

Having won strategic 3G licences across the country, Vodafone Essar plans to roll out services early this year. Marten Pieters, managing director and chief executive officer, Vodafone Essar Limited, talks about the company's future plans and the issues faced by the industry. Excerpts...

□ How has the company performed in 2010?

- Our subscriber base has grown from 63.34 million in January 2009 to 124.26 million, as on December 31, 2010.
- We have extended our network to cover more than 80 per cent of the Indian population. By the end of September 2010, Vodafone had nearly 43 million rural wireless subscribers.
- Vodafone Essar has secured a critical strategic 3G footprint across the country.

In terms of key achievements of 2010, we have the highest share gain in the total telecom market – our share has moved up from 17.4 per cent in July-September 2009 to 19.3 per cent in July-September 2010.

For the past quarters, Vodafone has been the second largest operator in the telecom market, with our mobile revenues surpassing the combined fixed and mobile revenues of BSNL and MTNL. Further, Vodafone has led the mobile industry's net additions in the post-paid segment by far, with a share of 42 per cent.

Vodafone has also introduced low-cost handsets in the Indian market to increase affordability and has brought solutions and offers to the market. The company was also acclaimed as the top service brand by the Brand Equity, Economic Times survey.

What are your plans on the 3G and BWA front? What are the revenue expectations from this segment?

Vodafone Essar has secured a critical strategic footprint across the country, particularly in the markets where we expect the main demand for 3G services to be in the next few years. We are excited to be able to offer 3G services to our customers and aim to launch these services in the first quarter of this year. We expect strong uptake of 3G in these markets, particularly among the higher value customers, which is a growing segment owing to rising affluence and an increasing urban population. Also, it is the only realistic chance for broadband internet services in rural areas. We have a successful experience of delivering 3G services in many developed and emerging markets, and we will definitely utilise that experience to offer services in India.

Are you in favour of TRAI's recommendations on spectrum allocation and licensing?

It is a miracle how operators in India are able to extract so much performance out of so little spectrum. But it comes at a huge cost – not merely in terms of a much higher capex, which will eventually get passed on onto the customer, but also in terms of limited spectrum being fragmented across many players, which leads to a huge loss in efficiency. We have estimated that fragmenting the same amount of spectrum across 10 operators instead of roughly four will severely limit India's economic growth. This situation has to be corrected. The path forward, therefore, should be: separate operating and spectrum licences; move to a market-based system of spectrum allocation and trading; liberalise merger and acquisition (M&A) rules in line with international approaches; and allow operators to achieve sustainable scale, which is urgently needed.

What are the challenges and concerns that need to be addressed going forward?

India has the lowest frequency allocation in the 800/900 MHz frequency spectrum of 6.2 MHz as compared to most of the major markets globally (average 20-25 MHz in most developed countries). Meanwhile, the number of operators in India is more than twice the number in most major markets globally. Also, excessive fragmentation of the market produces sub-scale players who lack the financial strength, expertise and critical mass to innovate and invest to change this. India has a huge population that should be a great opportunity, but the industry will not be able to deliver for rural consumers unless the investment returns are there. Yet, some recent policy decisions are making this more difficult:

- New entrants are focused only on urban areas and are trying to buy market share through lower prices. This reduces industry profitability.
- Below-cost mobile termination rates eliminate incentives for operators to build networks for acquiring low-income customers who make few calls but receive many more.
- Persistently high spectrum and licence fees, with the prospect of them increasing still further, even in the less-developed circles, is a concern.

Do you have a wish-list with regard to the regulatory front?

India needs a stable, fair and predictable regulatory environment for the next stage of Indian telecom development, which depends critically on long-term investments. Given the current market situation, this is urgent. Fundamental reforms for licensing and spectrum allocation are required to enable M&A, spectrum trading and sharing, confidence in licence renewal procedures, etc. We believe that DoT's Spectrum Committee report of May 2009 (headed by Subodh Kumar) still represents a very sound basis for proceeding with that reform.

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