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## Ringling in 3G

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Buzz around third generation (3G) mobile communications is getting stronger in India. After months of dithering, the government agencies have finally managed to clear the mist encircling the 3G auctions. Regulatory hurdles such as spectrum pricing and allocation norms have been overcome and the communication and IT ministry seems to be buzzing with action and operators excited about the prospects of the upcoming 3G auctions.

While telecom operators are busy getting their 3G capable networks in place and strategising their moves ahead for auctions, the businesses in the telecom periphery seems to be gearing up. Right from handset manufacturers to the content developers, all are banking high on 3G rollouts. An ever-burgeoning ecosystem of network providers, device manufacturers, content providers, and application developers are making sure that there is something for everyone.

The 3G system represents the next step in the evolution of mobile cellular communication. It will be profitable depending on how operators strategise their bidding either by going for pan-India license or by bidding for selective circles. The 2G system focused on voice communications, while 3G systems support increased data communication and has a markedly greater capacity and spectrum efficiency than 2G systems.

"As non-voice applications grow, a 3G network will permit faster access of data from and to the internet. The additional spectrum would also allow existing voice networks to operate more efficiently. The introduction of 3G services is likely to improve the customer experience while using non-voice services," says Rajat Mukarji, chief corporate affairs officer, Idea Cellular. He adds: "It will also allow better access to the internet, and other value added services such as music and video download." Idea has a 2.75G EDGE enabled 3G ready network across the country. "We are ready to deploy services once the process of completion of the spectrum is over," he reveals.

India's 3G market is expected to cross the 850-million subscriber mark by end of 2012 and will reach nearly one billion by end of 2013, estimates Evaluateserve. Telecom minister A Raja has expressed confidence in carrying out the 3G spectrum auction within a 90-day period (September- November 2009). If the auctions were to take place within the said timeframe, 3G rollout by operators could be expected by the middle of calendar year 2011.

With seven to eight players in each market and only four slots up for grabs, aggressive bidding cannot be ruled out in metros and 'A' category circles. As per the recent report by HSBC Securities, the top 7-8 existing 2G markets that account for 60% of the sector's gross revenues will be the key markets for 3G. These markets include Tamil Nadu including Chennai, Delhi, Andhra Pradesh, Maharashtra, Mumbai, Karnataka, UP (East) and Gujarat.

"We are studying the government's policy on 3G and will take a decision on what path to work as greater clarity is reached. As for our network, we are confident of a quick rollout of next-generation services because our network is already 3G-ready. And not to forget, in NTT Docomo, we have the world's best as a partner which brings to us the experience of an evolved and technologically superior market and we will definitely capitalise on this," says Rajeev Narayan, vice-president, corporate affairs, Tata Teleservices.

In terms of capex in urban markets, for the likes of Bharti and Vodafone will be more in the form of electronics and not towers as incumbents have already made investments in capacity towers given the spectrum constraints. Other telecom operators like Vodafone and Idea Cellular have been seen upgrading their network capability to cater to the high data services demand in future. As the private operators tactically prepare for 3G services, MTNL and BSNL are bringing in service innovation and affordable tariffs.

According to the GSM Association, the return on investment for Indian operators deploying 3G networks will depend on their business case. "For the existing 2G investments, Indian operators' EBITDA margin is around 35% and ARPU currently at \$12-16 is healthy, but will continue to decline as networks expand into rural areas," adds GSMA. With 3G spectrum in hand, telecom operators would try and create an appetite for data applications in the Indian market. They would be pushing applications like video conferencing, video telephony, among others. "Indian telecom sector is not going to 3G to make money in short term. The operators bidding for the same also would not start monetising it through the 3G based applications. India is still largely driven by voice and will be slowly moving towards data. The business case for operators will still lie in the rural expansion and mass acquisition of subscribers," says Romal Shetty, analyst, KPMG.

A report by LECG has revealed that an initial \$20 billion investment in 3G networks, made over five years, in equal installments, would yield \$70 billion in economic benefit to the economy as a whole. The same report stipulated that the Indian economy has already lost out approximately \$16 billion by delaying 3G licensing over the past two years. "GSM operators will be able to differentiate their services for the first time through data offerings. It will also free up huge amount

of capacity and ease network congestion on their 2G networks and offer data services. This ability to offer enhanced services will see big operators strengthen their grip on the market at the expense of new entrants who may struggle to raise funds needed for expansion," says Rajiv Sharma, analyst, HSBC Securities.

India currently has around three lakh towers and is gradually increasing. "3G would not lead to immediate increment in the number of towers. While 3G would demand for new towers, old 2G towers will also be revamped to cater 3G. To set up 3G on the existing 2G infrastructure, passive infrastructure would be same but active infrastructure which includes electronic equipment would be additional," explains Vineet Goel, general manager, corporate strategy, Nu Tek India.

Not just the private operators but the handset manufacturers are also awaiting the 3G auctions. Handset manufacturers in order to popularise their 3G handsets are looking for private operators to join the 3G league and promote bundled offerings.

As per IDC India, the number of 3G-enabled mobile handset shipments in India for the calendar year 2008 was 4.3 million units. It further estimates that the shipments of 3G-enabled mobile handsets in India during year 2009 and 2010 will be 5.2 million units and 11.2 million units, respectively. It is expected that by 2012, 60 to 80 million mobile subscribers in India will be 3G-enabled and 30% of all future handsets will have 3G capabilities.

Nokia is currently offering a plethora of mid-range and high-end handsets across product categories and price range of Rs 7,000 to Rs 35,000 and aims to strengthen this portfolio over time. "3G phones will gain momentum only when people find the 3G experience worthy. We have about 20 3G handset models in our portfolio already and would be adding few more by the end of this financial year," says V Ramnath, director, operator accounts markets, Nokia India. The high-end phones would be a more lucrative proposition for the operators as well as the handset manufacturers as these subscribers would have high data usage. These subscribers are generally the post-paid subscribers who will increase the data services usage leading to high average revenue per user (ARPU) for the telecom operators.

The launch of 3G technology will open the door to innovative value added service (VAS) offerings and will give impetus to the highly competitive Indian mobile market. Content developer companies like Comviva, IMI mobile and Nazara Technologies, are betting high on the 3G as VAS would prove as a differentiator for telecom companies.

"Applications like ring back tunes, caller tunes, ad tunes, live TV and video viewing would be energised. Video and audio ring back tunes would gain prominence. It would make multimedia available over the mobile phones for advertisers to create visual contact which would be benefiting both advertisers and the consumers, says Anil Gajwani, CTO, Comviva.

For companies like Admob, a mobile advertising platform, 3G will open a host of new opportunities. They can help to monetise the advertising on the mobile Web world. "We are looking forward to bundled 3G offerings by the telecom operators which would be affordable to the consumers," says Mahesh Narayanan, country manager, Admob India. Also the AdMob mobile metrics May report finds India contributing to about 6% to the global ad requests which is expected to increase after 3G becomes a reality. According to Nitish Mittersain, CEO, Nazara Technologies, the total contribution of VAS to an operator's revenue will increase initially by 4-5% and will gradually account for 20-25%.

While 3G would open a world of opportunities for the operators, it would come packaged with billing challenges that 3G telecom operators could potentially face in India as they migrate from 2G to 3G. "As telecom operators continue to move from 2G to 3G, they will begin to use an unfamiliar and complex system. One challenge that 3G telecom operators could potentially face in India is the complexity of accurately billing both pre-paid and post-paid subscribers. If done successfully, service providers will have the opportunity to build customer retention and avoid revenue leakage in their organisation," says Vinay Mehta, senior vice- president, product management and development for information management, Convergys.

Incrementally, as new value-added services are introduced associated with 3G technology, bundling these services into viable service offerings, provisioning them and billing for the bundles is also going to be a new challenge for operators.

Indian consumer being highly price sensitive in terms of adopting new services, could thereby affect the widespread adoption of 3G services. The relatively higher price of 3G-enabled handsets as compared with its non-3G counterparts may inhibit the adoption of 3G services in the Indian market.

However, the availability of 3G, coupled with reasonable price plans, affordable handsets and compelling services, can revolutionise the Indian telecom market.