

Bhartiairtel organization structure business model marketing essay

[Environment](#), [Air](#)



Bharti Airtel Limited, a part of Bharti Enterprises, is one of the leading providers of telecommunication services with significant presence in India. It has its operations spread over 20 countries across South Asia, Africa and Channel Islands.

The businesses at Bharti Airtel have been structured into three individual strategic business units (SBU's) -

Mobile services,

Telemedia services (ATS) &

Enterprise services (Carriers & Services to Corporates)

Bharti Airtel has about 194.183 million subscribers in India and South Asia and 55.855 million GSM Mobile customers in Africa as of the end of June 2012. The Proportionate Revenue of Bharti Airtel as on June 30, 2012 is \hat{a} ,¹ 193,501 million. Currently, Airtel is the largest cellular service provider in India in terms of number of subscribers. Bharti Airtel holds the maximum percentage of market share in wireless connections at 20.67%, Vodafone is at 16.96%, Reliance at 14.68%, Idea at 12.88% and BSNL is at 10.81% (as of July 2012).

(Source: http://www.airtel.in/wps/wcm/connect/about+bharti+airtel/Bharti+Airtel/Investor+Relations/Company+Profile/PG_Company_Profile?countrytabs=1)

Total 698.08M Active Mobile Base In India, End July 2012; 14.68M

Broadband; RCom Loses 20.48M Connections

Ownership and Organizational Structure:

Bharti Airtel was established on July 7, 1995 as a public listed company headquartered in New Delhi, India.

With effect from Jan 13, 2010 a new integrated organizational structure has emerged with an objective to enhance Airtel focus on expanding operations in international markets beyond India and South Asia and further consolidate its leadership position in India. The transformed organisational structure consists of two distinct Customer Business Units (CBU) with clear focus on B2C (Business to Customer) and B2B (Business to Business) segments. Bharti Airtel's B2C business unit comprehensively serves the retail consumers, homes and small offices, by combining business units such as Mobile, Telemedia, Digital TV and other emerging businesses (like M-commerce, M-health, M-advertising etc). The B2C organization encompasses Consumer Business and Market Operations. Bharti Airtel has understood the importance of its partners to remain competitive in a dynamic business environment. As a step in that direction, the Supply Chain (SCM) function has been created with a mandate to develop partner relationships to maximize mutual opportunities for growth and profitability. The SCM organization has a central core team of supply chain subject matter experts and execution teams operating under different business divisions across the country.

(Source of Photo: http://www.airtel.in/wps/wcm/connect/about+bharti+airtel/Bharti+Airtel/Investor+Relations/Company+Profile/PG_Company_Profile?countrytabs=1)

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BhartiAirtel: Organization Structure

Business Model: (Focus on core competencies and outsources the rest)

Airtel is probably one of the best run companies in India. It has advantages of both having a massive size and being in a very high growth industry. The secret of its enormous success owes a lot to its business model. Airtel focuses solely on two things: Customer acquisition & Servicing and business development/Expansion. The main focus of Airtel has been on Data IP solutions, conferencing and Video solutions and wants to grab the potential of market of these business sectors. The other functions such as hardware, network, backend applications (billing etc), value added services and even telecom infrastructure are all outsourced. Airtel was the first player in India in pioneering such business model. Airtel has outsourced its Network Management services to players like Nokia Siemens and Ericsson, while its backend application is taken care by IBM. It was also the first to divest its hard assets, i. e. - its telecom towers - to a separate company and lease them back themselves as well as monetize surplus bandwidth by selling to other operators.

In this sector, most of its competitor approach towards people is industrial. On the contrary, Airtel were trained in service industry and has successfully adopted DPE model (Dollars per Erlang) thus paying only for traffic that comes out of boxes. This has led Airtel to save 1bn to 1.5 bn USD annually and added advantage of saving depreciation cost. The success of Airtel business is evident from the fact that its existing model has been copied all

across the world. Now, Airtel is working on model that will lead to surge in the consumption of data usage.

2. to be provided by Jubin

Major competitors and new entrants

Determining the nature of the market

(Source of data: http://www.airtel.in/wps/wcm/connect/about+bharti+airtel/Bharti+Airtel/Investor+Relations/Company+Profile/PG_Company_Profile?countrytabs=1)

Computing the HHI index

Formula:

Formula:

$$HHI = 10000 \sum w_i^2$$

With the values given above, we find that HHI for the telecom market is:

$$HHI = 1558.32$$

Since an HHI falling between 1500 and 2500 indicates a moderate concentration of companies, we can conclude that in the telecom market in India, there are only a few players who are providing mobile services.

The trend of the HHI over the past 5 years is shown below:

4. Market entrants:

The Indian Telecom story has caught every ones' attention the world over. The number of subscribers in India has crossed half a billion mark, next only to China. Along with the subscribers, the number of operators in India has also increased. The entry of new service providers, with MTS & Uninor being the most recent and the operators' pursuit for a stronghold in the telecom market has led to tariff based price wars for attracting new customers.

Evolution of new players in the Indian Telecom Industry

The pricing in the Indian mobile service providers' industry evolved over three phases, with call charges steadily falling through the phases.

In the initial introduction phase, from 1995 to 2000, the incoming and outgoing calls were priced around Rs 14/minute, which made the use of mobile services a luxury. Eventually the outgoing call prices dropped to Rs 9/minute and incoming to Re 1/minute (towards the end of this period), bringing more people into the loop.

From 2000-2005, the outgoing call rates dropped to Rs 2/minute while the incoming calls became free of charge. This prompted the entry of many new players, such as Reliance, which set new benchmarks for pricing. Following an aggressive strategy to attract a huge customer base, Reliance forced other operators to change their plans according to its offerings.

After 2005, the entry of new telecom service provider, Tata Docomo, changed the entire game. Docomo used the 1p/second billing to gain entry into the crowded telecom market. The other operators reluctantly followed suit and added per-second billing plans to their existing product portfolio.

This is one of the reasons for the crowding seen in Airtel's postpaid plans, among others, as it continues to offer per-minute billing options also.

Techniques used by Airtel to stay ahead of the curve

Reverse mentoring process, wherein the new recruit becomes the mentor and the senior executive is the protégée.

This helped the senior executives to adapt new technologies more effectively and also the new recruits gained from the wisdom of older executives.

Airtel introduced the concept of Airtel money, an innovation for which it received the ' Best

Innovation' awards at the Telecom Operator Awards 2012.

Main factors influencing demand, relevant elasticities

The primary factor influencing the demand of the telecom sector as a whole is the penetration level of mobile operators in the rural and semi-urban places of India. Since supply rather than demand is the main constraint, it would be useful to focus on increasing the supply of the network. The change in price is unlikely to affect overall demand, except in areas where the supply constraint does not apply. As the government has also declared to provide cell for everyone as its next poll slogan, it would definitely increase the demand for the network operators also. But it is as of now only a plan of the government.

As per the gartner's study, the penetration level is 51 percent now and is expected to grow to 72 percent by 2016. Mobile data revenue has tremendous growth opportunities in India because of low Internet penetration. India's fixed broadband household penetration was 6 percent in 2011, which is lower than the overall penetration in emerging markets (estimated at 16 percent in 2011). With consumers perceiving mobile broadband as a basic necessity, mobile operators globally are reaping their investments in infrastructure through an increase in mobile data revenue.

The dissolution of the previous 2g spectrum allotment because of "first come first serve" basis and the high base price of the new auction has brought very high repercussions along with it. Many of the foreign telecom firms which had gained spectrum during last time has not attended the pre-bid meetings for the fresh auction of 2g spectrum. Etisalat was the first one to announce its absence from the auctioning of the fresh 2g spectrum. It was first thought that telecom tariffs would rise 37 to 49 paise per minute led by the cabinet's decision to fix the reserve price for the 2G spectrum auction at ₹ 14,000 crore per 5 MHz in the 1,800 MHz band, according to the Cellular Operators Association of India (COAI). COAI also said this decision would lead to a rise in the industry debt to anywhere between ₹ 13.7 lakh crore and ₹ 15.4 lakh crore. The reserve price per MHz per population in India (on purchasing power parity basis) of ₹ 19.68 is enormously high as compared to ₹ 1.06 that Ofcom (Britain's telecom regulator) has recently announced for auction of 1,800 MHz band, it said. But many of the operators have

assured their customers to not to pass this burden over them and they will not increase their rates as per.

BhartiAirtel posted depressed performance in the June 2012 quarter with 23% fall in net profit from the previous quarter, the sharpest in any of the quarters so far. The company has not been able to report any meaningful growth in its bottomline despite its efforts to take its business to new shores and to rationalise operating costs through total outsourcing of core operations. In the trailing 12 months to June 2012, its revenue rose by 15% from the corresponding period a year ago. Net profit on the other hand fell sharply by 29%.

The main factors for Airtel's net profit to fall may be:

Competition:- The competition in the 2G segment is cutthroat, despite the decision of new players such as Etisalat and S Tel wind up their India the Supreme Court decision of quashing of licenses issued after January 2008. Thereby limiting the ability of telecom operators to increase tariff across circles. Barring sporadic tariff hikes, overall tariffs were stagnant in the last few quarters. Bharti's average revenue per user (ARPU) has fallen by 16% since March 2010 to Rs 185 in the June 2012 quarter even though mobile subscriber base rose by 47% to 18.7 crore. This reflects that the falling per user potential to generate revenue has offset the benefit of increasing customer base.

Slower Adoption of 3G:- Two years ago in the hope of boosting their revenue and profitability, telecom operators had bid aggressively to obtain licenses

for 3G services. Private operators had paid nearly Rs 51, 000 crore through borrowing to acquire licenses of 3G services.

Though most operators have launched 3G services, these are yet to acquire necessary traction. While the expected revenue growth has not been as per expectations, interest costs to service debt are mounting. For Bharti, interest outgo as a percentage of revenue shot up to 4. 2% in the June 2012 quarter from 2% two years ago. This has adversely affected profitability of the company.

The way ahead for Bharti Airtel from here now should be:

The period FY2013 will be a year of consolidation. Investments in 3G, 4G and Africa operations will in time propel Airtel into profitability as a low cost leader with a factory approach to call volumes.

The near term positive triggers include listing (IPO) of BhartiInfratel, exits by 4-5 competitors, auction of 2G licenses and reforming/ sale of spectrum.

Airtel will see a return of pricing power.

Share price fall to current levels is a market excess, and offers investors an attractive entry point.

Elasticity is ending

Pricing competition: practices of the company vis-à-vis competitors in the industry

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The biggest driver of growth in telecom industry is the development of pricing plans catering to individual needs and requirements of people at the prices they are willing to pay. A plethora of price plans are available today such as prepaid, postpaid, lifetime validity, Closed User Groups, corporate plans or some combination of these.

Price planning takes into view factors such as firm's overall marketing objectives, consumer demand, competitor's pricing, products attributes, market and economic trends. Pricing strategy is one of the important issues in telecom industry to each player. Being a conjunctive focus between users and service providers, carriers pricing strategies takes an outstanding role in telecom chain.

BhartiAirtel employs various pricing strategies like very call and sms rates (penetration pricing), numbers given to corporates (value based pricing), different offers for local calls and local sms for different states (geographical pricing).

Components of fixed and variable costs/inputs

Access Charges = The amount charged by a network operator for the use of their network by other network operators. = VARIABLE COST

Network Operating = Network maintenance costs, typically contain the costs required to operate and maintain a telecommunication services network = FIXED COST

Cost of Sales of Goods = VARIABLE - as this depends on the customers

Personnel - FIXED - wages/salaries

Sales and Marketing - VARIABLE

Administrative and Others – FIXED COST

Licence fee and Spectrum charges (revenue share) - licensees were to pay fixed amount of license fees annually based on the agreed amount during the bidding process, FIXED COST

Current Tax – VARIABLE COST

Deferred Tax expense – VARIABLE COST

Fringe Benefit Tax – VARIABLE COST

As of March 31, 2011

As of March 31, 2010

As of March 31, 2009

As of March 31, 2008

As of March 31, 2007

Fixed expenses

Network Operating

85, 712, 000

74, 467, 226

63, 268, 921

33, 004, 746

19, 214, 108

Personnel

14, 512, 000

14, 371, 323

14, 336, 407

13, 341, 852

11, 263, 414

Administrative and Others

21, 353, 000

22, 401, 476

20, 875, 328

19, 429, 499

16, 609, 713

Licence fee and Spectrum charges (revenue share)

42, 903, 000

37, 548, 702

35, 821, 761

25, 838, 212

16, 384, 289

As of March 31, 2011

As of March 31, 2010

As of March 31, 2009

As of March 31, 2008

As of March 31, 2007

Variable expenses

Access Charges

49, 872, 000

44, 356, 838

52, 034, 149

40, 385, 333

30, 958, 577

Cost of Sales of Goods

161, 000

203, 225

124, 051

338, 502

220, 849

Sales and Marketing

31, 802, 000

24, 049, 062

21, 763, 991

17, 849, 080

10, 691, 655

Current Tax

17, 315, 000

19, 813, 159

9, 173, 614

8, 835, 340

5, 137, 372

Deferred Tax expense

5, 243, 000

3, 303, 646

-3, 959, 059

-1, 682, 365

476, 162

Fringe Benefit Tax

0

0

358, 731

372, 293

254, 970

Annual sales, profit margins, operating income, and net income

As of March 31, 2011

As of March 31, 2010

As of March 31, 2009

As of March 31, 2008

As of March 31, 2007

Annual sales

380, 158, 000

356, 095, 407

340, 142, 902

257, 035, 096

177, 944, 343

profit margins

379, 997, 000

355, 892, 182

340, 018, 851

256, 696, 594

177, 579, 437

operating income

176, 746, 000

176, 246, 257

167, 740, 055

132, 686, 084

88, 986, 027

Net income

77, 169, 000

94, 261, 547

77, 438, 385

62, 441, 922

40, 332, 265

*(All figures in â,¹ ‘ 000)

Sales have increased consistently over the last 5 years

Even the profit margins have increased considerably. However we see that the growth in profit margins has decreased considerably from 2009 onwards.

The operating income of the income has shown decreased growth over the years. This is because we see a rising trend in increased cost in network operating.

The net income has also taken a hit. It is reporting a halting growth owing to increase in current tax paid by Airtel which has seen a sharp increase over the years.

8. pending with jubin

Marketing strategies (promotional policies) adopted by Airtel

BhartiAirtel Limited is a leading integrated telecommunications company . The company ranks amongst the top 5 mobile service providers globally in terms of subscribers. It operates in 23 circles, and continues to be the country's largest cellular operator.

The marketing strategies followed by Airtel

For a country that wants to reach 100% rural teledensity by 2020 – this ambitious target includes extremely remote areas – hence most of the telecom companies are targeting the rural sector of which Airtel is not an exception.

The main challenges faced by airtel in rural areas include

The incomes of Indian rural residents are significantly lower than urban residents.

A widely dispersed population.

Lack of proper infrastructure((i. e., roads, electricity, etc.)

Besides deploying a scalable network, BhartiAirtel also needs to establish a cost-effective marketing, sales, and distribution channel to provide service promotion and customer support.

The opportunities available with the rural population are as follows

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The future growth of the Indian mobile market is expected to be driven by rural customers, which account for about 70 percent of the country's total population.

Rural dwellers place a high value on communications.

Various studies have shown that increased mobile service penetration in rural areas could have tremendous socio-economic benefit for the rural population.

With its strong presence in the relatively untapped rural market BhartiAirtel will be well-placed to continue growth with its focus on under-penetrated Indian regions with new revenue streams such as 3G-enabled data services and pay-TV.

The marketing strategies it is following in rural India are

BhartiAirtel has launched microfinancing agreements in collaboration with Nokia and SKS Micro-finance. Under these partnerships, Bharti provides subsidized tariffs and subscriber identity module (SIM) cards to rural users, Nokia provides subsidized handsets, and SKS offers microfinancing.

BhartiAirtel also formed a joint venture with the Indian Farmers Fertilizer Cooperative Limited (IFFCO). Its joint venture, IFFCO Kisan Sanchar, uses IFFCO's wide rural presence (present in 80 percent of Indian villages) and appeal among the rural agricultural community to market and distribute Bharti's products.

IFFCO Kisan Sanchar provides subsidized handsets and connections at competitive rates in rural areas. It also helps BhartiAirtel to identify and acquire suitable locations for deploying its cell sites. In addition, it offers tailored services including voice-based updates on crop prices, farming techniques, rural health initiatives, and “ help line” services.

BhartiAirtel has adopted the strategy of direct communications to market its value customers. To make its services accessible, the company provides all of its marketing content in local languages. Vans are used to cover rural areas with staff who educate locals about mobile services and usage.

The company has developed a shared phone service called Public Call Offices (PCOs) in rural regions to increase awareness about its brand and services. BhartiAirtel Service Centers have been set up in villages to address customer queries and complaints as well as act as sales and distribution points. These centers employ local people and offer sales and customer services using local dialects.

BhartiAirtel has already established over 18, 000 service centers in rural India, covering over 400 languages and local dialects. The company plans to expand this network.

Urban strategies

The company had put up a large no of hoardings and kiosks in and around Delhi. The objective behind designing a promotion campaign for the 'Airtel' services is to promote the brand awareness and to build brand preferences.

Brand awareness is spread through the ' campaigns and brand preferences through brand stature.

The launching of 4 g services

The Indian telecom industry witnessed the maiden launch of 4G services in Kolkata in April 2012 by Airtel. Airtel is just sitting alone on 4G space with their costly devices and not-so-bad tariff plans. Airtel got the pie of 4G spectrum in Delhi and Mumbai and 2 other circles as they bought 49% of Qualcomm India's 4G venture. Airtel will reap long term benefit from this deal.

The first mover advantage that Airtel can have are as follows

Expand its services to Delhi, Mumbai as it has already done in Kolkata and Bangalore.

Cut down device price to lower down ' Entry Point'-this might certainly reduce the entry point which may leverage into better 4G device and plan sale.

Free Device Concept fails - Rather add data benefits at no extra cost-

Currently Airtel offers 4G in this way: Buy the device at full payment and get some discounts over 6 or 12 months to recover the cost. There is no problem with this strategy, but Indian consumers don't like this way. Rather Airtel should try this way - 5GB data free for next 3 months and forth month onwards you can opt for any prepaid or postpaid plans.

Night unlimited 4g plans.

Add 3G data and pan India data roaming at no extra cost on existing 4G tariff plans.

Thus the launch of 4g services gives Airtel a first mover advantage. Hence like a true oligopoly it follows the Stackelberg model. It has set its output before other fellow competitors have done.

Advertisement-revenue ratio

Below is chart showing the advertisement-revenue ratio for 4 years

2012

2011

2010

2009

Adevertising expense(in million)

5586

7215

5508

6228

Revenue(service revenue in million)

416038

380158

356095

340142

adv/revenue ratio

0.013427

0.018979

0.01546778

0.01831

From the chart we can infer that airtel spends more or less same amount for its advertisement for the past consecutive 4 years.

Airtel's other promo strategy

Airtel believes in new and innovative promo strategy. Below are some few examples of Airtel's promo strategy

This is the first time in India, where Airtel customers can access their Twitter/Facebook accounts for nominal charges per day even without activating data services.

The year 2011-12 was marked by significant achievements on the brand front as airtel strengthened its position as a youth brand. The Company again captured the imagination of the nation with the high impact “ Har Friend Zaroori Hai (HFZ)” brand campaign that was launched in August 2011. This has been improved with the latest add of “ Jo tera hai wo mera bhi hai”. Hence it’s objective to target the youth has been successful to a large extend.

Government Regulations:

Spectrum Issues:

In the recent supreme court ruling in the cancellation of 2G licenses in 122 telecom sectors in India, Bharti Airtel market share has increased from 19.58 percent in January 2012 to 19.62 percent in Feb, 2012. This is mainly due to Supreme Court order to Uninor, MTS and Videocon telecommunication stop services in the sector were their licenses stand cancelled. With the reduced supply, the prices may shoot up in near future of all the services provided by telecom operator and the demand will be more elastic.

National Telecom Policy(NTP):

The National telecom Policy which was designed in 1999 with an aim of providing affordable and quality telecommunication services in rural and remote areas has undergone recent changes. These changes had been introduced by Department of Telecommunications (DoT) in October 2011. This policy will replace the existing telecom policy formulated in 1999 and define the general direction that telecom policy in the country is expected to take. Some of the major amendments include availability of affordable and

effective communication for the citizen, broadband for all at minimum download speed of 2 mbps.

Implication of Change in National Telecom policy over Airtel:

With the implementation of new NTP that seeks to curb the roaming charges and easing of licensing policy, Bharti has been net beneficiary of MNP (mobile number portability) with net addition of 0.15 mn subscriber in Feb, 11 (Sources: COAI, TRAI). Airtel was largely benefitted because of “one nation, one license” policy which lead to reduction of high input fixed cost. The draft policy also recommended delinking future licences from spectrum and selling them at market-based prices which brought further flexibility into the system.