

Global handset hub

With six million new subscribers being added every month, India is today the fastest growing mobile phone market in the world. Global handset manufacturers now have a huge stake in this buoyant market, and are unveiling new strategies to ensure continued growth for their businesses. A report by **Aradhana**

The pace of growth of the rapidly expanding Indian telecom industry continues to enthrall everyone. With six million subscribers being added every month and the subscriber base growing at a rate 82.2 per cent per annum, this is one country no handset manufacturer can afford to take eyes off.

The fact that the country has the lowest telecom tariffs in the world and that the sub-\$100 handsets are the most in demand hasn't deterred anyone and the world's largest handset manufacturing companies are here trying to carve out as large a market share as they can.

The potential is huge: mobile penetration in India is still a paltry 13 per cent, which means that the scope for growth is immense. Keeping this in mind all the leading companies have set up their manufacturing facilities in the country.

Says Pankaj Mahendroo, president Indian Cellular Association: "The potential of the handset market has the players constantly re-jigging their strategies to get the largest share possible of the next billion customers. It is also pertinent to mention that the model that they follow in India isn't necessarily reflective of their global strategy."

The major players in the handset

market today are Nokia, Motorola, Sony Ericsson, Samsung and LG. Nokia is by far the largest player in the industry commanding a 67 per cent share in the business, followed by Motorola at 12 per cent, Sony Ericsson at 10 per cent, and Samsung and LG accounting for the rest.

Nokia is the only player that is competing across the spectrum in all categories but others such as Sony Ericsson and Samsung have decided that while they would have some models catering to the lower-end of the market their emphasis is on the mid- to upper-end customers, who look for value for money deals and not just cheap ones.

The importance of India for Nokia cannot be overstated. According to the company, sales in India contributed \$3.7 billion of its global turnover. Says a Nokia spokesperson: "India is the third largest market for us, and we will try to retain our dominant position here."

Almost the first company to have its attention fully focused on the handset market and on India's potential, Nokia was the first to come up with products designed especially for the country. These cheap handsets had features like dust proof keypads and in-built torchlights, which recognised the fact that rural India faces power outages and dry

and hot regions with unpaved roads have dust issues.

The country rewarded the company for its efforts immensely. This particular model that was titled 'Made in India' sold 200 million units globally and is widely regarded as the phone that made Nokia in India.

Not content targeting just one end of the market, Nokia introduced its entire range of handsets that include its most expensive versions as well. The N-series or the multi-media phones, which are among the more expensive versions of Nokia phones, have sold more units than what competition has to offer in this segment combined.

Says an industry analyst: "One of the key reasons for Nokia's success is the fact that the company has a huge variety of handsets for all the price segments and is therefore able to scale down appropriately the prices of the older models as the newer ones keep coming in."

Competition that has tried to ape Nokia's model of growth has not been very successful because the former's strategy involves economies of scale for which the latter have simply not been prepared for.

Nokia has approximately 70 models available in the market today of



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EXPLOSIVE GROWTH

While the world's leading handset makers are either planning to set up handset manufacturing units, or else expand their existing operations, other lesser known producers are also keen to establish their plants in India, one of the world's largest markets for mobile phones, but in alliances with domestic service providers.

Cal-Comp Electronics, a Taiwanese electronic firm, plans to set up a joint venture manufacturing unit, with a leading Indian CDMA (code division multiple access) telecoms service provider. According to the Taiwanese company, the new plant would be operational by the middle of next year. Cal-Comp expects to supply 12 million handsets to its Indian client this year, as against a targeted three million.

Leading CDMA operators in India include Reliance Communications (RCOM) and Tata Teleservices (both private sector giants), and state-owned BSNL and MTNL.

Other GSM (global system for mobile communications) service providers are also toying with the idea of getting into joint ventures with handset manufacturers and putting up plants in India.

Some of them plan to launch a series of ultra low-cost bundled handsets (mobile connection and a handset) to get a bigger pie of rural India and increase their market share. These low-cost handsets are expected to be priced between \$20 and \$25.

Virtually all the top cell-phone companies, including Reliance, Hutch and Bharti are planning aggressive expansion of their networks, especially in the rural areas.

Selling handsets that cost less than \$25 is the surest way of expanding market share in these price-sensitive markets.

So many of the leading mobile service providers are in talks with handset makers from Taiwan, China and Korea, to set up joint ventures in India, which would help them offer bundled services – handset and mobile cover-

age – to millions of Indians who aspire to own a cell-phone.

The Anil Ambani-owned RCOM, for instance, has been pursuing an aggressive handset-driven expansion plan and in the last two months kicked off a series of price wars, which began with the launch of the Classic range, with the handsets being sold for Rs777 (\$19.25). It sold over a million units of the Classic range within a week of its launch.

RCOM followed it up with the launch of colour handsets beginning at Rs1234 (\$30.6) and sold over half a million in the first 10 days. Subsequently, it introduced FM radio mobiles at \$46 and \$47.

Its rival in the CDMA space, Tata Teleservices, launched handsets below \$25, bundled with its mobile connection. And market leader Nokia has now chosen India for the global launch of its latest low-cost phones.

The explosive growth of FM radio channels has also brought down the cost of handsets equipped with FM receivers. Last year, about 10 million handsets capable of playing music were sold in India; this year, the figure is expected to cross the 24 million-mark.

Cellular Operators Association of India estimates that the 'mobile music industry' will touch the \$250 million mark by the end of 2007, up from \$170 million last year.

Cell-phone users spend more time listening to music on their handsets than on conventional gadgets. And according to industry estimates, consumer spending on music-enabled handsets has outstripped traditional music players in India.

Considering the huge demand for 'music editions' – music-enabled handsets – Nokia, the leading handset maker, has tied up with Philips Electronics, to set up kiosks at select stores, enabling cell-phone users to buy songs for their handsets. Other handset makers are also tying up with music labels to enrich the content in handsets.

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which 30 account for 90 per cent of its sales.

"Our success in India is simply not a manufacturing success," notes the spokesperson. "We have also invested ahead of our time in marketing, distribution and in generally understanding the market." This is warranted by the fact that of the 93,000 cell phone retailing outlets in India, almost all the outlets that retail multi-brand handsets keep Nokia models with them.

The company has spent time understanding rural India and has come up with strategies to target the rural population. "We have our own branded vans that traverse rural areas and explain to consumers what a handset is and how it can help them change their lives," he explains.

Adds Devinder Kishore, director, marketing, Nokia India: "While surveying some slums and rural areas our marketing teams have discovered that many customers form informal buying clubs and pool their resources till the time everyone has a similar handset. We are looking for ways for encouraging this form of self-financing."

Not everyone has had similar success in catering to all ends of the market. Motorola, the company that tried to follow the low-price paradigm, succeeded in ramping up its market share to 12 per cent, up from two per cent in August 2005.

"The fact that the number of telecom subscribers in India is growing at a very fast rate does not mean that the going has been easy for us," points out Amit Sharma, vice-president, strategy, Asia-Pacific, Motorola. "Our growth

has been hard fought for as it is in the large markets that the big fish are out to play and the customer does not forgive any mistakes."

Adds Lloyd Mathias, director, marketing, India, mobile devices, for Motorola: "We launched a four-pronged strategy to get our act together in the country." This included enhancing the company's distribution network to over 32,000 outlets today. It has also tied up with all the operators to offer handsets.

Competing heavily on the price front the company has launched six models in the sub-\$50 range. The company also introduced some features that Indians appreciate, such as louder ring tones, longer battery life, and phone books with enhanced memory.

Adds Sharma: "We believe that while the market share figures are indicative they do not convey our exact market position. Our presence in the mid- and upper-market has seen a huge improvement."

Persuaded by the power of the low-end market in India, the world's number five, Sony Ericsson, has also announced its plans to target this market. Says Sudhin Mathur, general manager, Sony Ericsson India: "The Indian mobile handset market is worth around \$3 billion today. It is widely believed that entry level handsets will be the driver for this market, which is why we have as many as seven models targeting this market."

Globally, Sony Ericsson has the highest margins in the industry despite much lower volumes and this is due to its strategy to target the mid-upper end of the market. "But I also believe that the customer has come out of the age of price sensitivity and is ready to pay more for a better product," explains Mathur. The company has, therefore, launched products with better features and product quality at slightly higher prices.

The Korean majors, Samsung and LG, which have low shares in the handset market, are looking at restructuring their GSM (global system for mobile communications) mobile business in India. While neither has plans to enter the monochrome handset market that constitutes nearly 60 per cent of total handset sales in India, Samsung has an-

'LOCAL PRODUCTION WILL CUT COSTS'



STRONG Foothold: Sudheen Mathur

With a market size of about 60 million handsets, India is undoubtedly on the radar of international manufacturers. Sony Ericsson, which is the fifth largest mobile handset maker in the world – and has a 10 per cent share of the business in India – is setting up a research and development unit in Chennai. The company at present outsources its manufacturing operations in Chennai to its global manufacturing partner, Flextronics.

Sudheen Mathur, general manager, Sony Ericsson India, talks of the company's plans for the country:

What has prompted your decision to invest in manufacturing in India?

Establishing a development facility in India along with manufacturing gives us a strong foothold for generating future growth in India. Over the past few years, Sony Ericsson has witnessed very encouraging growth in the Indian market, more than doubling its market share, and becoming amongst the top three GSM handset manufacturers.

With a product development site in Chennai, as well as local manufacturing, Sony Ericsson is poised to further

consolidate its growing momentum in the Indian market. Local manufacturing in India will result in improved cost efficiencies and enable us to offer attractive products at even more competitive price points. We have a production target of 10 million units by 2009.

What is your strategy for India?

We are not in the business of making everything for everyone. People see the one billion number and that's what they go after, not realising the risk they are taking. We see our strength in the top-to-mid-segment and we believe that the segment will grow as fast as the overall market.

The replacement market in India, where 70 million people own a phone, should see strong growth in the near future.

We estimate that the top end of the Indian market comprises up to two million people, while the mid-market will have tens of millions. But having said that we would also like to say that we have a strong enough product portfolio targeting the low end of the market as well.



CROWDED MARKET: Handset showrooms have sprouted up all across the country

nounced that it will slightly deviate from its existing strategy, to target the mid- and high-end of the market by launching colour handsets at a price band of \$75 to \$85.

In addition the Indian subsidiaries of both the companies have drawn-up concrete plans for segmentation of the low-end market. They are also looking at options to lower cost of production in their Indian facilities to become cost competitive in the long-run.

With Indian telecommunications majors now drawing up plans to diversify into handset manufacturing, the industry will get even more crowded. But as demand for cell phones continues to soar – teenagers and those in their '20s comprise the largest market, as they keep changing phones every few months – India appears to emerge as a global handset hub.

AND NOW, THE DELUGE

It started rather innocuously with Finnish contract manufacturer Elcoteq becoming the first company to set up a telecom handset manufacturing unit in Bangalore in April 2005. But the deluge really came after market leader Nokia set up its handset manufacturing unit in Chennai.

Says a Samsung spokesperson: "Domestic manufacturing has worked to Nokia's advantage. We feel that manufacturing in the country gives one great flexibility in terms of model line-up and pricing and improves the 'speed to market' products. Samsung India is also looking at making its Chennai facility a global hub for its consumer electronics products."

Apart from this, Motorola and now Sony Ericsson are also looking at manufacturing in India. Sony Ericsson has outsourced mobile phone manufacturing to the operations in Chennai of Flextronics and Hon Hai Precision Industry of Taiwan.

The reason for setting up manufacturing facilities in the country rests on the price platform. According to industry sources, economies of scale matter a lot in the handset market

today where manufacturers face continuous price erosion of handset models. Therefore, if a company is manufacturing locally then it can take advantage of lower manufacturing costs as well as avoid logistics and transportation costs.

The other factors driving the growth of this sector are low mobile penetration and favourable government policies. According to Ganesh Ramamoorthy, the principal research analyst of the Gartner group, cost is not the only reason for the boom in the handset manufacturing sector in India. "We feel it is the demand that is driving this growth," he points out.

Most of the manufacturers are producing low cost handsets, which is fuelling the market; so this local manufacturing helps to improve the speed to market of products.

It is this logic that seems to have rubbed off all the major handset vendors manufacturing in the country. According to a Gartner report, India produced nearly 31 million mobile phones in 2006 worth about \$5 billion. This represented the largest contribution to overall electronics production revenue

and to the total available market for semiconductors.

For 2007, it has forecast that handset production will increase by 68% in units and 65% in value terms. Nokia started its unit in Chennai in January 2006 and produced a record 25 million handsets in the first year of operation. The vendor is also exporting mobiles from India to Sri Lanka.

Says Ramamoorthy, who authored the study: "Looking ahead, we expect production volumes to reach nearly 95 million units and to register a compound annual growth rate (CAGR) of 25 per cent between 2006 and 2011."

This year the country is expected to register handset production of over 51 million units to record the highest growth in the Asia-Pacific region. "We are starting from a small base and in the next five years, we will see high growth," says Ramamoorthy. "Over six million users are being added every month and there is a captive local market for mobile manufacturers."

But he adds that for the country to emerge as a manufacturing hub it will have to invest in infrastructure and also get into component manufacturing.



FOCUSSED ON HANDSETS: Employees at Nokia's Chennai factory

'Mobiles are a style statement in India'

FOR the world's leading handset manufacturer, its foray into India - among the world's largest mobile phone markets - has been an outstanding success. Devinder Kishore, marketing director, Nokia India, talks about the Finnish telecom giant's success story in India. Excerpts:

What is the reason for Nokia's success in the country?

There are two main reasons for our success. I believe that Nokia as a company had the foresight to invest in the brand, people and distribution ahead of its time - we invested a few years before the market actually fructified.

When the mobile revolution really took off, Nokia was perhaps the only large company to be completely focussed on the handsets business. Secondly, in our business one cannot succeed with just a couple of good models. One needs to have a constant stream of innovative products that can capture the imagination of the customers.

So investing ahead of schedule in a focussed manner and a continuous flow of good products have helped Nokia be where it is today.



CONVERGENCE: Devinder Kishore

What is the role played by distribution in your business?

Distribution is one of the most important features of our business because unless your product is there with the customer, the rest is just talk. India today has around 95,000 retail points where handsets are sold. I believe we are in most of those destinations. We have also firmed up a strategy to penetrate rural India in a

planned manner. We are also providing a robust service network in these areas.

What is the future of mobile handsets?

Mobile devices today have become a huge convergence device. They have an alarm clock, a watch, torch light (a huge safety device in areas where electricity supply is an issue) and a radio for entertainment.

Apart from this mobiles are a huge style statement in India. Our research shows that 60 per cent of our customers buy the handset because of the style parameter. This does not happen anywhere else in the world. Mobiles have also become a huge productivity vehicle in addition to being a great communication device. The entire services sector has seen a huge upliftment thanks to mobiles. One can use mobiles for radio, storing phone numbers and viewing movie clips and also watching TV on the go.

One can also read the newspaper on the mobile. So going forward too I believe that a lot of convergence will continue to happen with the device - it will become a more integral part of people's lives and more and more people will use it to access the Internet. 🌈