Taking You FARTHER

N Srinath, Managing Director and Chief Executive Officer of TATA Communications, speaks to Harin Fernando on their landmark investment into Sri Lanka and the prospects that the digital future holds.

Why choose Sri Lanka?
Our evolution has been from an India-centric operation to a global one. It became very apparent to us, after our monopoly ended in 2002, that our business model as an international long distance operator in a single country was not sustainable and we had to find other markets and lines of business. We have expanded our carrier (wholesale) services and enterprise solutions on a global basis and we have invested in some geographies in depth. Given the market potential of Sri Lanka and its proximity to India, it made a lot of sense for us to consider our entry to Sri Lanka. Sri Lanka was one of our earliest market expansions and in many ways it gave us several learnings of creating a new business in a new geography and how we could deploy that model successfully in other markets as well. Since then, we have gone on to make significant investments in South Africa also. Most large enterprises are seeking to diversify into emerging markets that are showing rapid economic growth. Therefore countries in Asia, Africa and Latin America are becoming increasingly important to our customers and therefore to us. In addition to our expertise and infrastructure in these markets, we have invaluable knowledge of operating in these markets, thus making us more competitive in addressing our customers' needs.

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What business model have you followed in terms of overseas expansion – starting from scratch or acquiring an existing entity?
It varies across countries, and we certainly do not use the same model akin to a cookie cutter. In our International Wholesale Voice business we are already a leading global player. We are expanding our Carrier and Enterprise data business footprint in Asia and USA and we are gaining momentum in the Middle East and Europe as well. We are growing our presence organically but keep evaluating any interesting acquisition opportunities that might come along.
In a few markets like Sri Lanka, Nepal and South Africa, we have chosen to create a deeper presence, by seeking to address domestic markets in addition to the international connectivity and services. However the business model in these three markets has not been the same. We have a minority stake in the South Africa joint venture. In Nepal, we are a strategic minority investor in the JV but do not directly manage the business. On the other hand, in Sri Lanka we have 90% ownership in a company that we built from the bottom up.

The products and services you are offering in Sri Lanka?

Our service offerings in Sri Lanka include international voice and data services. In the future, we would like to offer a larger suite of services to our customers. We recognise globally that bandwidth is becoming more of a commodity – even though the market continues to grow and be profitable. The opportunity is to create a portfolio of services that leverage existing infrastructure but give us better 'stickiness' with customers and therefore, improved margins.

Over the course of the last 12-18 months, we have built and launched a wide range of managed services products globally with more in the pipeline, and in doing so we are clearly reflecting opportunities that we see in the market. At some point, we would like to be able to offer these services in Sri Lanka too.

Transforming VSNL (Tata Communications) within the last four years to be a global player?

Till 2002, we were a public sector, incumbent operator with a monopoly in India. We were a single product, India-centric company with limited market interface. In early 2002, the company was privatized and the Tata Group acquired management control. At about the same time, the company's monopoly ended and several new competitors entered the market.

We had to not only become competitive in our traditional business but also find new avenues for growth. We decided to focus on the enterprise services business on the back of investments we had in submarine cable systems and other backbone networks. Our efforts coincided with the boom in the IT and IT Enabled Services (ITeS) sectors, which were large consumers of bandwidth.

Simultaneously it was planned that we needed to begin looking outside the borders of India as well. In 2003, the Sri Lanka EGO license opportunity was available and we felt that this was something we could bite off, partly because of the proximity of the geography. In around six months we launched our services here and have not looked back since. We set up an international business division in 2004, followed by the establishment of our fully-owned submarine cable between Chennai and Singapore.

During this time we had built a significant business and relationships with enterprise customers in India many of whom were looking to expand internationally. The acquisition of a global submarine cable network, TGN was therefore a logical expansion move for us. It gave us access to a superior connectivity to all the major regions of the world. The TGN acquisition was quickly followed by the $239mn purchase of Teleglobe, which gave us access to a global IP network, one of the top 10 in the world today. We also became the world's largest wholesale international

voice player, carrying about 25 billion minutes annually.
Today we are 50% Tata Group owned with revenues exceeding US$ 2 bn and a market capitalisation of about $4 billion. We have become a truly multi-national company, with over 60% of our revenues coming from outside India. We have over 5,000 employees of 35 nationalities working for us in nearly 30 countries.
We have experienced challenges in terms of transforming the culture of the company, from a wholesale player to a customer-centric one and we have made substantial investments not only in infrastructure, but also in the entire customer process from sales enquiries to fully fledged customer service and support.

Your experience of being part of a pioneering CDMA team?
When the Tata Group launched CDMA in 1998-99, the license was predominantly for fixed services and we were using CDMA predominantly as a substitute for wire line infrastructure. Of course, the scope of services then was much less than what is possible from today's CDMA wireless platforms. New technology is always very exciting and I can draw a parallel with CDMA and our current roll-out of Wimax.
In India, like in several emerging markets, the wireline telephony infrastructure is limited and of relatively poor quality. Wimax, a broadband wireless technology, is turning out to be an effective substitute to wireline for offering high speed Internet connectivity. We are in the midst of an extensive Wimax roll-out in India, one of the largest in the world and are busy addressing issues like how the technology behaves, what kind of technical challenges exist and what value added services can be offered on the network.

Challenges in the domestic Indian market?
What has been really difficult for all the players in the broadband sector has been the non availability of last mile infrastructure. Unlike in several developed markets where speeds up to 100 mpbs are available to retail customers, in India the challenge is to get 2 mbps to a home in a reliable manner. Whilst most players have made built fibre networks for the corporate market, the availability, reach and quality of fibre infrastructure to both businesses and homes are still issues.
Today there is tremendous opportunity surrounding the 802.16d and 802.16e Wimax platforms, but allocation of adequate spectrum is still an issue to be resolved. However, if the access network can be put in place, it will pave the way for added value services, applications and products. I personally believe that broadband has the potential to significantly alter the way we live and work. In this increasingly networked world, and with the emergence of Web 2.0 technologies, the way we work, play, study and consume media and entertainment, will change

significantly. We are yet to scratch the surface of the benefits, advantages and opportunities that broadband can pave the way for.
I also think that the social issues such as the reach of quality education, healthcare, and connectivity especially in rural areas will benefit from this. With a good broadband connection, we could run a very good education service and it may also be used/deployed for effective telemedicine/ remote diagnostics, etc. This is an exciting prospect from both the standpoint of a service provider and a concerned citizen.

Has the BPO bubble burst?
Like all industries, the BPO industry too will evolve. A lot of the initial euphoria in the BPO sector revolved around the cost arbitrage story. While cost savings may work for some time, the long term benefit does not come from a continued labour arbitrage, as wages in emerging markets are also going up.
The current area of focus for BPOs is to provide productivity gains and these come from a better understanding of the process, better tools and systems being deployed. BPOs need to be able to offer a better level of more complex services and also offer new types of services on the back of very efficient processes.
At Tata Communications, we offer to undertake complex network management and operations services for other telecom carriers. What we promise them is obviously noticeable cost savings but also significant productivity gains. Using our experience of managing our own global networks and technologies, we are managing to create superior value to our customers, much beyond what the traditional BPO model would. This business area is doing encouragingly well for us.