

**K.J. SOMAIYA INSTITUTE OF MANGEMENT STUDIES & RESEARCH**

**PGDM A and B – 2016 – 18 BATCH – Trim I**

**Business Perspectives in the Global Context**

Marks: 25

Duration: 2 Hours

Date : 27/09/2016

**NOTE:**

- 1) All questions are compulsory.**
- 2) Figures to the right indicate marks.**

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1) Read the following Case Study and present an in-depth analysis.

**(10 Marks)**

Indian telecom companies are no strangers to taking on the government. In the past, they have sparred with the government of the day and the telecom regulator, and sometimes even gone to court, over opaque policies, lack of adequate spectrum, net neutrality rules, call drops and competition from over-the-top (OTT) service providers such as WhatsApp.

The gloves are off again as India prepares for its largest auction of telecom radio waves—one from which the government hopes to raise Rs.5.63 trillion at the base price. The fight this time is over service roll-out obligations across spectrum bands, interconnection charges between operators and the coming entry of Reliance Jio Infocomm Ltd (R-Jio).

Incumbent telecom companies are alleging that the test phase of R-Jio’s 4G services, involving 1.5 million users, is of the magnitude of a full-blown commercial operation. They claim that as a result, telcos on whose networks calls made from R-Jio’s network terminate do not receive the so-called interconnection usage charge. They say the Telecom Regulatory Authority of India (Trai) is turning a Nelson’s eye to the conduct of R-Jio in “commercially” selling its phones in the guise of testing its network.

R-Jio, in which billionaire Mukesh Ambani’s Reliance Industries Ltd has invested Rs.1.5 trillion, has retorted that the Cellular Operators Association of India (COAI) is trying to sabotage its launch. COAI is primarily a lobby of large incumbent telcos, although R-Jio is also a part of it.

A lack of clarity over these issues has even prompted telecom operators to request the government to defer the spectrum auction, which is set to start on 29 September, by a few days to give them more time between the mock auction (on 26-27 September) and the actual start of the sale.

Big telecom operators such as Bharti Airtel Ltd, Vodafone India Ltd and Idea Cellular Ltd, which account for almost 75% of the Indian telecom sector’s revenue, are clearly not hungry for spectrum. They purchased adequate spectrum to build capacity in the auctions held during the last five years, and may only look to expand their coverage in the coming auction. Many telecom operators have put in place spectrum sharing or trading agreements with each other. Telco mergers have also reduced the need for additional spectrum.

**A buyer’s market**

Such factors may favour the telecom operators, but they do pose a problem for the government, which is putting on the block at one go, over 2.3GHz of spectrum across seven frequency bands—700MHz, 800MHz, 900MHz, 1800MHz, 2100MHz, 2300MHz and 2500MHz.

Besides the proceeds of the auction, the government hopes to collect a tidy sum of money from the various levies and services in the telecom sector in the year to next March to boost its finances. Additionally, spectrum sold in these bands will attract an annual spectrum usage charge (SUC) at the rate of 3% of the adjusted gross revenue, excluding the revenue from wireline services.

To be sure, the Rs.5.63 trillion the government expects to raise from the sale at the base price will not accrue to the national exchequer at one go but over the years. Buyers have the option of paying for spectrum in instalments.

### **A different auction**

India's largest telecom operators could cumulatively invest about Rs.1.2 trillion (Rs.120,000 crore) over the next two years to protect their turf as R-Jio debuts, according to the note. Over 50% of this will be spent on network augmentation and the rest to buy more spectrum and pay instalments for previous purchases, the note said. The top three operators—Bharti Airtel, Vodafone and Idea Cellular—are expected to account for about 55-60% of the total spending at the auctions, it added.

"The upcoming auction will be different in many ways," concurs a 16 July report by ICICI Securities Ltd. It lists four reasons why it is so. "First, the spectrum supply will be huge. Second, there is no renewal burden for the top three telecom operators. Third, these three companies are "fairly covered in the mobile broadband spectrum in leadership circles," hence, the spectrum demand is "largely in non-leadership circles". The fourth reason, according to the report, is "Reliance Jio's spectrum needs are minimal".

### **No dearth of spectrum**

"There is enough spectrum in the market. India is not a spectrum-deficient country any more, especially for data services," insists Rohan Dhamija, head-India and South Asia at Analysys Mason, a telecoms, media and technology (TMT) advisory firm. He pointed out that telecom operators have enough spectrum in all bands from previous auctions as well as through the trading and sharing route. Second, "they could acquire further spectrum from either of those routes going forward".

### **Selective buying**

Particularly, there might hardly be any takers for the expensive 700MHz despite it being the most efficient spectrum, simply because technology allows telecom operators to even use the 3G band effectively for 4G services. The one area where regulatory intervention could help is around the pricing of 700MHz, according to Dhamija.

### **Life after the auction**

The Crisil note points out that "better efficiency, resulting in lower capex, global commonality that supports ecosystem development, and sustaining the quality of service to counter Reliance Jio's 800MHz are the key reasons that make 700MHz so important for incumbents".

The other concerns revolve around the incidence of call drops and price wars, which are bound to

increase as the commercial launch of R-Jio's 4G services nears.

There are things which mobile companies still have to figure out, last but not the least of which is the potential impact of the goods and services tax (GST), when it is implemented from 1 April 2017—the government's target date. Just like any other service sector, telecom will also have to pay 3-5% higher taxes in the GST regime, reckons Sachin Menon, partner and head, indirect tax, KPMG.

"However, in the positive, all the non-creditable state taxes become creditable under GST regime would moderate the increased tax burden. If any of the services that should find place in the merit rate of 12% GST, the first in that list will be telecom services. It is the only service that is used by a majority of the common men and if the cost of the service goes up, it will have political implications as far as the electorate is concerned," he said.

### **Will Jio disrupt the Spectrum Auction?**

The government may have to look at another round of spectrum auction in case the one starting on 1 October fails to draw enough bids.

What could hurt the prospects of a successful completion of the current auction is the excessive amount of spectrum on offer, the high price of the 700 Mhz band as well as the aggressive launch of Mukesh Ambani-promoted Reliance Jio Infocomm Ltd putting pressure on existing telcos who already have over-leveraged balance sheets, a government official said on condition of anonymity.

The total spectrum on offer "is four times the holding of Reliance Jio and three times the present holding of (Bharti) Airtel. This is the kind of spectrum we are putting up so we don't expect all of it to be sold," the government official said.

"The other (fact) is that since pricing and revenues are under pressure in the industry because of the Reliance Jio launch, some of them might want to preserve cash to be able to compete. So that might have a downward effect," the official added.

- 2) **A)** Discuss the importance of CK Prahalad's ideas on Bottom of the Pyramid and Core Competency. **(07 Marks)**

**OR**

- B)** What contribution to management thought did the second phase of the Management century make?

- 3) **A)** Discuss in detail with relevant case studies the contributions to management thought made by any TWO of the following: **(08 Marks)**

- (a) Theodore Levitt
- (b) Michael Porter
- (c) Hofstede