Indian Telecom & Bharathi Airtel

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Innovations in Institutions
Innovation: Role of Government

- The capacity of a nation to innovate is the cornerstone of its productivity.
- Innovation refers to a country’s ability to upgrade its business environment continually to support and encourage its companies to be competitive both nationally and internationally.
- Earlier Governments were running Companies
- Governments must assume new roles -- as catalysts for market development, enablers of productivity and efficiency, regulators ensuring that markets remain open and equitable, promoters of private sector expansion & stimulators of human and capital resource development.
Deregulation as Innovation

● Many successful services companies owe their existence and success to the opening up of markets or deregulation by the governments.
  – Companies such as Airtel, Jet Airways in India and South West, E-bay and others in USA

● These new entrants succeeded through their own innovations either in terms of processes or products or new business models or through convergence with IT or logistics.
Conclusion

- We have outlined all possible innovations in the ecosystem framework.
- Co evolution and Convergence of technologies are vital for creating block buster industries.
- Food security in emerging markets, Affordable housing, Skill training from education to employment (E2E) are some of the vital issues that need solutions using STERM framework.
Indian Telecom & Bharathi Airtel
The telecommunications industry is a large and vital part of the global economy.

From Alexander Graham Bell's initial discovery (ability to send sound waves over a wire) to the inventive engineers across the world that churned out decades of breakthrough inventions, the industry has a long-standing and impressive tradition of innovation.

Telecommunications infrastructure has substantial impact on economic growth. In business, local or global communications are vital for collaboration, marketing, sourcing etc.
Factors that Drove Reforms around the World in Telecom

- Exceptionally poor performance of state-owned telecom firms
  - Long waiting periods for telephone connections
  - Unreliability of the connections
  - Large subsidies draining national treasuries.

- Pressure from International lending organizations to divest
  - Comparison of pre- and post-privatization financial and operating performance reveals increased sales, profits, investments, and employment following privatization

- Worldwide wave towards “privatization” started by Britain’s Thatcher government in 1979
  
  Privatization faced resistance from labor unions, opposition’s parties and armed force (national security concern due to involvement of foreigners)
World growth depends on the telecommunications sector.

- The telecommunication's market is highly concentrated in the developed world.
- In the developing countries, investment in Telecom infrastructure is considered a necessary foundation for economic growth. Privatization has also been done to meet the WTO obligations.
- In a landmark pact by the WTO, 68 countries, which control 95% of the world’s market have agreed to completely liberalize their telecommunications.
Telecom Ecosystem
The Indian telecom growth has been phenomenal. Has been adding 15-20 M subscribers every month. The wireless segment in India is much larger than the wire line segment. The rural markets are expected to be the next key growth driver. Convergence of several ES innovations is responsible for the success of the Indian wireless industry.
Innovations in Telecom Ecosystem
Government, Companies
Deregulation of Indian Telecom
Innovation through Deregulations

- The government has deregulated the telecom industry and many positive policies.
- It allowed private and foreign players to set up shops though FDI independently or through joint ventures, created Special Economic Zones to attract equipment and other manufacturers, allocated spectrum through auctions, and allowed foreign players to participate as manufacturing and service providers, creating a booming industry through FDI.
Regulatory evolution

- 1992: National Telecom Policy (NTP) formulated
- 1994: TRAI established as independent regulator
- 1997: BSNL established by DoT
- 1999: Private players allowed in VAS
- 2000: Go-ahead to the CDMA technology
- 2002: ILD services opened to competition
- 2003: Internet telephony introduced
- 2004: Unified Access Licensing regime introduced
- 2005: Calling Party Pays (CPP) implemented
- 2006: Intracircle merger guidelines established
- 2007: Number portability proposed
- 2008: Discussions on 3G spectrum bid process
- 2009: MVNO guidelines for 3G as well as 2G disclosed
- 2010: DoT to release guidelines on VOIP
- 2011: Decision on 3G services (awaited)
- 2012: Proposed auction of 4G spectrum
- 2013: Completed the auction of 3G and BWA spectrum

Source: IBEF.com
**FDI and other M&A activities increasing in number**

Recent Deals in Telecom Sector

Vodafone purchased stake in Hutch from Hong Kong’s Hutchison Telecom International for USD 11.08 billion.

Reliance Communications Limited has sold a five percent equity share capital of its subsidiary Reliance Telecom Infrastructure Limited to international investors across the US, Europe and Asia. The deal was worth USD 337.5 million.

Telekom Malaysia acquired a 49 percent stake in Spice Communications for USD 179 million.

Maxis Communications acquired a 74 percent stake in Aircel for USD 1.08 billion.

Ericsson to design, plan, deploy and manage Bharti Airtel network and facilitate their expansion in the rural areas, under a USD 2 billion contract.

The Indian telecom industry has a 74 percent FDI limit in the telecom services segment.

The GoI has permitted 100 percent FDI in manufacturing of telecom equipment in India.

**FDI in Telecom Sector**

The Indian telecom industry has always attracted foreign investors. In fact, the cumulative FDI inflow, during the August 1991 to March 2007 period, in the telecommunication sector amounted to USD 3,892 million. It is the third largest sector to attract FDI in India in the post-liberalisation era.

FDI calculation takes into account radio paging, cellular mobile and basic telephone services in the telecommunication sector.
The tariffs have decreased & subscriber base exploded

- The minutes of usage per month per subscriber has also increased from 114 minutes in 1999 to 367 minutes in 2005
- The per subscriber mE usage has increased from 12-15 mE per subscriber in 1999 to ~30 mE per subscriber in 2005

Source: TRAI Study paper No 2/2005
Innovations by Companies
Supply Chain Innovation

- The major innovation in this industry came from creating a quality with product redesign at affordable cost, with features for voice, text, picture, games etc.
- This created the contract manufacturing industry in India with Nokia, Flextronics and the likes playing a key role.
- There were marketing innovations such as prepaid, family and corporate connection discounts, etc. that led to obtaining a large share from every customer.
Do not ask how large the market is but estimate how large can it be made to be with an appropriate 'intervention'

Forget middle class, upcoming class kind of estimates
Ecosystem Aware
Global Supply Chain Management

Unbundling the Corporation

Bharti – Value Chain Reconstruction

Bharti outsourced its call-center operations to 4 BPOs IBM Daksh, Mphasis, TeleTech and Hinduja TMT: a 1000 crore deal

Identify, attract, and build relationships with customers

Customer Relationship Management

Build and manage facilities for high volume, repetitive operational tasks

Product Innovation

Conceive of attractive new products and services to commercialize them

Infrastructure Management

Bharti Telco outsourced its entire cellular network to three existing equipment suppliers: Ericsson, Nokia and Siemens a $725 M 3 year deal.
## Characteristics of the three Processes

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<tr>
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<th>Product Innovation</th>
<th>CRM</th>
<th>Infrastructure Management</th>
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<tbody>
<tr>
<td><strong>Economics</strong></td>
<td></td>
<td>High cost of customer acquisition makes it imperative to gain large shares of wallet</td>
<td>High fixed costs make large volumes essential to achieving low unit large shares of wallet</td>
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<td>Early market entry</td>
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<td>Economies of scope are key</td>
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<td>allows for a premium</td>
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<td>price and large market</td>
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<td>share</td>
<td>Speed is key</td>
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<td><strong>Culture</strong></td>
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<td>Highly service oriented; &quot;customer comes first&quot;</td>
<td>Cost focused; stress on standardization, predictability, efficiency</td>
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<td>Employee centered;</td>
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<td>coddling the creative</td>
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<td><strong>Competition</strong></td>
<td>Battle for talent, low barriers to entry; Many small players thrive</td>
<td>Battle for scope; rapid consolidation; a few big players dominate</td>
<td>Battle for scale; rapid consolidation; a few big players dominate</td>
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Bharti Outsources Call Centre Operations – Signs Rs 1000-cr deal with 4 BPOs

● The deal signed with IBM Daksh, MphasiS, TeleTech and Hinduja TMT for setting up contact centres in each of the four zones of the country with 6,000 seats initially.
  – HTMT would set up contact centre in Chennai and Hyderabad
  – IBM Daksh in Chandigarh, Kolkata and Pune
  – TeleTech in NCR
  – MphasiS in NCR and Bangalore.

● The deal is part of Bharti's strategy to focus on its core areas of product innovation, marketing, brand building.
Conclusions

- All dimensions of Service ecosystem need not be important in all Industries
- In the telecom case, deregulation and privatization has lead the way for creating a block buster innovation
- Innovations by companies in producing cheaper products, Outsourcing, Business model innovations are other contributing factors