

Article Name: Can Airtel Africa take the weight off Sunil Mittal 's Airtel India?

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Can Airtel Africa take the weight off Sunil Mittal's Airtel India?

Last June, both Sunil Mittal and Bharti Airtel were the toast of the town. The \$9-billion acquisition of Zain Africa transformed the 53-year-old Mittal into a global entrepreneur. And it made Airtel the fifth largest mobile operator in the world, with a footprint in 19 countries.

Exactly a year later, things look drastically different. Airtel's profits have fallen for five quarters in a row, unprecedented for a company that set benchmarks for record growth and profits in the past. It is losing revenue and market share in India. And the latest, as reported by ET on June 25, is that Airtel India is undertaking a major operational restructuring - a move that could affect almost 2,000 jobs. The company responded on Saturday saying the restructuring won't affect many jobs.

And the thing for Mittal is that the news from Africa is not cheery either. Airtel's Africa operations have missed most internal targets that it first set out for the first year - from revenues, subscriber base to profitability. Most of its operations are still making losses. Airtel had initially hoped to turn them around in 12-15 months. Outsourcing non-core operations - a practice Airtel pioneered in India - have taken longer than it was expected to in Africa. The company underestimated the cost of turning around Africa operations.

And now, to meet the growth targets there, Airtel has had to increase its Africa capex by 50% in 2011-12. "Africa with 16 countries is far more complex than India. One size fits all will not work here. They took a simplistic approach," says Federico Membrillera, managing partner, Delta Partners.

Call Drops

CHALLENGES

1. People

Airtel Africa needs more local talent to cut costs and dependence on overseas staff

2. Process

Managing businesses in 16 countries, with different governments, rules and cultures

3. Logistics

Poor roads, ports are major issues. As are import curbs and tax inconsistencies

4. Planning

It set ambitious targets on both costs and timelines that were difficult to meet

5. Strategy

Airtel's India success was based on centralisation, outsourcing. It faces challenges in multi-country operations

GAME PLAN

1. Outsource

Outsourced key operations to IBM, Ericsson, Nokia Siemens, Spanco, etc

2. HR

For every expat position in Africa, it has identified a local No. 2 who is being groomed to take over. HR processes are being revamped to address staff issues

3. Data

With \$1.5-billion investment planned by 2012-end, and 3G licences in 10 countries, data-led services are a big bet

4. Customer

Lower tariffs, better call centre services, e-recharge, better network quality and low call drops are a hit with customers

5. Culture

Staff exchange programmes are in place. A new structure, with 40 CEO-like zonal heads empowered with profit and loss responsibilities, is a radical new initiative

That Airtel's India operations are facing headwinds is not news. With growth peaking, especially in meatier markets like cities, average revenues per user (ARPU) have been falling. It dropped 12% in the fourth quarter of 2010-11. The competitive intensity in the Indian market has risen with as many as nine operators in each telecom circle fighting for customers on the back of tariff cuts. Airtel India's big bet on next-generation 3G services, for which it took `13,400 crore debt for buying spectrum, is yet to pay off significantly.

The bad news from Africa - both on costs and timelines - has come as a bigger surprise. Africa-based experts point to three things. One, the company underestimated the level of complexity and set unrealistically aggressive targets. Two, Zain had made little investment in infrastructure in the African operations.

So, Airtel had to invest more than it had budgeted. Three, Airtel is great at centralisation and squeezing inefficiencies out, something that they have done well in India. But Africa, with 16 different countries, different rules and regulators, markets, languages and culture, is difficult to centralise like India.

Analysts in India partly blame Africa for dragging down the company's financial performance. A few weeks ago, credit ratings agency Fitch reduced Bharti Airtel's outlook to 'negative' from 'stable' citing risks involved in its African operations. Faced with high-cost debt, Airtel has had to

pre-pay about \$900 million of its debt. Its recent plan to raise funds via a global bond issue has seen little progress.

Many Countries, Many Problems

Africa's challenges make for a sobering read for all who had bet on Airtel replicating its India model there. "The vendor ecosystem in Africa is poor. We have had to build it almost from scratch," says Inder Walia, director (HR), Bharti Group . Airtel has had to take all its vendor partners like IBM, [Spanco](#) ,

Mahindra Tech from India who are building their operations, entailing more time and costs.

The company is now trying to replicate its India strategy of sharing infrastructure with its competitors in Africa. Airtel has sent invites to telcos - like Etisalat, Vodacom, Millicom and Orange - to set up a pan-African tower company. So far the response has been lacklustre. Experts say such collaboration is logistically difficult in Africa because the footprint of telcos often does not overlap across so many countries. Barring MTN, which has almost similar footprint like Zain, there aren't comparable multi-country operators.

Perhaps, the most complex and niggling problems come from the fragmented African market, with many governments and many rules as well as a different African work culture.

For example, Airtel is facing constraints in importing telecom equipment into some countries that have a forex neutrality clause in place, which ensures that the value of goods it imports cannot be more than its exports from the country.

Duty exemptions don't come easy. In Kenya, duty exemptions took almost three months to process. Most of the 16 countries where Airtel operates have not signed double taxation avoidance treaties. This has cost and logistical implications. If one of Airtel's Kenya-based vendors were to set up central billing for all the 16 operations, Airtel will lose lot of money in taxes.

Mittal Junior's African Safari



Sunil Mittal, who honed his entrepreneurial skills in 1990s' India, couldn't have found a better training ground for his son, Shravini Mittal, 24. Africa is the next frontier most global companies are eyeing. Relatively untapped, culturally complex and riddled with serious infrastructural and policy bottlenecks, Africa offers significant business challenges.

What exactly does Shravini Mittal do there? "He is getting hands-on experience in an emerging market," says a senior Bharti Airtel executive. An analyst by background, having worked with JP Morgan, E&Y and Merrill Lynch in the past, he is working as a regional analyst attached to

Jayant Khosla, CEO, Airtel Africa (Anglophone). Shravini is based out of Nairobi. Executives who have worked with Airtel Africa say they don't know of his involvement in day-to-day work. It would not be surprising though if he is getting some hard lessons on emerging markets, working closely with Khosla and old Bharti hands like N Arjun and Manoj Kohli. A Kenya-based Airtel executive says Mittal junior has made few real estate investments in his personal capacity in Kenya. Last September, when he joined Bharti Airtel International Netherlands (BAIN), the company said it was "to assist the management in the integration of Zain Africa. He may be elevated to the Board or equivalent position either in BAIN or any of the companies in which he's an employee". Mittal draws an annual salary of €50,000. There are, of course, many who see Mittal junior's appointment as an early move in the succession planning at Bharti.

Given the landlocked nature of most African countries, equipment often have to be transported by roads leading to cost and time overruns. "Often we cannot correctly estimate the timeline," says Durga Kota, MD, Bharti Integrated Account, IBM, Airtel's partner.

Dealing with local regulators in the protected economies of Africa has also not been easy. In Kenya, where Airtel dropped tariffs, the government intervened as its competitors lobbied hard. "They need to devote more time, effort and capital lobbying with the government," says Membrillera.

The African work culture is also something that Airtel is coming to terms with. African employees typically start their day at 8 am and close at 4.30 pm. Driving back after 6:30 pm is not the safest thing to do. Moreover, Africa's relatively laidback work culture in the continent has meant that Airtel's deadline-driven work culture from India cannot be easily transplanted.

"The fact that they [Airtel] have been slow does not surprise me," says Guy Zibi, MD of AfricaNext Investment Research. But he adds, "If there is one company that can deal with the odds in Africa, it is Airtel," he adds.

Bharti Gets On With It

The basis for such optimism is Airtel's very visible determination to change ways business is done in Africa. Despite delays, Airtel has outsourced key operations - telecom network, IT and call centres - to IBM, Ericsson, Nokia, [Siemens](#), Spanco, Mahindra Tech and others. About 3,000 of ex-Zain Africa staff has been moved to the rolls of new partners.

Distribution and marketing networks are being overhauled. Over 100 people in the African operations were trained in six weeks for this. There were issues with dealers and retailers in Africa. Unlike India, the distribution in Africa is led by a few wholesalers whose discounting game had pushed many retailers into losses. In May, after detailed discussions, Airtel launched a new channel partner programme. "We have already begun to see better [30-50%] pick up of stocks," says Rajan Swaroop, managing director, Airtel Nigeria .

Airtel's customer initiatives are doing well, says a May 2011 Goldman Sachs report. It has rationalised tariff rates in almost all its markets in Africa. This sustained tariff differential has led to shift in minute usage to Bharti in multiple-SIM markets like Nigeria and Ghana. It has also launched customised packages in different markets, taking into account the traffic patterns and network quality.

Congested network and call drops have been a recurring problem in Africa. Bharti's strategy to first scale up network capacity and then grow subscribers through tariff cuts has helped offer better service, says the report.

Congestion in Airtel's Africa call centres has dropped from 90% to 20-30%. Africans frequently lose their handsets to theft and the issuing of a new SIM card typically takes 7-14 days. Airtel's SIM swap scheme means a new SIM can be issued in an hour. E-recharge, which helped save 3-4% of operational expenditure in India, was introduced in Nigeria in December. By the end of 2011, Airtel hopes e-recharge will cover 80% of the African markets.

When in Africa...

Zain was a revolving door of sorts - five brand changes since 2001, frequent board level changes and almost zero investment in infrastructure, HQ in another continent and little co-ordination between the 16 countries in Africa. "It was like each MD led a semi-retired life doing his own thing," recalls a senior Africa-based consultant who has interacted with some senior Zain executives.

Airtel changed all that. It moved its Africa headquarters to Nairobi (Kenya) from Bahrain. "With all key stakeholders in Nairobi, decisions have become faster. Things are easy to explain," says Tiemoco Coulibaly, CEO (Francophone), Airtel Africa. Recently, Coulibaly wanted to set up a cell site in a remote area on the border of Chad and Sudan. The decision was taken in a day. The area was covered in three months. Airtel has committed \$1.5 billion in network rollout in the next 18 months. "All this was almost impossible earlier. Bharti's DNA is speed, speed, speed," he says.

As a result, senior level attrition - a good indicator of problems in any big M&A deal - has been negligible. This is despite the fact that the centralisation thrust and outsourcing of functions like networks, IT, customer care have clipped powers of country MDs significantly.

Airtel has also created a new zonal structure that empowers the second rung leaders in Africa. It has created positions for 40 new zonal managers who are like zone CEOs with profit and loss responsibilities. "This delegation of power has energised the system - subscriber addition has moved up well," says Jayant Khosla, CEO, Airtel Africa (Anglophone). An elaborate employee exchange programme has been launched.

Topline, Bottom Line

Airtel's expansion in Africa has also been good for Africans. In Africa, ARPUs are very high - because call rates are high. But that keeps minute usage very low. In India, call rates are about a cent a minute (about 40-45 paise) as compared to 6-12 cents in Africa.

While some players like MTN and Vodacom are making money in Africa, at least a third of African operators today do not make money. Somebody has to figure out a better viable model to bring down costs, lower tariffs and grow subscribers while maintaining profitability in Africa.

Airtel is showing the way. With its outsourcing model and its projected revenue growth, some experts reckon Airtel could bring down the operating costs in Africa by as much as 70%. "Airtel will have profound impact on the business models in telecom industry in Africa," Zibi says.

For many years, the Kenyan government has been talking about building a BPO business. Nothing happened. The largest BPO there had 400 people. Spanco, an Airtel vendor, has employed 1,000-plus people within a year. IBM has assembled a top-notch global team to manage Airtel's business and is now figuring out ways to build talent supply through training and tapping the African diaspora.

At the Airtel headquarters in Delhi though, it is the bottom line and topline issue that must be consuming the top management. Manoj Kohli, CEO, Bharti Airtel International, is confident about Airtel's prospects in the continent. "We are well on course to touch 100 million customers, \$5 billion revenue, \$2 billion Ebitda [at 40%] by 2013 [from 45 million subscriber and 26% Ebitda today]," he says. Revenues and customers yes but most experts - from Fitch to Goldman Sachs - consider profitability or Ebitda margins of 40% by 2013 to be ambitious.

Airtel Africa needs to succeed even more now than when it started - because Airtel India now needs that success much more than ever before.

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