

RESTRUCTURING OF INDIAN TELECOM INDUSTRY : EMERGENCE OF RELIANCE JIO AND M&A CASES INVOLVING AIRTEL-TELENOR AND VODAFONE-IDEA

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ABSTRACT

Mobile industry has become one of the fastest developing industries in India. Indian mobile subscribers have become used to touch mobiles within a relatively short span of time. India is the second biggest market in the world for mobile services and it is a good avenue for network providers from India and abroad. Global providers too have occupied and earned reasonable market shares in the Indian mobile industry. Jio's practically free offers have created fundamental changes in consumer behavior along with competitor strategies. The moves made by this new entrant has affected the equilibrium in the mobile industry and made rival players vulnerable, so much so that many of them have resorted to mergers and acquisitions to avoid bleeding away to bankruptcy. All major players in the industry, e.g. Airtel, Idea, Vodafone etc. are strategically responding to Jio's market penetration move. To come to a position of strength in the industry, Idea and Airtel are entering into ventures with Vodafone and Telenor respectively. Through this paper, the author wishes to make an attempt to examine the impact of Jio on competitive strategies of rivals in the Indian telecom industry.

Keywords : Mergers, Acquisitions, Jio, Airtel, Vodafone, Idea, Telenor

INTRODUCTION

The Indian telecommunications sector is the backbone of Indian economy as far as infrastructure is concerned. Globally, telecom is a fast growing, profitable business. Smart phones, Wi-Fi and broad band services are today easily available to consumers. Telecom operators today focus on provisioning high quality, consistent network performance by offering speeds and coverage as expected by customers. Network providers try to leverage their potential in application of packet probing, usage analytics, and content-based offerings, all of this in an effort to defend their highly competitive subscriber base. Indian regulatory mechanism is likely to face challenges from new developments and keep their

commitments to fulfill benchmark quality of service. The Indian telecom market presently has five private-owned players and one state controlled company. The introduction of Jio's freebie offering fabricates new permutations and combinations such as outright coupling or spectrum sharing like the ones recently announced by Idea-Vodafone and Airtel-Telenor, which are the subject matter of this paper. These consolidations exist with other stances like sustainability or remove from battle field and compete with a threatening market challenger. Because of its considerable importance, the research has traversed the said business merger in Indian telecom industry.

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OBJECTIVES OF THE STUDY

- To observe the impact of new entrant, Jio on strategies of rivals in the Indian telecom industry.
- To examine major changes in composition of Indian telecom industry.

INDUSTRY OVERVIEW

Brief about Idea cellular

Founded in the year 1995, Idea Cellular is a subsidiary of the Aditya Birla group. In the last three years it has been successful in occupying a 33% market share. Idea offers 3G and 4G LTE services on its own spectrum in 13 telecom service areas (also called as circles) covering roughly 340 towns in India. Idea has been a major beneficiary in terms of added customer base after Mobile Number Portability (MNP) was launched by the Department of Telecommunications. Currently, it is the third largest mobile operator in India with 191 million subscribers, Rs.354 Billion (US\$5.3 billion) in Revenues and Net income of Rs. 31.92 billion (US\$ 470 million) for year ending 31st March 2016. In January, 2017 it announced its plans to merge with Vodafone-India.

Brief about Vodafone

Vodafone is a British telecommunications multinational, established in 1991, now ranked as the second largest mobile services provider in the world by number of connections. It owns networks in 76 countries and offers IT-related services to its corporate clients in about 150 countries. Vodafone decided to enter India in September, 2007 and has been since expanding its presence across the country in all 22 telecom circles, serving approximately 203 million customers. Its growth is a proof of Vodafone's commitment and success in the highly competitive and price sensitive Indian mobile services market. However, Reliance Jio's recent price war impact has resulted in Vodafone accumulating continuous losses doubling to \$5.5

billion in 2017 as compared with last two quarters of 2016.

MOTIVES FOR MERGER OF IDEA CELLULAR WITH VODAFONE INDIA

Jio's aggressive entry into the market with an 8-month long freebies campaign forced Vodafone to write off \$5 billion by the end of 2017. Chief Executive Vittorio Colao had then said that the market must consolidate. About a year ago Vodafone was planning to enlist Vodafone India on the local stock exchange, despite a long-drawn legal battle with the Indian government over a \$2 billion tax dispute related to its acquisition of CK Hutchison in 2007. For Vodafone, selling off the Indian operations to Idea may mark the beginning of a subsequent tie-up between with John Malone's Liberty Global.

Brief about Airtel

Sunil Bharti Mittal initiated Airtel in the year 1995. Globally, the company has been recognized as the third largest telecommunications company with operations in 18 countries, providing 3G, 4G LTE and GSM services to 400 million subscribers. Milliard Brown and WPP PLC ranked Airtel as India's preferable and most valued brand in their first ranking of Indian brands. Airtel is praised with discovering the outsourcing business policy by letting out entire of its business operations with a specific factory model of reduce cost and increase capacity. This policy has today been acquired by many operators. The revenue for year ending 2016 was Rs. 966.021 billion, with EBIT of Rs.341 billion and net profit of Rs.54 billion. Jio's sudden arrival has stung Airtel too, which outlined a 55% dip in third-quarter net profits to Rs. 504 crore in 2016. It has decided to restructure its telecom business by combining with Telenor.

Brief about Telenor

Telenor is a Norway-based telecommunications giant. The company holds its network presence in 13 countries and fully fledged operation in 26 countries, especially in

Asia, Europe and Africa. Formerly the company was known as Uninor in India. In 2008, Unitech of India and Telenor shook hand to enter into a joint venture with a presence in 22 telecom circles. Uninor provided speedy growth of the enterprise by the help of a lean operation model, where a huge percentage of the network infrastructure was outsourced to third party service providers. Uninor's modern and advanced equipment helped it to initiate highly aimed offerings and serve a vast public with finite spectrum. The company started a dynamic pricing method, a concept that gave consumers deductions that were caused by network traffic at that instant in an individual cell-site and changed with time and location. The apex court of India unfortunately in July 2012 cancelled 122 license for Uninor and 22 other mobile operators. Uninor pronounced to gradually down-size its operations. Following the abandoned of Uninor's licenses, Telenor and Unitech were embroiled in a discourse over dominance of Uninor. In October 2012, the two companies agreed to Unitech transferring Uninor property to Telenor and exiting the partnership. On 23 September 2015, Uninor proclaimed that the company has re-structured itself as Telenor India. The Telenor Group invested Rs.100 crores for the re-positioning exercise. Telenor has a robust network, offering 4G services to some 44.33 million subscribers in India (as per TRAI REPORT-2016) with a whole revenue of Rs.6.033 million (2016).

Motives for merger of Airtel with Telenor

The price war of also creates new challenges for entire network providers. Telenor adopted a policy to partner with Airtel. On 23 February 2017 Telenor has entered into an accord with Airtel, in which it was decided to acquire a full ownership of Telenor India. Airtel is India's largest wireless telecom operator with more than 269 million subscribers and a total market share of over 33 per cent. As being the new owner, Airtel will take over Telenor India's licenses, operations and spectrum, involving its customers

and employees base of 44 million. Telenor's operations and services will function normally until the end of the transaction.

The Jio Offensive

Reliance launched its 4G mobile services under the brand Jio on 5 September 2016. And within a couple of quarters, by February 2017, Jio had crossed 100 million subscribers, the fastest growth by any cellular service provider worldwide. In India, Jio has spectrum in 800 MHz band in 10 cities and 1,800 MHz band in 6 circles, of a maximum 22 telecom circles, besides owning a pan-India-licensed 2,300 MHz spectrum, valid till 2035. The company has more than 250,000 km fiber optic cable network in India, through which it plans to share infrastructure with smaller cable service providers to get wider connectivity for broadband services. Owing to its multi-service operator (MSO) license, Jio is capable of not only offering 4G services but also instant messaging, news, live TV, payments platform, movies and videos on demand, music streaming a streaming and free Wi-Fi hotspot services etc. The smartphone segment of Jio (LYF) linked up with handset maker, Intexto develop 4G mobiles capable of offering Voice-over-LTE (VoLTE) features. Jio launched its own LYF range of smart phones with Earth, Water 1& 2, Wind and Flame, which were sold through self-owned Reliance retail outlets. Next, it released a host of multimedia apps on Google Play bundled with its 4G services. The apps are available to download for everyone who has a Jio SIM card. And most of the apps which were in "beta" phase are now available in market versions on My Jio app.

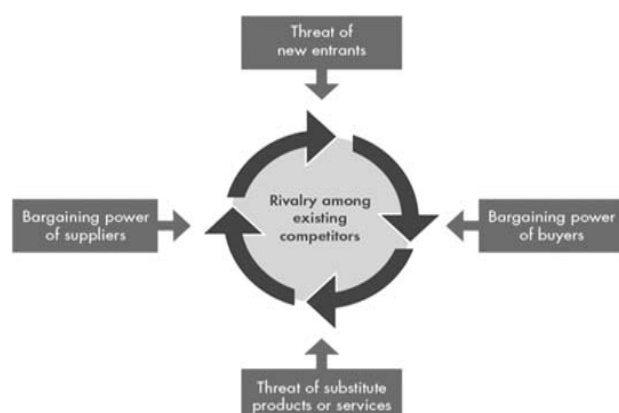
Following is a list of Jio apps available through Jio SIMs

- MyJio - Manage Jio Account and Digital Services associated with it.
- JioTV - A live TV channel service.
- JioCinema - An online HD video library.
- Jio Messenger - An instant messaging app.
- JioMusic - A music player.
- Jio 4G Voice (previously JioJoin) - A VoLTE phone simulator

- Jio images - E-reader for magazines
- Jio Xpress News - A news and magazine aggregator
- Jio Security - Security app
- Jio Drive - Cloud-based backup tool
- Jio Money Wallet - An online payments/wallet app
- Jio Switch - Transfer content
- Jiofi -Wireless router

ANALYSIS OF TELECOM SECTOR OF INDIA USING MICHAEL PORTER'S FIVE-FORCES MODEL

The present situation of India's telecom sector can be analyzed using Michael Porter's Five Forces Model. The figure below shows the competitive analysis for any industry as proposed by Porter.



Threat of New Entrant

The Indian telecom sector has been restructured due to the entrance of Jio. Announcement of introductory freebies by Jio shot off dramatic changes not only in competitors but also among subscribers, substitutes and suppliers. Major market leaders Airtel and Idea prepared to explore new strategies to counter the Jio offensive. As a Jio connection needs a 4G mobile, its impact on the feature phone segment is still not seen. However, Jio has introduced a certain Jio-Fi device that upgrades any data-capable mobile to use 4G. Thus, Jio now also competes in the non-4G mobile user segment.

Competitive Rivalry

Low switching cost to customers has increased the competition among players. Add to this the price sensitivity of customers and the result is a saturated telecom sector in India. Almost every family possesses a mobile connection. There is no unexplored market left for new entrants to tap. Thus Jio has to capture its share from the existing competitors. This has intensified rivalry in the sector. Exit barriers too are prominent in this industry. So players must compete against other competitors till one of them is bankrupt.

Threat of Substitutes

There is hardly any substitute for wireless telecom services in the market. Hence the effect of substitutes is insignificant there. The case of fixed-line phones is now a lost cause, with the lone public sector incumbent incurring continuous losses quarter after quarter.

Bargaining Power of Buyers

Bargaining power of buyers will be a discriminating factor between players in the sector. Customers have displayed a tendency to bargain aggressively as far as features and services are concerned. The reasons for this could be the low switching cost between operators. Customers can conveniently change their network provider through MNP (Mobile Number Portability) without changing their existing numbers. Customers in this industry have traditionally been sensitive to changes in price. Thus, subscribers are habituated of expecting better quality in service at lower costs. This made the incumbents, Airtel and Idea, to slash their tariffs by almost 40%. Obviously, industry profitability took a hit.

Bargaining power of suppliers

In the telecom value chain, the telecom service provider is itself the supplier. Hence, the players have little or no bargaining power above customers. This forced them to offer same or even better services at bare minimum margins.

Table 1 : List of mobile operators in India as on Jan. 2018

| Sl.No. | Name of Company | Total Sub Figure | Additionn in January 2018 | % Market Share | % Growth over Previous month |
|--------|-----------------|------------------|---------------------------|----------------|------------------------------|
| 1 | Bharti Airtel | 291,615,834 | 1,502,755 | 29.50% | 0.52% |
| 2 | Vodafone | 213,810,624 | 1,282,262 | 21.63% | 0.60% |
| 3. | IDEA | 197,642,805 | 1,144,031 | 19.99% | 0.58% |
| 4. | Aircel | 81,442,905 | -3,491,753 | 8.24% | 4.11% |
| 5 | Telenor | 40,302,472 | -1,608,256 | 4.08% | -3.84% |
| 6 | MTNL | 3,584 | 0 | 0.36% | 0.00% |
| 7 | Rjio | 160,091,242 | 0 | 16.20% | 0.00% |
| | All India | 988,490,648 | -1,170,31 | | |

Source:<https://telecomtalk.info>

The table 1 shows the current market share of cellular service providers in India updated till Jan. 2018.

In the table 1 above, it is seen that Bharti Airtel is in the lead with 291,615,834 million users, followed by the UK-based Vodafone (213,810,624) and Aditya Birla's Idea (197,642,805). Jio is in 4th position with 99 million users. However, Jio is a serious challenger for market leaders as regards pricing. After 31st March 2017, Jio stopped its free-for-all service. Data has been priced significantly lower with Jio. This forces Airtel and Idea to think about strategic alternatives. Since there are clear and present exit barriers in the industry, they cannot quit without substantial losses. The only way to become more capable in competing with Jio is to enter into possible combinations with other players. Airtel has announced its merger with Telenor-India and Idea has announced its move with Vodafone. Telenor and Airtel will have a combined strength of 331 million users, while Vodafone and Idea together will account for 410 million subscribers to become the new market leaders.

CONCLUSION

Jio's free introductory offer initiated many comprehensive and unexpected changes, as regards consumer behavior and strategies by competitors. The impact of this new entrant

affected the equilibrium in the mobile industry and unsettled rivals enough to plan inorganic expansions. Since there are significant exit barriers in the industry, getting out is not an option. For small players to make a significant market share, the investment needs are substantially large. The only way to become more capable in competing with Jio is to enter into possible combinations with competitors. Thus, the recent spree of mergers and acquisitions by Airtel and Idea are not simple knee-jerk reactions, but lasting fundamental industry restructuring taking shape right now.

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