



Digitally united: An interview with Sanjay Kapoor

CEO, Bharti Airtel Ltd., India and South Asia

Bharti Airtel Ltd. is a leading telecommunications services provider. As the flagship company of the Bharti Group, it has emerged as one of the world's top five wireless operators. The company offers services in the fields of mobile, telemedia, enterprise, and digital TV across 19 countries in Asia and Africa.

Sanjay Kapoor joined the Bharti Group in 1998. As Director of Corporate Strategy and Planning, he created and managed the early deployment of the strategic blueprint for Bharti's telecoms activities before moving on to become President and CEO of TeleTech Services India Ltd. In March 2006, Mr. Kapoor returned to Bharti as President of Bharti Airtel's Mobile Services. Three years later he advanced to Deputy CEO, leading all consumer-oriented businesses. He now holds the position of CEO for Bharti Airtel Ltd. in India and South Asia, with 119,382 sites serving 177 million subscribers and generating USD 10.4 billion in revenues.

McKinsey & Company had the recent privilege of speaking with Mr. Kapoor. He shared his perspective on the rise of digital in telecommunications and its implications for customers and mobile network operators in emerging markets.

McKINSEY: From your unique vantage point, what have you observed in terms of the shift in telecoms from digital to data in India and throughout the world?

SANJAY KAPOOR: I've been fortunate to be a part of several important discussions that are happening around the globe. Worldwide competition among tele-

coms providers isn't solely based on physical infrastructure anymore. Now, they compete on a combination of physical and virtual infrastructures. No matter which telco and no matter what economy, operators are very concerned with regard to how they will shape their broadband strategies and their virtual infrastructures.

McKINSEY: What's behind this added layer of competitive complexity?

SANJAY KAPOOR: Well, the world at large is facing a spectrum shortfall. The degree of constraint varies from country to country – only 200 MHz for some and up to 500 MHz for others. Operators are wondering where this new spectrum will come from and how exactly they will use the digital dividend to the biggest advantage. Countries like India need to join this discussion. I think we are a trifle behind in our own debate on the subject.

McKINSEY: What will this issue of spectrum scarcity mean for telecoms players from a services point of view?

SANJAY KAPOOR: It means that companies like ours will need to start planning for strategies that enable us to successfully deliver life enrichment data services in addition to voice. Whether it is entertainment or health – touted to be even bigger than commerce – life enrichment services will be at the center of mobile services. Cisco estimates that the total volume of data consumed will actually grow from 0.09 exabytes per month in 2009 to 3.6 exabytes by 2014. This is almost a doubling of global data consumption every year for the next three years. Such demand puts tremendous pressure on

the system, meaning a completely new ecosystem and social engine need to evolve.

McKINSEY: Is the focus on adequate capacity to meet the skyrocketing demand the primary challenge for mobile operators?

SANJAY KAPOOR: It's one of the challenges. This shift to life enrichment services has some organizational implications as well. Companies like ours will need to move from managing scale to managing complexity. In the first phase, or the first 15 years of our existence, managing scale was the big challenge. In the future, the challenge will be to navigate the highly complex maze of an ecosystem with multiple elements – some familiar, some new. We're talking about financial, educational, entertainment, advertising, and health services as elements of a single telecoms entity.

McKINSEY: You mentioned that all operators – regardless of their market – would be facing significant challenges. Are there really no advantages for those operating in markets that are already well established?

SANJAY KAPOOR: Actually, the opposite may be true. The opportunity in some verticals will be greater in emerging markets than in developed ones. In many emerging markets, these service areas are not well organized, and their infrastructure is weak. Hence, the infrastructure that telcos provide proves revolutionary. This reality presents a large opportunity for telecoms operators. What makes it exceedingly promising for emerging markets is that young people are a growing percentage of the population. They are much more aware and accepting of technology than others. They are going to be the catalyst that bridges the digital divide between emerging and developed markets. The other thing that drives consumer behavior change is the burgeoning middle class in these countries. In India, this group actually drives consumption. As prosperity comes to places like Bangladesh and many African countries, you will see a similar pattern emerge here as well.

McKINSEY: Besides the spectrum challenge, are mobile companies prepared to offer these life enrichment services from a structural point of view?

SANJAY KAPOOR: Mobile companies will have to make investments in fixed networks again. To backhaul so much traffic, you need fiber. For the last eight to ten years this did not seem to be a necessity. Everybody

thought wireless companies would need radio. I think radio will develop, but you need a solid investment in the fixed-line infrastructure to carry so many exabytes of data. Everyone I talk to believes that data consumption will increase by some astronomical figure, but when I ask them how their IT spend is going to grow, many talk of either capping their IT expenses or even lowering them. That tells me that the only way to manage these IT expenses is by taking the products and services to the cloud. The cloud seems to be inevitable, and I believe it will drive productivity.

McKINSEY: What will the availability of these “life enriching” services mean for the customer?

SANJAY KAPOOR: With every passing day, more and more computing capabilities are being built on smart devices with better and better browsing capabilities. I think customers will start using these devices like they use their personal computers. There will be a very thin line between personal computers and mobile devices.

McKINSEY: Will the rise in data services have a similar impact on businesses?

SANJAY KAPOOR: In addition to large corporations, there are countless small and medium-sized businesses and home offices where I think the real impact will be seen. These people will be the early adopters of cloud-based data services. We have already begun to see the effect. *Tally*, for example, is an accounting package that we sell to small and medium-sized businesses as a service in the cloud. Along with security, antispamming, and antivirus packages, it is useful to businesses that aren't prepared to invest in full-fledged services. The cloud comes to their rescue.

McKINSEY: For emerging markets, the road into the digital age has had its bumps. Are things starting to get any smoother?

SANJAY KAPOOR: Countries like India were trailing the world when it came to 2G, 2.5G, and even 3G technologies. We got our 2G technology three to four years after the Europeans – maybe even five years. We were eight to nine years behind other parts of the world in getting 3G. But when it comes to 4G technology, we are virtually in line with everyone else. We are working along with the rest of the world, so services that emanate out of the 4G ecosystem – like LTE – should materialize in India almost at the same time they appear elsewhere.

On data, Japan and Korea have taken the lead; some operators already see more than 50 percent of their revenues coming from non-voice and data. India is trailing a little behind that, but today 22 or 23 percent of Bharti's revenues come from non-voice services.

McKINSEY: What would you say is behind this narrowing in the digital divide you mentioned earlier?

SANJAY KAPOOR: One component of the progress in India and in countries like ours is definitely the talent working in the telecoms sector. Another one is the ability to partner. At Bharti Airtel, one great thing is that we strongly believe in the power of partnerships. We are not averse to working with those who can do this work at better quality, better productivity, or better cost than us. In fact, we are happy to bring that added value into our ecosystem. We also need to make sure that affordability – the hallmark of growth in countries in the developing part of the world – remains a strategic priority.

McKINSEY: Has the nature of your partnerships changed along with these shifts in strategy?

SANJAY KAPOOR: Two things are becoming very important. In an environment where you depend so much on a larger ecosystem, it is imperative that you develop goal congruence with your partners and align them all toward this agenda. The second thing is that when the technology is shifting to such a major extent, customers now have to deal with networks and services that are getting very complicated at the back end. There is a 2G layer, there is a 2.5G layer, there is a 3G layer, and there will be a 4G layer. Someday, there will be a 5G layer, but the customer does not understand all of this. Customers are essentially looking for seamless services and a great interface experience regardless of what they're doing – no matter how many companies are involved behind the scenes. We need to take on a customer perspective of technology and delivery rather

than a technology view of networks and back-end systems. Our partners believe this as well. That is the fundamental change for my own agenda: aligning the ecosystem and the partner ecosystem, simplifying business delivery, and ensuring a great customer experience at the interface. My focus is to align these two very important elements: the customer stance and the partner ecosystem stance.

McKINSEY: At the outset of our conversation, you mentioned that physical infrastructure used to be an operator's competitive advantage, but this is no longer the case. What do you believe will be the basis of competition in the future?

SANJAY KAPOOR: This is a little enigmatic, but I would say that one long-term competitive advantage will be a company's ability to successfully manage the customer experience. Another crucial distinction will be the quality of employees. It will become increasingly important for companies to have the right type and mix of talent along with the right depth of management to ensure they can scale and transform their businesses. A third piece is the ability to innovate, and this will further distinguish one company from another. When I talk of innovation here, it is not about products, services, or content. Eventually, all content and every application will be available to virtually everybody. I think the distinguishing factor will actually come from innovations in business models. Finally, operational excellence is fundamental. Managing people and the ecosystem, delivering on innovative business models, and providing a simplified customer experience are all based on an extremely well-oiled delivery system. Without that, all of these areas will be compromised.

Sanjay Kapoor was interviewed by André Levisse, a Director in McKinsey's Singapore office, and Gautam Kumra, a Director in McKinsey's Delhi office.