

# SUPPLY CHAIN PARTNERSHIPS – EFFICIENT ROUTE TO SUCCESS

(A CASE STUDY ON PARTNERING PRINCIPAL  
IN AIRTEL SUPPLY CHAIN)

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## **Abstract**

*In the current scenario of globalization, focus on value creation is the only key to success. This is possible by identification of core competency of an organization and continuous evaluation of strength and weaknesses. Out sourcing is becoming the need of the day for value creation. It's a process of divesting non-core areas to an organization whose core competency lies in that particular area of operation. The objective of outsourcing of activity to fulfill need for sustained growth is being ensured by establishing long terms relationship with suppliers for non-core but crucial area of operation. In this research paper an attempt has been made to establish connection between outsourcing and creation of a win-win scenario for both organizations namely company and the partner through partnership model.*

## **Introduction**

Supply chain management is the management of a network of activities in an organization to deliver the best value for a product or service to the end customer. It typically constitutes of activities from ordering, movement and storage of raw material, to the production, storage and delivery of finished product and all of this being governed by forecasting of market scenario based on past trends updates on current conditions and anticipated events in future.

In the prevailing scenario when markets are getting global and there is rapid development in technology and information sharing, no organization is untouched by an increased demand from customers, sudden emergence of competition with the same quality product. All this makes companies vulnerable, to become uncompetitive and thus increase the cost pressure. Thus, the traditional methods of demand and supply management have given way to more organized and structured approach to meet customer demands and organizational goals.

Supply chain management as a function has been evolving ever since this term came into existence. Originally, the term was strongly related to assembly line industries automobiles/ consumer durable but it was gradually accepted by various industry segments and modified to suit their specific requirements like Information Technology, Information Technology Enabled Services, Constructions/ Chemicals/ Telecommunication etc.

Through continuous performance assessment, supply chain has helped in identifying the non value adding activities in organization and focuses on core competencies which lead to outsourcing non-core operations and scrapping of vertical integration units. The purpose of outsourcing is to ensure bringing in best practices in key business components by divesting themselves of these non core activities. Companies are realizing that they can focus their energy on areas where they have the distinctive competitive advantage, while differentiating themselves from their competitors and taking



advantage of cost savings from the outsourced functions.

This is not just outsourcing the production of materials and components, but also outsourcing of services that traditionally have been provided in-house. Traditionally, outsourcing included shutting down production unit of peripherals in manufacturing industry and out sourcing the material supply to ancillary units, but now the organizations are outsourcing distribution and logistics, customer service at doorstep, new product development, financial services like tax reporting, accounting, billing, customer engagement, payment collection etc. All the activities mentioned may not be core for the parent companies but they are critical to their survival in the market place and these non-core but critical activities are core competences of outsourcing firms. Hence, identification of outsourcing vendor and keeping them engaged is the key to success of such an endeavor. Such linkages may be more aptly called “partnership”. The key aspect of supply chain is to form appropriate partnerships within and outside the organization and such partnerships strengthen the process and people integration of two or more organizations to achieve

cost efficiency, faster product or service delivery for the organization

**Objective**

The objective of this research paper is to identify and ascertain how Airtel facilitates partnership with vendors for achievement of business objective, further:

- a) How partnering provided a way to leverage unique skills and expertise of each partner for the purpose of unlocking value for customers?
- b) How Airtel SCM emphasizes on the overall and long terms benefits for parties involved in the chain through co-operation and information sharing?
- c) How far Airtel succeeds in establishing business partnership in order to create win-win situation for all parties involved?

**Research Methodology**

The research is based on secondary data available over COAI (Cellular Operators Association of India) website, TRAI (Telecom Regulatory Authority of India) website, and PWC (Price Waterhouse Cooper) benchmarking study available over internet.

**Evolution of Airtel in Indian Telecom Market and Evaluation of Opportunities and Threats**

Year	Airtel Sub Base	% inc YOY	Airtel Market Share	Total GSM base	GSM market Growth
1997	0.2		27%	0.79	
1998	0.2	5%	21%	1.07	35%
1999	0.3	36%	19%	1.60	50%
2000	0.6	86%	18%	3.11	94%
2001	1.1	100%	20%	5.48	76%
2002	2.8	150%	27%	10.48	91%
2003	5.5	96%	25%	21.99	110%
2004	9.4	71%	25%	37.38	70%
2005	16.3	73%	28%	58.50	57%
2006	32.0	96%	30%	105.43	80%
2007	57.1	78%	32%	177.88	69%
2008	85.7	50%	33%	258.24	45%
2009	118.9	39%	31%	380.45	47%
2010	152.5	28%	28%	542.97	43%

Table 1: Subscriber base trend

The chart gives telecom market scenario prior to 2002 till 2010.

The analysis of the chart shows that there was exponential increase in market size which if left untapped would have resulted in loss of opportunity. Since such a growth was never seen in any other country, capturing such a sub base would have been difficult for a new telecom company

Moreover managing and retaining expected huge customer base. Few years down the line would have been possible only by constantly evolving and innovating the technology and services as per the expectations of customers and industry. Continuing with the traditional buyer supplier relationship would have resulted in huge capital investment in upgrade of network and services.

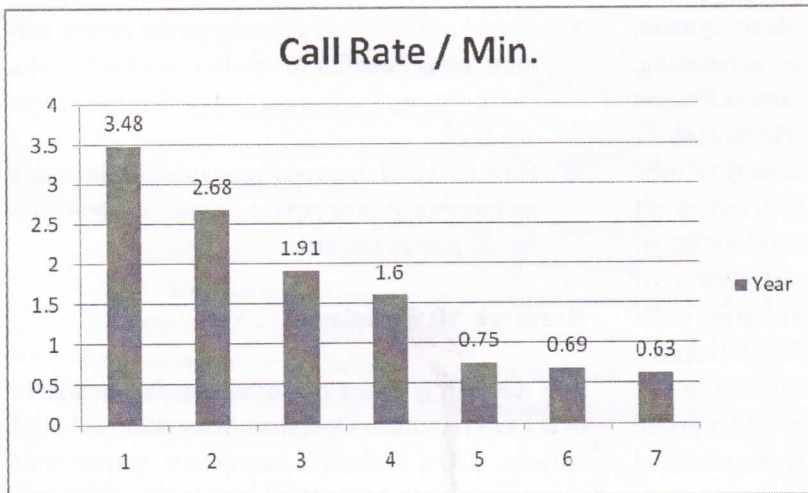


Chart 1-Source: PWC Benchmarking Study; Dec 2006

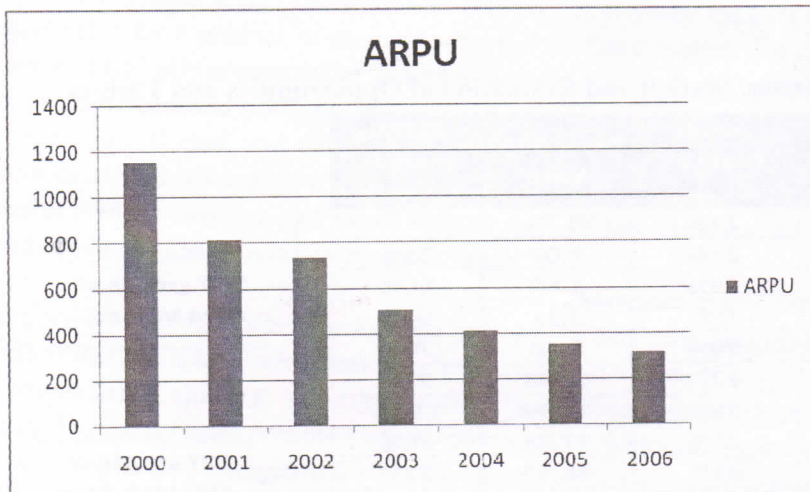


Chart 2- Source: PWC Benchmarking Study; Dec 2006

Such a huge potential was a lucrative market for other players and Airtel knew, sooner than later, competition, will become huge and it would be hard to remain profitable. Moreover, call rates were also falling (trend as shown in Chart 1) hence cost pressure would eventually buildup and ARPU<sup>1</sup> would follow suit (as depicted in Chart 2), if not they took a dominant customer market share.

Understanding the challenge and opportunity in Indian telecom sector Airtel approached telecom equipment manufacturer with a proposal to take up the job of complete deployment / rollout and upkeep of network throughout India on the model of total outsourcing of network provisioning through agreed key performance indicators.

<sup>1</sup>ARPU – Average Revenue per User



The model was developed in such a way so that it served the purpose of both the company and outsourcing partner. For Airtel such relationship meant:

1. Acquisition of expertise in technology
2. Less capital expenditure on infrastructure
3. Faster rollout of services
4. Access to new technology immediately on launch
5. Low cost upkeep and maintenance

For the equipment manufacturer such relationship meant:

1. Guaranteed long term business
2. Increase in revenue due to additional services of deployment and upkeep being provided to company
3. Strong presence in an upcoming major economy with a huge potential and to ward off cheaper Chinese equipment entry in Indian telecom industry. Ultimately ensuring market leadership.

With such strategic long term partnership it becomes the objective of service provider to ensure the operator company to ensure their future growth also.

Ericsson and Nokia were world's leading telecom equipment manufacturers when Airtel was just an upcoming and growing organization in 2002 but still Airtel chose them as its partners who already were suppliers of equipment for Airtel Network. Both willingly agreed to the offer and entered into an agreement.

### Results of Partnership initiative

By 2002 Airtel outsourced entire infrastructure and customer care backend to Ericsson, Nokia Siemens, IBM etc. This reduced operating costs and allowed faster rollout and improved margins. By the end of 2010 Airtel had the highest CMS<sup>2</sup> and RMS<sup>3</sup> and the largest network pan India and highest EBITDA<sup>4</sup> margins.

### Graphical representation

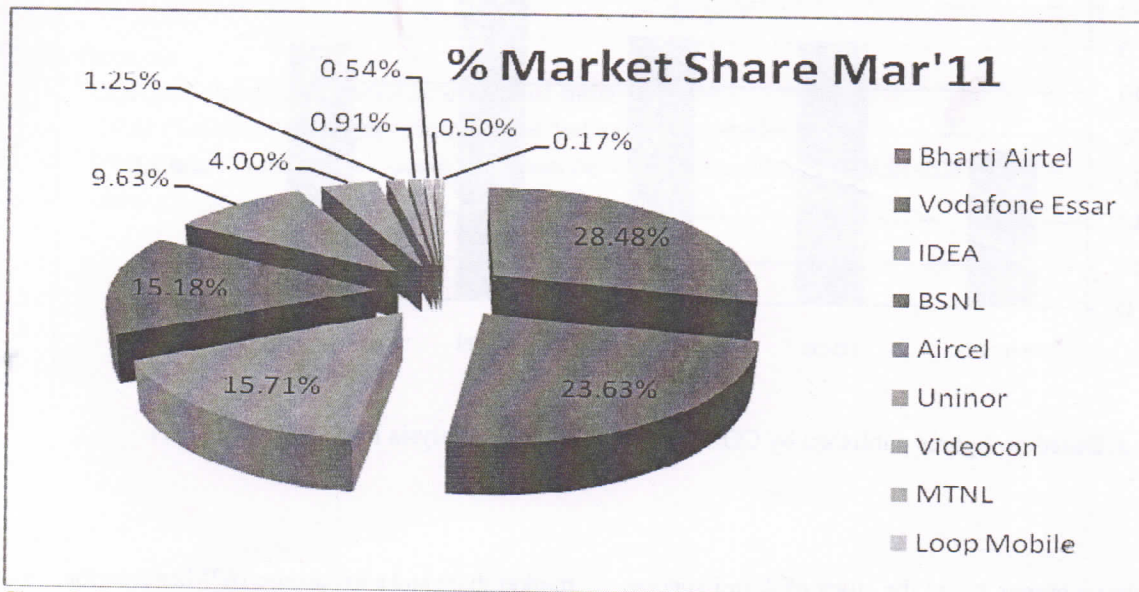


Chart 3: Based on COAI All india GSM sub figures Mar 2011

<sup>2</sup> CMS - Customer Market Share

<sup>3</sup> RMS - Revenue Market Share

<sup>4</sup> EBITDA - Earnings Before Interest, Tax Depreciation and Amortisation

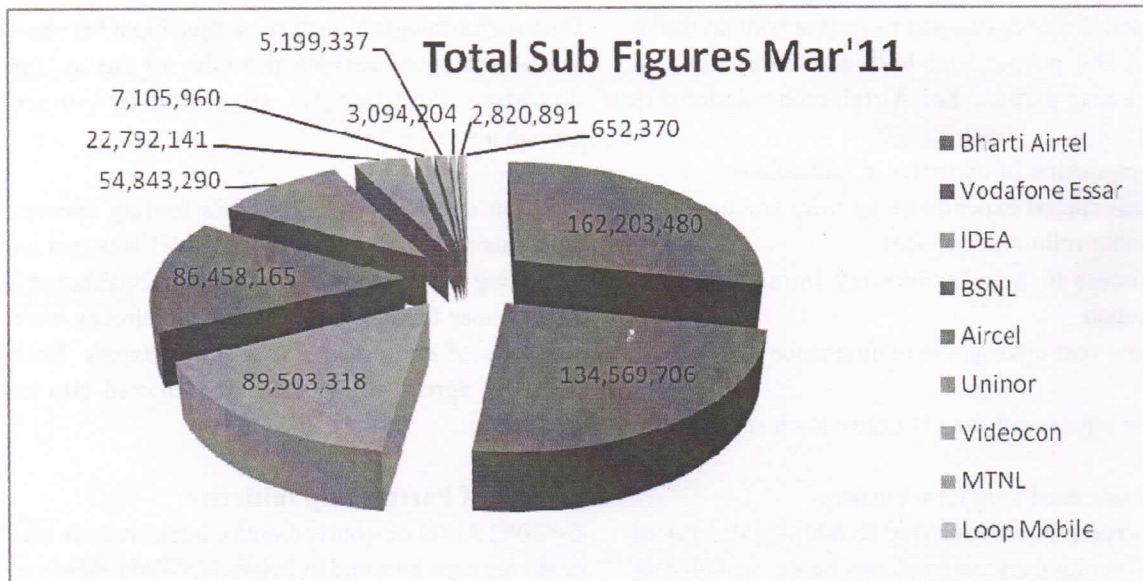


Chart 4: Based on COAI All india GSM<sup>5</sup> sub figures Mar 2011

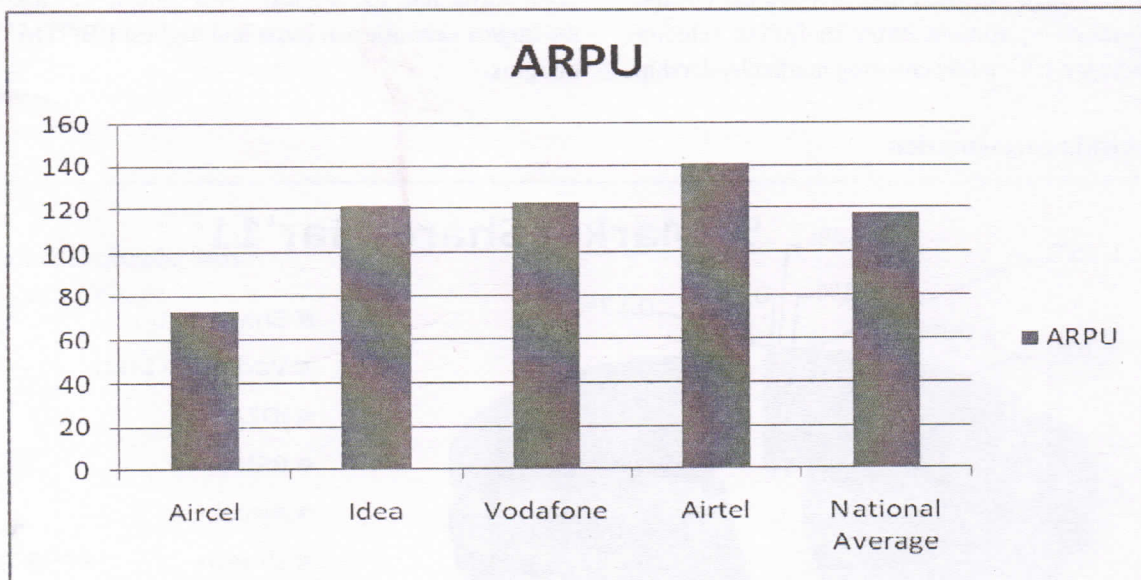


Chart 5: Based on figures published by COAI - ARPU/Revenue Analysis Report Apr-Jun 2011

The above graphs recite the story of Airtel success due to supply chain partnership model. Airtel enjoys the dominant leadership position in Mar'11 with 28%

market share and a handsome 162Mn subscriber base with the highest Average Revenue per user (ARPU) of Rs140 in Mar'11.

<sup>5</sup>GSM – Global System for Mobile



### Crucial Elements

Partnership may not be worth time and effort for an organization if any of these crucial elements are missing.

1. Organisation Alliance: Organisations must believe alliance will help them in achieving individual goals.
2. Relationship building and mutual trust: Successful partnership can only be achieved by building relationship and mutual trust between company and outsourcing partner by creating a win win situation.
3. Communication procedure: Proper code and procedure of information sharing must be set on the basis of type and periodicity of data and communication.
4. Lucidity in business: Transparency with respect to sharing of all business related data will help in building long term relation.
5. Long term collaboration: Outsourcing collaboration should not be for short terms, on the contrary organisations must enter into such agreements with long term approach.

6. Continuous Improvement: To take care of prevailing scenario all the prevailing systems and procedures should be assessed timely and evaluated in order to bring relevance and continuous improvement.
7. Integrated Key performance Indicator: Business health of aligned organisations must be ascertained through pre-agreed performance indicators and must be shared with the partners.
8. Sustenance and Risk Mitigation: The agreed arrangement must be reviewed periodically to mitigate all risk encountered during the course of relationship.

### Conclusion

Company and supplier/partner relationship is evolving day to day depending upon the goals and objectives of organizations. Such partnerships always yield fruitful results if nurtured with trust, transparency and a vision of long term association. Organisations which are innovative, adopt and structure supplier relationships in such a manner that the relationship is of benefit to both company and the partner.

### References

- COAI (Cellular Operators Association of India) website,
- TRAI (Telecom Regulatory Authority of India) website, and
- PWC (Price Waterhouse Cooper) Telecom benchmarking study available over internet.
- [www.tompkinsinc.com](http://www.tompkinsinc.com)