

**VPM's**  
**DR VN BRIMS, Thane**  
**Programme: MMS (2017-19)**  
**Fourth Semester Examination April 2019**

<b>Subject</b>	<b>Trends in Marketing (Mktg.)</b>		
<b>Roll No.</b>		<b>Marks</b>	<b>60 Marks</b>
<b>Total No. of Questions</b>	<b>7</b>	<b>Duration</b>	<b>3 Hours</b>
<b>Total No. of printed pages</b>	<b>4</b>	<b>Date</b>	<b>22.04.2019</b>

**Note: Q1 is compulsory and Answer any FOUR from the remaining SIX questions.**

**Q1CASE - 20 Marks (Compulsory)**

Reeling under the intense competition and changing dynamics within the telecom sector, Idea Cellular Ltd (Idea), a subsidiary of the Aditya Birla Group, and Vodafone Group Plc's (Vodafone) Indian arm announced on March 21, 2017 that they had decided to merge. The \$23-billion deal would create India's largest telecom company by subscriber base and revenue market share, as well as the world's second largest mobile telecom operator.

Reportedly, the combined entity would boast of about 400 million customers, 35 per cent customer market share and 41 per cent revenue market share, overtaking market leader Bharti Airtel Ltd (Airtel) and posing a stronger threat to new entrant Reliance Jio (Jio). The merger was expected to be completed by 2018 and Kumar Mangalam Birla (Birla), chairman of the Aditya Birla Group, would head the merged entity.

Though the merger would create a strong player, with an unmatched spectrum footprint, some analysts say the long timelines to conclude the deal and achieve synergies in a hyper-competitive market, as well as cultural and regulatory hurdles, would pose challenges. Their question: Post-merger, should Vodafone and Idea remain as separate brands or unite into a single one? Can the combined entity take on competition and move towards its goal of being the country's top telecom provider?

**Vodafone operations**

Vodafone India is a fully-owned subsidiary of the Vodafone Group, one of the largest telecommunications companies in the world. It provides a range of services including voice, messaging, data and fixed communications. Vodafone was launched in India in September 2007, after it acquired a majority stake in Indian telecom company Hutchinson Essar earlier that year.

From a single operation base with 31 million customers, the company has expanded its operations across the country to cover 22 telecom circles and serve 210 million customers. As of December 2016, Vodafone was India's second largest telecom company after Airtel with a market share of 18.16 per cent. In 2016, Vodafone India generated \$6.7 billion in revenues.

**Idea Cellular**

Idea was incorporated as Birla Communications Ltd in 1995. The company merged with Tata Cellular Ltd in 2000 and thereafter changed its name to Birla Tata AT&T Ltd. In 2002 the 'Idea' brand was launched and the company was called Idea Cellular Ltd.

In 2006 Idea Cellular became part of the Aditya Birla Group, following the Tata Group transferring its entire shareholding in the company to the former. As of 2016, Idea was the third largest wireless operator in India with 190.52 million customers and a market share of 16.9 per cent. In fiscal 2016, the company's revenues were \$5.5 billion.

**Rationale for merger**

Cost and pricing pressures, intense competition, declining profitability and rising debt were some of the factors that sparked an unprecedented wave of consolidation among some major

players in the Indian telecom sector. Though Vodafone and Idea had toyed with the idea of a merger in 2016, the talks actually turned serious around the beginning of 2017.

With the entry of Jio, which disrupted the market by offering free voice calls and data at really low prices, the incumbents were reportedly forced to slash tariffs, leading to a drop in their revenues and market share. Jio is assumed to have hurt subscriber additions of Airtel, Vodafone and Idea. Vodafone's net subscriber additions were down to 792,063 in February 2017, against over 1.5 million in December 2016.

Vodafone reported a 1.9 per cent fall in service revenue in the quarter ended December 2016. Idea also witnessed a sequential quarterly decline of 6.4 million mobile data customers in the fourth quarter of 2016. Analysts said that in order to counter Jio's threat, Vodafone and Idea considered a merger and had decided that, united, they had a chance of better competing with Jio. Playing down the Jio factor as a reason for the merger, the companies said that merger was intended to create superior digital infrastructure that would transition the Indian population towards a digital lifestyle and make the Government's Digital India vision a reality.

On March 21, 2017, Vodafone and Idea announced they had reached an agreement to combine their operations in India, excluding Vodafone's 42 per cent stake in Indus Towers. According to the proposed deal structure, Vodafone would own 45.1 per cent of the combined company after transferring a 4.9 per cent stake to the Aditya Birla Group for \$579 million in cash, upon completion of the merger.

The Aditya Birla Group would then own 26 per cent of the combined company while Idea's other shareholders would own the remaining 28.9 per cent stake. The merger was approved by the Competition Commission of India (CCI) on July 24. Till the completion of the merger, both brands will continue to operate separately.

### **Expected synergies**

Experts stated that by combining their respective operations, Idea and Vodafone would be able to establish a new entity with the scale and efficiency required to offer innovative and attractively priced mobile services, thereby enhancing consumer choice in a highly competitive market.

The merger would also help build substantial mobile data capacity, utilising the largest broadband spectrum portfolio across the country, they said. Reportedly, the combined entity would hold 1,850 MHz spectrum in total. It would also have 34 3G carriers and 129 4G carriers across the country.

Analysts said the merger would create a very strong market leader, given the complementary strengths of Vodafone and Idea. The consolidation could even dethrone market leader Airtel, they said. While Vodafone had a strong presence in the major metros and the urban markets, Idea dominated the rural and semi-urban telecom markets. According to industry observers, in circles where both Idea and Vodafone have a limited presence, the combined entity would become the leading challenger, with the scale to compete more effectively.

According to Credit Lyonnais Securities Asia Ltd, the combined entity would have 43 per cent revenue share in the market by 2019 against 33 per cent of Airtel and 13 per cent for Jio. Reportedly, the merged entity would generate revenue of over ₹800 billion and EBITDA margins of around 28 per cent.

Experts suggest that the merger would also lead to significant cost savings and 3G/4G spectrum gain — a key criteria for telecoms to gain market share. With larger scale and elimination of cost duplication, margins could rise substantially. The merged entity was expected to save nearly \$2.1 billion through rationalisation of costs and resources in the joint operation.

### **The challenges**

Analysts said that some regulatory hurdles could potentially derail the merger. Under the Mergers & Acquisition Rules in India, any merged entity should have no more than 50 per cent

of the revenue market share. However, in at least six markets, the Idea-Vodafone combine would exceed 50 per cent revenue market share.

According to experts, if the merger goes through, the two operators would have to figure out a way to shed revenues in a tough market. The rules would also prohibit any entity from having more than 50 per cent of spectrum assigned in any single band. According to experts the merged entity would then have to surrender 12.8 MHz of 900 MHz spectrum valued at about \$1 billion (over ₹6,000 crore).

The managements of the two companies have indicated that the expected synergies from the transaction would be realised over a period of four years from the completion of the deal. This, analysts said, might lead to ambiguity over the efficacy of the merger. According to them, the Indian telecom space was growing rapidly and, going forward, Vodafone-Idea's performance would be judged relative to that of its rivals, all of whom were chalking out their own strategies. Some analysts pointed out that integration would also be a challenge as the two companies differed significantly in terms of billing systems, network vendors and culture. They would also have a significant "tower overlap", they said. According to experts, countrywide network integration could prove costly as both Vodafone and Idea might have to terminate some long-term contracts with partner tower companies early, for which they could end up paying hefty penalties.

Moreover, Vodafone and Idea's tariff structures were different as they catered to different sectors. The concern was about the price points for different services and how the tariffs would appeal to both sets of customers, the experts pointed out.

### **Brand identities**

Another challenge for the management would be to decide whether to carry the two brands separately or combine them. Both Vodafone and Idea have their own distinct brand identities. While Vodafone is seen as a modern service provider, mostly preferred by urban customers, Idea, on the other hand, had an earthy and rustic rural image. Analysts were concerned whether the merged identity would be a balance of both or would focus either on the rural or urban aspect.

Moreover, they felt that the image chosen by the merged identity might not go down well with customers of respective companies. Some analysts felt that the management would have to think about a unified branding strategy; else they would end up wasting money in creating communication around two different brands. This might also foil the full realisation of synergies when two competing brands from the same company were out in the market, they said.

Experts point out that post-merger integration might require massive cost-cutting, especially in terms of infrastructure and jobs. As of 2016, Vodafone India had about 13,000 employees and Idea had 17,621 employees. Reportedly, the merger would have around 10,000 overlapping job profiles, which could be at risk in order to streamline businesses, cut down costs and minimise redundancy. According to analysts, cultural differences might also arise within the merged entity arise, as employees working with a foreign company (Vodafone) may find it difficult to adjust to those in a home-grown entity (Idea).

Going forward, the telecom sector was all set for a major consolidation with only four major players — Airtel, Jio, Vodafone-Idea and BSNL. To lead the market, Idea and Vodafone will have to provide quality service, augment customers and race ahead of competitors, analysts say.

### **Questions**

1. How can Vodafone and Idea achieve the projected synergies and successfully maximise the merger's value?
2. What should the management do — maintain both brands separately, and combine them? How can they successfully integrate both the companies without diluting their brand image?

3. What should the merged entity's future strategy be, given the intense competition in India's telecom sector? What should the management do to make the new entity the country's top telecom provider?
4. What can be the combined entity's strategy to garner higher market share in data given Jio's aggressive schemes

**Attempt Any FOUR from the Remaining SIX Questions**

**Q2 Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks**

- a. IT enabled services improves the effectiveness and efficiency of business – Discuss with suitable examples
- b. Discuss the trends of online marketing among the youth, with suitable examples.
- c. What are the values of marketing to society

**Q3 Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks**

- a. What are the Millennium Development Goals, briefly explain
- b. What are the advantages of a marketing process to non-profit organisations?
- c. Define 'Bottom of Pyramid'. What are the keys to unlocking BOP markets to corporate products?

**Q4 Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks**

- a. Why have MNCs underestimated the potential of BOP?
- b. What are the premium growth drivers in the luxury market? Explain
- c. What are the attributes, growth drivers and bottlenecks for luxury goods in India?

**Q5 Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks**

- a. What is experiential marketing and why does it work for corporates?
- b. Why is airline marketing difficult? Explain the realities of airline market.
- c. Discuss the future of airline industry.

**Q6 Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks**

- a. What is Data driven marketing and what changes has it brought to the marketing function?
- b. What are the challenges to data driven marketing?
- c. What is the role and impact of technology in Business?

**Q7 Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks**

- a. Explain with examples IT enablement in varying industries
- b. How does competitive intelligence improve business performance?
- c. Explain competitive intelligence process and tools.