

Demand and supply analysis of mobile services in india essay



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INTRODUCTION: India is going through a telecom revolution, especially in the wireless telephony segment. The adoption of mobile telephony remains unparalleled in scope, as users from diverse segments increasingly choose to exercise the option of personal mobility.

On an average the user base has been adding 4-5 million subscribers per month. The Mobile subscriber base is growing at a scorching pace in India and it is the “ fastest growing mobile market in the world”. The Wireless subscribers have reached to 261. 07 million as on 31st March 2008. The penetration level of mobile services is still below 30% in India, hence there is a huge potential for growth in this segment.

But the scenario is different in the other countries since their markets are already saturated. This is the reason why global telecom giants are looking towards us. In India, the major players in the market are Bharti-Airtel, Reliance Communications, Vodafone, BSNL, Idea Cellular & Tata teleservices. Apart from them there are other small players like Aircel, Spice, BPL, MTNL, HFCL, Shyam Telelink to name a few.

The market share currently enjoyed by the operators is represented in the below figures. Operator-wise Market Share of GSM Operator-wise Market Share of CDMA service providers as on 31st March 2008 service providers on 31st March 2008 The success of the market can be gauged from the fact that mobile user base has surpassed the PC user base in India and very soon the Indian market will have more mobile users than TV viewers. The growing intensity of competition has led to more services for the end user at lower prices. This has had an effect of stimulating demand and thus increasing the

category adoption rate. As more users have been added to the subscriber base, it has led to a further downward pressure on operator costs.

This has led to further cost benefits to the end user, fuelling further growth in the subscriber base. Demand Analysis: The law of demand states that, if all other factors remain equal, the higher the price of a good, the less people will demand that good. In other words, the higher the price, the lower the quantity demanded. Ideally a demand curve is a downward sloping curve as shown below.

This applies directly to mobile services. Few years back the line, the cost of mobile services is high, hence the demand is very low. Once the price came down the demand for mobile services has increased substantially. The table below gives the number of mobile subscribers (Quantity) and the average price variation on yearly basis starting from 1997. Year Quantity(Q) Price(P)

1997. 346 1998. 885. 5 1999. 25 2000. 1.

884. 5 2001. 584 2002. 433. 5 2003. 12. 693 2004. 33.

62. 5 2005. 52. 212 2006. 93. 041. 5 2007. 165. 111 2008. 261.

070. 8 Quantity : Subscriber base in Millions. Price : Cost per minute in Rupees. If we plot the above data taking quantity on X-axis and price on Y-axis, the demand curve can be plotted as shown below: Shift in Demand Curve: A shift in a demand or supply curve occurs when a good's quantity demanded or supplied changes even though price remains the same. For

instance, if the price per minute Rs. 2 and the quantity of beer demanded <https://assignbuster.com/demand-and-supply-analysis-of-mobile-services-in-india-essay/>

increased from Q1 to Q2, then there would be a shift in the demand for mobile services.

Shifts in the demand curve imply that the original demand relationship has changed, meaning that quantity demanded is affected by a factor other than price. In an ideal situation the shift in the curve will be represented as shown above. The demand for mobile services is not only dependent on the price. There will be situations where the price remains constant but the demand goes up. The major factors affecting this shift in demand for mobile services are income level & population of the country.

The rising income level of middle class society is driving the growth of the mobile services in India. Shift in Demand Curve years back mobile was a luxury but now mobile is a necessity. The demand shift for the mobile services at a constant price is shown as above as per the available data.

Supply: Supply is a relation between the various prices of a good and the quantity supplied by sellers of it per time period. As far as mobile services in India are concerned, determining the supply is not practically possible. The competition among the mobile service operators is resulting in lower tariffs rather than other factors.

Currently Indian telecom companies offers the lowest mobile call charges in the world. Since the mobile operators are having enough bandwidth available with them to cope with the increase in demand in the coming years, the shortage of the supply has not arisen as such. Only exception in this case is BSNL -Cellone, where the increase in capacity has been delayed due to

improper government decisions. Elasticity: The degree to which a demand or supply curve reacts to a change in price is the curve's elasticity.

To ascertain whether the mobile services in India are relatively elastic or inelastic let's see the following example. A couple of months back, Airtel (India's largest mobile operator) has slashed the long distance call charges from Rs. 2.65 to 1.50.

Since the prices were slashed by 40%, the people started talking more on their mobile phones, this resulted in a very huge surge in mobile traffic throughout India. As per the statistics, the peak hour traffic increased to a whopping 80%. Since a small change in price is resulting in a huge change in the quantity demanded, we can say that mobile services in India have a relatively elastic demand. Price in Rs.

Quantity in Mill minutes 2.65 100 . 5180 Relatively Elastic demand for mobile services. Effect of Tax on mobile services: Mobile services are subject to indirect taxation imposed by the government.

Here we consider the effects of indirect taxes on a producer's costs and the importance of price elasticity of demand in determining the effects of a tax on market price and quantity. As mobile services in India are relatively elastic, the service providers have to absorb the tax imposed on them. The demand curve is drawn as price elastic. The mobile service provider must absorb the majority of the tax himself. When demand is elastic, the effect of a tax is still to raise the price – but we see a bigger fall in equilibrium quantity. Output has fallen from Q1 to Q2 due to a contraction in demand.

Comparison of Mobile services in India and US: In United States, the mobile service market is relatively inelastic. Since the markets are already saturated, for any price change there is little scope for any drastic changes in the demand for mobile services. (a) In United States (b) In India Joint Demand: Joint demand says if the quantity demanded for one product increases the demand for another product also increases. The Concept of joint demand is applicable to mobile service industry and the mobile handset manufacturing industry.

In the financial year 2006-07, there were 72.04 million new customer additions, this led to total sales of 66 million handsets. The same is the case in the next financial year 2007-08, where a 33% increase in subscriber base has led to a 28% increase in the mobile handset business. Year Handsets sold*No.

f new users* 2006-07 6672.04 2007-08 8595.96 * The figures in the above table are in millions. From the above graph it is evident that direction of both the lines representing the demand for mobile phones and the demand for mobile services is same. Substitutes: The major substitute available for mobile service is the fixed line service.

State owned BSNL is the market leader in this segment and the other players include MTNL, Airtel, Tata teleservices, etc. Wireline services subscriber base stood at 39.42 million as on march 2008. This is just 15% of the total mobile services subscriber base. Another interesting fact is that the wire line subscriber base has decreased from 40.75 in 2007 to 39.

42 in 2008. where as in the same time period, the mobile services has added 95. 96 million subscribers. 2007 2008 (Year) Revenue: Finally lets see how the revenue is varying in the telecom sector.

Revenue is calculated as the price of the product/service multiplied by the quantity demanded. Lets take the overall performance of the Indian telecom sector for the financial year 2007-08 on quarterly basis. The Total revenue of the Telecom Services Sector for the I st Quarter (April -June 2007) of 2007-08 was Rs. 28, 972 Crore, for the IIInd Quarter (July -September 2007) of 2007-08 was Rs. 31, 286 Crore and for the IIIrd quarter (October-December 2007) of 2007-08 was Rs. 33, 055 Crores thereby showing a growth of 5.

66%. The total revenue for IVth Quarter (January -March2008) of 2007-08 was Rs. 35, 770 Crores thereby showing a growth of 8. 21%. We can observe that the revenue is increasing quarter by quarter.

This is in tune with the demand for the mobile services.