

# Pestle analysis of telecom industry



**ASSIGN  
BUSTER**

The telecom services have been recognized the world-over as an important tool for socio-economic development for a nation. It is one of the prime support services needed for rapid growth and modernization of various sectors of the economy. Indian telecommunication sector has undergone a major process of transformation through significant policy reforms, particularly beginning with the announcement of NTP 1994 and was subsequently re-emphasized and carried forward under NTP 1999. Driven by various policy initiatives, the Indian telecom sector witnessed a complete transformation in the last decade. It has achieved a phenomenal growth during the last few years and is poised to take a big leap in the future also.

- Status of Telecom Sector

The Indian Telecommunications network with 430 million connections (as on March 2009) is the third largest in the world. The sector is growing at a speed of 46-50% during the recent years. This rapid growth is possible due to various proactive and positive decisions of the Government and contribution of both by the public and the private sectors. The rapid strides in the telecom sector have been facilitated by liberal policies of the Government that provides easy market access for telecom equipment and a fair regulatory framework for offering telecom services to the Indian consumers at affordable prices. Presently, all the telecom services have been opened for private participation.

- Liberalization

The process of liberalization in the country began in the right earnest with the announcement of the New Economic Policy in July 1991. Telecom equipment manufacturing was delicensed in 1991 and value added services

were declared open to the private sector in 1992, following which radio paging, cellular mobile and other value added services were opened gradually to the private sector. This has resulted in large number of manufacturing units been set up in the country. As a result most of the equipment used in telecom area is being manufactured within the country. A major breakthrough was the clear enunciation of the government's intention of liberalizing the telecom sector in the National Telecom Policy resolution of 13th May 1994.

#### The Top Players in the Industry

- 1) Reliance Communications Limited
- 2) Bharti Airtel Limited
- 3) BSNL
- 4) MTNL
- 5) Hutchison Essar
- 6) Ericsson
- 7) Nokia
- 8) Siemens Communications
- 9) Idea Cellular Limited
- 10) Tata Teleservices

**PEST ANALYSIS**

A management technique that enables an analysis of four external factors that may impact the performance of the organization. These factors are: Political, Economic, Social, and Technological.

Situation analysis in which political-legal (government stability, spending, taxation,), economic (inflation, interest rates, unemployment), socio-cultural (demographics, education, income distribution), and technological (knowledge generation, conversion of discoveries into products, rates of obsolescence) factors are examined to chart an organization's long-term plans

**POLITICAL FACTORS**

India is politically very unstable, whenever the government changes, its policies are also changed and that hampers the functioning of every business sector, so is the telecom sector affected.

If any business enterprise wants to expand its business say for example outside the country it has to check out the political relations with that country depending upon the political relations with that country that will affect the operations of the business in that country also.

**1. National Telecom Policy 1994**

In 1994, the Government announced the National Telecom Policy which defined certain important objectives, including availability of telephone on demand, provision of world class services at reasonable prices, improving India's competitiveness in global market and promoting exports, attractive

FDI and stimulating domestic investment, ensuring India's emergence as major manufacturing / export base of telecom equipment and universal availability of basic telecom services to all villages. It also announced a series of specific targets to be achieved by 1997

## 2. New Telecom Policy 1999

The most important milestone and instrument of telecom reforms in India is the New Telecom Policy 1999 (NTP 99). The New Telecom Policy, 1999 (NTP-99) was approved on 26th March 1999, to become effective from 1st April 1999. NTP-99 laid down a clear roadmap for future reforms, contemplating the opening up of all the segments of the telecom sector for private sector participation. It clearly recognized the need for strengthening the regulatory regime as well as restructuring the departmental telecom services to that of a public sector corporation so as to separate the licensing and policy functions of the Government from that of being an operator. It also recognized the need for resolving the prevailing problems faced by the operators so as to restore their confidence and improve the investment climate.

Key features of the NTP 99 include

- Strengthening of Regulator.
- National long distance services opened to private operators.
- International Long Distance Services opened to private sectors.
- Private telecom operators licensed on a revenue sharing basis, plus a one-time entry fee. Resolution of problems of existing operators envisaged.

- Direct interconnectivity and sharing of network with other telecom operators within the service area was permitted.
- Department of Telecommunication Services (DTS) corporatised in 2000.
- Spectrum Management made transparent and more efficient.

### 3. Telecom Regulatory Authority of India (TRAI)

The entry of private service providers brought with it the inevitable need for independent regulation. The Telecom Regulatory Authority of India (TRAI) was, thus, established with effect from 20th February 1997 by an Act of Parliament, called the Telecom Regulatory Authority of India Act, 1997, to regulate telecom services, including fixation/revision of tariffs for telecom services which were earlier vested in the Central Government.

TRAI's mission is to create and nurture conditions for growth of telecommunications in the country in manner and at a pace, which will enable India to play a leading role in emerging global information society. One of the main objectives of TRAI is to provide a fair and transparent policy environment, which promotes a level playing field and facilitates fair competition. In pursuance of above objective TRAI has issued from time to time a large number of regulations, orders and directives to deal with issues coming before it and provided the required direction to the evolution of Indian telecom market from a Government owned monopoly to a multi operator multi service open competitive market. The directions, orders and regulations issued cover a wide range of subjects including tariff, interconnection and quality of service as well as governance of the Authority.

The TRAI Act was amended by an ordinance, effective from 24 January 2000, establishing a Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT) to take over the adjudicatory and disputes functions from TRAI. TDSAT was set up to adjudicate any dispute between a licensor and a licensee, between two or more service providers, between a service provider and a group of consumers, and to hear and dispose of appeals against any direction, decision or order of TRAI.

#### 4. Wars and Conflicts

- The country is presently peaceful and in coming future there is no chance of any war in the country, so investing in India is quite good and meaningful.
- Regarding conflicts the country is having internal political conflict, which in result are little bit harmful for investing as government stability is not very strong.

#### **Economic Factors**

##### 1. Economy situation

GDP - \$1.367 trillion (2010)

GDP growth 6.7%

Inflation 9.9% (March 2010)

The Indian economy is growing at a faster rate, and most importantly the population of India is mostly youth, so entering in the Indian market will be

a good sign of investment , the government of India is putting good effort in encouraging the FDI in the country by providing tax benefits.

## 2. Economy Trends

The continuing dominance of youth – Youngsters are different from oldies in a hundred ways, and anyone can make a long list of the differences. How this will affect Indian society cannot really be predicted, except to say that it will be more mobile (think more migrants), and more volatile (stronger responses to frustrations– one manifestation being the spread of extremist Left ideology in some 60 districts).

It will adapt faster to new trends, and marketers will be encouraged to focus on low-cost products and services because youngsters usually have less money. It will probably mean that the two-parent home (for nurturing children) will remain the predominant norm for long, and that there will be a strong saving habit because families will be planning (among other things) for their children's educational future.

India's increasing openness to the world -The foreign trade component of India's GDP (if you include trade in both goods and services, like software) is now about 55 per cent — nearly three times what it used to be. Foreign institutional investors own about 25 per cent of India's listed stock. And Indian firms were buying three overseas companies a week, through 2006.

A country that is open to the world reacts in fundamentally different ways from a closed system (of the kind that India used to be).



There is greater self-confidence, faster acceptance of new influences and ideas, a willingness to accept global benchmarking, and a speedier response to changing circumstance. It is simply a more adaptive and therefore a more efficient system. Translate that to mean more productivity growth.

The growth of the middle class- In 2009-10, the National Council for Applied Economic Research forecasts it will be 173 million. Marry that with growing urbanisation, and it is a safe guess that well over a third of all Lok Sabha constituencies will have a sizeable middle class and urban voter base. Think, then, of the many changes this might bring about. The obvious point is about growth of consumption, but we can go beyond that.

The spread of connectivity and awareness- A country that has 5 million phones and another with 180 million; between a country with 10 million TV sets and one with 120 million; between a country whose trucks move at 25 km per hour on the highways (counting the time taken for stops), and 50 km per hour.

### 3. Taxation specific to product/services

In Basic, Cellular Mobile, Paging and Value Added Service, and Global Mobile Personal Communications by Satellite, Composite FDI permitted is 74% (49% under automatic route) subject to grant of license from Department of Telecommunications subject to security and license conditions

FDI up to 74% (49% under automatic route) is also permitted for the following: –

- . Radio Paging Service

- . Internet Service Providers (ISP's)
- . FDI up to 100% permitted in respect of the following telecom services: –
  - . Infrastructure Providers providing dark fiber (IP Category I);
  - . Electronic Mail; and
  - . Voice Mail
- . In telecom manufacturing sector 100% FDI is permitted under automatic route.

#### 4. Investment Opportunities and Incentives

- An attractive trade and investment policy and lucrative incentives for foreign collaborations have made India one of the world's most attractive markets for the telecom equipment suppliers and service providers.
- No industrial license required for setting up manufacturing units for telecom equipment.
- Automatic approval of 100 percent foreign equity, technology fee up to US \$ 2 million, royalty up to 5 percent for domestic sales and 8 percent for exports in telecom manufacturing projects.
- Foreign equity of 74% (49 % under automatic route) permitted for telecom services – basic, cellular mobile, paging, value added services, NLD, ILD, ISPs – and global mobile personal communications by satellite.
- Full reparability of dividend income and capital invested in the telecom sector.

**SOCIAL**

1). Age distribution: The telecom industry in India like Vodafone, Airtel, Idea etc are selling their products according to various age distribution basis. They make the schemes available to youngsters with low call rates and messages scheme

For adults if we see make call rates low in std section.

2). Change in tastes and preferences: As we know price war is going on so the customer can shift over to next brand which cost less to him so the company has to go according to the needs and preferences of the customer.

3). Social welfare: Many companies are doing social welfare and taking initiatives for that we can examine the latest e. g. of idea cellular co. for 26 Nov 2009 that it collected money for the victims of 26/11 attack by the subscribers of idea when any call was made.

4). Consumer buying patterns -The buying behaviour of the customers in India is changing , the customers are shifting to buy the new products and service according the offers and schemes available to them.

**Technological****Replacement Technology**

Technology in India is replacing very fast with change in time, as the economy is growing the technology is also, so the company bringing new technology will be very successful.

**Research funding**

Govt is providing various tax benefits and subsidies to the players which are in research and development fields of telecom sector , the govt has also open various research institutes where the research is done with the collaboration of various private research companies .

Telecommunications companies with 3G services will no longer be allowed to avail of tax breaks found under Section 80 IA of the Income Tax Act.

The tax breaks under Section 80 IA are given to companies building infrastructure. In the telecommunications sector, companies can choose a 10 year period out of the first 15 years of operations to qualify for the tax benefits.

Companies can choose to avail of a 100 percent exemption on taxable profit in its first five years and a 30 percent exemption for the next five years.

#### Innovation potential

Innovations potential in India for technology is very high as the internet and broadband and 3G and 4G services are still niche so coming in India is very profitable.

#### **LEGAL**

Until 1985, the Indian Telegraph Act of 1885 and the Wireless Telegraph Act of 1932 provided the legal basis for the central government's telecommunications monopoly. Under these laws, posts and telecommunications were combined in one P&T department run by the Ministry of Communications. In the late 1970s and early 1980s protests against poor service by subscribers, politicians, industrialists, and business

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leaders coincided with global and national pressure for liberalization. As a result, a parliamentary committee was established in 1981, which recommended numerous structural and service improvements.

A separate Department of Telecommunications (DoT) was established in 1985, under the Ministry of Communications and two supposedly public sector undertakings (PSUs)(VSNL and MTNL) were created to expand, develop, and manage crucial segments of the Indian telecommunications system.

The National Telecom Policy (NTP) of 1994 provided the basis for liberalizing the telecommunication market. It recognized the importance of liberalization and private sector participation as key elements of economic development. With the entry of private sector in the provision of telecommunication services a need was felt to have an independent regulatory body. The above requirement was indicated in the guidelines issued for entry of private sector in basic telecom service. Accordingly, Telecom Regulatory Authority of India (TRAI) was established in the year 1997 in pursuance of TRAI (Ordinance) 1997, which was later replaced by an Act of Parliament, to regulate the telecommunication services. Legal framework of telecom in India is supported by TRAI (Telecom Regulatory Authority of India), having purpose of Independent regulator to control telecom industry.

India continues to be one of the fastest growing telecom markets in the world. Reforms introduced by successive Indian governments over the last decade have dramatically changed the nature of telecommunications in the

country. The sector ranks fifth in the world, with over 103. 2 million telephone subscriptions by 2005-end.

## **ECOLOGICAL**

In present scenario, telecommunication services are widely used all over the world. People extensively use telephone services, internet services and many more. Initially, there were wired phones which are not hazardous to our health and also to the environment. Now, more than 80 million people use pocket-sized cellular phones as a principal form of communication and many researches proved that these smaller phones, with their smaller antenna, increase exposure to microwaves and pose a potential health threat to the frequent user.

Wireless Technology Research (WTR), formed by the Cellular Telecommunications Industry Association (CTIA) to research the effects of cellular phones, has indicated several health problems traceable to radiation exposure due to phone use like many cases of people suffering from brain tumour, memory loss, and genetic damage in human blood. A recent study indicated that the number of immune cancer cells doubled in mice exposed to microwaves.

Cognitive effects: A 2009 study examined the effects of exposure to radiation emitted by standard GSM cell phones on the cognitive functions of humans. The study confirmed the existence of an effect of exposure on response times to a spatial working memory task, as well as the fact that exposure duration may play a role in producing detectable effects on performance

Health hazards of base stations: Another area of concern is the radiation emitted by the fixed infrastructure used in mobile telephony, such as base stations and their antennas, which provide the link to and from mobile phones. This is because, in contrast to mobile handsets, it is emitted continuously and is more powerful at close quarters. Base station emissions must comply with safety guidelines. Several surveys have found increases of symptoms depending upon proximity to electromagnetic sources such as mobile phone base stations.