

# Competitive analysis of the nigerian telecoms industry



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I shall discuss the Nigerian Telecoms industry with particular reference to mobile telephony and data transmission via handhelds. My emphasis would be on the period post liberalization of the industry from the monopoly of the state owned carrier , Nitel. I focus on the structure, the key players in it and the competitive forces at play in the industry, leading to a discussion on how best a new entrant can come into this industry and a summary of recommendations.

## **Structure of the Market**

Since the mid 80s, M-Tel, a subsidiary of Nitel – the national carrier has enjoyed a monopoly of the Nigeria Mobile telephony industry, providing just 40, 000 connected lines to subscribers nationwide (Doyle & McShane, 2001, p. 10). The establishment of the sector’s independent regulator, the Nigerian Communications Commission (NCC) in 1999 (Corporate Nigeria, 2010, p. 152)and the award in January 2001, via an auction, of three GSM spectrum licenses to MTN, CIL ( aka GLO) and Econet Wireless Nigeria Ltd liberalized the market. Today the market is made of primarily the five GSM companies,

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GLO, M-Tel, MTN, Airtel ( formerly Zain), Etisalat and 4 key CDMA companies, Visafone, Starcomms, Multilinks and Zoom. Last week, Visafone announced the takeover of Multilinks and have commenced their post-merger integration exercise. There are indications that further consolidation especially within the fringe CDMA companies is imminent. Fig 1 below highlights the relative market share within the key players.

## **PESTLE Analysis of the Market;**

### Political:

Nigeria is in the middle of an election that has attracted so much interest (Mordi & Versi, 2011, p. 24) initial signs indicate the process will be fairest in the history of the country (Asante, 2011)and could lead to emergence of a more stable, progressive democracy (Obayiuwana, 2011). An active and free media continues to challenge the politicians to higher standards of governance.

### Economic

The local currency the naira has held steady against the dollar at N150 to USD 1, curbing inflationary tendencies (Corporate Nigeria, 2010, p. 34). However, inflation continue to be in double digits. GDP is estimated at \$357. 2 billion PPP , no. 32 in the Global table of PPP. Listed on Goldman Sachs' ' Next Eleven' world economies in 21st Century, Nigeria is a country with huge growth potentials. (Corporate Nigeria, 2010). Debt relieve through the Paris Club significantly increases the countries ability to invest in much needed infrastructure e. g power, roads, education and health (BMI, Q1-2011, p. 9)

## Socio-Cultural

At 923, 000 sq km of land, 250 ethnic groups, 521 languages, approximately 150million people (Corporate Nigeria, 2010, p. 12), Nigeria is huge and diversified and this diversity comes with its challenges with ethnic violence and sectional unrest. The country is also struggling with a poor reputation with corruption and internet fraud. The country has taken steps towards laundering her image with the set up of the Economic and Financial Crimes Commission (EFCC) which has arraigned 18 fraud syndicates, shut down 800 fraudulent websites, and over 5000 emails working in collaboration with Microsoft. (Corporate Nigeria, 2010) .

With over 80% of the population below 40 years and 40% below 15 years, Nigeria is a young market. However, official unemployment rate is quoted as 19. 7% , arguably, the real unemployment figures are much higher.

Technology; With the arrival in Nigeria of MainOne, and Glo 1, two submarine fiber-optic high bandwidth cables linking Nigeria to Europe, complimenting the already existent SAT-1, data transmission becomes more affordable and easily accessible (BMI, Q1-2011, p. 23). The recent issue of four WiMAX licenses by NCC and existing 2. 5G, 3G, CDMA2000, GPRS and UMTS technologies, wireless access will grow dramatically in the next 2-3 years. (Hosn, 2011)

## Legal and Regulatory

The main law governing the Nigerian telecoms industry is the Nigerian Communications Act of July 2003 amending the Act of 1992 (Hosn, 2011, p.

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7), this act ended the monopoly enjoyed by Nitel, created the regulatory body National Communications Commission ( NCC) and enabled the entry of more players into the market, leading to increased competition and a downward pressure on prices for mobile telephony services (Hosn, 2011, p. 17)

Respect for Intellectual property (IP) rights is low and Legal protection is weak (BMI, Q1-2011, p. 10)

### **Porter 5 Forces Model Analysis :**

The barriers to entry into this market are medium, with the key consideration being the license fees to be paid and potential investment in buildout of the network , depending on the model the entrant adopts, The Buyer Power is high, as intense competition and the choices now available to the customers lowers prices. The Regulator's very aggressive drive to drive these prices even lower gives the customer more power. There are very few substitutes to mobile telephony in Nigeria, as the fixed lines are few and not widely adopted. Supplier power is as potential buyers of their goods is few and most of the telcos already have their preferred suppliers and its hard to unseat an incumbent.

### **Competitive Intensity:**

The SIM Registration regulation passed by Nigerian parliament and the number portability planned for later in the years will significantly increase competition and increase churn, as it eases customers flight to quality service without the inconvenience of losing your number (BMI, Q1-2011, p. 61)

The table above highlights the fact that the Telecoms market in Nigeria is quite concentrated with HH Index of 2904. 90 and a Concentration Ratio of the top four player (CR4 )exceeding 90% which suggest that industry is susceptible to collusion and price fixing. In reality, this is not the case as the competition is intense and in fact there is an ongoing tariff war in the Nigeria Telecoms market (Adebayo, 2011, p. 36) (Daniels, 2011, p. 64) however this predominately in the voice services (Ammar, 2011, p. 38).

This competitive intensity has resulted in significant drop in cost of services and a corresponding drop in Average Revenue Per User ( ARPU), a key indicator of market profitability even as the customer base has grown dramatically as indicated in Figure 4. below.

However, the downward trend of ARPU matches the upwards trend of growth in subscriber base for both voice and data services as shown in Figure 5 below. Although the penetration fo the voice service is very high, data service penetration is still in its infancy and growing much faster than voice services as evidenced by the growth of 3G phone and internet subscriptions.

This trend is collaborated by Figure 5 in the trending up of data ARPS. Figure 6 also highlights the trending up of churn, which is likely to continue with the implementation of number portability planned for 2012 by the regulator. Number portability will significantly increase both ' incidental churn' e. g. due financial contingencies, location or life style changes and ' deliberate churn' e. g due pricing, poor customer service or network problems (Jahanzeb & Jabeen, 2007, p. 122).

Strengths and Weaknesses typically characterize internal situations of a business, but I shall discuss them from an industry structure perspective here.

### Strengths

The mobile telecoms industry has continued to grow even with the introduction of compulsory SIM registration. By liberalizing the licensing scheme, NCC has made it easy for new fixed-wireless operators to enter the market even as it continues to keenly invest to achieve widespread connectivity in

rural areas.

An active and fairly free media is playing a key role in the transition to democracy, contributing to the ongoing peaceful election which has also been adjudged as the freest and fairest so far in the history of the country. With the country virtually debt free having benefited from the Paris Club debt relief initiative, there is real hope that with the right leadership, the countries infrastructure challenges will be addressed.

A large, young population means a huge telecoms market and an abundant supply of cheap (albeit unskilled) labour,

### Weaknesses

Poor state of infrastructure in the country increases the cost of building out networks and achieving optimum spread with resultant poor network quality

and negative impact on customer growth and service usage, thus rural communities are poorly served.

Price wars from intense competition have put downward pressure on ARPU rates.

Country image is negative and corruption levels are high as Nigeria is placed at 134th out of 180 countries worldwide. Respect for Intellectual property rights is also low. Couple with this is the recent physical security risk to foreign workers in some regions of the country.

### Opportunities

With no heavy debt servicing costs, Nigeria has the capacity to invest heavily in crucial infrastructure which will significantly lower the cost of doing business and eventually lower the cost of goods produced in country.

A free and fair election and dividends from the ongoing efforts to tackle fraud and corruption will gradually improve the attractiveness of the Nigerian market and attract foreign investments even as the major operators continue to invest in developing the quality and reach of their network infrastructures, thus addressing service quality problems.

The landing of several new submarine cables will make international bandwidth much cheaper enabling lower priced broadband services. New WiMAX licences and other technologies will make it easier to access the rural communities and unlock that market.



Despite stepped up investment, the broadband penetration level is low.

Mobile Telephony penetration at 50% still leaves significant growth potentials available to new entrants. The launch of mobile number portability will ease the ability of customers to change their service provider.

### Threats

The introduction of compulsory mobile SIM registration for new customers in October 2010 will slow the growth experienced today in the sector.

Probable removal of tax breaks for cellular operators will remove the incentives enjoyed by 'early-movers'.

Competition and regulatory measures are bringing down prices even as institutional investors continue to invest in the Nigerian market (e. g. South-Africa's MTN, India's Bharti Airtel and Etisalat of the UAE.)

High levels of unemployment of a very young population presents a high risk of civil unrest which could be triggered by the current tension in the country as a result of the political wrangling and electioneering going on even as industrial action remains commonplace, and can disrupt normal business activity.

### **Recommendations to potential new entrants**

Take a long term view

Entrant into the Nigerian telecoms market at this time is a 'late-mover' and would be exposed to a more informed and stronger regulator, tough competition from the 'early-movers' and other 'late-movers', and a high

cost of entry into the market (Ramamurti, 2000, p. 168) and as such should be cautious and not tempted to be too optimistic by the huge returns the early-movers made in Nigeria.

Seek Alliances and Coopetition Opportunities.

An entry strategy that seeks to create 'asset-light-virtual-operators' (Turner, 2009, p. 449) by reducing significant investment in "passive infrastructure" e. g. towers, air-conditioning, generators and instead focuses on sharing these infrastructure with 'competition' and shifts differentiation to quality of service and reach has been proven by Bharti Airtel (Prahalad & Mashelkar, 2010, p. 136) to be quite a unique business model for developing economies, enabling cheaper cost of services and thus greater reach.

Intensity of competition in the voice services will significantly reduce ARPU, however, the ongoing conversations around infrastructure sharing, the new licenses for the WiMAX technologies, the landing of MainOne and Glo1 submarine cables (BMI, Q1-2011, p. 49) all point to data, mobile broadband and value-added services being the next frontier of high growth in this market.

MTN and Western Union have joined forces to introduce international remittances services to 21 countries in Africa excluding Nigeria (African Business, 2010, p. 6). The importance of this service in developing Africa is emphasized by Prof. Ophelia Mascarenhas et al quoted in (African Business, 2011, p. 6) as saying "mobile phone firms should take a more serious approach to mobile banking services...there is great potential for banking the unbanked...it is of no use to the poor if the remittance of cash cannot be

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made because the services is still not available in both the urban and rural areas” . The Central Bank of Nigeria is also churning out several policies and regulations to steer Nigerian banks towards inclusion of the unbanked population through electronic payment system. (Chima, 2011)

### Differentiate and Price Creatively

Mobile applications with potential for social economic growth e. g. social networking applications, mobile banking, m-healthcare, m-education, m-policing, can help operators diversify their product base, generate extra revenue, attract new subscribers and lower churn rates (Kechiche, 2010). NCC's wire Nigeria (WiN) and State Accelerated Broadband Initiative (SABI) when completed will high bandwidth broadband network throughout Nigeria, accelerating growth and ease of deployment of these mobile applications (Corporate Nigeria, 2010, p. 39).

Value added services via mobile phones, e. g traffic policing in india (The Economist, 2009, p. 73)remain a huge opportunity in Nigeria (Nkanga, 2011)

Prices will not fall as quickly with additional entry if customers value the differences enough to pay more to the firm that more closely serves their particular needs (Greenstein & Mazzeo, 2006, p. 327)

Make Pricing flexible and Price according to zones in Nigeria and ability to pay, offering combination of services and better matching prices and goods to the needs of the customers (Greenstein & Mazzeo, 2006, p. 328). Look for opportunity to partner with equipment manufacturers to offer after sale services on user-end equipments, provide ' packages solutions' that is

viewed as a value added service and differentiates you from competition (Lal & Strachan, 2007, p. 23) and possibly rental of infrastructure for transmission.

Competing on price alone is not sustainable, there is often scope for differentiation based on quality of service, brand and support services and the inevitable 'flight to quality' creates opportunity for premium pricing (Turner, 2009, p. 442). These are all benefits that come directly from a concentrated focus and deep understanding of a target market and response to their needs.

#### Focus and Innovate

Technology is one of the major determinants of change in the telecoms industry, along with the 'iterative liberalization' in emerging markets that fuels aggressive competition, there is a need for key players in the industry to continual review their strategy for market and customer relevance (Lal & Strachan, 2007, p. 22). This strategic adaptation is crucial in an emerging market characterized by environmental discontinuities, rapid changes and unpredictability. (Eunni, Post, & Berger, 2005, p. 88) (Ramamurti, 2000)

'Late movers' may quickly use newly available advanced technologies to their advantage (Kam, 2006, p. 502), not having the burden of sunk cost in built up network infrastructure, however the pace of changes in technologies in the telecom industry emphasizes the fact that these sort of advantages are short term and that enduring advantage would truly come from differentiation on quality of service.