

CHALLENGES OF MOBILE PHONE SERVICE PROVIDERS IN RETAIL MARKET

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Introduction

Mobile phone is one consumer electronics segment that is expanding very fast in India. The country is considered to be the world's fastest-growing wireless telephone market with 45 million mobile users as on date, and the number is expected to double in the next one year. As of now, it is a market worth Rs.13,000 crore and about 3 percent of it (worth approximately Rs.840 crore) is being retailed through the organised sector. About 40 million mobile handsets are likely to be sold in India in 2005, and it is estimated that the annual increment may be in excess of 50 million handsets by 2008. A Gartner Inc. report says that India will remain the highest growth market for telecommunications services in the Asia-Pacific region with an 18 percent increase in 2005. As of now, only four percent Indians, in a population of over a billion, own a mobile phone. But this Mobile penetration is expected to reach 8.2 percent in 2005 and 14.5 percent by 2008. India's total telecom penetration, including mobile and fixed phones, is thus expected to rise to 19.1 percent in 2008, the report says. This penetration at present is a low of 8 percent. At the current levels, cellular networks cover about 1,700 towns (out of 5,200) that can service 200 million, which is just 20 percent of the total population. The coverage of rural areas still remains negligible. But by 2006 the cellular networks are expected to cover more than half of the country's 6,07,000 villages, taking in their ambit 450 million customers.

Service Providers - Retail Opportunities

The increased adoption of smartphones is a major driver behind the mobile retail and mobile payments trend. Many experts indicate that about 50 percent of the world's population will have a smartphone by 2014. Once smartphone users begin relying on their phones for more than calls, they begin incorporating other services and apps, and they demand more functionality and features from the phone to make their lives easier.

Studies show that about 11 percent of U.S. retailers are providing coupons and marketing to their customers' mobile numbers. Another 11 percent are providing coupons and marketing based on their customers' locations. Most telling, however, is that more than 60 percent of retailers in the study indicate they plan to build upon their existing mobile Web presence or launch a new application in the next year.

Mobile retail and payments vendors are developing and introducing new solutions at an impressive pace because retailers and consumers show interest in the technology. Retailers recognize the consumer convenience factor, with customers able to research and

compare prices while in the store, as well as make quick, secure payments. They are also eager to gain greater insight into customers' spending habits to better stock merchandise and stay competitive.

Consumers are eager to try mobile retail and payment options, as well. Those consumers in emerging markets that primarily rely on cash want the added protection and convenience of paying with a mobile phone. Consumers in developed markets want the convenience of not carrying credit cards, and they like the added benefits of storing and using retailer loyalty cards and credits without carrying an additional piece of plastic.

Some figures place the current worldwide global mobile payment volume at around \$60 billion, with projections by 2014 indicating it could grow to more than \$1 trillion. As for the benefit to service providers, global mobile payments will account for between 3 and 5 percent of their volume, making it an attractive market opportunity for providers.

As service providers continue to seek ways to differentiate their services and create value-added services that build customer loyalty, they should investigate and invest in mobile retail and mobile payment solutions to do so.

Service Providers Cash In On Mobile Retail Opportunities examines the mobile retail market and how it is expected to develop over the next two years. It examines opportunities that service providers have in the market, including areas with the most growth potential for the next 24 months and what service providers should be doing to take advantage of the market. It includes a comparative analysis of solutions available in the market. It also examines the geographic landscape of the market for service providers, challenges the industry presents and trends expected in the mobile retail vertical.

Leading Mobile Handset Providers

Nokia

A market leader in the cellular industry in Asia Pacific, Nokia provides innovative and market-relevant technology and products to around 20 diverse markets in the region. Nokia's easy-to-use innovative products include mobile phones, devices and solutions for imaging, games, media and businesses interface. It provides equipment, solutions and services for network operators and corporations. The wide coverage of 104 towns and cities in India is done through four different formats of Nokia Priority Centres.

Samsung India

Samsung India, 100 percent owned subsidiary of the USD 56 Billion Samsung Electronics Co Ltd, is a leading provider of high tech IT, Telecom, Consumer electronics & Home appliances products in the country. As in January 2005, the company had 54 exclusive outlets in 20 cities across India. Within a period of one year, the company plans to come up with a total of 100 outlets. It is also preparing to set up its manufacturing facilities for Colour Televisions, Microwave Ovens, Washing machines, Air conditioners, Colour Monitors and Refrigerators in the country within the next 8 years.

Sony Ericsson

Sony Ericsson Mobile Communications is a JV established in 2001 between Swedish telecommunications major Ericsson and Japanese consumer electronics powerhouse Sony Corporation. Sony India retails the Sony Ericsson mobile phone handsets through its Sony World and Sony Exclusive authorized outlets across the major Indian cities. The focus here is on enhancement of customer's retail experience on the core propositions of imaging, connectivity and entertainment. Besides these Sony World and Sony Exclusive outlets that display and sell the entire range of Sony Ericsson phones, the company has a countrywide network of 80 service centers that also retail the handsets. Other major handset providers include **Siemens, Motorola, Alcatel, LG, Panasonic** and **BenQ**, which retail their products through Multibrand outlets.

Mobile Phone Service Providers

Reliance Infocomm

Reliance Infocomm is a major player in the telecommunications field in India, having a Pan-India reach and providing Real Broadband connectivity to its customers, thus offering Voice, Video and Data services as under:

- Reliance India Mobile Wireless Telephony
- Real Broadband Services for Enterprises
- Hi-speed Data Services and Applications for consumers

They are having reliance web world which provide two types of formats

Reliance Web Worlds

Reliance Web Worlds are new-age retail destinations, comprising three modules:

- Customer Convenience Center (C3)
- Broad Band Center (BBC)
- Java Green Gourmet Coffee Bar

Reliance Web World Express

The activities include:

- Showcasing of products and services
- Product demonstrations
- Sale of products
- Customer Care, Billing queries and collections
- After-sales service and other value added services
- Understanding the "Voice of the Customer"

Airtel

Airtel is a subsidiary of Bharti Cellular Limited, the biggest private integrated telecom conglomerate, Bharti Enterprises. Bharti provides a range of telecom services, which include Cellular, Basic, Internet and recently introduced National Long Distance. The company is also into manufacturing and exporting of telephone terminals and cordless phones. Apart from being the largest manufacturer of telephone instruments in India, it is also the first company to export its products to the USA. With a footprint in 18 states covering all four metros and more than 9.41 million mobile and 787,000 fixed line users, it is by far the largest private sector service provider. The company expects to grow its mobile subscriber base to 50 million in 5 years.

Hutch

This is a part of the Hong Kong based multinational conglomerate Hutchison Whampoa Limited, a Fortune 500 company; Hutchison established its presence in India in 1994 through a joint venture with Max India Limited. In 1995, Hutchison Max Telecom became the first private operator in India to launch its cellular service. Today, Hutchison is the one of the largest mobile phone service providers in India with presence in all the major regions it is branded as Orange in Mumbai and as Hutch in Delhi, Karnataka, Andhra Pradesh, Chennai, Kolkata, Gujarat, Haryana, Rajasthan, UP (E), UP (W), Rest of Bengal and Punjab. It has 7.1 million cellular subscribers in India. The global operations of Hutch span 42 countries across the Asia Pacific region, Europe and the Americas. The Hutch services are offered through its two retail formats: **Hutch Shop** (company owned) and **Hutch Teleshops** (franchise owned). The outlets are located across 10 states.

Spice

Spice Telecom, the brand name of Spice communications Limited, is presently operating Cellular Phone Services in the states of Punjab and Karnataka. Spice is a 51:49 joint venture between Spicecorp (India) and DISTACOM (Hong Kong). The former is the flagship company of MCorp Global group that first introduced India to mobile phone services and has interests in the field of telecommunications, office automation and information technology. Distacom is a company with more than 20 years of experience in mobile communication and was responsible for bringing mobile telephony to Hong Kong along with Hutchison Telecom. Spice cellular services have a strong customer base of over 700,000 in the two states with its subscriber circle rotating in 154 towns and cities of Punjab with centre at Mohali, Chandigarh and in 46 key towns in Karnataka covering more than 900 villages. It is widely considered as one of the best providers of mobile telephony services in India.

Tata Indicom

Incorporated in 1996, Tata Indicom is the brand of Tata Teleservices, part of the INR 54,000 crore (US\$11.2 billion) Tata Group. With an initial investment of INR 9,000 crore in the Telecom business, the company has established a formidable presence across the

telecom value chain. 'Tata Indicom' operates mobile and telephony services in eight key Indian circles of Andhra Pradesh, Delhi, Gujarat, Karnataka, Maharashtra, Mumbai, Tamil Nadu and Chennai comprising 70 percent of the telecom revenue potential of the country. Currently the services are retailed through company Public Centres and Franchisee centres. It all started with the acquisition of Hughes Telecom (India) Limited [now renamed Tata Teleservices (Maharashtra) Limited] in December 2002, after which the company has remained into rapid expansion mode all along. Very recently it acquiring Universal Access Service License (UASL), which was present in 12 new circles that include Bihar, Haryana, Himachal Pradesh, Kerala, Kolkata, Madhya Pradesh, Orissa, Punjab, Rajasthan, Uttar Pradesh (East), Uttar Pradesh (West) and West Bengal.

The services now include Mobile services, Smart Wireless Services, Public Booth Telephony, and Wireline services, besides other value added services like voice portal, roaming, post-paid Internet services, 3-way conferencing, CUG, Wi-Fi Internet services and data services.

BPL Mobile

BPL Mobile started its cellular services in 1995 and currently operates in Mumbai, Maharashtra, Goa, Kerala, Tamil Nadu and Pondicherry with a network spanning across 209 cities. The company has an establish retail network of 74 BPL Mobile Gallery, 77 BPL Mobile Showroom and dealers. While the showrooms offer entire range of BPL Household appliances and products, the BPL Mobile Gallery offers the following Services:

- Prepaid Connection
- Post Paid Connection
- Recharge Coupons
- Bill Payments
- Value Added Services (VAS)
- Enquiries
- Selling Handsets
- SIM Replacement

Besides the private players, state-owned corporations like MTNL and BSNL control a dominant part of the Telephony market in India, their strengths area being the fixed line services over which these institutions enjoyed a monopoly till the sector was opened to private players in 1994. In January 2005, the mobilephone subscriber base of BSNL stood at 8,699,352.

Some Challenges needs to be overcome

Despite the enormous growth opportunities available in Indian retail, the sector continues to be fraught by a wide variety of roadblocks that act as dampeners to the otherwise upbeat scenario. A few of them are as under.

Regulatory barriers Due to the threat to smaller domestic retailers from entry of global retailers and a ruling coalition government, the retail sector in India remains highly regulated, thereby, holding back its full-fledged advancement. Foreign direct investment (FDI) in the retail sector is not permitted though the Union commerce minister government has announced a draft proposal for allowing FDI to exclusive brand retailers. This issue is so critical for the sector's future performance that it has been dealt with separately in another section.

Lack of skilled human capital With new players entering the retail industry, there has been an upsurge in demand for skilled manpower. However, this is not backed by the available talent pool as the sector has only recently emerged from its nascent phase. Further, retailing is yet to become a preferred career option for most of India's educated class that has chosen sectors like IT, BPO & financial services.

Differential taxation system Even though the government is attempting to implement a uniform value-added tax across states, the system is currently plagued with differential tax rates for various states leading to increased costs and complexities in establishing an effective distribution network. Further, laxity in implementation of sales tax legislation has led to evasion by smaller stores giving them an edge over larger, organized formats.

Labour legislation Stringent labour laws govern the number of hours worked and minimum wages to be paid leading to limited flexibility of operations and employment of part-time employees. Further, multiple clearances are required by the same company for opening new outlets adding to the costs incurred and time taken to expand presence in the country.

Lack of 'industry' status The retail sector does not have 'industry' status yet making it difficult for retailers to raise finance from banks to fund their expansion plans.

Major Findings

DIA - A Vibrant Economy & Resplendent Market

- 4 largest economy in PPP terms after USA, China & Japan
- To be the 3 largest economy in GDP terms in next 5 years.
- 2nd fastest growing economy in the world.
- A US \$580 billion economy grew 8.2 percent in the year 03-04
- Among top 10 FDI destinations
- Stable Government with 2 stage reforms in place
- Growing Corporate Ethics (Labour laws, Child Labour regulations, environmental protection lobby, intellectual/property rights, social responsibility).
- Major tax reforms including implementation of VAT.
- US \$ 130 billion investment plans in infrastructure in next 5 years
- 2 Second most attractive developing market

- 5th among the 30 emerging markets for retailers A country with the largest young population in the world - over 867 million people below 45 years of age!

More English speaking Indians than Europeans 300 million odd middle class - the Real consumers - is catching the attention of the world with over 600 million effective consumers by 2010. India to emerge as a major consumer market of the world by 2010.

Conclusion

The organized retail sector in India is moving in phase of growth. Retailing is well past the stage of infancy where only a handful of players like the German retailer Nanz bought international formats to virgin Indian Territory and that too, with limited scale and operations. During the late 1990s, Indian retailers underwent an experimentation phase wherein new formats (department stores like Shoppers' Stop & Pantaloon) and product categories (consumer durables retailing, music retailing etc) were introduced. As the country marched into the new millennium, the organized retailing scenario began to stabilize, especially over the last 3 - 4 years when players like Big Bazaar, Barista, Pizza Hut, and Shoppers' Stop etc became successful in establishing a national footprint. This was also the stage when international retailers like McDonald's, Subway etc adopted a mix of global and India-specific strategies in order to entice the local population. India is now ready to leapfrog into the next stage of evolution where a large number of Indian and international retailers build scalable models with a pan-India appeal with a view to be sustainable in the long term. Already, players are becoming profitable after having gone through their respective learning curves indicating the viability of organized retailing across formats. Opportunities are abundant, across formats and categories, as the new Indian consumer has clearly demonstrated a readiness for all organized retailing segments. Moreover, as has been the case in retail markets across the globe, the influx of foreign brands into India shall transform the retail landscape as domestic players grow bigger and become more innovative in the face of enhanced competitive pressures. With this study the trainee was able to gain knowledge about the different formats in the retailing.

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