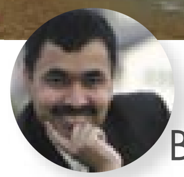
Driving the Next Phase of Global Expansion



BY CHETAN SHARMA

Indian consumers are adopting wireless services at a feverish pace and carriers are trying to keep up. Government regulations, low tariffs, low cost handsets, and competition have all played an important part in this growth. Other developing countries can draw significant lessons from the Indian experience in developing their telecom markets and economies.

Contradictions, opportunities, challenges

India is an amazing amalgam of contradictions, opportunities, challenges, diversity, and surprises. With one of the world's biggest middle-class markets, India has lured many corporations and entrepreneurs to its shores.

The Indian economy has been expanding at an impressive rate since the early 90s and the country is a wonderful case study of how globalisation affects the world economy. In the last 2 years, India has registered the fastest growth rate in the wireless industry. Currently, there are over 95m subscribers and the net-add rate has climbed to approx. 5m subs/month. This translates into a market potential to add 100m subs in less than 2 years.

India just surpassed Japan as the 4th largest wireless market and is on pace to surpass Russia in 2006 and US by 2008 as the #2 market behind China (Figure 1). This article discusses the drivers behind the growth, the key elements for future expansion and the lessons that can be drawn from the Indian wireless market applicable to other developing markets.

Growth Drivers

After liberalisation, the Indian telecommunication industry has been on a high growth trajectory. The entry of private players and joint ventures with strong foreign players has resulted in stronger growth with increased investment and latest technology implementation.

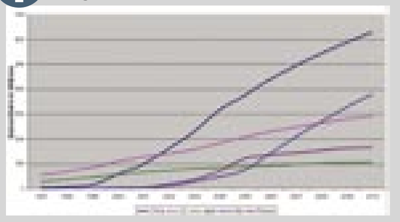
India added nearly 4.5m subs in December 2005, raising the monthly average for the year to more than 2.3m subs compared with 1.6m subs/mth in 2004. GSM continues to dominate with a total of 58.51m subs (77% market share) vs. 17.41m CDMA subs (23% market share).

India added nearly 28m subs in 2005 bringing the total mobile subscribers to 75.92m. In January and February 2006 India added 4.69 and 4.27m subs respectively, raising the total to 84.88m. Therefore, India added an average of 4.5m subs per month for the last few months and is rapidly approaching China's growth rate of 5m subs/mth.

Total telephone subscribers (end of February 2006) reached 134.33m for a teledensity of just under 12.3%. Though India is only 1/4th the size of the Chinese market, growth in mobile subscribers has been quicker than that of China.

This unprecedented growth has been due to the fact that the mobile tariffs in India are the lowest (1-2c/min). Had there been no fall in tariffs, the minutes of use would have gone down drastically, inhibiting the growth of mobile telephony. With the continuous decline in tariffs and improvement in services, it is expected that mobile spending in the country will go up and the mobile subscriber base is expected to grow further; the addressable market increasing with every reduction in tariffs and rural expansion of networks.

1 Subscriber forecast for the world's largest wireless markets [1]



Several key market forces have contributed to the tremendous climb in the number of subscribers over the past 2 years. Ease of telecom regulations (including duties); fall in cost of infrastructure and tariffs, and prepaid services created a market environment for the industry to take off.

When the government lowered duties and removed some regulatory hurdles by issuing unified licensing directives, the cost of equipment and handsets dropped. Indian carriers such as Reliance responded by lowering tariffs, resulting in an upswing of subscriber growth. Prepaid here dominates postpaid customers by 3:1 ratio, suiting the lifestyle of an average subscriber and carriers are assured of their revenue stream in a credit-challenged environment.

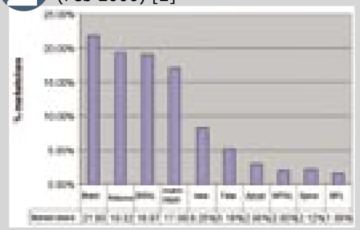
It should be noted that average ARPU in the Indian industry is close to $10 and is forecasted to stay that way for the next several years. This begs the question of how the industry can stay vibrant at such low revenue figures.

The key lies in lowering the CAPEX and OPEX for carriers and in designing services and growth strategies that take into account low ARPU. The Government should play an important part by eliminating as much of the duties as possible. Cost of infrastructure could be lowered by accepting lower call completion rate and accepting 2nd-hand handsets into the market. Rural expansion is very important to telecom growth in developing countries. To some extent, this even applies to some demographics in the western world as well; the US for example has millions of people with credit problems who don't have enough disposable income for telecom services.

Prepaid also provides a way to open up the Mobile Virtual Network Operators (MVNO) market to tap into niche segments. Such services are typically targeted towards credit-challenged segments that don't qualify for postpaid wireless services.

This does reduce risks to the operators and get customers accustomed to services, which can help in transitioning these customers to postpaid plans. To the customer it offers flexibility and choice, especially customers with GSM handsets as they can follow the best deal and promotion at any given time.

2 Indian operator market share (Feb 2006) [2]



Prepaid has played an important part in the Indian wireless industry and will continue to do so as the carriers look to expand into rural markets which account for over 70% of the population. In such markets, the cost of cheap handsets (new or used) is more important than the brand. Hence, manufacturers should pay attention to bringing the cost down by building voice-only handsets to address specific needs of the market. Data services play an important role in service differentiation and only if they are tied to local interests like cricket, Hollywood, education, and festivals.

The real revolution will come from the continuous growth in the low-income group market – mobile has moved rapidly from a class service to a mass service – fuelled by continually falling tariffs, increased coverage, and customised service offerings.

Conclusion

Rural teledensity remains a paltry 2% (though it represents 70% of the population) compared to 32% in urban areas. In order to achieve the government's goal of reaching 250m subs by 2007, aggressive deployment of rural infrastructure is needed.

The Department of Telecommunications is facing the twin challenges of reforming the ADC (access deficit charge) regime and eliminating the financial advantages enjoyed by government-owned BSNL. The government announced that private operators will be allowed to share infrastructure built by state-owned BSNL in rural areas to spur the rollout of mobile services.

It is important that players in the value chain including the regulators work together to bring affordable services and applications to the consumers. Lessons learned from the Indian wireless market can be applied to other developing economies and even rural communities in developed nations. WW

References

[1] Chetan Sharma, India's Wireless Market: Model for the Next Phase of Global Wireless Expansion, Datacomm Research, May 2006.

[2] Chetan Sharma, India's Wireless Market: Model for the Next Phase of Global Wireless Expansion, Datacomm Research, May 2006.

Chetan Sharma Consulting is a consulting and advisory firm helping companies in the mobile and voice communications sector. Chetan is the author of 2 best-sellers. His most recent book titled Wireless data services: Technologies, Business models, and Global markets was published in collaboration with Dr. Yasuhisa Nakamura, SVP, NTT DoCoMo. Visit http://www.chetansharma.com

Motorola India, Trio of Firsts

To help drive the company's growth in India, Motorola, Inc. (NYSE: MOT) has offered a "Made in India" labelled version of the C115. India has also become the first market to witness Motorola's launch of its new ultra-sleek and ultra-chic Motorola L6 mobile handset. The US mobile giant is also in cahoots with Bharti Teletech Ltd. offering the full range of mobile handsets and accessories from Motorola.

"India is all about opportunity – … Motorola is here to be a major player," said Allen Burnes, corporate VP for the High Growth Markets operation within Motorola's Mobile Devices business. "Without question, wireless communications fuels commercial activity across economic strata. And across technologies and price tiers, Motorola is expanding its presence in India."