



Business strategies in Telecom sector: A case of Reliance Jio Infocomm Ltd.

KEYWORDS

Telecom sector, Decision dynamics, strategic initiatives, Reentry

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ABSTRACT

India has immense opportunities for telecom operators and is one of the best markets for telecom business. However it is equally fraught with challenges like Intense competition, Infrastructure requirement & Rigorous Regulatory framework (License fees, Spectrum allocation & auction etc.) The case traces the series of events which led to the formation of Rjio Infocomm and also elaborates about the various strategic initiatives by Mr. Mukesh Ambani, CMD RIL to ensure a successful reentry in the sector. This case presents a brief overview of the decision making dynamics of the CMD, for making a comeback in Telecom sector and also gives an opportunity for further discussion on the future strategies of RIL.

Background:

Telecom Industry scenario in India

The history of the Indian Telecom sector goes way back to 1851, when the first operational landlines were laid by The British Government in Calcutta. With independence, all foreign telecommunication companies were nationalized to form Post, Telephone and Telegraph, a monopoly run by the Government of India.

The Indian Telecom Sector, like most other infrastructure sectors is controlled by the state. The Department of Telecommunications (DoT), reporting to the Ministry of Communications (MoC) is the key body for policy issues and regulation, apart from being a basic service provider to rest of country. By an act of Parliament, the Telecom Regulatory Authority of India (TRAI) was formed to be the regulatory agency.

Ministry of Communication:

All the operations of this sector come under the control of MoC. It is responsible for all major policy changes, planning, supervision, spectrum control, etc.

Department of Telecommunications:

DoT was formed in 1985 when the Department of Posts and Telecommunications was separated into Department of Posts and Department of Telecommunications. Till 1986, it was the only telecom service provider in India. It played a role beyond service provider by acting as a policy maker, planner, developer as well as an implementing body. In spite of being profitable, non-corporate entity status ensured that it did not have to pay taxes. DoT depends on Government of India for its expansion plans and funding. Its pivotal role in the Indian telecom sector has got diluted after formation of TRAI- Telecom Regulatory Authority of India.

India is the world's second-largest telecommunications market, with 898 million subscribers as on March 2013. The sector's revenue grew by 13.4 per cent to reach US\$ 64.1 billion in FY12.

Telecom infrastructure in India is expected to increase at a compound annual growth rate (CAGR) of 20 per cent during 2008-15 to reach 571,000 towers in 2015.

Internet traffic in India is expected to reach to 2.5 Exabyte per month in 2017 from 393 petabytes per month in 2012, as per a Cisco study. In addition, the wireless connectivity in India is expected to grow at about 40 per cent traffic by 2017, up from 38 per cent in 2012.

India has immense opportunities for telecom operators and is one of the best markets for telecom business.

Introduction:

Challenges in Telecom Industry scenario in India

The telecom sector in India remains one of the key business grounds for telecom giants like Vodafone Group PLC (VOD), the second largest operator after China Mobile Limited (CHL) and the home turf of the world's third largest telecom operator, Bharti Airtel Limited, based on subscribers.

However, the Indian telecom market is characterized by one of the lowest call tariffs in the world due to growing competitiveness with increased participation by some of the largest players in the global telecom space. This is resulting into high losses and diminishing profitability of the operators in India.

The sector however lacks proper infrastructure, which has restricted its growth to only 2G and 3G network deployments while developments in the LTE space is still lagging.

Government has approved 100 per cent foreign direct investment (FDI) in the telecom sector, meeting a key demand of the fund-starved industry.

It has been decided to increase FDI cap in telecom to 100 per cent from 74, up to 49 through automatic route and beyond that FIPB.

Foreign investors will no longer need to partner with Indian investors in order to comply with regulatory requirements as they can have complete ownership of the business.

Re-Entry of RIL in Telecom sector

Telecom has always been a sector close to the heart of the Mukesh Ambani, who is known for his quick execution of mega projects, launched his 'dream' mobile services in 2003-04 with a slogan "Kar Lo Duniya Muththi Mein" (take control of the world). However, he had to give up Reliance Infocomm (which later became RCom) to Anil Ambani in 2005 when the Reliance Empire was split.

In 2010, Reliance entered Broadband services market with acquisition of Infotel Broadband Services Limited. Now it is Reliance Jio Infocomm Ltd. (RJIL), wholly owned by RIL for ₹ 4800 crore (US\$730 million). Infotel Broadband was the only successful bidder for pan-India fourth-generation (4G) spectrum auction held by Government of India. Embodying the latest technology, 4G-LTE offers data transmission at almost

four times the speed of 3G and 16 times the speed of 2G. This is expected to cause problems for 3G players such as Bharti, Vodafone and Idea, who have paid a huge price to buy the spectrum.

Infotel Broadband is the brain child of Manoj Modi, a close aide of RIL Chairman Mukesh Ambani, who was responsible for the original telecom venture of the group known as Reliance Infocomm.

In Oct. 2013, Reliance Industries Ltd. Telecom unit received a unified permit from India's Department of Telecommunications to offer telecommunications and related services. The license will allow the unit, Reliance Jio Infocomm Ltd., to offer telecom services including voice telephone services under a single permit in all 22 telecom service areas.

Until Aug. 2, 2013, India's telecom rules didn't allow Internet firms to provide voice telecom services. Companies in the sector had to take separate licenses for providing these services and pay license fees to the government based on the services they provide and the regions they operate in. In August 2013, India's government changed rules and introduced a set of permits to allow companies to provide voice services, which account for 85% of revenue in India's telecom sector. It also allowed companies to convert their existing licenses into a unified license by paying a fee to the government.

Investment in Infrastructure by RIL- The Crucial Decision

Originally, RIL had planned an asset-light rollout model targeted at Internet data consumers in cities and small enterprises. Mukesh Ambani had in 2010 said the company would not invest in passive infrastructure like telecom towers and optic fibre.

But in a rethink of its earlier strategy, the company was looking at the possibility of setting up around 1,00,000 towers for its 4G venture and also planned to double its capital outlay for the launch.

Outsourcing of key operational functions, a concept pioneered by Indian mobile phone companies, has helped service providers successfully implement the low-cost high-volume business model. This is also been the key to India adding close to 600 million new mobile users over the last four years. Reliance Industries Ltd (RIL) plans to roll out its 4G network in partnership with Himachal Futuristic Communications Ltd (HFCL), the group from which it acquired pan-India airwaves for high-speed internet and data services.

Currently, the management of networks of India's big telcos - Bharti Airtel, Reliance Communications, Vodafone, Tata Tele and Idea - are all outsourced to either Ericsson, Nokia Siemens, Huawei or Alcatel-Lucent. In 2009, Bharti Airtel, which had made outsourcing a key plank of its business strategy, awarded a contract to Franco-American telecom gear maker Alcatel-Lucent to enhance and maintain its 80,000 km-plus inter-city optic fibre cable network. Alcatel-Lucent also took on over 4,000 Bharti employees who handled its landline and fibre optic business on its roles. HFCL is likely to perform a similar role for RIL and build a pan-India optic fibre network to carry Infotel's data traffic.

Reliance-ADAG partnership?

Reliance-Bharti partnership?

RJio has signed agreements with Anil Ambani's Reliance Communications (RCom) for using its inter-city fibre optic network. As per the agreement, RJio would use RCom's multiple fiber pairs spread over 1.2 lakh km across the country for providing backbone to roll out its 4G services. RCom will in turn have reciprocal access to optic fibre infrastructure to be built by RJio in the future. RJio agreed to pay about Rs1,200 crore to RCom as one time indefeasible right to use (IRU) fees for sharing the fibre optic network.

65% Anil Ambani owned and Managed Reliance Communications is under Deep Trouble with debt levels continuing to be high (net debt to EBITDA of more than 5x) despite consistent free cash flow generation. RCom is continuously losing market share (both subscriber and revenue). Even on active subscriber basis your market share has moderated over the last 2-3 years. In the last several months, CDMA active subscriber addition has been very weak compared to GSM additions. Also, muted interest in 800 MHz spectrum suggests low expectations from CDMA. RCom has reconfigured CDMA network to offer High Speed broadband using the EVDO Rev A/B technology and has gained traction but has no blueprint on further CDMA business as spectrum in the 800MHz gets expensive. RCom does not have 4G spectrum, while competitors have already started rolling-out 4G services.

Reliance Industries' telecom arm will use Bharti Airtel's submarine cable network to provide data connectivity across Asia Pacific. Bharti Airtel Ltd, a leading global telecom services provider with operations in 20 countries across Asia and Africa, and Reliance Jio Infocomm Ltd have signed a Rs 1,200 crore, Indefeasible Right to Use (IRU) Agreement, under which Bharti will provide Reliance Jio data capacity on its i2i submarine cable. Reliance has rather smartly decided to partner a rival because this partnership offers value. No other operator in India can offer the Singapore connectivity which Bharti can since no one else has that infrastructure. So while for domestic connectivity RIL has buried years of rivalry with brother Anil's Reliance Communications, it has shaken hands with Sunil Mittal for this deal.

Bharti's cable network consists of eight fibre cable pairs and Reliance Jio will utilize one dedicated pair capable of multiple terabits of capacity. While Reliance has already been assigned the 10,000 mobile numbers it needs to test its 4G services on anon-chargeable basis, it has also been assigned 4,000 numbers in Delhi and Mumbai, where it plans on launching its services first. According to Reuters, The high speed link will enable Reliance Jio to extend its network and service reach to customers across Asia Pacific region. It will also connect Reliance Jio directly to the world's major business hubs and ISPs, enabling the operator to meet the bandwidth demand and provide ultra fast data experience to its customers. *The deal marks Reliance Jio's continued efforts to rapidly grow and expand both its international and domestic network and infrastructure by building an ecosystem with multiple carriers and service providers. The i2i cable's landing points are at Chennai in India and Tuas in Singapore. It includes ownership of i2i submarine cable system connecting Chennai to Singapore, consortium ownership of SMW4 submarine cable system connecting Chennai and Mumbai to Singapore and Europe, and new cable system investments like Asia America Gateway (AAG), India Middle East & Western Europe (IMEWE), Unity, EIG (Europe India Gateway) and East Africa Submarine System (EASSy). It also has terrestrial express connectivity to neighbouring countries including Nepal, Pakistan, Bhutan and China.

Reliance Communication stock fell 5.46 percent after the Bharti-Reliance Industries deal was announced because the tie-up with Bharti means Reliance is open to players other than Reliance Comm as well, which decreases the probability of further deals between Reliance Communications and Reliance Industries.

RJio will be investing INR 500 billion in its LTE network in India and is partnering with various players to develop a conducive ecosystem for its offerings. Besides, the company is preparing for the launch of services by handing over the equipment deal to Samsung for Mumbai and Delhi. It has also hired SAP AG (NYSE/Frankfurt: SAP) for billing solutions. It has brought Ericsson on board as their WiFi partner. Reliance Jio has partnered with SPIRIT DSP to offer voice and

video calls over its LTE network across the country.

The Road Ahead:

Bharti Airtel has taken the lead by launching the country's first 4G services in May 2012 in Bangalore and Kolkata and has presence in six other major circles, including Delhi and Mumbai. Fourth-generation, or 4G, networks will offer internet and data services at much faster speeds compared with existing 3G services.

AT&T, Inc. (T) is planning another attempt to re-enter the Indian telecom industry by buying out a 25% stake in Indian billionaire, Mukesh Ambani's venture, Reliance Jio Infocomm Ltd. According to Bloomberg, AT&T's planned buyout for approximately \$3.5 billion will represent the largest foreign direct investment in that country. This would bring Reliance Jio's market value to approximately \$14 billion.

AT&T's strategic move in the Indian market remains consistent with its Project Velocity-IP plans launched in Nov 2012, to invest approximately \$14 billion. Given the competitive market conditions and saturation in the U.S. wireless industry, AT&T seeks a greener pasture by expanding wings in the Asian markets.

This is not the first time that AT&T has forayed into the Indian sub-continent. Previously, it owned one-third equity in a telecom joint venture (now known as Idea Cellular) formed by the company and Indian corporate giants Tata Group and Aditya Birla Group. However, in 2004, AT&T exited the market by selling its 32.9% stake to the remaining stakeholders.

It has been three years since RIL made a re entry in telecom sector with a big bang. However, industry is still awaiting its launch of 4G services. "Our impatience to reach our goal demands a sense of urgency, but not careless haste." - Mukesh Ambani, RIL CMD.

According to the RIL CMD his 4G telecom services would be pillared on "affordability and providing an unparalleled range of services that do not exist today."

"In the coming years RJio's next generation digital infra and services platform will catalyze a transformation and will embrace almost every facet of India's economic growth and social progress."

As per TRAI, two associated aspects for market growth are availability of spectrum and availability of resources for network rollout and expansion. RJio has successfully worked out in these areas to make its re entry in Telecom sector sustainable. Looking back at RJio's decision for Re entry in 2010, it has been taking very planned and cautious decisions before putting a step forward. Journey so far has been meticulous and it will be interesting to watch for the future strategies. Will RJio be able to recreate the magical success of Reliance Infocomm?

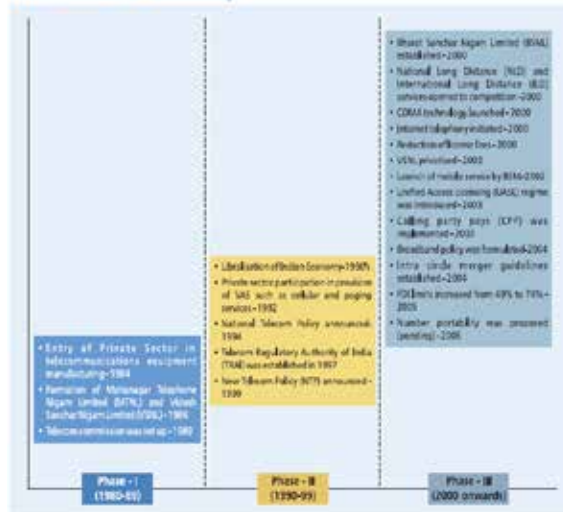
Questions for discussion:

1. Make an Industry analysis for RJio using Porters five forces model.
2. Elaborate the strategies adopted by RJio to re enter in Telecom Sector.
3. According to you, what can be the possible future strategies of RJio?

ANNEXURES

Annexures 1.1

Exhibit 1.1: Evolution of Telecom Industry



Source: D&F Research

Annexure 1.2:

There are 10 major established players in the industry namely Vodafone-Essar, Airtel, Aircel, Idea Cellular, Tata Teleservices, Reliance Communications, Videocon, Uninor, BSNL, MTNL with cumulative market share of 96.98%. There is no considerable difference between the various basic service offerings by service providers. Thus, high mobility exists among customers in migrating between service providers. Also, the government regulations like MPN (mobile number portability) have provided more flexibility to users. There are certain specific cases where users prefer a provider because of better network coverage, easy accessibility or better Value-Added Services, but such a trend is short-lived.



Figure 1: Market Shares of Various Players in the Indian Telecom Industry [Source: TRAI]

Annexure 1.3 : Industry Dynamics

Spectrum availability:

Despite technological changes that reduce the demand for spectrum, availability of spectrum continues to be a constraint. In order to allocate spectrum amongst competing service providers, auctions are often used. It is here that the government's regulatory powers come into play. Moreover, there are always issues of interoperability with changing bandwidth and thus seamless integration of various services becomes a major issue. Thus, spectrum availability poses a huge barrier to entry, increasing the industry attractiveness.

Service Licensing:

Licensing also acts as a major barrier to entry as sometimes it becomes very difficult for the new entrants to obtain license. Existing players pay huge revenues to obtain licensing and new entrants face retaliation from incumbents regarding licensing. This increases the industry attractiveness.

Technology Retaliation:

Wireless technology is based on two competing platforms GSM and CDMA. Accordingly, players have united themselves in lobbying with GSM service providers represented by Cellular Operators Association of India (COAI) and CD-MAs by Association of Unified Telecom Service Providers of India (AUSPI). With each technology possessing inherent advantages as well as disadvantages, it presents a difficult proposition for a new entrant to decide on its offering.

The supplier for the telecom industry includes:

- a) Network Infrastructure provider
- b) Information technology support
- c) Passive infrastructure providers
- d) Telecom equipment manufacturers-including handset manufacturers

The potential major substitutes for the telecom industry are as follows:

- VOIP (Skype, Messenger etc.)
- Online Chat
- Email
- Satellite phones

Additionally, products and services from non-traditional telecom industries such as Cable TV and satellite operators are laying their own direct lines into homes, offering broadband internet services. Railways and energy utility companies are utilizing their vast infrastructural installations to support high-capacity telecom network alongside rail-tracks, pipeline networks, and electricity transmission lines. Many ISPs (Internet Service Providers) are offering "internet telephony" at low prices. For service providers skillfully managing their transition from voice to data services, internet messengers such as Skype, Google Voice and Chat pose a threat.

Annexure : 1.4

Strategies adopted by Reliance Infocomm (2002-2003):

Table 1: Dhirubhai Ambani Pioneer Offer:

Reliance Infocomm Pioneer Offer	Existing GSM mobile offers
Handset bundled with service	Handsets to be purchased separately
Free Digital Phone	GSM handsets starting from \$107
Unlimited free incoming calls	Charged incoming calls
15 second price	1 minute price
0.05 cents/minute long distance Reliance network calls	Long distance calls charged 20 cents upwards
Free value added services like voice mail, call wait, call hold, call divert, CLIP, conferencing	All value added services charged separately
Free text messaging	Text messages charged at 5 cents upwards
GSM handset exchange scheme for long distance line	No handset exchange scheme
Built in contract for 3 years	No contract as such
Rental of \$13, but 400 minutes of free usage	Rentals starting from \$5, but no free minutes
Free World data applications	No data applications
Roamnet - Internet through Mobile	No provision for connecting to the Internet

- Minimum Capital Cost Strategies:**
- Sharing of all parent company resources like office space, engineering skills and human resources.
 - Centralised management of resources.
 - Synergy with the group company Reliance Telecom to ensure traffic and revenues from day one.
 - Hard core negotiations with vendors to ensure rock bottom prices.
 - Initial offering limited to only 2 handset models per brand ensuring mass production and marketing advantages.
 - Provision of multiple services like landline, broadband, IPLC, VPN and IDC through the same network, ensuring minimum cost per service and maximum revenues.
 - Overcoming of license fee by procuring Basic license instead of mobile license.

- Sales Strategies:**
- Discounts for employees and their referral connections.
 - Discounts for shareholders and their referral connection.
 - Dhirubhai Ambani Entrepreneurship Programme - A new direct channel of 200,000 (proposed) self employed people to generate hype and increase availability.
 - Presence in to grocery stores, gas stations, music stores, departmental stores, street side vendors, bookshops, hotels and restaurants, ensuring availability everywhere.
 - Reliance Infocomm owned retail outlets in premium spaces.
 - Nationwide product demonstrations.

- Advertising Strategies:**
- Branded as IndiaMobile to cash in on patriotic feelings.
 - Bundling of handsets with service.
 - Reliance Infocomm branded mobile phone instruments.
 - Advertisements based on Bollywood movies and cricket - pulse of India.
 - Co-branding with mobile instrument makers - reduced ad and promo spend.
 - Signages on Reliance Infocomm owned telecom towers.

- Product Strategies:**
- Product development focused on every section of the society
 - Roamnet - Java enabled data applications suite.
 - Roamnet - Internet connection through mobile.
 - Market information on Mobiles with tie up with NCDEX.
 - Wireless Point of Sales - Expansion of number of merchant outlets accepting credit cards. Tie ups with major banks.
 - Vehicle tracking system.
 - Dhirubhai Ambani Developers Programs - Open source programming to gather momentum on product development.

- Customer Service Strategies:**
- Centralised service.
 - 24 by 7 service.
 - Service offerings in 10 languages.

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