Make or break: why it's decision time for India's operators

ICT transformation? **India is just getting started**. As the country's government implements a unique digital vision that will radically reorient its business and society, India's operators face the most **critical phase of their existence** – and finding the right strategy has never been more important.

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ASK ANYBODY in the ICT business whether mobile telephony and broadband have been transformative forces in India, and the answer will almost always be a resounding yes. In some respects this is understandable – after all, the number of telephone subscribers in the country grew from 28 million in 2000 [1] to 957 million in 2014 [2], while a thriving ICT industry with revenues of USD 125 billion [3] has sprung up around India's rapidly evolving network infrastructure.

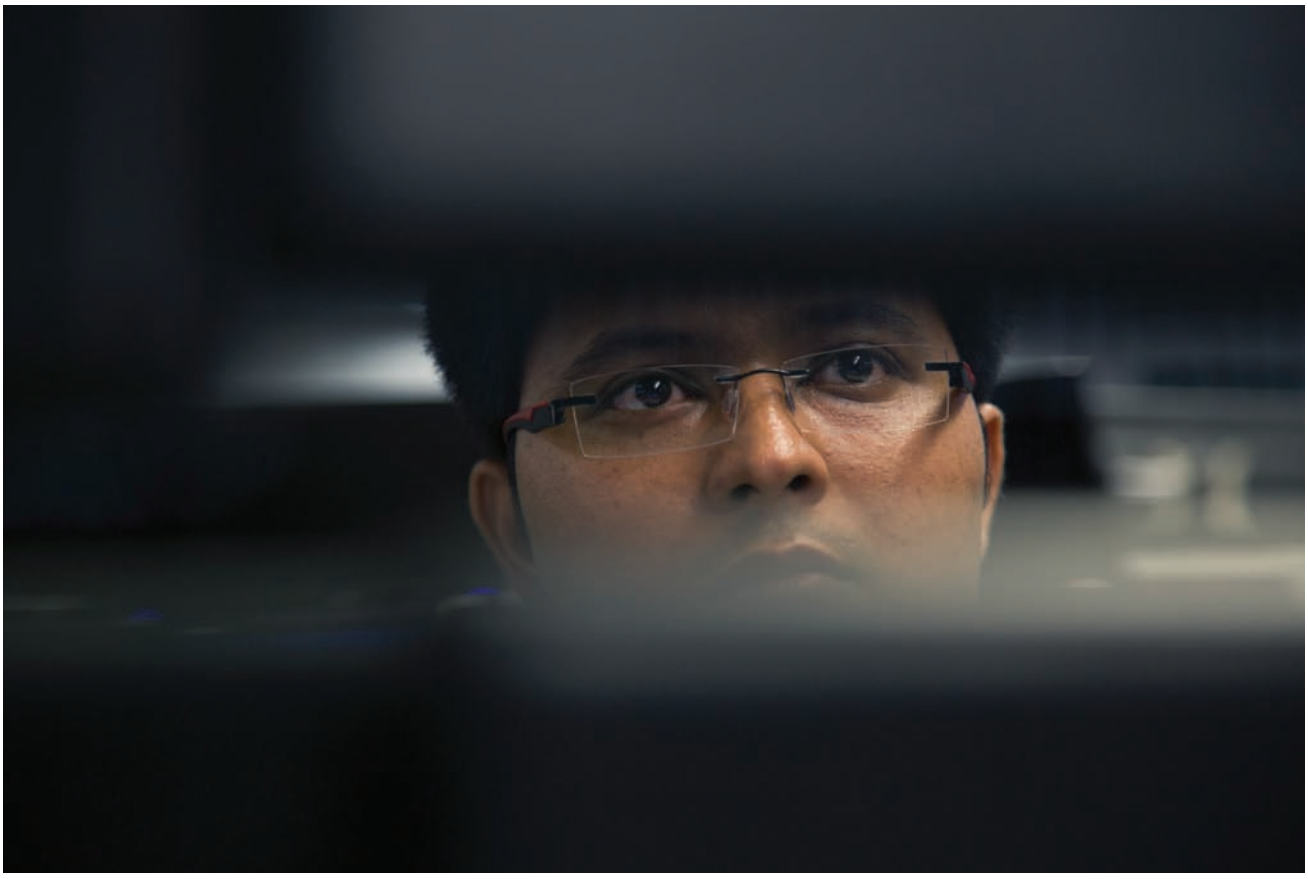
But beyond the state-of-the art corporate campuses and the gated communities inhabited by a new generation of tech millionaires, how much has really changed?

In 2014, India slid to 83rd spot among 148 economies in terms of leveraging ICT for enhanced competitiveness and well-being, compared with 68th place out of 144 countries in 2013, according to a World Economic Forum report [4]. India was just 129th among 166 countries in terms of ICT development in the latest report from the International Telecommunication Union [5]. In a study by the Broadband Commission for Digital Development, India was ranked 113th among nearly 200 countries in terms of active mobile-broadband subscriptions – and 142nd in the percentage of individuals using the internet [6].

The uncomfortable truth is that India's ICT journey has so far been about the urban rich and middle classes. Like the Green Revolution in the 1960s that took India from being a food importer to a self-sufficient nation capable of feeding its citizens while also exporting grain, the country urgently needs a Broadband Revolution to unleash its full potential. And it is clear that this process is still in the very early stages.

BROADENING BROADBAND

This is the background to an ambitious plan by the country's government for a Digital India. Through the USD 90 million National Rural Internet and Technology Mission, the government intends to provide broadband access to 630,000 villages across the nation. The National Telecom Policy-2012 sets out to boost the number of broadband subscribers to 175 million by 2017 and 600 million by 2020, deliver minimum download speeds of 2Mbps, with speeds of 100Mbps or more available on demand, and to increase rural telecom penetration to 70 percent by 2017 and 100 percent by 2020 [7]. The government has also set aside USD 1.2 billion to fund a smart-cities project and created a USD 1.7 billion fund for start-ups. Dramatic increases in the digital delivery of health, education, finance and governance services are all high on the agenda.



Recent analysis suggests that the internet economy in India can reach USD 200 billion by 2020 and contribute 5 percent of the country's GDP [8]. In fact, according to McKinsey & Company, if India focuses on certain key 'empowering technologies', the potential economic value-add could be anything between USD 550 billion to USD 1 trillion per year by 2025 [9], as well as creating millions of jobs.

ENTER THE OPERATORS

There is little doubt that India's operators have a central role to play in translating this vision into practical reality. In fact, we can go so far as to say that meeting the country's ambitious targets for coverage and data speeds, or rolling out effective e-governance, e-health and e-learning services, won't happen without them. But at the same time, with so much at stake, operators cannot afford to make a wrong move.

There are a range of business strategies that can benefit operators in meeting the challenges and opportunities of a digital India. These are presented below, along with real-world examples of good practices and analysis of both untapped opportunities and strategic threats.

SUPPLY AND DEMAND

Looking at the supply side of the equation first, operators need to tackle the constraints of device and service affordability to drive demand for mobility and broadband in India. In particular, the availability of sub-USD 50 handsets will be critical. Today, 4G-LTE handsets retail for around USD 100, although Indian companies like Micromax and Lava are collaborating with Chinese partners to bring smartphones to market in the USD 50 range. In addition, the state-run Centre for Development of Telematics is ready to manufacture 3G and 4G handsets that will retail for even less than USD 50. It is essential that operators support these developments and adapt their pricing models accordingly.

On the demand side, operators must ensure that they can meet the increasing data requirements of their subscriber bases. Operators have no choice but to invest in differentiated 3G and 4G networks based on high speeds and high capacity, even if they will need to work hard to monetize these investments.

Data, which is fast overtaking voice as a proportion of overall network traffic, will be the biggest growth opportunity. However, Bharti Airtel is currently the only operator in India to offer a 4G service, which is bundled to consumers with Apple's iPhone 5S or 5C. Bharti has also launched a 4G plan that offers subscribers 10GB of 4G data for USD 17. Other operators are also planning to roll out 4G services, but more deployments will be required.

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AFTER THE PRICE WAR

At the current stage of market development, India's operators are engaged in a price war and are pursuing market share at any cost. This strategy, which aims to cover revenue losses with increased subscriber bases, originated in the voice segment and will without question extend to data services.

However, more sophisticated strategies will be required from India's operators to secure long-term growth. Customization, flexibility and customer engagement will ultimately be the key to winning market share by converting new voice users to data plans and upselling existing data users to higher-value offers.

There are already positive signs of an increasingly mature approach. For example, some operators are explicitly targeting the Indian enterprise customer by offering more innovative pricing strategies such as shared data plans. To take just one example, Reliance has introduced a post-paid plan for the small and medium-sized enterprise (SME) and corporate segments that allows sharing of voice, SMS and data on a single bill with up to nine customers on multiple devices, and which is available for a minimum of three customers at a cost of USD 25.50.

DISRUPTING THE DISRUPTORS

However, the biggest challenge to the ability of India's operators to continue investing in infrastructure and developing new digital services will ultimately come from over-the-top (OTT) businesses. By 2020, India will have the world's youngest population, with a median age of just 29 years [10]. Much of this huge demographic is already intensely active on social networks and instant messaging applications that simultaneously leverage operators' network infrastructure while eating into their revenues.

As in many global markets, this has the potential to negatively impact operators' average revenue per user. But unlike many other markets, operators in India have developed some effective strategies to counter this development, and their priority for the coming years should be to extend and deepen these approaches.

For example, there is a clear trend of operators offering content bundles, both at the premium level with monthly video/sports/music bundles, and at entry-tier levels with content 'snacking' and daily unlimited social networking available at low-cost increments. Some operators are successfully integrating OTT elements into their existing product mix. For example, Airtel's mobile streaming service gives consumers access to a video store containing more than 30,000 videos. This has helped Airtel attract 4 million new data users, while the video store's overall subscriber base reached 12 million at the end of June 2013.

Teaming up with OTTs to offer differentiated content services can be even more effective. Entering into these partnerships lets operators offer subscribers unlimited and inexpensive access to specific mobile applications, even on feature phones, and helps increase data revenues.

Reliance, for instance, offers prepaid customers a 'Reliance Twitter Access Pack,' which provides unlimited Twitter access without additional data charges. Reliance has also introduced a Facebook Messenger that lets users share pictures and send messages without worrying about device constraints. In addition, Reliance offers a plan, specifically aimed at students, that provides unlimited access to WhatsApp and Facebook at very inexpensive rates with a validity of 30 days.

In a similar vein, Idea Cellular gives users seven days of Facebook access for USD 0.26. This strategy has paid dividends, with its WhatsApp and Facebook users increasing by 40 percent and 13 percent quarter-on-quarter to reach 6 million and 17.7 million users respectively at the end of December 2013. Similarly, the number of YouTube users on Idea's mobile network increased to 8.9 million in the same period; almost 7 percent of the operator's total subscriber base.

We are starting to see the emergence of the hybrid telco-OTT service provider, who will offer integrated packages of content, video, portals, communications, social networks, security and identity management, enterprise communications, cloud and OTT connectivity. The long-term goal for India's operators, it seems, should be to embrace this approach, and in doing so, to disrupt the disruptors.

MINING THE MOUNTAIN

On the other hand, Indian operators are lagging behind in some potentially revenue-generating areas. As with the OTT segment, improving their position here will be essential to ensure operators' ability to continue network and service investment. One striking example comes from the fact that they are sitting on today's most valuable asset and so far, have not done enough to realize its value.

Network data represents a largely untapped potential revenue stream. Operators should do more to monetize this data and create new business models that allow third-party value creators to become part of the mobile ecosystem. One potential approach is a data wholesale/exchange platform, where both enterprises and consumers can trade or sell excess mobile data. In general, operators must consider creating a broad platform structure that exposes network application programming interfaces and billing models to ecosystem partners, which will ultimately lead to more personalized and streamlined user experiences.

CLOUDY HORIZONS

India's operators also require a more focused approach to cloud. There have already been some

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early success stories. For example, Bharti Airtel's revenue from cloud services has increased over recent quarters, while Bharti's Nxtra Data subsidiary partnered with Hewlett-Packard in July 2014 to offer a public infrastructure-as-a-service solution aimed at SME customers.

However, a clearer cloud value proposition is required from Indian operators. Cloud has the potential to bring low-cost IT services to businesses that have not yet computerized their operations and therefore help modernize tens of thousands of SMEs in India.

Yet operators' cloud segments still operate on a relatively small scale, and in an intensely competitive sector, operators can do more to leverage their assets – particularly their capacity to deliver a secure, scalable end-to-end cloud service. The same principles also apply to other innovative services vital for India's wider digital transformation. After all, established telecom values such as reliability and scale can make all the difference in areas such as remote healthcare, adaptive learning and mobile agricultural extension services.

A VISION FOR SPECTRUM

Of course, operators should not be expected to go it alone. Government and regulators have a vital role to play – India's coverage and broadband penetration targets can only be achieved with sufficient spectrum. There is a clear need to ensure timely and transparent auctions, allocate larger spectrum blocks, promote spectrum sharing and focus on globally harmonized bands. At the same time, additional regulatory questions such as net neutrality should be resolved in such a way that operators are not hobbled from effectively monetizing the surge in data demand from subscribers.

MAKE OR BREAK

The respective digital destinies of India and its operators are inextricably interwoven – each requires the other in order to prosper. From higher data speeds and better coverage to e-health, e-learning and more, the Digital India vision provides a unique window for operators to step up and assume a central responsibility in what promises to be a remarkable transformation of the country's social and business landscape.

The strategic choices that operators make today will set the tone for their business for many years to come. But the Indian market is a ruthless teacher; time and again it has forced local enterprises to innovate or perish, and operators will be no exception. They are now facing the most critical phase of their existence – transformation is coming, and they need to be ready. This article has offered some strategic recommendations that will help them meet the challenge.

And given that only 15 percent of Indians have access to internet connectivity – and that for close to 950 million of the country's people, even the cheapest data plans are equal to 13 percent of their monthly consumption expenditure [11] – who could disagree that this transformation cannot come fast enough? ●

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