

## **Impact of Reliance JIO on Indian Telecom Industry: An Empirical Study**

***Rajbinder Singh***

Assistant Professor

G.S.S.D.G.S. Khalsa College, Patiala (Punjab)

### **Abstract**

Telecommunication industry is one of the most emergent industries which face evolved very speedily in last decade. Currently India is the world's second largest telecommunication market and still growing. Mobile economy in India is increasing very fast and will add significantly to India's GDP. Indian telecommunication market is a excellent opportunity for network providers from native and exogenous Players.

Both Indian network providers' international providers receive considerable market share in the Indian mobile industry. Recently Reliance Jio has gave a big jolt to Indian telecom industry, schemes like free internet, free calling, 4g network provide a serious threat to others. Reliance Jio emerge a new choice and other service providers face a new kind of challenge and find difficult to cope up with new circumstances. This research paper discusses the features of the jio and also through some light on the competitive edge over other service providers.

### **Introduction**

Throughout the world telecom sector is one of the prevalent sectors. Study stats that India would be a speedily escalating hub for internet users, with market expected to be \$9 billion by 2020 (Deloitte, 2017). Indian telecom sector is becoming backbone for fast growing Indian economic of this decade. Jio came up in Indian telecom sector with a idea to make huge revenue by providing quality service at a very cheaper rate. It came with advantage of first biggest 4G network coverage across all 22 telecom circles in India (Jai Bhatia, 2016)

According to Paulasset, 2016 reliance jio is working according to Indian market; it gives best quality services at much less price. Reliance Jio also giving challenge to more than 30 businesses because it also enters in other service sector related to telecom sector.

### **Objectives of the study**

- To examine the impacts of Reliance Jio on Indian telecom industry.
- To analyze the major strengths, weakness, opportunities, and threats to Reliance Jio in Indian telecom industry.

### **Indian Telecom Industry**

Indian telecom Industry, largest growing industry, has massive potential to serve people and improving day by day. With awareness in young generation about this sector, the public demand is all time high and still increasing. With upgradation in technology and demand all major services providers from across the world entered in this sector. Government also makes liberal policies to facilitate investors and also setup a fair and

proactive regulatory framework. Telecom sector is expected to generate 4 million direct and indirect jobs in next 5 years. The employment opportunities to be created due to increases in market size in rural areas.

Major event in Indian Telecom Sector (2016):

1. Net Neutrality: Telecom Regulatory Authority of India (TRAI) banned differential pricing in the country, thereby ending zero-rated and free data services such as Facebook Free Basics. Thereby, no company can offer or discriminatory tariffs for data.

2. New Telecom Minister: Manoj Sinha took charge as the telecom minister replacing Ravi Shankar Prasad.

3. GST Bill passed: In August, the GST bill was passed though there were many uncertainties around the taxation rate, which would negatively influence its profitability. Through its revised draft of GST on Nov 2016, the government provided additional tax credit for the telecom companies. This is expected to go in tune with the Digital India initiative by the government and a strong rural telecom infrastructure will play a critical role. Though GST is expected not to be implemented before June 2017, we can expect to see some more changes.

4. Reliance Jio entry: Post the entry of Reliance Jio in to the mobile market, Jio has been focusing on gaining quick subscribers. They have already made discounted plans (which have disrupted the industry by making calling free) and easy access to SIMs by linking in to solely Aadhaar. It has been quick to gain subscribers reaching quickly 50M by end of 2016 and expected to double this by the end of Q1 2017. Though the subscribers that Reliance Jio has gained initially are the low ARPU (average revenue per user) customers and most of the customers are skewed to the low interest prepaid users, it has made quite a name for itself in the country. Though complaints persist in terms of service quality and internet speeds, Jio seems to be quickly fixing these issues and running towards the 100M subscriber mark. Though this will make it the third biggest telecom player in the country within the next 2-month, only time will tell about the profitability of this company. The industry has definitely taken a big hit in profitability already and share prices of the big players have dropped significantly; it seems that consolidation is a reality just waiting to unfold.

5. Spectrum auction: Government released 4G airwaves in the 700 MHz band among others for auction and the government expected to raise about 5.6 lakh crore from the auction sales. 700 MHz lies at the spectrum sweet spot for 4G deployment (right balance between area covered and penetration) thus making it very valuable to any telecom operator. The total auction proceeds to the government was a mere 65K crore, when compared to the expectation of 4 lakh crore (from 700MHz alone at base price) and the main reason for the same was the huge debt that the industry is already facing.

Telecom sector is witness lot of investments and developments due to daily increase subscriber base. The industry has engrossed FDI worth US\$ 23.92 billion from April 2000 to December 2016(Department of Industrial Policy and Promotion, 2017).

Some of the key developments in the recent past are:

- Bharti Airtel will buy Telenor's India operations in seven circles to receive 43.5 megahertz (MHz) spectrum in the 1800 MHz band.
- Ortel Communications, Odisha's largest multi-system operator, plans to invest around Rs 300 crore (US\$ 45 million) over the next two years, for upgrading its infrastructure, along with strengthening its reach, efficiency and competitiveness in the market.

- Reliance Communications Limited (RCom) has signed a binding agreement with Brookfield Infrastructure Partners to sell a 51 per cent stake in Reliance Infratel, RCom's tower unit, for Rs 11,000 crore (US\$ 1.65 billion).
- Private equity giant KKR & Co LP and pension giant Canada Pension Plan Investment Board (CPPIB) are in talks to acquire a significant stake in Bharti Infratel, which is expected at around US\$ 4 billion.
- Singapore Telecommunications Limited (Singtel), the major shareholder in Bharti Airtel, announced that it has signed an agreement with its majority owner Temasek Holdings Private Limited to purchase a 7.39 per cent stake in Bharti Telecom Limited, the parent company of Bharti Airtel Limited, in a deal worth US\$ 659.51 million.
- Axiata Digital, a subsidiary of Malaysia's largest telecom firm Axiata Group Berhad, has made its entry into Indian e-commerce market by investing Rs 100 crores (US\$ 15 million) in Bengaluru-based StoreKing.
- Government of India to make a windfall gain from sale of spectrum in 2016-17 and achieve its fiscal deficit target of 3.5 per cent of GDP for the year.
- Vodacom SA, a subsidiary of Vodafone Plc, has entered into an agreement with Tata Communications Ltd to buy the fixed-line assets of TataComm's South African telecom subsidiary Neotel Pty Ltd.
- Reliance Communications Ltd, India's fourth largest mobile services provider, has agreed to acquire Sistema Shyam TeleServices Ltd (SSTL), the local unit of Russian company Sistema JSFC, in a deal valued at Rs 4,500 crore (US\$ 675 million), which includes payments to the government for spectrum allotted to Sistema.
- American Tower Corporation, a New York Stock Exchange-listed mobile infrastructure firm, has acquired 51 per cent stake in telecom tower company Viom Networks in a deal worth Rs 7,635 crore (US\$ 1.14 billion).
- Swedish telecom equipment maker Ericsson has announced the introduction of a new radio system in the Indian market, which will provide the necessary infrastructure required by mobile companies in order to provide Fifth-Generation (5G) services in future.

## Reliance Jio

Reliance Jio Infocomm Limited announced the launch of its digital services with JIO in Mumbai on 1st September 2016 with Jio Welcome Offer. With the permission of Telecom Regulatory Authority of India, users will have access to unlimited LTE data and national voice, video, messaging services, Jio applications and content, free of cost up to 31 December 2016.

Reliance jio Vision:

- (i) The best quality broadband network with the highest capacity;
- (ii) A world of affordable, cutting-edge devices;
- (iii) Compelling applications and content;
- (iv) Superior digital service experiences;
- (v) Affordable and simple tariffs.

## Reliance Jio Market strategy

1. Digital solution for Education, Healthcare, Entertainment and Entrepreneurship.
2. Vo-LET technology with more features
3. Digital currency
4. Cloud Storage with Jio Drive

## SWOT Analysis

### Strengths

1. Reliance Industries is strong parent company backed up Mukesh Ambani.
2. Company has begun with 4G service with no tariff. It has strong financial capability to stand with initial losses.
3. Strong brand image due to excellent marketing and advertising strategy
4. It has brand ambassadors like shahrukh Khan and Amitabh Bachchan who has deep influence on masses.
5. It has technological advantages i.e. 4G LTE services with VoLTE.
6. It has built strong national network with investment of around \$20 billion.
7. Its network covers all the 22 circles across the India.
8. Jio apps are offering wide range of features like movies, shopping, chat, cloud, games etc. under one umbrella.
9. Jio compact with affordable LYF smartphones would increase the brand.

### Weaknesses

1. Advertisement showing PM picture would raise new controversies.
2. Mobile number portability is not very smooth and jio is expected large number of customers would migrate from existing service providers.
3. Company has to depend upon data consumption for profitability due to making voice calling free.
4. Jio made late entry would make difficult to increase market share.
5. Earlier company's telecom venture CDMA was unsuccessful.
6. Company has inadequate fiber optic capacity.

### Opportunities

1. The company can offer telecom services at competitive rates.
2. India has huge market for telecom services because of large scale availability of smart phones.
3. At international market company has huge opportunity in many developing countries.
4. Due to technological edge company can also promote exclusive services to consumers.
5. Company reliance communication has a huge infrastructure over the country.
6. Lower data tariff plans may further attract advertisement industry with option of e-marketing.

### Threats

1. People would not like to use jio after free services are over.
2. The initial phase of rapid increase it is very difficult to maintain a large consumer base to cross breakeven point.
3. Existing strong competitors having broader and loyal consumer base would tough to compete.

4. Indian telecom market is very competitive due to existing big players like Vodafone, Idea etc.
5. Changing government policies would also create uncertainty in market.
6. Fast upgrading technology from 2G to 3G, 3G to 4G and next generation 5G approaching shortly, needs huge investment plan to remain in market.

### **Impact on Indian Telecom Industry**

Reliance Jio disturb the telecom industry with its free services, and kept the pressure on competitors by announcing lower data plans and free voice calls and roaming starting on 1 April 2017. The share market also pays for its aggressive entry in telecom sector and RIL has jumped 13% in a week.

Reliance Jio has crossed 10 crore subscribers. Now question is that how many subscribers will convert in to paying consumers? Many analysts say the number would be 50%. Reliance Jio's average revenue per user would be high than competitors around Rs150. Company expecting average revenue per user is Rs227 in 2018-19 with more than 50% subscribers will opt Rs303 plan, while other on Rs149 plan. At an average revenue per user Rs227 company will need 11.1 crore consumer to reach breakeven point. But if company further reduces prices due to competition, it will need more consumers to reach breakeven point.

If 50% of company's subscribers remain stick to Jio, it will create serious repercussions for competitors. On other hand jio consumers who has also attach to other companies would reduce usage, as the result other companies would face decrees in average revenue per user.

Aggressive ad campaign of reliance Jio may also affect the industry's scenario. It will difficult for other player to grow their consumer base and it will lead to high promotional expenses.

Other important challenge is drop in pricing power of telecom companies. Because of aggressive pricing of Jio, other companies have no choice to reduce their prices. If other players fail to match the Jio's offer, their market share will go down and if they reduce rates, revenue will decree.

It is for the first time since 2008-09 that the annual revenue of Indian telecom companies turns down to Rs 1.88 trillion in 2016-17 and will decline more to Rs 1.84 trillion in 2017-18. The annual revenue is probable recover to Rs1.87 trillion in 2018-19.

Reliance Jio's extreme capitalism strategy, reflected in large capital deployment, has a massive effect on the industry. This is forcing number 2 player (Vodafone) and number 3 (Idea) to consider a merger. Possibly company is trying an acute endgame to become a super- dominant player in telecom industry.

Indian telecom sector is going through a change in completion, before there is competition regarding cheaper rates of voice calls and rooming but now the struggle is shifted over data packs, fastest speed, latest technology and cheaper rates.

The telecom industry directly employed 2.2 million people. New circumstances could lead to 30% job losses in next 12 to18 months due to automation of teleservices to cut costs.

### **Conclusion**

Reliance Jio's mega entry generates lot of drastic and unanticipated changes in consumer's behaviors. The entrant impacts the equilibrium and jolt the telecom industry. It leads to a uncertainty, the big services providers talks about mergers and acquisitions. Due to exiting barriers, they will not get of the industry but it becomes too difficult to survive for small players. The main objective of Reliance Jio is increasing their

consumer base by providing high speed internet at nominal rates. The company would have generated a significant market share in next 3-5 years. In end reliance Jio has successfully hit the target market and has deep pockets to invest but has threat to competition and technology.

References:

1. Jai Bhatia Economic & Political Weekly Oct8, 2016 vol. II no 41.
2. <http://www.ibef.org/industry/telecommunications.aspx>.
3. [http://www.rcom.co.in/Rcom/aboutus/overview/overview\\_milestones.html](http://www.rcom.co.in/Rcom/aboutus/overview/overview_milestones.html)
4. <https://www.budde.com.au/Research/India-Key-StatisticsTelecommunications-Market-and-Regulatory-Overview>
5. <https://www.geckoandfly.com/13143/50-things-smartphone-replacedwill-replace-future/>
6. Press releases on subscriber data, March 2013. Telecom Regulatory Authority of India. [www.trai.gov.in](http://www.trai.gov.in)
7. Parasuraman A., Valarie A. Zeithaml, and Leonard L. Berry. (1998). SERVQUAL: A MultipleItem Scale for Measuring Consumer Perceptions of Service Quality. Journal of Retailing, Volume 64, Number 1, Elsevier Science Publishing Company Inc., pp. 12-40.
8. Philip Kotler. (1995). Marketing Management – Analysis, Planning, Implementation, and Control, (8th ed.). Prentice Hall of India, New Delhi, p. 444
9. Philip Kotler, Kevin Lane Keller, Abraham Koshy and Mithileshwar Jha. (2009). Marketing Management-A South Asian Perspective (13th ed.). Pearson Education, New Delhi, pp. 462-463.
10. <http://www.livemint.com/Opinion/N1PfDasVBd2na99MWQX8aP/TheReliance-Jio-challenge.html>
11. <http://rupeetricks.in/reliance-jio-ekyc-aadhar>
12. <http://www.financialexpress.com/industry/tech/reliance-jio-4gairtel-vodafone-best-free-4g-data-plans-till-december-31-which-one-tobuy-data-tariff-war-india-all-you-need-to-know/393417/>
13. <http://www.timesnow.tv/business-economy/article/how-mobilecompanies-are-fighting-jio-effect/48725>
14. <https://www.ibef.org/industry/telecommunications.aspx>
15. [https://en.wikipedia.org/wiki/List\\_of\\_telecom\\_companies\\_in\\_India](https://en.wikipedia.org/wiki/List_of_telecom_companies_in_India)
16. Sharma RK, Shashi Gupta K. Industrial Organization and Management, Kalyani.
17. Gupta CB. Industrial Organization and Management, Sultan Chand.
18. Adrian Haberberg, Alison. Strategic Management, Oxford University, New Delhi, 2010.
19. Edward Freeman R. Strategic Management, Cambridge University Press, New Delhi, 2011.
20. Rajindar Aurora S et al. Mergers & Acquisitions, Oxford University, New Delhi, 2014.
21. [http://credencecapital.in/images/SectorCrashers/Telecom\\_Credence.pdf](http://credencecapital.in/images/SectorCrashers/Telecom_Credence.pdf)