MANUFACTURING

Mobile Manufacturing: India goes China way
MOBILE MANUFACTURING: INDIA GOES CHINA WAY

India has become the second largest mobile handset market in the world. According to a study by Research and Markets (Dublin, Ireland), the Indian mobile handset market is now worth about US$ 2 billion, but will surge by over 60 percent in two years.

The report reiterates that Indian mobile subscribers are willing to pay for upgrades, value-based services, and advanced models that offer better services.

The growth has caught the imagination of global handset majors. More than a dozen large electronic manufacturing service companies are sprucing up plans to set up their handset facilities in India. Apart from catering to the burgeoning Indian market, they are also looking at this country as a sourcing base for low-cost phones.

New facilities

Korean consumer electronics major LG Electronics is one such company. It has a facility in the outskirts of Delhi and is setting up another near Pune. By 2010, LG aims to produce 20 million mobile phone units of which 50 percent will cater to the export market. The facility will involve an investment of US$ 60 million by the year 2010.

Nokia, a leader in India’s US$2.5 billion mobile phone market, is building a unit in Chennai. The manufacturing unit will be Nokia’s tenth mobile device production facility globally. Nokia anticipates investing an estimated US$100-150 million in the India production plant.

"We selected Chennai to be the location for the factory thanks to the availability of skilled labour, friendly business environment, support from the government, good logistics connections and overall cost-efficiency," said Pekka Ala-Pietila, President, Nokia.

Construction work at the facility has already begun. Production is expected to begin in the first half of 2006. Nokia foresees ramping up the factory gradually and the work force reaching approximately 2,000 employees when production is full scale.

Another Finnish firm, Elcoteq, the world’s third-largest supplier of handsets to original equipment manufacturers (OEMs), has already set up a facility in Bangalore. Elcoteq’s Indian plant is relatively small compared to its plants elsewhere – it will produce about 4 to 6 million handsets in a year, similar in size to the company’s unit in Russia. But it could set a trend for smaller manufacturers to begin looking at India.

More importantly, Elcoteq is also trying to integrate the manufacturing process with the local supply chain. Plastics, electro-mechanical/mechanical parts and packaging materials will be sourced from local firms with whom Elcoteq is in discussions. Once key components are made in India, it will
achieve globally competitive costs and show the way forward for other manufacturers as well.

Several other companies are drawing up plans. Sony Ericsson, the world’s sixth-biggest mobile phone maker, has asked its vendors to look at manufacturing phones in India.

Motorola established its R&D facility in Bangalore in 1991 and has identified India as a Research and Development (R&D) base. Motorola Inc. chairman and CEO, Edward J. Zander, on a recent visit to India, said “We might look at setting up back-end operations and assembling units something like an SKD (semi-knocked down) unit in India.”

Apart from manufacturing, India is being looked at as a potential service centre for the global mobile phone market. For example, in addition to the manufacturing activity, Nokia is also looking at Chennai as a base for opening a global mobile networks operation centre, which would carry out work for mobile operators in the Asia-Pacific region, Europe, the Middle East and Africa.

Taiwanese mobile handset manufacturer, BENQ, which entered the Indian market recently, is expected to open a customer service call centre in India.

The Chinese are coming

Chinese manufacturers too seem to be eyeing India. BusinessWeek has reported that ZTE Corp. is priming a unit to make mobile phones and DSL modems near Delhi, while rival Huawei Technologies Co. is awaiting approval to manufacture handsets and other gears. The Haier Group and Ningbo Bird Co. are also looking for an entry into the market. Using India as an export base is especially beneficial for Chinese companies, who can save 5 per cent to 10 per cent on shipping. From China’s perspective, servicing Europe or Africa from India is easier as distances are shorter.

The durability factor

The cost effectiveness of manufacturing in India seems to be the most alluring bait for handset manufacturers. Increasingly fierce competition in the handsets market (call rates at 1-2 cents are among the lowest in the world) has created an environment where on an average, 1.5 to 2 million users are coming aboard every month. This in turn allows manufacturers to spread their fixed costs more easily compared to other markets.

There are also two human resources-related factors working in India’s favour. First, wage costs are lower compared to several countries in Asia and Europe. But, even if a country competes with India in terms of low wage costs, India offers a demographic profile that few countries can match. About half the population, which forms the prime low-cost working group, is below
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25 years.

In developed countries, or even in South-East-Asia, handsets are changed every six months. However, buying patterns are different in India. People do not change their handsets as frequently. The challenge therefore is to produce more robust handsets at a lower cost, or to produce handsets that are cheap enough for people to afford to change them at least every one-and-a-half years.

The next China?

All this points to the next big question: could India catch up with China as a mobile handset manufacturing giant? China started early and actually gained from some of the large global manufacturers’ reluctance to invest in India in the nineties. For instance, Motorola opened a factory in China after pursuing a proposal in India for some time. China now boasts of huge production centres. Nokia’s production facility in Beijing produces 35 million units a year and is the largest handset manufacturing facility in the world. China produced 182 million units out of the 300 million units produced in Asia in 2004.

However, India is now very much in the reckoning. Like China, India has low labour costs and a potentially large domestic market. Manufacturers worried about the bulk of their low-cost investment in China may want to spread their risk by investing in India. For instance, senior officials at Elcoteq project that in five years the size of their India operations would match that of their China facilities.

The boom in the Indian market is part of a global trend. Research group Gartner has predicted that the global mobile handset market would rise by 16 per cent to 780 million units in 2005. The overwhelming bulk of growth is expected to come from China, India, Russia and Brazil.
The India Brand Equity Foundation is a public-private partnership between the Ministry of Commerce, Government of India and the Confederation of Indian Industry. The Foundation’s primary objective is to build positive economic perceptions of India globally.

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