Price war deficit the revenue of MTNL during 21st century: A case study to analyze the market share of MTNL

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***Abstract*— The mobile service in India is fastest growing market in world. It is now having the second largest number of mobile connections in the world after China. Mumbai financial capital and Delhi political capital of India are two metropolitan cities where mobile user is at larger number. There are more than five operators in Mumbai and Navi Mumbai including Thane it is becoming difficult for MTNL to retain their market share. MTNL and other operator are all making possible efforts to increase their market share. The mobile services provided by all of them are having almost same features. The MTNL is making all possible efforts to increase their market share. MTNL have tied up with software firms to provide content and niche services. They are adopting competitive strategy to differentiate their services from others. In order to penetrate the market they are offering the lowest call tariffs in the Delhi and Mumbai. The only way to earn profit is by the economy of scales. MTNL has positioned Trump and Dolphin its prepaid brand and postpaid brand as the most affordable mobile service in the market by providing Price Leadership in voice and data services. This has raised problem to MTNL which was one of the Navratna Company of Government before 2000. The objective of this research is to find how price war deficit the revenue of MTNL. A case study is to analyze the market share of MTNL.**

***Index Terms*— Competitive Strategy, Market Share, Brand, Services.**

I. MTNL AT A GLANCE

MTNL was set up on 1st April, 1986 by the Government of India to upgrade the quality of telecom services, to expand the telecom network, and introduce various new services and to raise revenue for telecom development needs of India's key metros - Delhi, the political capital and Mumbai, the financial capital of India. In the past 25 years, the company has taken rapid strides to emerge as India's leading and one of Asia's largest telecom operating companies. Besides having a strong financial & economic base, MTNL has achieved a subscriber base of total 5.92 million as on 31st March 2014.

The company has also been in the forefront of technology induction by converting 100% of its telephone exchange network into the digital mode state-of-the-art. The Government of India currently holds 56.25% total stake in the MTNL.

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II. MISSION

The mission of MTNL is to be continued to be remain market leader in providing IT related and world class telecom services at very low and affordable rates and to become a world player.

III. VISION

Become a total solution provider company and to provide world class telecom services at affordable prices. Become a global telecom company and to find a place in the world 'Fortune 500' companies. Become one of the largest providers of leased lines and private networks. Entry into other areas in India and out of India on the strength of our core competency.

IV. CORPORATE OBJECTIVES

1. To expand customer base and services.
2. To provide latest technology and services to the customers, at very low and affordable cost.
3. To achieve the highest level of customer satisfaction and delight.
4. To diversify in other areas for providing telecom services at national and international levels.
5. To provide convergence of I T, Telecom and other related services.
6. To improve productivity by training and redeployment of man-power.
7. To work for social benefits.

Corporate Governance MTNL has been following the principles of Corporate Governance. As it is understood, the principles and Corporate Governance deals with implicit rules, practices, procedures and laws and that determine a company's ability to take informed managerial decisions via its stake holders, in particular its employees the state, shareholders, customers and creditors.

Considering the tremendous growth of opportunities and private sector that have become available, availability of employment in telecom & IT sectors and retention of suitable manpower is one of the a biggest challenge for MTNL.

V. MAIN SERVICES OFFERED BY MTNL

MTNL is offering complete bouquet of Telecom services to meet the needs of Government bodies, Corporates, Companies, individuals etc. MTNL offers the following mains Telecom Service:

1. Basic and Limited Mobile Telephone Services
2. Cellular Mobile Telephone Services
3. Limited Mobile Telephone Services - Garuda
4. Internet Services
5. Intelligent Network Based Telecom Services
6. Broadband Services
7. IPTV Service
8. Voice over Internet Protocol
9. Wi-Fi
10. ISDN
11. Leased Circuits
12. Digital Certificates
13. MPLS / VPN
14. PCO
15. Value Added Services

VI. HUMAN RESOURCE DEVELOPMENT AT MTNL

The Company attachés the highest priority to the quality of intellectual capital at its disposal and believes that knowledge and skill level of its employees are the key to achievements of its corporate mission. MTNL has a sound recruitment policy and comprehensive training system. During the past one year, MTNL has laid greater emphasis on HRD & faculty development. MTNL have been devoting substantial resources on building a skilled workforce that has an innate capability to counter threats posed by ever changing business environment and to take advantages of opportunities presented to serve ever increasing customer base. MTNL has been conducting various training and development activities, reorienting the employees towards the greater organizational purpose and are also focusing on eliminating skill gap and technical obsolescence. The management's view of MTNL for training is one of the biggest developments of employees' overall personality and enabling them in becoming a vital productive resource.

VII. OBJECTIVES

The objectives of following research are as follows:

1. Reason for Huge Loss in GSM Sector.
2. MTNL Mange to Become Immaterial
3. Market share of Telecomm Companies
4. Risk Involved by MTNL on Revenue Loss
5. Government Perception
6. MTNL Survival Strategies

As a reliable service provider, Mahanagar Telephone Nigam Limited (MTNL) had the commitment of bringing the latest technologies in the field of telecommunications within the reach of the common man. Towards this end, MTNL ventured into Global System for Mobile Communication (GSM) to launch Cellular Mobile Telephone Services (CMTS) in Delhi and Mumbai. MTNL obtained the license from the Department of Telecommunications (DoT) for operation of CMTS in Delhi and Mumbai in October 1997 and for adjoining areas of these cities in January 2001. Thereafter, MTNL started its CMTS by launching post-paid mobile service (Dolphin) in February 2001 and pre-paid mobile service (Trump) in January 2002. Some of the multi-service facilities provided by the GSM are roaming, high speed data (HSD) transmissions, tele services, bearer services, supply services, voice mail service (VMS), intelligent network (IN) services, short message service (SMS) and broadcast services.

Reason for Huge Loss in GSM Sector

1. MTNL failed to capitalize the growing mobile market for its delayed action
2. Delay in providing services in areas adjoining Delhi and Mumbai.
3. Failure of MTNL to procure system of pre-paid service in time led to loss of subscriber base for pre-paid service in favor of private operators.
4. Procurement of equipment for CMTS (Cellular Mobile telephone Services)
5. Failed to Procure of mediation device, billing and customer care equipment etc.
6. Billing Problem seriously affected the services
7. The entire project for installation and commissioning of CMTS was badly delayed and was yet to be completed
8. MTNL Delhi constructed BTS sites without prior approval of Municipal authorities.
9. Mumbai unit failed to recover LD for delay in integration of BTS sites
10. Subscribers base of Delhi and Mumbai unit showed negative growth

VIII. MTNL MANGE TO BECOME IMMATERIAL

Competition is never kind to incumbents. The entry of new private operators, there hungry for growth, changes the rules of the game. As the time changes MTNL should ready themselves for the new game and they should try to accompany with time.

This is what happened to government-owned PSU Mahanagar Telephone Nigam (MTNL) in late 2000, when mobile telephony began to boom in the India. MTNL failed to capitalize on the generation shift and are now on run the risk of becoming irrelevant and irresponsible towards the subscribers. MTNL is struggling with great losses.

In FY14, MTNL reported a loss of Rs 3,575 crore (adjusted for exceptional gains) on net sales of Rs 3,391 crore. The biggest problem for this company is high employee cost and the legacy of their local fixed line businesses. MTNL has today 3 & 1/2 times more employees then the private operators baring most of revenue at their staff salary.

Note that till FY08, MTNL was among India's most cash-rich companies, with combined cash and equivalents of nearly Rs 45,000 crore.

MTNL till now have managed to maintain their leadership in the fixed line and broadband business but have failed to catch consumer attention in fast-growing mobile telephony. This has been proving costly as more and more consumers choose the convenience of mobile devices over fixed land lines. Experts say the public sector company is certain to lose more market share. Initially, MTNL had seen rapid growth in its mobile services. It failed to consolidate the position and has continuously lost market share since 2008.

Things are getting worse in case of MTNL that has operations in Mumbai and Delhi only. The current mobile user base is less than what it had in March 2007. Since it was late to introduce 2G as compare to other operators, till now it had large amount of loan amount pilled upon it. It now accounts for total of 0.4 per cent of the entire sectors users and 1.7 per cent of total gross revenue.

What didn't happen: A Case study on MTNL?
Experts say the company failed to build a market and brand equity together. In today's telecom era there is little differentiation between various operators. The various telecom operators is more or less commoditized and this makes branding and promotion key to grab customers attention. MTNL failed to get this right and have nearly lost number subscribers says one of the telecom analysts at Motilal Oswal Securities.
Others say public sector undertakings face structural problems that can't be resolved purely through marketing and branding. The government was not able to infuse new and valued skills in the companies for their staffs, since the industry was rapidly transforming in the 90s and 20s period. Thus outcome was that their employees were not skilled enough to operate in an environment that required agility over systems and processes ben involved," says one of expert. The government should have allowed these companies named MTNL & BSNL to partner with a foreign mobile operator, either through joint venture or equity stake. This would have probably brought in work culture and new skills, besides necessary capital and technology and it would have allowed them to compete more effectively with new private sector entrants, most of who started with a strong foreign partner.
Various experts predict a dark future for MTNL, unless the government takes some tough decisions without more delay. With losses mounting on MTNL it is now losing capacity to make further investment in their network and risk of losing more customers and businesses to their competitors. This has raised a question over their survival," says one of the telecom analysts based on their survey.
Chowdhary says there is way out is to restructure and restore the companies and separate the profitable divisions from loss-making ones. One that it can then be privatized either through listing on stock exchanges or outright sale to foreign or private operators. These losses are largely due to local fixed line services, which are saddled with high employee cost and low profit. The mobile telephony and long-distance call over India would still be profitable. Many investors would be interested in these and they would be spun off from the parent company. One of the alternatives is to wait for slow mourning of these companies, as they are pushed towards the margins and customers are away by hungry and agile private sector companies

IX. Market Share of Telecomm Companies

Private sector players have played an important role in the rapid growth of the wireless segment. These private players totally account for around 89.01% of the total wireless subscriber base. While government owned companies has been instrumental in the development of the wire line service, the growth in wireless subscriber base for these entities has been relatively slower compared to the other private entities. Till now there are more 10 wireless service providers (including 2 PSUs) exist and compete in different states of India.
MTNL along with BSNL, the two PSU operators hold only 10.99% market share. The graphical representations of market shares and all the service providers during the month of January, 2014 are depicted below:

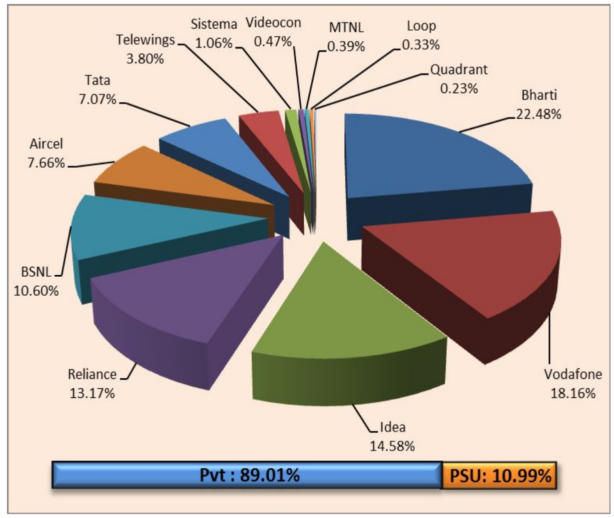

Fig 1: Market shared Of Telecom Companies

Only 2 private players, Bharti Airtel and Reliance Communications, have all India presence along with government-owned entities, MTNL and BSNL. Many other players have been taking initiatives to expand operations across the country. The GSM sector is mainly captured by players such as Vodafone, Airtel, Reliance and Idea Cellular etc. while the CDMA sector is dominated by Tata and Reliance. Bharti Airtel is the largest GSM mobile operator in India and has a largest user.

X. RISK INVOVLED BY MTNL ON REVENUE LOSS

MARKET RISKS

The cities of Delhi and Mumbai are among the most competitive markets for the telecommunication companies. MTNL faces competition from the other mobile operators. Due to this there has been increased pressure on margins due to reducing tariffs and also on the customer retention and acquisition. The Average revenue/user base is also going well down due to many plans introduced by various operators. With various operators coming in Delhi and Mumbai metropolitan regions, competitive pressures are likely to be increase further, putting a further strain on its margins. DOT has issued LOIs to a number of new players which will lead to increased competition in the market share. Since MTNL had been placed only in two cities that is Delhi – political capital and Mumbai – financial capital of India, therefore MTNL is not able to expand its telecom services beyond its area of jurisdiction as per the rules laid.

POLICY AND REGULATORY RISKS

The telecommunications sector in India is one of the highest taxed sectors. The high level of license fee is a big strain on the economy of the company. This has been paid over and all above other taxes and duties which are levied on all other different businesses aspects. Regulatory policies cannot be fore fold and may at certain time, be such to affect the financials of the companies.

MANPOWER RISKS

There is a large amount workforce and a large amount of revenue is spent on staff salary. In compare to the staff costs of other network operators, it is much high in MTNL and this is one of the biggest risks which the company is facing, now a days it has been little flexible in the matter of no time and may have to continue to carry the cost of employees.

XI. OUTSTANDING DUES

Over the years, the amount owned to MTNL by its customers had been increasing at very high rate. Realisation of dues from subscribers has become even more difficult in the increasing competitive Telecom services as the customers can close the connection and take services of different operators. Efforts are being made to reduce the outstanding and some success has been achieved in bringing down total outstanding in a multi operator environment, this remains risks.

XII. GOVERNMENT PERCEPTION

The Government said there has been a continuous increase in the mobile subscriber base of state-run telecom firms of MTNL during the last four financial years to 2011-14. "During the last four years of 2011-12, 2012-13, 2013-14 and 2014-15, MTNL, have achieved a continuous increase in their mobile user base" Till the March end that is the financial year 2014, MTNL had around5.59 million subscribers in their pocket. The Minister said customers of public sector firms "sometimes face problems" with regard to quality of service (QoS). However, MTNL are in general, meeting the QoS benchmarks prescribed by TRAI (Telecom Regulatory Authority of India).

The Minister said MTNL have initiated a number of steps to increase their subscriber base which includes special consumer retention camps, monitoring of QoS parameters, and improvement in customer care services among others.

XIII. MTNL: Survival Strategies

Stiff competition from private players, losses on the financial bases, mounting of operational costs, low brand perception, and a dwindling wire line business have stripped government-owned telecom operator MTNL of its earlier monopoly status. Form the last few years PSU i.e. MTNL was in the news for being plagued with various issues and for its attempts at revive.

Developments like mobile number portability (MNP), the grant of broadband wireless access (BWA) spectrum and launch of 3G which, have only added to MTNL's difficulties but welcomed by private operators. While the payouts for licenses, BWA spectrum and 3G have impacted the company's total balance sheet, it has little contributed in terms of their user base and revenues of MTNL. MTNL along with its brother concern Bharat Sanchar Nigam Limited (BSNL) has been one of the worst-hit operators in terms of consumer following the launch of MNP. Both the MTNL and government spent last year i.e. 2014 chalking out strategies to work out the damages they have incurred. From restructuring exercises to monetary relief, they left no stone to chalk out the plan. However, still the company's woes are far from over.

XIV. KEY ISSUES

One of the biggest issues for MTNL that it's has low brand value. MTNL serves the metro circles of Delhi and Mumbai, and coverage has never been an issue for them. However, the service quality as well as customer care have not been up to standard and are amongst the major reasons behind the operator losing out on high-end subscribers. That subscribers are not satisfied with its services is evident from the fact that within the first three months of MNP launch, the operator had lost around 20K subscribers. In the same period, only 5K mobile users joined its network.

The operator had a first-mover advantage in 3G and BWA as the government allotted it spectrum a year ahead of the auction held for private players. However, MTNL failed to capitalize on this opportunity. MTNL took a short-term loan of Rs 70 billion for acquiring BWA spectrum and 3G in Delhi and Mumbai cities. Pensions, steep payouts for employee salaries, high operating costs, retirement benefits and are other expenses are being incurred by the company till date.

The numbers in terms of subscriber market share are not too promising either. This places it fifth in the pecking order in terms of subscriber market share in both the circles. Few basic services like customer care assistance, bill payment and online recharge, which have become important for metro mobile users, are still missing from MTNL's service offering in Delhi and Mumbai. This has become one of the major disadvantages in the metros cities, where internet mobile penetration is very high and people are paying their utility bills online, thanks to internet.

XV. Attempts at Revival

MTNL is now literally in damage control mode. MTNL, with the government's assistance, is taking various steps to restore its position in the telecom market.

One of the key areas it is looking at is downsizing its employee strength, which stood at 45K buy the end of December 2014. In accordance to that it had asked DoT to clear a voluntary retirement scheme to be offered to 15K staffs. This scheme will require MTNL to make a one-time payment of Rs 20-Rs 30 billion. MTNL has asked DoT to help it financially to implement the scheme and properly evaluate it.

MTNL also announced an over oiling of its marketing and customer care operations in Delhi and Mumbai in 2013. The marketing department and customer care units(CCU) in Delhi and Mumbai have been asked to focus more on the business segment and target a significant improvement in call completion rates on MTNL's GSM and CDMA networks. For this company aims at a double-digit improvement across its landline and mobile networks in the two metros cities.

Faced with a mounting financial losses and cash crunch, MTNL had decided to go in for revenue sharing arrangements with other private companies to launch new services. For this, it has invited bid of interest for outsourcing its BWA business and has hired global consultancy firm PricewaterhouseCoopers to scout for franchisees for BWA services. Following its brother's company BSNL's footsteps, MTNL have taken a tough decision regarding its employees' performance every year. MTNL under DoT's guidance is planning a performance review of top MTNL officials along with non-officials on a monthly basis to keep a check on their activities. Moreover, the MTNL management team has warned its staff that there could be a cut in pay in future if they fail to improve their overall performance as per the company's guidance. The Government of India has directed MTNL's management to make tough calls and also advised to make the Mumbai and Delhi circle heads financially strong, viable and accountable. Future budget allocations for these circles would be linked to the revenues achieved.

The management is eyeing on alternative revenue streams to improve the company's financial position. MTNL, which has lot of land resources in the metropolitan region, is chalking planning out the plan to rent out space for commercial and business purpose. Rate of property in these two metro cities that is Delhi and Mumbai are very high and hence this property can generate significant amount of revenues for MTNL in upcoming year.

MTNL has also explored the possibility of entering into roaming arrangements with private entities for 3G services. Since many private operators do not have spectrum and licenses for the two metro circles, this could have been a key revenue source for MTNL. Tata Teleservices Limited, Idea, Uninor and Aircel etc. were operators keen on entering into intra-circle roaming and are making arrangements with MTNL. However, the deals were put on hold by DoT since it is opposing such agreements.

To manage its mounting debt situation, MTNL is in the process of restructuring its Rs 70 billion loans which it took for buying BWA spectrum and 3G services. MTNL has laid down the many plans to convert Rs 30 billion of loans into a long-term debt with many banks and tender is been floated further. By end of July 2011, MTNL had invited expressions of interest from various banks for providing long-term loans of Rs 15 billion with a floating interest rate with 7yr tenure. The company had already restructured Rs 35 billion of debt by repaying Rs 5 billion and tying up with two banks for the remaining Rs 30 billion.

XVI. THE WAY FORWARD

Going forward, broadband will be a key thrust area for MTNL since it provides maximum revenue. Despite the fact that the MTNL provides broadband services in only two metropolitan circles Delhi and Mumbai, it had been the third largest broadband service provider in India, with around 2.47 million broadband subscribers and it has trust on its broad band services only till now. By the end of year 2014, the MTNL is likely to float a tender, worth around Rs 20 crore, for there expansion of its 2G and 3G network services at very low and affordable cost. Furthermore, MTNL is looking to offer broadband services, 3G and2G at competitive and affordable prices. The going, no doubt, is tough for MTNL but they can try for growth and remove financial crunches. With several measures being taken to resolve the various issues, MTNL is hopeful of positive outcomes in the future.

CONCLUSION

The scenario of cut throat competition and reaching saturation point of subscribers is evident all over the world and India is not the exception for the same. Many mobile operators in India is about to reach saturation points in consumer penetration. Indian telecom companies have a fear of hitting a growth wall. Almost all the telecom companies are facing competition, declining average revenue per user and continuous rising costs. This scenario is hitting the profitability of the telecom companies.

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