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D Satyanarayana
Research Scholar,
Rayalaseema University,
Kurnool, Andhra Pradesh,
India

Dr K Sambasiva Rao
Professor, Department of CMS,
Andhra University,
Visakhapatnam, Andhra
Pradesh, India.

Dr S Krishnamurthy Naidu
Associate Professor,
Department of MBA, Sri
Vasavi Engg. College,
Tadepalligudem, Andhra
Pradesh, India

Correspondence
D Satyanarayana
Research Scholar,
Rayalaseema University,
Kurnool, Andhra Pradesh,
India

The impact of Reliance Jio on Indian mobile industry- A case study on mergers and acquisitions of idea – Vodafone and Airtel – Telenor

D Satyanarayana, Dr K Sambasiva Rao and Dr S Krishnamurthy Naidu

Abstract

Indian mobile industry is one of the fastest growing industries in the world. Indians are habituated to touch mobiles within a short span of a time. In the world India is second largest market for mobile service providers and it is a good avenue for network providers from indigenous and exogenous entrepreneurs. Not only Indian network providers but also global providers occupied and earn significant market share in the Indian mobile industry. Reliance Jio's free tsunami creates lot of radical and unexpected changes in consumer's behaviors and competitor's strategies. The impact of this new entrant affects equilibrium in the mobile industry and makes rivals vulnerable that they resort to mergers and acquisitions in Indian mobile network providers. The major giants in the industry viz, Airtel and Idea strategically responding in a similar way. To strengthen themselves in the industry, Airtel and Idea acquiring Telenor and Vodafone respectively. The present research paper makes an attempt to examine the impact of new entrant R-Jio on competitive strategies of rivals in the industry.

Keywords: Mergers and Acquisitions, Indigenous & Exogenous and Price sensitive

1. Introduction

The rain bow of Indian telecommunications sector is one of the backbones for fast growth in all aspects of Indian economic scenario of this decade. In the world, telecom industry is most developing and profitable industries of the world. Different forms of communication media such as smart phones, internet, Wi-Fi, broad band services are dealt in communication industry. It creates remarkable changes in the minds set of consumers, business entities, legal frame work, ideologies of entrepreneurs, philosophy of the government's policies and procedures. It is a mega path for new waves to open employment opportunities, better standards of living with fast communication as a global village, and accumulation of its share in our GDP continuously. The telecom operators continue to focus on providing a high quality, consistent network experience offering the speeds and coverage expected by customers. Net work techno-providers are expected to do more to leverage their potential in usage analytics, packet probing and pushing content based offerings, all in a bit to protect their challenged revenue base. The Indian regulatory authorities are likely to face new challenges from these new trends and keep their commitments for providing a quality service, doing so transparently and responsibly. Our market will settle on five major sector players and one state owned one. The infusion of Jio free creates new combinations may come in form of outright mergers or spectrum sharing's such as recently announced by Idea-Vodafone and Airtel-Telenor. These two new consolidations exists with many-fold manifestations like one is sustainability or remove from battle field and another one is to compete with free gigantic market leader and so on. Because of its immense importance, the proposed research is going to explore the mergers and acquisitions in Indian telecom sector.

2. Objectives of the study

- To examine the impact of new entrant R-Jio on competitive strategies of rivals in the industry.
- To analyze the major changes in Indian telecom industry.

3. Industry Overview

3.1 Brief about Idea cellular:



Idea Cellular is the subsidiary of Aditya Birla group founded in the year 1995. The Idea has gone far ahead of the major competitors and occupying incremental revenue market share of 33% from last three years. Now Idea offers 3G and 4G LTE services on its own spectrum auction in 13 circles of telecom service areas and 340 towns in all over the India. Idea strengthened its customer base after launching mobile number portability. Idea is India's third largest mobile operator and it has 191 million subscribers, Rs.354 Billion (US\$5.3 billion) Revenue and Net income is Rs.31.92 billion (US\$470 million) for the year ending 31st 2016. In January, 2017 it was announced that Idea talks to merge with Vodafone in Indian operations.

3.2 Briefly about Vodafone:



It is a British based multinational telecommunications company. It was established in the year 1991. Vodafone is now ranked in world second largest mobile operator in number of connections. It owns and operates networks in 76 countries and also IT services to corporate clients in 150 countries. Vodafone was entered in India sep.2007. It has been expands its operations across the country over all 22 telecom circles and service to 203 million Indian customers. This journey is a strong testimony of Vodafone's commitment and success in competitive and price sensitive of Indian mobile market. The free price war of Reliance Jio's impact results accumulates continuous loss doubled to \$5.5 billion from last two quarters of 2016. But its home market is a bright spot.

3.3 Motives for merge of Idea cellular with Vodafone India

Jio's aggressive stabbing on market forced Vodafone to take \$5 billion write down on end of the last year. The Chief Executive Vittorio Colao to say at that the market would have to consolidate. "I think Consolidation is the answer", he said. Less than a year ago Vodafone was still planning to float Vodafone India on the local stock exchange, despite a long-running battle with the government over a \$2 billion tax claim related to its acquisition of the unit from CK Hutchison in 2007. For Vodafone a sale of the Indian business to Idea could reignite speculation about an eventual tie-up between Vodafone and John Malone's Liberty Global. The two have held merger talks before but analysts say Vodafone's ownership of numerous assets in emerging markets had complicated valuations for Liberty, which is mainly interested in the European market.

3.4 Briefly about Airtel:



Sunil Mittal was founded Airtel in the year 1995. Airtel is an Indian Global third largest telecommunications company. It operates in 18 countries and provides GSM, 3G and 4G LTE services with 400 million subscribers. Airtel was ranked India's second most value brand in the first ever ranking by "Millward Brown and WPP plc." Airtel is credited with pioneering the business strategy of outsourcing all of its business operations with a minute factory model of low cost and high volumes. Its strategy has since been adopted by several operators. The transmission towers are maintained

by subsidiaries of Bharti group. Airtel served first time low call rates in India. The revenue of Rs. 966.021 billion, EBIT is Rs.341 with net profit of Rs.54 billion for the year ending 2016. The Jio's triumph have stung Airtel which reported a 55% fall in third-quarter net profit to Rs.504 crore. In 2016 it is the big moment to make restructuring strategies to compete the market leader with Telenor.

3.5 Briefly about Telenor:



Telenor is Norway based Telecommunications Company. It has strong network in 13 countries and operations in 26 countries particularly in Europe, Africa and Asia. Form it is known as Uninor. Thus it is one of the world largest mobile service provider. The Telenor formerly known as Uninor. Unitech and Telenor groups agreed to enter as a joint venture in India 2008 with 22 telecom circles. Uninor has facilitated rapid scaling of the company through a lean operation model, where a large share of the network infrastructure is outsourced to business partners. Uninor's modern equipment has enabled it to introduce targeted offerings and serve a large audience with limited spectrum. Uninor introduced dynamic pricing a concept that gives consumers discounts that are based on current network traffic at an individual site and change with location and time. On 2 February 2012, the Supreme Court of India cancelled 122 licenses of 22 mobile operators, including Uninor. In July 2012, Uninor decided to gradually scale down its operations. The cancellation of Uninor's licenses, Unitech and Telenor were involved in a dispute over control of Uninor. In October 2012, the two companies signed an agreement under which Unitech transferred Uninor assets to Telenor and exited the joint venture. On 23 September 2015, Uninor announced it has re-branded itself as Telenor India. The Telenor Group spent Rs.100 crore on the re-branding exercise. It has strong network providing 4G services to 44.33 million subscribers in India (TRAI-2016). Total revenue Rs.6.033 million (2016).

3.6 Motives for merge of Airtel with Telenor India

Jio's free price war also opens new challenges all network providers. The Telenor was taken a strategy to join hands with Airtel. Telenor has on 23 February 2017 entered into a definitive agreement with Airtel will take full ownership of Telenor India. Airtel is India's largest wireless operator with over 269 million subscribers and a revenue market share of over 33 per cent. As the new owner, Airtel will take over Telenor India's spectrum, licenses and operations, including its employees and customer base of 44 million. Telenor's operations and services will continue as normal until the completion of the transaction. Telenor ASA has on 23 February 2017 entered into a definitive agreement with Airtel, whereby Airtel will take full ownership of Telenor India.

3.7 R-Jio's line of attack



The Reliance Company commercially launched its services on 5 September 2016. Jio crossed 100 million subscribers end of February 2017. This is the fastest ramp-up by any mobile network operator anywhere in the world. Jio owns spectrum in 800 MHz and 1,800 MHz bands in 10 and 6 circles, respectively, of the total 22 circles in the country, and also owns pan-India licensed 2,300 MHz spectrum. The

spectrum is valid till 2035. The company has a network of more than 250,000 km of fiber optic cables in the country, over which it will be partnering with local cable operators to get broader connectivity for its broadband services. With its multi-service operator (MSO) licence. Jio offers its not only 4G broadband services but also provides data, network, instant messaging, live TV, movies on demand, news, streaming music, digital payments platform and free Wi-Fi hotspot services etc.

3.8 LYF Smartphones

Jio tied up with domestic handset maker Intex to supply 4G handsets enabled with voice over LTE (VoLTE) feature. Jio launched its own smart phone series with Earth, Water 1& 2, Wind and Flame through its chain of electronic Reliance retail outlets.

3.9 Induction of Multimedia apps!

R-Jio launched a bundle of multimedia apps on Google Play as part of its 4G services. While the apps are available to download for everyone, a user will require a Jio SIM card to use them. Additionally, most of the apps are in beta phase Following is a list of the apps-

- MyJio - Manage Jio Account and Digital Services associated with it.
- JioTV - A live TV channel service.
- JioCinema - An online HD video library.
- JioChat Messenger - An instant messaging app.
- JioMusic - A music player.
- Jio4GVoice (earlier JioJoin) - A VoLTE phone simulator
- JioMags - E-reader for magazines
- JioXpressNews - A news and magazine aggregator
- JioSecurity - Security app
- JioDrive - Cloud-based backup tool
- JioMoney Wallet - An online payments/wallet app
- JioSwitch - Transfer content
- Jiofi -Wireless router

4. Industry Analysis Using Michael Porter’s Five Force Model

The present scenario in the Indian telecom sector can be better analysed by using Michael Porter’s Five Force Model. Figure1.1 shows the competitive analysis in any industry.

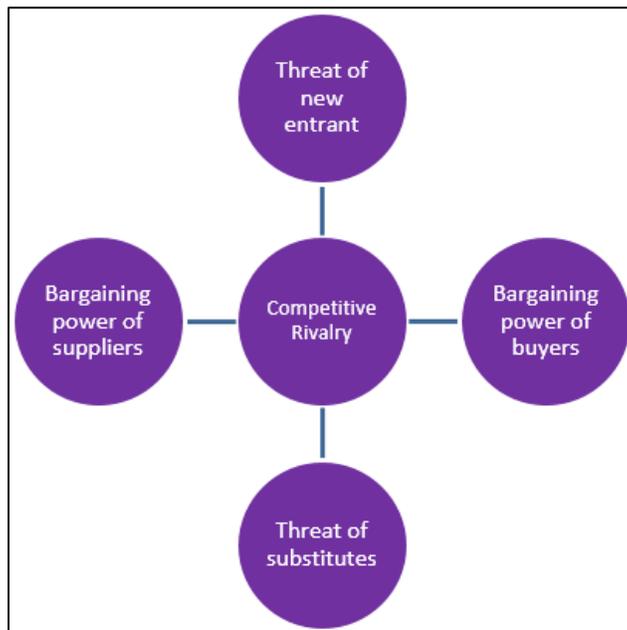


Fig 1: Michael E Porter’s Five Force Model.

4.1 Threat of New Entrant - RJio’s impact on its competitors

The entire Indian telecom sector redesigned by the new aggressive entrant of free R-Jio. The Reliance announcement of its free offers creates drastic changes not only on its rivalry competitors but also on subscribers, power of suppliers, power of buyers and threat of substitutes. Here we can apply the Porter’s prophets in Indian telecom market.

Major market leaders Airtel, Idea and some others ready to dig new strategies to attack and protect by themselves. It is an time for structural alters exists. RJio strategies. As the Jio works only with 4G mobile, the impact of Joi on the competition in the segment of feature phone users is absent. However, Jio has come up with a device that upgrade 3G mobile to function 4G services. Jio competes even in the 3G mobile user segment.

4.2 Competitive rivalry

Customers’ low switching cost intensifies the competition in the industry. Price sensitivity of customers also adds to this. Telecom sector in India is almost saturated. Almost every household possess a mobile network. In this case, every rival is fighting for the same share. There is no market left for new entrants. New entrant Jio must get significant share only from the competitors. This maximises the rivalry in the industry. Exit barriers are also found in the industry. Hence, the players must fight aganst major competitor till the end.

4.3 Threat of substitutes

Hardly there are no substitute products for mobile services in the industry. Hence the impact of sbstitutes is insignificant in this case.

4.4 Bargaining power of buyers

Bargaining power of buyers will be a major force in the industry. Customers are exercising high bargaining capacity. The reasons for high bargaining power of buyers would be switching cost is very low. Customers can switch their service through the option 'port' without changing their number. Customers in this industry is observed to be price sensitive. Therefore, customers expect superior quality service at lower cost. This made mobile giants Airtel and Idea to slash their tariff nearly 40%. Eventually it adversely

affect industry profitability. Also become threat to the new entrant.

4.5 Bargaining power of suppliers

Being supplier of mobile services such as messaging, calling, data and other value added services, the players have less bargaining power with the customers. This force the players to offer better services at reasonable price.

The table 1: Shows the current market share of mobile service operators in India as on 16th February 2017.

Table 1: This is a list of mobile operators of India as on 16 February 2017

Rank	Name of the operator	Subscribers (In million)	Active Subscribers	Ownership
1	Airtel India	263.09	96.83%	Bharti Enterprises 64% Sing Tel 36%
2	Vodafone India	209.90	94.84%	Vodafone Group
3	Idea Cellular	190.52	94.26%	Aditya Birla Group 49.05% Axiata Group 19.96% Provident Fund 10.09%
4	R-Jio	98.93	100%	Reliance Industries
5	BSNL-Mobile	94.95	78.11%	State- Owned
6	Aircel	90.34	69.94%	Maxis communications 64% Sindiya securities 36%
7	RCom	86.16	87.28%	Reliance ADAG
8	Tata DoCoMo	55.70	82.23%	Tata Teleservices 76% NTT Docomo 24%
9	Telenor India	53.02	82.23%	Telenor Group
10	MTS India	6.71	64.51%	Sistema 56.68% Shyam Group 23.98% Govt.of Russia 17.14%
11	MTNL	3.61	64.79%	State-Owned

Source: https://en.wikipedia.org/wiki/List_of_telecom_companies_in_India

The table 1.1 shows that Airtel is in leading position with 263 million subscribers. Followed by Vodafone (209) and Idea (190). Jio occupies the 4th position with 99 million subscribers. Though Jio is at 4th position, in terms of pricing Jio posing a challenge to the market leaders. It is already noticed that the customers are price sensitive in India, after 31st march 2017 Jio is no more free service. So, it is too early to judge the customer base of jio. Jio tariff plans will decide the number of customers will be active with Jio. The price of data of Jio is relatively cheaper. This element making Airtel and Idea to think various strategic alternatives. Since the exit barriers are present in the industry, they can not get out of the industry. It will be too difficult for small players in the industry to make a significant market share. The only option to become more stronger to compete with Jio is to make strategic alliances with other competitors. Airtel merges with Telenor India and Idea with Vodafone. Airtel and Telenor together will have 316 million subscribers, while Idea and Vodafone together will have 400 subscribers and lead the market.

5. Conclusion

Reliance Jio's free introducing offer creates lot of radical and unexpected changes in consumer's behaviors and competitor's strategies. The impact of this new entrant affects equilibrium in the mobile industry and makes rivals vulnerable that they resort to mergers and acquisitions in Indian mobile network providers. Since the exit barriers are present in the industry, they can not get out of the industry. It will be too difficult for small players in the industry to make a significant market share. The only option to become

more stronger to compete with Jio is to make strategic alliances with other competitors. The major giants in the industry viz, Airtel and Idea strategically responding in a similar way. To strengthen themselves in the industry, Airtel and Idea acquiring Telenor and Vodafone respectively.

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