

Vodacom tanzania
limited | value
creation capabilities



Abstract:

The purpose of this study was to choose any business enterprise in my country with a certain amount of foreign ownership and critically examine its value creation capabilities by way of analyzing industry structure in which it is operating and the appropriate strategy that it applies. The study was undertaken by Grace Busara, a student of Greenwich University, and the Firm that I chose was Vodacom Tanzania Limited. The question outline is as follows:

What company

What % of foreign ownership

Value creation in Tanzania (How successful/unsuccessful)

Compare with other companies of foreign ownership (competitors)

What strategies does the company use

Industry analysis

Vodacom Tanzania Limited is the largest telecommunications company in Tanzania with 46% market share. It is a subsidiary company of Vodacom Group (Pty) Ltd which has its base in South Africa. Vodacom Group (Pty) Limited owns a majority share portion of 65% (percentage of foreign ownership) the remaining 35% is owned by Tanzania shareholders, that include Mirambo Ltd.

Vodacom Tanzania Limited has three main competitors, and these are Zain, formerly known as Celtel which has 26% market share. TiGO has 13.6% market share, the Tanzania Telecommunications Limited, (TTCL) 3%(the least performing), and Zanzibar Telecom Company has 10% market share.

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INTRODUCTION:

Definitions

Value creation refers to performing activities that increase the value of goods and services to consumers, or the benefits to investors and other stakeholders.

An Industry is a group of firms producing the same principal product or service.

(Corporate Strategy By Jerry Johnson pg. 59).

Capabilities are resources necessary to execute strategy.

Strategy: In essence, Porter (1996, 2001) argues that strategy involves defining a company's long-term position in the market place, making the hard tradeoffs about what the company will and will not do to provide value to customers, and forging hard to replicate fit among parts of the ' activity system' the firm constructs to deliver value to customers, all with a view to making superior return on investment.

Other definitions of Strategy are as follows:

Competitive strategy is about being different (Porter, 1996, pg 68).

The goal of strategy is to achieve a superior long-term return on investment.

Economic value is created when customers are willing to pay a price for a product or services that exceed the cost of producing it (Porter, 2001, pg 71).

Strategy is the creation of a unique and valuable position, involving a different set of activities, different from rivals (Porter, 1996, pg. 68).

Strategy is making tradeoffs in competing (Porter, 1996, pg 70).

Strategy defines how all elements of what a company does fit together (Porter, 2001, pg 71).

Operational effectiveness and strategy are both essential to superior performance, which, after all, is the primary goal of any enterprise. But they work in different ways (Porter, 1996, pg. 61)

Operations effectiveness means performing similar activities better than rivals perform them (Porter, 1996, pg. 62)

Strategy involves continuity of direction (Porter, 2001, pg 71)

VODACOM IN TANZANIA: 2000 – 2009

This is a leading cellular network in Tanzania. Vodacom Tanzania Limited is the largest telecommunications company with 46% market share. It is a subsidiary company of Vodacom Group (Pty) Ltd which has its base in South Africa. Vodacom Group (Pty) Limited owns a majority share portion of 65% (percentage of foreign ownership); the remaining 35% is owned by Tanzania shareholders, that include Mirambo Ltd.

<http://www.vodacom.co.tz/docs/docredir.asp?docid=3336>

With services such as voice, data, leased lines, PAB connectivity, international connectivity, and WiMAX solutions, to mention a few, the

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network currently provides state-of-the-art GSM communication services to over six million customers across the country.

Vodacom Tanzania has its executive headquarters in 14th Floor PPF Towers Garden Avenue/Ohaio Street in Dar es Salaam and maintains operational and engineering branches in many regions in Tanzania.

VODACOM OPERATIONAL MILESTONE

In 1999 Vodacom (Pty) won a bid to operate a GSM cellular network in Tanzania and formed the subsidiary company Vodacom Tanzania Limited.

By August 2000, Vodacom (T) Ltd had completed its state of the art GSM infrastructure, the network went live for the first time on August 14, 2000 and by August 15, 2000 Vodacom (T) Ltd had begun its official commercial operations. Within the first four months of operations about 50, 000 subscribers connected to the fast growing network.

February 14, 2002 saw Vodacom (T) Limited registered 200, 000 customers and by September 24, 2002, Vodacom Tanzania Limited had 300, 000 customers registered. Two years later the network had a database of 1 million subscribers, a number that had doubled March 2006 when customer number 2 million was registered. The network was also granted the Network Facilities License, Network, Services License and Application, and Services License, three major service licenses in the communications sector which gave VTL the authority to provide a range of communication services of voice and data both nationally and internationally.

January 8, 2009, Vodacom (T) Ltd connected its 3 millionth customer and also became the first cellular network in the country to hit such a milestone in the history of Tanzania's cellular market.

Vodacom Tanzania continues to offer an exceptional quality at affordable rates, with a view of empowering millions of Tanzanians with meaningful access to telecommunications and making sure that all Tanzanians are connected to the Vodacom network. Nine years since its inception, the network has an estimated client of over 6 million people.

Vodacom Tanzania offers its customers a wide range of products and services such as:

PRODUCTS:

3G HSDPA Data Card

3G HSDPA USB Modem

Booster Card

VodaFASTA

VodaChoice

VodaJAZA

Toll-free

Corporate Talk

People's phone

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Vodago

Tsh. Vouchers

Foreign Vouchers

Vodashops

SERVICES:

FREE Please Call Me

FREE please Recharge Me

5 FREE SMS

FREE Instant recharge service

FREE Voice recharge service

FREE ATM recharge service

FREE 24 hrs Customer Care service

FREE Balance Inquiry service

FREE Credit Transfer

Mobile Email

Video Calling

Internet/WAP

MMS

Per Second and Per Minute Billing

Kama Kawaida Roaming

International Roaming

Network Coverage

Chombeza Time

Ringtones and Logos

VodaTAARIFA

VodaFASTA

MMS to Email

VodaJAMAA

VALUE CREATION IN TANZANIA

Value creation has been very successful due to the following factors:

Vodacom Tanzania Capturing the East African Market with Solutions from Nokia Siemens Networks:

To retain a leadership position, Vodacom Tanzania understood that quality coverage and great service is what would set them apart from their competitors when they decided to expand into Africa. To meet this obligation, this east African operator selected Nokia Siemens Networks to

provide a 3G network that would provide both quality and exceptional service.

This Relationship has since grown from being purely a technical partner to that of a business partner. A record speed of 10 days for the 3G roll-out and implementation of the 22 base stations and 120 sites was the turning point in this partnership. Nokia Siemens Networks further strengthened the partnership through managed services and consulting services which positioned Vodacom Tanzania as a leader in the Tanzanian Mobile Market.

INTRODUCTION OF M-PESA:

Vodafone M-PESA is a new mobile money transfer service brought to you by Vodacom Tanzania, in partnership with Vodafone Group.

M-PESA provides an affordable, fast, convenient and safe way to transfer money using your mobile phone anywhere in Tanzania.

Through M-PESA you can:

Deposit money

Withdraw money

Send money to any mobile customer in Tanzania

Buy Vodacom prepaid airtime

Manage your M-PESA account

With M-PESA, Vodacom customers can convert cash into electronic money (ie: m-pesa) at an authorised M-PESA agent. You can then transfer some of it to any other mobile customer in Tanzania via a simple phone transaction.

The recipient gets an SMS notification of this value transfer and may then go to any authorised M-PESA agent anywhere in Tanzania, to encash the value.

M-PESA is available to all mobile customers in Tanzania, even if you do not have a bank account.

All mobile customers can receive M-PESA and encash the value at any M-PESA agent. Only Vodacom customers may register for the M-PESA service and use all the services available: deposit, send and withdraw money, buy Vodacom prepaid airtime.

M-PESA registration is easy and can be done at any M-PESA outlet FREE of charge. All that is required is:

Vodacom Tanzania has added Azania Bank as an agent of its Vodafone M-Pesa services through its various branches in the country. Azania Bank becomes the second bank in the country to become an agent of Vodafone M-Pesa services after a similar agreement with the Bank of Africa.

With the agreement, anyone using a mobile phone of any network can receive money from any Azania Bank branch in the country through Vodafone M-Pesa.

Vodafone M-Pesa customers can pay water and electricity bills, tuition and other subscription fees, wedding and other forms of contributions by using the services.

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VODACOM TANZANIA COMPETITORS:

The active competitors of Vodacom are as follows:

Zain Tanzania

Tanzania Telecommunications Company Limited (TTCL)

MIC Tanzania Limited (Tigo)

Zantel

The above are all located in Tanzania, where Vodacom Tanzania Limited is also located.

(ZAIN) TANZANIA:

Zain Tanzania Limited is the largest Telecommunications Company in Tanzania based on the coverage area in the country. It is also the second largest Telecommunications company in Tanzania after Vodacom Tanzania based on total wireless customers with about 1.7 million users (26% market share) by August 2007. Celtel was founded on November 2001, was the fifth entrant into a highly competitive cellular market in Tanzania; its headquarters is located in Kinondoni, Dar es Salaam.

On August 1, 2008, Zain group, the leading telecommunications mobile operator servicing over 50 million customers in 22 countries across the Middle East and Africa, announced that it has re-branded its entire African operation from Celtel to Zain (www.zain.com). The move coincides with the linking of the world's first borderless mobile service as 'One Network' across two continents.

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TANZANIA TELECOMMUNICATION COMPANY LIMITED (TTCL)

TTCL

Tanzania Telecommunications Company Limited is the oldest and largest fixed line telecommunications company in Tanzania. The company comes forth from the former Tanzania Posts and Telecommunications Corporation in 1993. The company was wholly owned by the Government of Tanzania until the partial privatization of the company on February 23, 2001.

Its headquarters is located downtown at the center of the city in Dar es Salaam, Tanzania. TTCL has 2000 employees as of July 2007. Its market share is 3%, and the poorly performing company in the city.

The above is a modern TTCL call center located at the headquarters, Extelecoms House, in Dar es Salaam, Tanzania.

MIC TANZANIA LIMITED (TIGO) [http://en.wikipedia.org/wiki/MIC_Tanzania_Limited_\(tiGO\)](http://en.wikipedia.org/wiki/MIC_Tanzania_Limited_(tiGO))

MIC Tanzania Limited (tiGO) is the oldest wireless Telecommunications company in Tanzania with 13.6% market share in the country. Its headquarters is located at the center of Dar es Salaam city. MIC Tanzania Limited (tiGO) was formally known as Mobitel when started to offer mobile telecommunication services in Tanzania, it was then known as Buzz when the company started to use GSM network in 2001. Since 2006, the company is commonly referred to as tiGO in the aftermath of the full control taken by Millicom International Cellular to the company. As at December 31, 2006, tiGO's GSM network was consisting of 501 base stations with the capacity to <https://assignbuster.com/vodacom-tanzania-limited-value-creation-capabilities/>

handle a maximum of 740, 000 concurrent subscribers, and covered about 50% of the total population in Tanzania.

ZANZIBAR Telecom Ltd. (ZANTEL)

Ltd. (ZAN

[http://www. linkedin. com/companies/zanzibar-telecom-ltd.-zantel—part-of-etisalat](http://www.linkedin.com/companies/zanzibar-telecom-ltd.-zantel—part-of-etisalat)

The Zantel story is one of investment, one of innovation, one of potential award-winning customer service. But, above all, it is one of growth and the ability to deliver the tremendous benefits of mobile communications in Tanzania. With roots going back to 1999, Zanzibar Telecom Ltd. became a joint venture between

The government of Zanzibar - 18%

Emirates Telecommunications Corporation (ETISALAT) -51%

Kinbary Investment of the Channel Islands - 14% and

Meeco International of Tanzania -17%

Zanzibar Telecom Ltd was launched on 19th July 1999. Zantel provides International communication service at extremely competitive and affordable rates. Zantel has 10% market share.

STRATEGIES THAT VODACOM TANZANIA APPLIES:

Strategy helps managers assess the company's present situation, identify the direction the company should go, and determine how the company will

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get there. While Value is the measure of a firm's capability to sell what it makes for more than the costs incurred to make it. Value is what remains after expenses have been deducted from the revenues of a firm.

Vodacom uses the below main strategies to retain a leadership position.

Corporate Social Responsibility (Community Services):

Vodacom Foundation:

On July 28, 2006, Vodacom launched. The foundation is a sign that Vodacom is committed to helping the needy in a sustainable way. The Vodacom foundation supports Tanzanians especially the disadvantaged and marginalized groups with the aim of enriching lives through poverty alleviation and economic development. Vodacom continues to serve as a caring brand by partnering with communities to bring change.

Vodacom Tanzania Limited has served the Tanzanian community not only in connecting the Tanzanian people to the cellular network other community services to make life better. Beyond connecting people Vodacom Tanzania Limited has undertaken community service initiatives in various areas including support and facilitation of a range of community supporting initiatives and campaigns as well as via direct sponsorships of events or organizations. Vodacom Foundation implements projects from a four pillar strategy in education, Health, Economic Empowerment and social welfare.

Education - The Foundation provides assistance to government schools by improving physical infrastructure by building classrooms, improving access

of information and technology resources like Computers to public schools, and provision of educational resources for effective learning.

Health - The Foundation supports initiatives that aim to improve the health of Tanzanians by improving physical Infrastructure by building and renovating hospitals and clinics, thus, providing support and access to health services and providing solutions that remedy common health problems.

Economic Empowerment - The Foundation works with various community groups, the disabled, those living with terminal illnesses to sustain economic activities. Vodacom also provides assistance by various work tools required in their small scale industries. Through these projects, Vodacom is able to help disabled people rebuild their lives and support their families.

Social Welfare - The Foundation works with various communities in Tanzania to improve living conditions. Projects include drilling water wells and undertaking environmental activities and other activities that seek to improve the well being of the community.

Sponsorships:

Sports and development - Vodacom Tanzania is a great supporter of sports development; they have invested in different sports in Tanzania both at the national and regional levels.

Football - Over the past eight years, Vodacom has invested in the National Soccer League which is the best platform for picking players for the national team. Twelve teams compete for the annual trophy of Vodacom Premier League.

Beauty Pageant – Vodacom is the title sponsor of Vodacom Miss Tanzania. Happening in all regions of Tanzania, this event attracts a lot of huge media coverage and is designed to develop the beauty talent among young ladies in Tanzania and by so doing, improving their living standards.

Cycle challenge – For the past four years, Vodacom organizes an annual cycle challenge event in Mwanza where cyclists from all corners of Tanzania compete the Vodacom Mwanza Cycle Challenge.

Marathon – Vodacom is involved in the sponsorship of two most popular Marathon in Tanzania, and these are:

-Kilimanjaro Marathon; Vodacom is the main sponsor of the Kilimanjaro 5KM Fun Run that happens in Moshi every year.

-Dar Marathon; Vodacom is the main sponsor for the Dar Marathon, the only Marathon at sea level in the whole of Southern Sahara. Other sports sponsored by Vodacom include fishing, swimming and dhow race.

People's Phone: Provision of affordable public call facilities across the country especially in rural and under-services regions.

Building Painting: Vodacom has sponsored the external painting of various buildings in Dar es Salaam and Mwanza.

Donations: Numerous donations have been made and are still being made to organizations, companies, entrepreneurs, and any other members of the community who request for such donations.

Supporting small and medium entrepreneurs through VodaKiosk, VodaTunajali, Vodaduka and Vodashine.

Low-Cost Leadership – This is a situation whereby firms choose to be low-cost producers in an industry for a given level of quality. It emphasizes high production volumes, low costs, and low prices. This strategy pushes a firm to sell its products either at average industry prices to earn a profit higher than that of rivals or below the average industry prices to gain market share. In high competitive industry like mobile phone industry, a cost-leadership strategy is a key advantage. In the event of a price war, Vodacom cuts its prices, thereby imposing losses on the competitors, yet still earn some profits e. g. the introduction of Cheka Time. As the industry matures and prices decline, the firm that makes products more cheaply will earn profits longer than its rivals.

Differentiation – This refers to when a firm chooses to develop products that offer unique attributes that they reason are highly valued by customers and which customers perceive to be better than or sufficiently different from products offered by other companies. The value added by the uniqueness of the product allows the firm to charge a higher price that more than offsets the added costs of making and marketing it. Vodacom Tanzania Limited has created value through differentiation strategies by being able to convert customer insights, skilled and creative product development, persuasive marketing programs, and premier reputations for quality into superior value creation.

Vodacom Tanzania Limited has continued to develop products that have unique features that in turn lead buyers to prefer their goods and services versus those provided by rival. This is because the differentiation strategy demands that a firm must develop points of uniqueness that rivals find hard, if not impossible, to match or copy.

INDUSTRY ANALYSIS:

The idea of industry structure helps explain the functions, form, and interrelationships as follows:

Suppliers power

Buyers power

Threat of substitutes

Barriers to entry

Rivalry

The five forces model develops a representation of the structure and competition in an industry that prepares managers to figure out what forces shape strategic conduct, how strong each force is, what forces are driving changes in the industry, what strategic moves rivals are likely to make next, and what the key factors are for future competitive success.

Analysis of industry structure provides the basis for estimating the kinds of strategic moves that companies are likely to use. The structure of industry analysis is as shown below.

SUPPLIER

POWER

THREAT OF

SUBSTITUTES

BARRIERS TO

ENTRY

RIVALRY

RIVALRY

BUYERS POWER

The Threat of entry:

Barriers to entry are factor that need to be overcome by new entrants if they are to compete successfully: Typical barriers are as follows:

Scale and experience – Vodacom Tanzania has reached large scale production (economies of scale), and this makes it hard and expensive for its competitors to enter the market and match with them.

Access to supply or distribution channels – Vodacom Tanzania has control over supply and distribution channels. This is due to direct ownership (vertical integration) and sometimes it is through customer or supplier loyalty.

Legislation or Government action – Vodacom Tanzania has very good relationship with the Tanzania Government where most of the high ranking government officials are its shareholders.

Differentiation – Vodacom Tanzania provides products and services with higher perceived value than the competitors.

The threat of substitutes:

Substitutes are products or services that offer a similar benefit to an industry's products or services, but by a different process. There are two important points to bear in mind about substitutes, and are mentioned below:

The price/performance ratio- Vodacom is performing well regardless of its high price, because it is the ratio of price to performance that matters.

Extra-industry effects – Vodacom has suffered to some extent since the more threat of substitution there are, the less attractive the industry is likely to be.

The Power of Buyers:

Customers are essential for the survival of any business. Sometimes buyers can have high bargaining power that their suppliers are hard pressed to make any profits at all. Buyers' power is likely to be high when:

There are concentrated buyers – Vodacom Tanzania has maintained high technology products and services making buyers to bargain less.

Low switching costs – Vodacom has always been providing high quality products and services at a lower cost.

Buyer competition threat –

The power of suppliers:

Supplier power is likely to be high where there are:

Concentrated suppliers -

High switching cost

Supplier competition threat - Vodacom has moved closer to the ultimate customer (referred to as forward vertical integration). Vodacom is selling directly to its customers and not using agencies.

Rivalry:

If rivalry among firms in an industry is low, the industry is considered to be discipline. This discipline may result from the industry's history of competition, the role of a leading firm, or informal compliance with a generally understood code of conduct.

However, in pursuing an advantage over its rivals, Vodacom Tanzania chose the following:

Changing prices - Vodacom Tanzania has been changing prices by lowering prices to gain a temporary advantage, and as a result it has led to it being a leading firm in the telecommunication industry in Tanzania.

Improving product differentiation - Vodacom has continues to improve features on its products, implementing innovations in the manufacturing process and in the products themselves.

Creatively using channels of distribution - using vertical integration (the degree to which a firm owns its upstream suppliers and its downstream buyers) <http://www.quickmba.com/strategy/vertical-integration/>

CONCLUSION:

Vodacom Tanzania has deployed state of the art technology, thereby enhancing its product portfolio and positioning itself as the market leader for the communication solution. Competition has increased significantly over the last year in Tanzania, but Vodacom is still the one with a larger market share. Besides quality, customer-centric, technology driven, cost-effective, innovative and generating sustainable value; coverage plays an extremely important role in the competition race whereby Vodacom is well covered in all the regions of Tanzania, and this makes customers to meet all their communication requirements from mobile telephone through internet access to hosted applications with a single service provider.

Vodacom offers a wide range of communications services over a variety of technology platforms to consumer, corporate and wholesale customers, including voice, mobile messaging, broadband data and connectivity and converged services.

In addition to these principal services, the Group offers a range of other related products and services. Vodacom constantly considers and reviews a number of pricing and loyalty schemes and the introduction of new services to attract and retain customers and increase demand.

RECOMMENDATIONS:

Although Vodacom is a leader in the telecommunications market with a market share of 46%, the highest share compared to its rivals, it is considered the most expensive mobile firm in the country by the majority Tanzanians, and thus it needs to work very hard in producing new products soon after the ones on maturity stage are outdated, to ensure its continued profitability.

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