

A Study on Impact of Disruption And Consolidation In Telecom Industry on Jobs

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Abstract: *Telecommunication companies across the world are sharpening their merger and acquisition focus as 48 per cent executives surveyed indicate that they are actively pursuing a M&A in the next 12 months, says an EY report. Sector convergence and advances in technology and digitalization are altering the telecommunications landscape globally.*

Some of the major factors that are driving the M&A in the telecom sector include - sector convergence, impact of digital technology on their business model and acquiring talent among others. The sector, which has been witnessing rough weather in terms of profitability due to rising competition and lower margins, has witnessed large scale lay-offs making job scenario uncertain.

In the telecom industry, manpower accounts for 4-5% of the costs, but in the last few years there was no reining in of salaries. Now that expenses need to be harnessed, employees will be the first casualty. This instability in the market has affected startups as well as multinational companies which have induced anxiety in majority of employees.

This study will be on the disruptions in telecom industries in India and decisions regarding their closures and merger. The study will be according to published data of this sector and the impact on their employee's job loss.

Keywords: *Telecom industry, disruption, employee jobs, mergers and acquisitions*

I. Introduction

Telecommunication companies across the world are sharpening their merger and acquisition focus as 48 per cent executives surveyed indicate that they are actively pursuing a M&A in the next 12 months, says an EY report. According to EY's 15th biannual Telecommunications Global Capital Confidence Barometer (CCB), sector convergence and advances in technology and digitalization are altering the telecommunications landscape globally. Some of the major factors that are driving the M&A in the telecom sector include, sector convergence, impact of digital technology on their business model and acquiring talent among others.

India's telecom industry is slated to grow at 4% CAGR over FY16-19 to \$33 billion (Rs 2.2 trillion approx), driven by a sharp 30% CAGR spurt in data revenues at \$11 billion (Rs 75,600 crore), said brokerage CLSA, adding that Bharti Airtel is best positioned to withstand competition from Reliance JioInfocomm and gain revenue share with its mix of "incumbency, improved execution, bigger capacity spectrum holdings and a head start over closest rivals, Vodafone India and Idea Cellular on both 4G capex investments and data network rollouts".

The foreign brokerage expects India's data subscriber base to see a "17% CAGR spurt to 522 million by end-March 2019," backed by a "44% jump in data penetration". Of this, the combined base of 3G/4G subscribers is expected to touch 392 million from 200 million now, led by a growing smartphone base and aggressive network rollouts by operators.

With over 1200 million mobile phone users & 460 million Internet users, Indian Telecom Industry is the fastest growing market in the world. The rapid strides in the telecom sector has been facilitated by policies (NTP 94, 99, 2012, 2015, 2017) of the Government that provide easy market access for telecom equipment and a fair regulatory framework for offering telecom services to the Indian consumers at affordable prices.

Many companies from India and global telecom companies took advantage of these policies. We had many telecom service providers in India viz: BSNL, MTNL, Videocon, Telenor, SSSL (MTS), Tata Tele Services (TTSL), Tikona, Aircel, Reliance Communication (RCOM), Vodafone, Idea, Airtel (Bharti), Reliance Jio.

Reliance Jio is the latest entrant and the massive disruptor. It has changed the rule of the game by giving free unlimited calls and charging only for internet data. Most of other operators were not prepared technologically to compete with Jio. Kumar Mangalam Birla has blamed rival Reliance Jio for causing "unprecedented disruption" in the telecom industry by offering free voice and data but hoped the sector would return to growth in 2017-18.

Without naming Jio, Birla in a letter to shareholders of Idea Cellular said flourishing telecom industry witnessed a 2 per cent decline in annual revenues in 2016-17 fiscal.

The Tata Group has agreed to sell its mobile business to Bharti Airtel for free, ending the salt-to-software conglomerate's long-standing attempts to rid itself of this loss-making venture while bolstering the market share and 4G airwaves capacity of the Sunil Mittal-led company. Tata Tele has a consolidated debt of over Rs 34,000 crore. The deal, which has been done on a 'debt-free, cash-free basis' will intensify the consolidation process underway in the telecom industry, which has now come to be dominated by three players, the Idea-Vodafone combine, Bharti Airtel and Reliance Jio. Once the Idea-Vodafone merger is closed, Airtel will slip to the No. 2 position in the Indian market, and the acquisition of the Tata Teleservices wireless operations will help it to narrow the gap with the merged entity.

Telecom equipment maker Ericsson petitioned the National Company Law Tribunal (NCLT) seeking the start of bankruptcy proceedings against Reliance Communications (RCOM) and two of its subsidiaries over total unpaid dues of Rs 1,150 crore. The two subsidiaries are Reliance Infratel and Reliance Telecom. It has disrupted the merger process between RCOM and Airtel. Legal experts said it's unprecedented for a company to find itself in such a situation while a strategic debt restructuring package is being worked upon. The application was simultaneously filed by 13 others apart from Ericsson, all seeking dues from RCOM.

The recent developments in the business and private sectors have had a major impact on industries of multiple sectors. The Telecom industry is one such major industry that has had to undergo layoffs due to various reasons such as company mergers and fierce competition. This instability in the market has affected startups as well as multinational companies which have induced anxiety in majority of employees.

About 10% of the 60,000-plus people employed in telecom tower companies could also lose jobs over the next year as rapid consolidation among telecom service providers hurts tenancies and revenue at the infrastructure firms.

Recruitment heads and industry executives are of the view that those in sales and marketing and corporate offices are on shaky ground in this part of the telecom industry. The consolidation in fact has forced recruiters to sharply reduce their hiring for the segment by up to 50%.

Videocon – Closed

Airtel - Closed

Telenor – Acquired by Airtel

TTSL - Acquired by Airtel

Tikona - Acquired by Airtel

MTS - Acquired by RCOM and Closed

RCOM – Closed. Asset sold to Jio

Vodafone & Idea – Merged together

Only 3 entities left – Airtel, Jio, Vodafone + Idea

Research Methodology of this paper is secondary article based through articles published of the telecommunication companies in newspapers and internet sources.

Impact on Employee jobs:

Thousands of jobs are at stake in the Indian telecom sector as three loss-making operators; Reliance Communications, Airtel and Tata Teleservices, face an uncertain future. Together, the three operators employ about 15,000 people. While RCOM and Airtel have called off their plans to merge their wireless businesses, Tata Teleservices has sold their wireless business to Bharti Airtel. “Both Airtel and RCOM had pruned their staff to make the organization ready for the merger, for which about 2,000-3,000 employees had already been asked to leave. But, now, with the merger not happening, the entire workforce could be left in the lurch as the operators themselves figure out what to do,” said an executive of one of the telecom companies.

Bharti Airtel took over Tata Teleservices (TTSL), Tikona and Telenor India

Bharti Airtel has acquired Tikona Digital's 4G airwaves for Rs 1,600 crore, ramping up its high-speed broadband spectrum capacity. It will also narrow the gap between Bharti's pan-India 4G spectrum capacity and Vodafone-Idea's and Reliance Jio's.

Tikona CEO and MD Prakash Bajpai says “The mobile telecom industry is definitely not for the small players. It is a capital-intensive sector with long-term returns.”

Norway-based Telenor local unit Uninor is merged with Bharti Airtel. Airtel will have to take an additional debt burden of Rs 1,500 crore.

Tata Teleservices (TTSL), the telecom unit of Tata Sons, is preparing an exit plan for most of its 5,000-odd employees, which includes a notice of three to six months, severance packages for those willing to leave earlier, a voluntary retirement scheme (VRS) for elders, while transferring only a small part of its employees to other

group companies. Company executives and industry insiders said the debt-laden telecom company, which will shut its operations soon, had last month asked circle heads to leave by March 31, 2018.

Bharti Airtel will absorb about two-thirds of the roughly 6,000 employees at Telenor India and Tata Teleservices' consumer mobility business after merging with both companies, people familiar with the matter said. "It's inevitable in a post-merger scenario all employees will not find meaningful roles and, accordingly, will be provided complete support to deal with such an outcome," an Airtel spokesperson told ET in an email. TTSL's consumer mobility business employed some 5,000 in October, while Telenor India had about 2,000. Although employees have left both companies, some at TTSL have been or are being absorbed in other roles within Tata group.

Reliance Communications (Rcom) and Airtel : as they have called off its merger with Airtel. "Merger agreements with Airtel allowed to lapse by mutual consent," said the statement released by the Anil Ambani company. The reason given was "Inordinate delays caused by legal and regulatory uncertainties, various interventions by vested interests, policy directives impacting bank financing for telecom and changed industry dynamics," said the telco in October-2017. Around 4,000 employees of Reliance Communications (RCOM), who were transferred to the Swedish gear maker Ericsson in 2013 for managing the wireline and wireless network of the Anil Ambani company, are headed back home. Ericsson and RCOM have been in a managed services contract for four years, but now the two companies have decided to end the pact over non-payment of dues to the Stockholm-based equipment major. As per the agreement, the employees will return to RCOM after the termination of the contract. With the addition of 4,000 employees, the RCOM staff strength is estimated to rise to 9,500. With Reliance Communication shutting down its wireless business, some 1,200 employees will likely be left stranded without jobs. The company informed its workforce on Tuesday that November 30, 2017 will be their last date of employment, putting them in a spot because there aren't too many alternatives available in the job-market. Recruiters said those with more than eight years of experience will have the toughest time and even junior-level employees will find the market choked. "It will be a huge challenge to get a job in this scenario," said A Ramachandran, partner at search firm EMA Partners. "Candidates should take up any opportunity they get and not look too much into the profile or compensation." Ramachandran has been getting calls from RCom employees for the past two-three weeks.

"Some can be deployed in the ecommerce and logistics industry, but for the rest, the demand and supply gap is huge," said Rituparna Chakraborty, executive vice president of staffing firm Teamlease Services. Chakraborty said she expects her team to be flushed with resumes of RCom employees in the next few weeks.

RCOM has some 3,000 employees, of which 1,000 to 1,200 will be affected by the closure, a person familiar with the matter said. However, Kris Lakshmi Kanth, chairman of search firm Headhunters India, estimates about 5,000 employees will be hit.

Idea Cellular and Vodafone India Merger

India's telecom industry will soon ring in a new order. Vodafone India and the Kumar Mangalam Birla-owned Idea Cellular are to merge to create the country's biggest phone company by subscribers, dislodging Bharti Airtel, which has been at the top for 15 years. The new Rs 1.55 lakh crore entity will also be the world No. 2 after China Mobile.

The deal will see Aditya Birla Group, the promoters of Idea, gradually raising its stake in the combined entity while Vodafone Group will reduce its own, with the aim of both holding equal stakes over a period of time. Kumar Mangalam Birla will be the chairman of the new entity. Vodafone will name the chief financial officer while the two companies will jointly name the CEO and operations head before the closure of merger, expected within 24 months. **"Operating cost savings represent 60% of the expected run-rate savings," the companies said.** The major cost and capex synergies would be around network infrastructure, operational efficiencies, lower maintenance expenses, savings in energy costs, redeployment of overlapping equipment from rationalised sites resulting in lower capex, service centres, back office and distribution efficiencies, streamlining regional and nationwide IT systems and evolving to a single IT system besides optimising general costs.

Number of employees affected by the merger will be known by June 2018

Videocon Telecom

Videocon Telecom, among the smallest telcos in India, will shut down operations in the Punjab circle from February 15, 2017, bringing to an end its mobile services in the country. The company has asked its 3 million customers to switch to other operators to ensure continuity of services.

The company has struggled to remain competitive against larger and more moneyed rivals such as Bharti Airtel, Vodafone India and Idea Cellular for years. With the then-impending entry of Reliance Jio Infocomm, the writing was on the wall and the company exited from the six circles.

The move will affect about 100 employees in the mobile service business in the state, who are likely to be absorbed in Videocon's other divisions in the state, according to people familiar with the company's plans. Company has about 4,000 employees in all its businesses in Punjab.

Telecom Tower Companies

About 10% of the 60,000-plus people employed in telecom tower companies could also lose jobs over the next year as rapid consolidation among telecom service providers hurts tenancies and revenue at the infrastructure firms.

According to analysts, the telecom tower industry in all employs 60,000-70,000, of which the majority are working on contract. A Ramachandran, partner at search firm EMA Partners, who has been recruiting for the telecom industry for several years, said the retrenchment could be around 10% of the total number of employees who work for the telecom tower sector. Recruiters said their hiring mandates have dropped sharply, a sign that firms are not replacing lost talent.

Recruiters View

Recruiters are telling jobseekers from the telecom industry, currently in the throes of a shakeout, that they should pitch their hopes low -expect pay cuts of 20-30% and be happy with lower designations.

"I have 200 resumes from the telecom sector of candidates whose salary is `20 lakh and above," said Kris Lakshmikanth, chairman of search firm Headhunters India. "I have stopped taking their messages because we cannot play matchmaker when the sector is in this shape."

A few weeks ago, the Bengaluru-based company found a job for the vicepresident of a Mumbai-based telecom operator earning `1.1 crore annually. He has the same designation with a smaller role at an over-the-top (OTT) communication services provider at `90 lakh.

A price war triggered by the entry of Reliance Jio has hurt profitability and forced a wave of consolidation. From 10-12 operators per circle several years ago, the number is down to half a dozen or less. Vodafone India and Idea Cellular are in merger talks, while a union of Reliance Communications, Aircel and MTS is in the works. Besides this, Telenor has sold its India business to Bharti Airtel. All these deals will leave a trail of employees without jobs. Recruiters who hire for middle and senior levels say all candidates who have been in the sector since 2010 will have a hard time.

The sector's revenue is estimated at an annual `1.3 lakh crore, putting people costs at `34,000-35,000 crore. Layoffs on account of consolidation and poor business performance are already underway. Those who remain are looking hard for a lifeline. "Candidates holding senior posts in the telecom industry are sending personal feelers to their friends for a job, because there is no one to hire them," said Vivek Mehta, executive director for recruitment firm ABC Consultants who focuses on telecom. An assistant vice president after a months-long search finally decided to join a financial services company at a lower salary but at the same designation, he said. "Some of them are chalking out their own business plans since the only offers these candidates, in the mid-late 40s, are getting are roles they would not have opted for had the industry been in a better situation," Mehta said. Recruiters said those who have spent a decade in the industry and were previously in the retail and fast-moving consumer goods sectors have missed out on the changes that happened at their previous workplaces and are rarely welcomed back.

Many of those working on telecom networks and are responsible for base stations and radio frequencies will have far fewer options because of consolidation.

Their skills are too narrow to be applied in other IT industries, experts said. As for customer care, recruiters say retail banking doesn't have too many openings as there are many claimants already. And ecommerce has lost its shine, what with companies laying off large numbers. "The blood bath is about to start," said Mehta. He's asking candidates with a salary of `60 lakh to expect a 15-30% pay cut.

Analysts said smaller telcos will continue to face the heat while larger ones will run an extremely tight ship to sustain. In the last one year, search firm EMA Partners said there has been 40% jump in candidates who have 15 years of experience in the telecom sector and now want to move out. With telcos under debt, severance packages have come down and therefore the urgency of another job is higher than ever, experts said.

The exodus is not limited to the senior segment. Junior and mid-tier employees are reaching out to recruiters via social media. "There's been an at least 30-35% spike in the number of telecom employees who are expressing interest on professional networks such as LinkedIn," said Shailesh Singh, recruitment head at HR solutions firm PeopleStrong.

A Ramachandran, partner at search firm EMA Partners, has been recruiting for the telecom industry for several years. He said those who've been in the industry for a decade and more, should be looking at a 20-30% drop in salary. However, this may not be applicable to CXOs, who may still find a suitable post in another sector.

Staffing firm TeamLease Services has seen some of its people hired from the telecom sector going on permanent payrolls of other industries but without a hike. "They were told that the company would take call on an increment in the six months depending on the performance," said Rituparna Chakraborty, executive vice president, TeamLeaseServices. "For immediate deployment, even a pay cut of 10-15% is a good way to sell yourself for the new role".

Vivek Mehta, executive director, ABC Consultants, said that in the past year, he has seen a freeze in hiring by clients in the telecom tower industry. Earlier, he would recruit for them in the Rs 20-40 lakh middle-level bracket but that has stopped now. Ramachandran said he too has seen a drop of 35-40% in recruitment orders that came from tower firms. He, however, expects the industry to sail through these choppy waters once only two-three companies remain instead of a fragmented industry. He added that those who are in operations management and maintenance will be needed as companies continue to expand towards 4G.

II. Conclusion

"Any consolidation will see overlapping workforce at varying levels that will eventually lead to workforce rationalization," said American Tower Company (ATC), one of the top players in the industry, in an email response to ET. "Staffing is mostly focused on internal movement and redeployment with a view to utilising the existing workforce. It added that the telecom tower industry is likely to be under some pressure, in the short run, but in the long term it will lead to a stronger balance sheet for the industry.

"Once telecom operator consolidation goes through, there will be manpower rationalisation in the coming months. Downstream impact is expected to be significant, perhaps more than ever," said Jaideep Ghosh, partner, management consulting, KPMG India.

Nearly 150,000 direct and indirect jobs in India's debt-ridden and loss-making telecom sector face "clear and present danger" of corporate downsizing, as per estimates by industry sources.

At present, the sector is burdened with astronomical debt -- to the tune of nearly Rs 8 lakh crore by some estimates -- and heavy losses due to a slew of freebies which are being doled out by incumbent telecom players to retain their customer base. The Reserve Bank of India (RBI) had also cautioned commercial banks about loans given to companies in the telecom sector. "The telecom sector is reporting stressed financial conditions, and presently interest coverage ratio for the sector is less than one," the RBI note had said. According to industry observers, telecom companies have no option left but to initiate "severe cost-cutting" measures including downsizing to sustain operations. Facing the axe are between 20,000-25,000 direct jobs, many of which will be due to planned mergers between incumbent players. Mergers alone will lead to over 15,000 job losses as existing portfolios and profiles are duplicated. As per industry sources, major player Idea Cellular has axed around 1,800 jobs in the lead-up to its planned merger with Vodafone. A further reduction of 5,000-6,000 employees is on the cards as and when the merger fructifies, perhaps next March.

On the other hand, Vodafone has laid-off 1,400 people from its side as part of the merger plans with Idea, the sources said. Although industry sources pointed towards job losses in telecom major Bharti Airtel, the company has denied the same. Reliance Communications has also laid off some 1,200 people over the last year in the lead-up to the merger with Sistema and its now-called-off merger with Aircel, which, too, is learnt to have let go of 800 employees, estimates show. However, industry estimates place a far larger number of around 125,000 indirect jobs that will be wiped out due to the turbulence being faced by the sector. "In the larger scheme of things, with the economy slowing down and most industry sectors seeing flat or negative growth, the impact is going to be 'telling and bloody', with jobs not being created across sectors, and re-employment becoming a tough task," an industry analyst told IANS.

ABC Consultants' Mehta added that there will be another, fresh round of exits once mergers take shape since consolidation is still in approval stages for many. "There will be at least another 15% reduction in manpower," he says. It is not just the mobile phone operators but even those in the vendor segment and tower companies too have been shedding flab. The impact has been such that a recruitment company's head, who did not want to be named, said that his telecom vertical now has only two hiring agents, down from eight members a few months ago.

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