say that we should cut it by 60-70 per cent. That was all based on the fear of the 2G scam. Since they put secretaries of telecom in jail, believe me no one is going to sign anything anymore. They even went back to 2001 and said something might have gone wrong in allocating spectrum then and they went after Sunil Mittal and others. So no one has dared to say that current rules may not be effective because they fear that it may be held against them as favouring a certain private company. But that fear may be evaporating a bit. The new telecom secretary is making all the right statements. But is there enough political will to make a change? I am optimistic, because you need to change, otherwise no one will invest in this sector, banks will not lend. 4. Subhomoy Bhattacharjee: With elections in 2014, would you rather want the decision on auctions postponed for the new government to ensure there is more consistency? I don't think the government has the luxury of waiting, even if they wanted to.

There is this famous Supreme Court direction, that's why they call it court-directed auctions. I am also in favour since the industry is in need of spectrum. So what they are trying to do is a quick turnaround in TRAI. If they

do that, it is possible to do the auction this year. I can't really comment on what will happen if the new government faces the same problems. They might approach it differently, but the regulator is the same and all of DOT (Department of Telecom) does not change overnight. So it is not so much about elections, it is far more about getting the pricing of spectrum right. 5. Shobhana Subramanian: Kapil Sibal has said M&A (merger and acquisition) guidelines will be in place by July 31. What would you like to see in these? And if they allow you to keep the spectrum, will you pitch for Aircel? You can call it M&A rules, but for me, it's more of market power. They flexed it up a bit but it's unclear—this 35 per cent market share combined that you can have. What we want is that for market share, you should not only look per circle but nationwide and then put a threshold per circle. The big issue indeed is spectrum.

Under 3G auction rules, you can only own one block of spectrum. But if I buy a company which already has one block, then I cannot keep the extra block. But there are also no rules stating we need to give it back or the government will pay us if we return it. But you should be allowed to keep two blocks... they should allow spectrum trading. They should have allowed it last year as it is part of NTP-12 (National telecom Policy 2012). Then suddenly you will see a lot of M&A starting to happen. But the problem with all these companies is that they have assets that I don't need. Like I would like to buy more 3G spectrum in circles where I don't have it, but I cannot do that. I need to buy the entire business. So I will also get 2G business, BWA spectrum, telecom towers, etc that I don't want. 6. Rishi Raj: Another irritant is the 10 per cent cross-holding norm. They are trying to tighten it. Your

minority stake in Bharti will get affected. They will make it part of the new licence requirement. But we have a different debate with the government. Let's assume I need to take a new licence and they will not allow us to keep the holding but they need to give us some time.

It cannot be done overnight. But the problem is that they want to arm twist us into selling off the cross-holding. We are fine with the new regime but they should give us time. 7. Sunil Jain: What kind of investment are you looking at if the government gets its policy right? When we first came in, we invested to the level of Rs 9, 000 to 8, 000 crore per year, which has come down this year to Rs 4, 700 crore, which is still considerable but less. Now why is that? It is the uncertainty around us. My customers are asking for service everyday, so I can't stop investing. It's simply because when we came in here, we started big time, rolling out 2G network in rural areas. Then, of course, 3G came and we started investing in spectrum. So typically, these investments come in waves of new opportunity, new technology. The good thing about Vodafone is, it is a company with a very strong balance sheet, not in India, but overall.

So if there is a business case, then Vodafone will be willing to invest for the long term. 8. Vaishnavi Bala: In which sector do you see investment picking up in the next few years? We see the biggest investment in the next few years in data because data demands a lot more capacity than voice does. So let's say if you double your voice customer numbers, in terms of capacity building, it will be incremental but not major. If you do that in data, it will have a huge impact. Your whole network, your sea cables, all the equipment

you have in your IP network, the whole thing has to scale up. So speed gets better and capacity gets better. So this year, 50 per cent of our investment goes directly in data.

9. Shobhana Subramanian: But when will data start contributing meaningfully to your bottom line? It depends. If you take the 3G spectrum cost, then it will take a very long time for it to really start to contribute to the bottom line but the reality is that telecom operators do not look at individual pieces of spectrum because spectrum was cheaper in the past, now it's expensive. Data has started to contribute, it is already over 8 per cent of our revenues and it's growing very fast. Two to three years ago, it was less than 2 per cent. In India, voice is growing and data is catching up even quicker.

10. Subhomoy Bhattacharjee: Smart phones are pretty expensive in India. If you were to take a ballpark figure, what sort of phone prices will push the market into big expansion of data mode? I don't think it is the smart phone prices anymore. Of course, you can now buy pretty good smart phones for anything between \$50 and \$100. A lot of people can afford that. The problem is that more people need to use data. Lot of people carry expensive phones but still don't use data. Our focus is not just to penetrate smartphones but use of data the way it should be used.

A lot of education regarding data is what needs to happen—how to use mail, to get to YouTube, how to enjoy music on the Internet.

11. Anushree Mohan: What's the roadmap you have for your brand? Also, where are we in terms of mobile advertising? The brand is always important. We have gone through three brand changes. Brand is what people do with it, what the company

does with it. The advertising is important. When people talk about Vodafone, they think of Zoozoo and all that. But it is more than that. The customer interaction points, the call centres, the way your questions are answered—that builds the brand image. People pay just \$3-4 a month but expect a good service. So that's a bit difficult. There were high expectations on mobile advertising.

It has not been a great success anywhere. India is somewhat behind on that.

12. Devangi Gandhi: There were talks of Vodafone planning to list in India one and a half years ago. Where does that stand now? We had officially stated that we plan to list. The issue is that we don't know if our licenses will get extended. About two-thirds of our revenues are in circles where we need to extend our licences for another 20 years. Since we do not know what we will pay for the spectrum there, it is difficult to list.

13. Santosh Tiwari: What is the kind of investment you see coming in with 100 % FDI? Once the limitations disappear, you will be far more flexible to shape your balance sheet. But we have not held back because of FDI limits. We have held back because we can't invest in 3G in circles where we don't have 3G spectrum.