

## **INDIA'S EVOLVING MOBILE MARKET AND COMPARISONS WITH CHINA**

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### **EXECUTIVE SUMMARY**

China's mobile market has grown strongly over the past 10 years, whilst India's market growth has been relatively slow. However, over the past year, India's mobile market growth has picked up strongly.

What factors are driving India's recent mobile market growth?

The recent mobile market expansion in India has been driven by a combination of enlightened regulation and market innovation

#### **Enlightened regulations:**

- Unified Licensing
- Reduction of interconnection charges
- Reform of the basis of licensing fee calculations

**Market innovation** addressing the needs of low income groups:

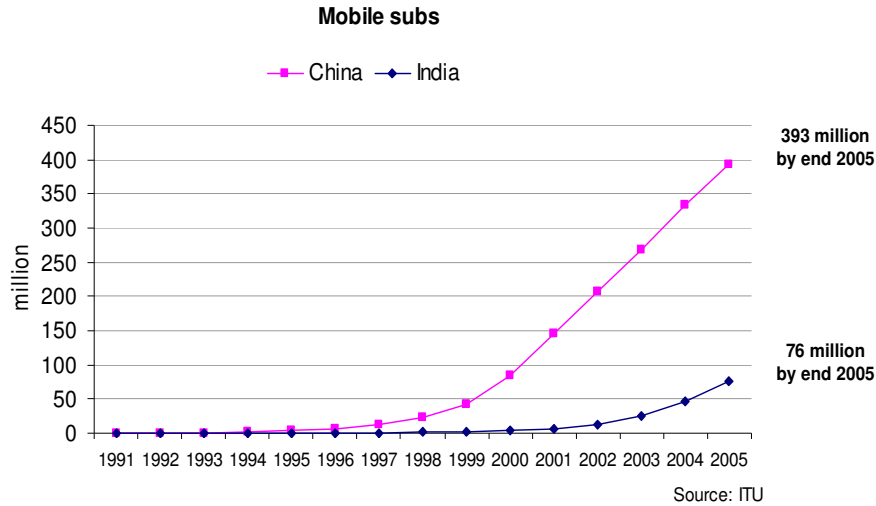
- Tariff plans
- VAS
- Handset market

#### **In this paper we also explore:**

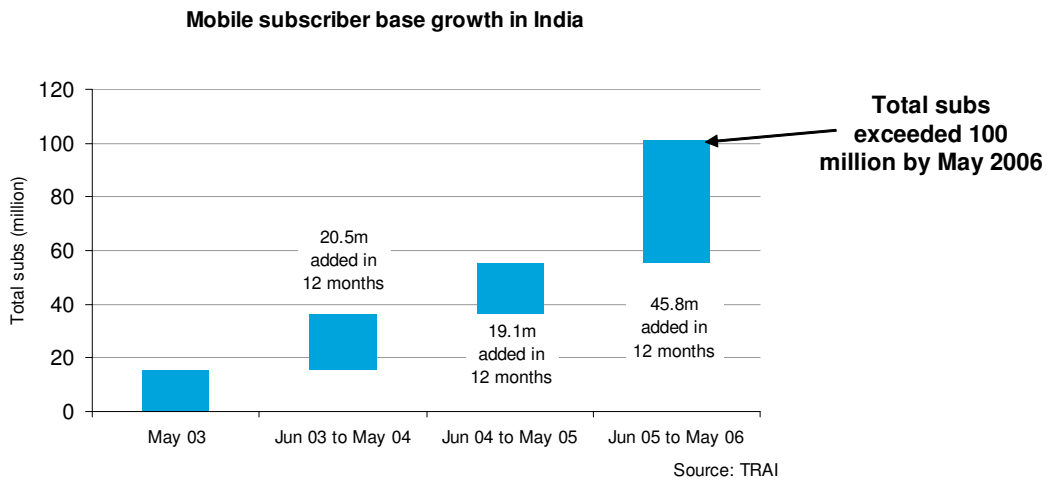
- What will happen to the Indian mobile market in the next 3-5 years?
- What are the implications of India's growth prospects for China?

#### **Situation in the past and now**

China's mobile market has grown strongly over the past 10 years, whilst India's market growth has been relatively slow. By the end of 2005, Chinese mobile subscriber base was over five times that of India. (See below)



However, over the past year, India's mobile market growth has picked up strongly. In the 12 months to May 2006, 45.8 million mobile subscribers were added, more than double of the additions from Jun 2004 to May 2005. By May 2006, the total number of subscribers has reached 100 million.



What factors are driving India's recent mobile market growth?

### Factors driving recent mobile growth in India

By crossing the critical 100 million mark, India has one of the largest mobile service markets in the world. In last two years alone, mobile phone users have jumped from 50 million to over 100 million. Other than the trend of growing household income in India, the recent mobile market expansion in India has been driven mainly by enlightened regulation and market innovation. We explore each of these drivers below

## *i. Enlightened Regulation*

The Indian Government has been promoting market liberalisation and simplifying regulation:

### **1. Introduction of Unified Licences**

Indian government has issued new type of unified licences to operators, enabling them to provide both fixed and mobile services. Fixed-Mobile convergence makes the bundling of services easier and operators are offering much wider choice of product to consumers. The unified licences also allow interconnectivity across contiguous circles, it is no longer necessary to route inter-circle traffic through a National Long Distance operator which causes delay and increases costs.

### **2. Lowering of interconnect charges**

Lowering interconnection charges has direct impact on mobile service tariff and interconnection traffic will be boosted significantly, both fixed to mobile and mobile to mobile services will benefit.

### **3. Made licence fees 10%-15% of revenue instead of a fixed amount irrespective of the operator's revenue**

The fixed amount licence fee posed a serious entry barrier to smaller operators and service providers before, now with fee linked with revenue, small players can grow, evolve and diversify into different segment and offer innovative products and services to the market.

### **4. Simplified frequency allocation process**

Radio spectrum is critical for mobile service, therefore if frequency allocation process is lengthy and bureaucratic, mobile services deployment will be delayed and it will hamper the whole industry's development. As the allocation process is getting more simplified and transparent, networks are rolled out faster.

**In summary, regulatory changes have lowered tariffs, bringing down overall cost of service ownership and boosted investments in the networks which enhance both mobile service quality and capacity, widened network coverage, which in turn will further lower the tariff, then encourage more consumers to take up services.**

## *ii. Market Innovation*

Market innovation has contributed to the reduction of the cost of ownership and made services more accessible for low income groups which are very price sensitive. To overcome this hurdle, Indian operators boost the penetration in low income groups with use of innovative tariff plans, offer very cheap handset to the public and exploring attractive VAS which are appealing to different segment of customers.

### **Innovative tariff plans**

- Incoming-only plans - employers got phones for chauffeurs and domestic staff; companies keep in touch with mobile work force
- One India tariff plan (1 Rupee/min anywhere in India) – simple to grasp
- Lifetime prepaid plan – no obligation for regular recharging
- Barter of talk minutes for extension of account validity
- Affordable (e.g. 10 Rupees) top-up values for prepaid accounts

### **Affordable Handset**

- The availability of low cost models from handset manufacturers – price as low as Rs1,300 to 1,400 (US\$ 29 to 32)
- An active second-hand handset market – handsets selling at as low as Rs300 to 400 (US\$ 7 to 9)

### **Attractive VAS that is compatible with less sophisticated handsets**

- Provision of a voice portal for the cricket-crazy to access match scores

With transparent, simple regulation and innovative operators, the India mobile market is expected to continue to grow strongly. The Indian government has set the target of having 500 million mobile subscribers by 2010.

### **India's 2010 target and meaning to China**

The Government has set a mobile subscriber target of 250 million by the end of 2007 and 500 million by 2010. India's mobile market is likely to grow strongly in the next 3-4 years. However, the market size is likely to remain smaller than China's due to socio-economic and other constraints:

- Lower level of urbanisation would result in lower overall addressable market because it is less cost effective to serve rural areas compared to urban areas.

Urban population (as % of total)	<b>India</b>	<b>China</b>
2003	28.3%	38.6%
2015	32.2%	49.5%

Source: United Nations Development Program

- Size of the middle class is growing but remains small: 58m\* in households with income above \$4,400 – several times smaller than

China's. India GDP/capita is less than half of China (US\$705 vs. US\$1709 in 2005 from 2006 IMF report)

- A relatively fragmented mobile market which is driven mainly by private operators who are understandably very conscious of diluted shareholder return by serving less profitable areas.

### **What does India's growth prospect mean for China?**

There are opportunities for vendors to provide low cost infrastructure for rural coverage and converged WiFi / cellular support in urban and rural areas. Low cost GSM and CDMA handsets are also the key for higher penetration for both countries. With 3G on the horizon, there are similar opportunities for 3G handsets in the next 3-5 years.

Chinese operators can take reference from India on ways to penetrate low income groups in China to boost mobile population

- Design VAS compatible with basic handsets
- Provide tariff plans that require very low cost to keep subscriptions active
- Make ultra-low cost handsets available.

\* Source: National Council of Applied Economic Research, India