

IMPACT OF RELIANCE JIO ON VODAFONE-IDEA: AN ANALYSIS

¹ Ms. Akanksha Baxla, ² Ms. Priyal Saraf,

¹Assistant Professor, ²Assistant Professor,

¹ Department of Commerce, ² Department of Commerce,

The Bhopal School of Social Sciences, Bhopal, India

Email - ¹akankshabaxla@gmail.com, ²priyal.saraf20@gmail.com

Abstract: Telecommunication sector in India is the second largest in the whole global economy, with over 1.2 billion subscribers. Due to high population, Indian telecom industry has been very competitive, with many brands being operating in the market. Due to challenging business environment many exited the market. And in today's scenario only handful of companies are operating which are Airtel, Reliance Jio, BSNL, Idea and many others. Among the following Reliance Jio being the strongest and the most emerging player in the market, came into competition on 5th September 2016. The strategy which helped Reliance Jio capture the maximum market share was free internet service to Jio prime customers which compelled its rivals to lower the data rates. Upon its launch **Reliance welcome Offer** was introduced where 4GB data was provided to customers on daily basis. And there were many add-on features which made JIO data package favourable for customers of all age and cadre.

This all had an impact on the other players in the Indian telecom market, with other telecos' facing a sharp drop in their monthly average revenue per user, which was approximately 42%; this being also called "The JIO effect". Coming on, there were two major telecommunication companies, Vodafone and Idea whose business was grossly affected and therefore these collaborated to face this Jio effect. These got merged on 31st August 2018 to form Vodafone Idea Ltd. in order to fight this neck to neck battle with Reliance Jio.

Key Words: Telecommunication, Jio Effect, Collaborated, Merger.

1. INTRODUCTION:

The Indian telecom sector has seen an emerging trend in the last decade and is the world's second largest telecommunication market after China. India has surpassed the United State of America in the case of being the second largest telecom market. Telecom sector had contributed 6.5% to the Indian GDP, which is expected to increase to 8.2% by the next financial year. This growth has been the outcome of many supporting companies and industries also who have their business units in India. These have proved to be associate supporters to the overall Indian telecommunication sector. Telecom Regulatory Authority of India is a statutory body set up by the government of India, which supervises all the telecommunication companies in India. The telecommunication sector in India has aided in narrowing the rural-urban digital divide; and has also infused social and economic strength in the country. E-governance is one of the ways through which Indian Telecom industry has contributed towards the growth of the economy. From the above information it is clear that the telecom sector in India has a huge impact on the overall economic growth.

Reliance Industries is one of the leading corporate companies of the economy. Headquartered in Mumbai, the company is the first one in the country to breach 100 billion dollar market capitalization; and thus is even listed at the 148th rank of the fortune 500 list. This company has diversified in the sector of energy, petrochemicals, textiles, pharmaceuticals, and telecommunication. Reliance Jio is the outcome of a firm stand of the company in the telecommunication sector.

Vodafone being a British telecom company entered India in the year 2007 under the name Hutch. The company initially gained a good share in the market with its innovative marketing skills; but the glory could not last long.

Idea cellular limited one the most renowned mobile service operator in India. It belongs to Aditya Birla group and was founded in 1995. It ranks third in case of subscriber numbers. The company was very successful in building its customer base by providing good services but failed to lower the prices for customers in an immensely competitive telecom service market.

2. LITERATURE REVIEW:

Indians suffered from low internet speed, poor connectivity and high prices of data packs. The accessibility to 4g services was very limited and not affordable for many customers. By identifying the opportunity Reliance launched Jio with initial offer of providing free voice calls and internet services of 4GB data per day to its customers. Later they reduced the daily data limit to 3GB per day but as India has price sensitive market many customers were drawn towards

Jio's lucrative offers. Jio was providing not only free internet but free calling service too which had caused a huge shakedown in telecom industry where majority of revenue of telecom companies were through voice call rates. Jio also introduced LYF mobile phones which supported 4G network along with free Jio sim. Jio paved a way for increase in mobile subscribers in rural areas where internet consumption was low. Many market analysts commented that when the free packages will be end the Jio subscribers will drastically reduced but rather it was opposite as due to the market strategy of free data Jio was able to build a loyal customer base. Jio offered free voice calls and data until 31 December 2016 in a promotional offer then extended it to 31 March, and further to end of June. Jio has earned more than 100 million since its launch. The other major telecom companies like Vodafone and Idea who were the major players in telecom industry were not anticipating such swift changes in market. These two companies experienced major downfall in their revenues and subscriber numbers due to intense competition and reduction in internet charges. They were forced to lower the prices to retain their customers. The heavy losses incurred by these companies have led to substantial fall in their share prices.

Vodafone India's operating profit for year 2017 fell over 10% and revenue slipped at the rate of 0.5%. The offers provided by Jio disrupted telecom market and caused a price war as a result the operating profit of Vodafone India for the financial year 2017 fell to Rs 11,784 crores, while service revenue fell to Rs 42,956 crores.

The slowdown in their business was caused by free services provided by Jio which dragged down data and voicing prices. This price war has reduced Vodafone India's average revenue per user (ARPU) from Rs 174 to Rs 158 with decrease in data browsing revenue by 16%. The company also faced sharp decline in voice call revenue by 13%. It faced continued losses as service revenue declined by 18.7% as a result of aggressive competition.

In February 2018 Vodafone's CEO declared 80% loss in their business due to new rules and regulations of TRAI (telecom regulatory authority of India) related to predatory pricing. Under this new regulation TRAI will impose penalties up to RS 50 lakhs on operators if service rates are predatory in nature. As per TRAI data and voice tariff will be considered predatory if the if a telecom operator having more than 30% of market share offers services at a price below average variable cost with the objective of reducing competition. This was a major blow back for Vodafone as management wanted to introduce low rates of services. On July 2018 in order to regulate the service quality of the telcos fine was imposed by TRAI if the companies failed in compliance of the quality benchmarks set up by the regulatory body due to which Vodafone had to pay the fine up to 9 lakhs.

The criteria for these fines were related to call drops, time-bound refunds of deposits and response time of calls answered by operators. The penalties were related to non compliance of standards in case of metering and billing (postpaid and prepaid services) and accessibility of call centers response time of the operators. Due to free services provided the telecom industry in India witnessed 90% fall in the data rates. The voice call rates dropped to 58% hence major step was to be taken by Vodafone to survive in the telecom market.

The other company which faced the consequences of JIO effect was Idea cellular limited. The Idea cellular company suffered a great loss in 2017 with its 6.4 million data customers switching from to JIO. Also in 2018 the share value of the Idea Cellular Company suffered a decrement in the value by almost 50%. And this way both the telecom companies had to swallow a bitter pill named JIO effect.

3. METHOD:

The study is mainly based on secondary source of data. The data has been collected from sources like research articles, research papers, Journals, press release, and other e-sources.

The paper is an outcome of the changes in the telecom industry of India, mainly focusing on the JIO Effect. This effect had a negative impact on the other telecom companies namely, Vodafone and Idea Cellular Limited. These companies planned to amalgamate in order to save themselves from the JIO wave; which would have swiped them off the market.

- To understand the changes which happened in the Indian Telecom Market after the Jio effect?
- To analyze the defensive strategy of other competitors to Jio Effect with special reference to Vodafone-Idea cellular merger.

4. DISCUSSION: THE MERGER: VODAFONE-IDEA:

Both the telecom giants merged on 31st August 2018, under the approval of National Company Law Tribunal. This merger was a defensive strategy against the losses faced by both the companies due the Jio Effect. This merger also had a positive effect on the customers who could now avail improved digital services and a better network connectivity. The merged entity had more resources; therefore these companies were also able to compete in the highly volatile market which was further sabotaged by the Reliance Jio. Also, the merger was believed to generate more cash from the operations.

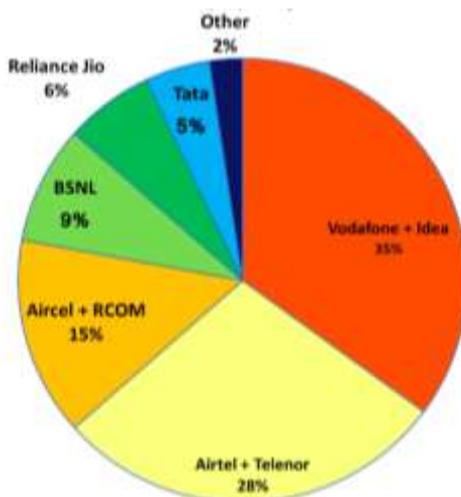


Fig.1: The share of every company in the Indian telecom industry.

5. ANALYSIS & CONCLUSION:

The merger although saved the two giants Voda-Idea from the adverse outcomes of Jio Effect, but in the end there was no clear winner in the price and tariff war in the telecom industry. Even after merging, the customer base of the merged entity decreased continuously every month, in the proportion of increase in the same of the Reliance Jio. Also, the merged entity has issues right shares to its stakeholders in the lieu of having enough capital in future, and not having to rely on outside sources to raise funds.

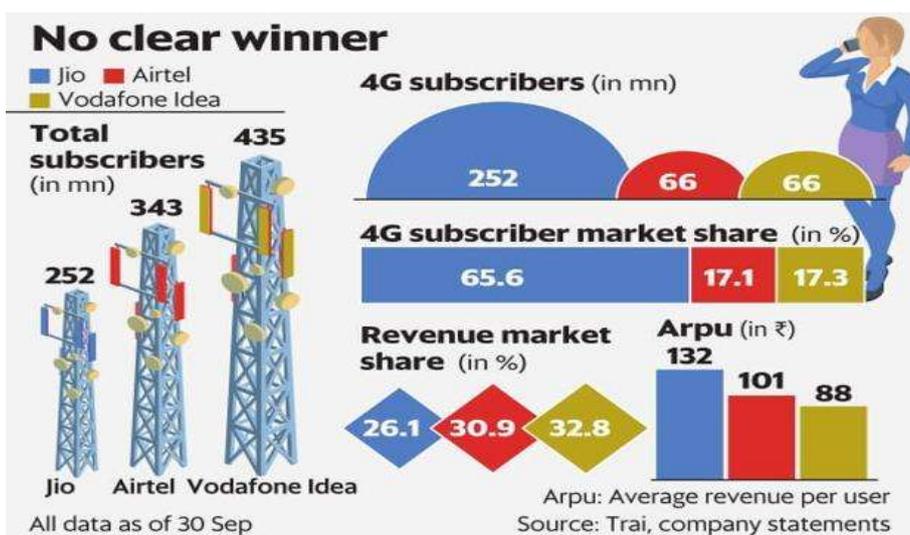


Fig.2: The Outcome of Voda-Idea merger as compared to the Jio and other telecom brands.

REFERENCES: Web References:

1. Reliance Jio Overtakes Vodafone-Idea to Become India's Largest Telecom Operator. (2019, July 29). Retrieved September 21, 2019, from <https://www.news18.com/news/tech/reliance-jio-overtakes-vodafone-idea-to-become-indias-largest-telecom-operator-2250645.html>.
2. Bureau, E. T. (2019, August 28). Vodafone Idea gets approval to raise share capital to Rs 50,000 crore Read moreat://economictimes.indiatimes.com/articleshow/70879455.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst. Retrieved September 23, 2019, from <https://economictimes.indiatimes.com/markets/stocks/news/vodafone-idea-gets-approval-to-raise-share-capital-to-rs-50000-crore/articleshow/70879455.cms>.
3. Khan, D. (2017, May 13). Reliance Jio effect: Idea Cellular loses 6.4 million mobile data customers in Q4. Retrieved September 25, 2019, from <https://telecom.economictimes.indiatimes.com/news/reliance-jio-effect-idea-cellular-loses-6-4-million-mobile-data-customers-in-q4/58657756>.
4. Vodafone India's FY18 operating profit at Rs 98 bn, data traffic up 4 times. (2018, May 15). Retrieved September 27, 2019, from https://www.business-standard.com/article/companies/vodafone-india-s-fy18-operating-profit-at-rs-98-bn-data-traffic-up-4-times-118051500580_1.html.