

Review of the nigerian telecommunications industry



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Telecommunications facilities in Nigeria were first established in 1886 by the colonial administration. These were mainly towards discharging administrative functions rather than the provision of socio-economic development of the country. Accordingly, the introduction of public telegraph services linking Lagos by submarine cable along the west coast of Africa to Ghana, Sierra-Leone, Gambia and on to England was a greater priority than a robust telecommunications network for the colonial master. (Nigeran Communication Commission, 2011)

Right from the colonial era as mentioned above, post independent period, and up till early year 2001, telecommunications business was majorly in the hand of government. Due to bureaucracy and corruptions in Nigerian system of government, the industry could not record any significant progress. In fact, various records show that the maximum telephone lines were 400, 000 for a population of 120million people prior to deregulation era. This reveals a teledensity of 3 telephone lines per 1, 000 people which was far below expectations of a developing country like Nigeria.

However, the new face of telecommunications sector in Nigeria started barely a week into the transition from Military regime into democratically elected government in 1999. The President of the Federal Republic of Nigeria, and Commander- in-Chief of the Armed Forces, Chief Olusegun Obasanjo, inaugurated a committee with the aim of setting policy that would promote:

total liberalization,

Competition and

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Private sector-led growth of the telecommunications sector.

Since middle 1999, Nigerian government and political system has been stable, the economy has been considerably growing due to relatively stable policies; including telecommunications policy established in 1999. The independent regulator - Nigerian Communications Commission (NCC) reduces the bureaucracy and inefficiency experienced when Ministry of Information and Communications was in charge of telecommunications industry.

THE INDUSTRY TREND

The Nigerian telecommunications sector has experienced dramatic transformations, from when deregulation started in 1999, deployment of Global System for Mobile communications (GSM) or Digital mobile technology in 2001, Fixed Wireless Access system in 2002 and introduction of technology-neutral unified access. Also, 3G technology and (3) carriers in the 800 MHz spectrum band were launched in 2007.

Telecoms contribution to National Gross Domestic Products for year 2009 was 3.66% and the sector has created over 3million job opportunity for both direct and indirect employees.

Regulations on telecommunications networks interconnection, guideline on collocation and sharing of infrastructure, effective competition practices guideline are key factors that have foster the fortune of the industry. Other policy direction includes the merger of NCC with the Nigerian Broadcasting Commission (NBC). The most recent development is the SIM card

registration, which required all service providers to collect, store and report <https://assignbuster.com/review-of-the-nigerian-telecommunications-industry/>

to NCC all subscribers' Biometrics and other Personal Information within six months of the commencement of the program in July 2010 and within the preceding one month for every new subscriber. Penalty of N200, 000: 00 (equivalent of £800: 00) per subscriber for failure to do so by any service provider.

The Nigerian Communications Commission (NCC) has also commenced the process leading to the implementation of Number Portability (NP) in Nigeria. Number Portability allows subscribers to change their service providers without changing their telephone numbers. This is of immense benefit to subscribers as they can more easily change service providers without having to notify all their friends and contacts of a number change. (Nigerian Communication Commission, 2010)

THE KEY PLAYERS IN THE TELECOM SECTOR

The Nigerian telecoms industry players include the regulators and the operators. Nigerian Communications Commission (NCC) is an independent regulatory body for the telecoms sector in Nigeria.

The authority is saddled with responsibility for creating an enabling environment for competition among operators in the industry as well as ensuring the provision of qualitative and efficient telecommunication services throughout the country. (Nigeran Communication Commission, 2011)

Global System for Mobile communications (GSM) licence was granted to four successful bidders including, MTN Nigeria Communications Limited;

Communication Investments Limited; Econet Wireless Nigeria and Nitel/M-tel
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in January 2001. Also (GSM) and Second National operator licences was granted to Globacom Limited and Fixed Wireless Access licences were issued to 22 (twenty two) operators to operate within approved regions in August 2002 respectively. There are four major players in the Code Division Multiple Access (CDMA) sub-unit of the industry; namely, Multilinks, Starcomms, Visafone and Zoom. Also there are 150 Internet Services Providers (ISPs) providing quality internet services to over 24 million internet users.

(Corporate Guide International Ltd, 2010, p. 154)

MTN Nigeria Communications Limited is the market leader in mobile sub-unit of the industry. MTN is offering quality services for 38.6 million subscribers as at December 2010. (MTN Nigeria Communications Limited) The company achieved this, through deployment of First Class technology worth over \$7 billion in fixed assets and facilities across the Nation. Coverage spread across 2,394 cities, towns and villages in all the 36 states of the federation. (Hence, their marketing slogan - everywhere you go). In addition, MTN has embarked on deployment of fibre-optic cables; the longest ever laid in Africa across the country covering over 8,052 kilometres to boost the transmission capacity of its network. (MTN Nigeria Communications Limited) This state-of-the-art infrastructure enhances clarity of voice whenever you are on MTN networks compare with other service providers.

MTN subsists on the core brand values of Leadership, Integrity, Relationship, Innovation and a Can do attitude. We pride ourselves on our ability to make the impossible possible, connecting people with friends, family and opportunities and enriching lives through our products and services. (MTN

Nigeria Communications Limited)

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Figure – Nigerian mobile telecoms market share adapted from NCC

Globacom started telecommunications business in Nigeria in 2003 behind MTN and Econet that started operations in 2001. However, Globacom is currently the second market leader with 19.6 million subscribers and market share of 24.17% as at December 2010. The company also operates in neighbouring countries like Republic of Benin, Ghana and Ivory Coast.

Globacom recently made history as the first single company to build an \$800 million high-capacity fibre-optic submarine cable, known as Glo-1. From United Kingdom to Nigeria; this development would also reposition Globacom as number internet and bandwidth services provider in the country.

Airtel Nigeria, the third market leader is owned by Bharti Airtel Limited and is the currently major investors in the company that started operation in 2001 as Econet Wireless Nigeria after several transfer of interest. Airtel has operation in other 16 countries in Africa and a total number of 19 countries across Asia and Africa. Airtel market share in Nigeria as at December 2010 is 19.5% with subscriber base of 15.8 million.

As mentioned above, there are four companies using CDMA technology for mobile phone services in Nigeria. The leader of this group is Visafone, it accounts for 2,558,867 active lines followed by Multilinks Telkom, owned by South Africa's Telkom with 1,454,704 lines. Starcoms trails them with 1,149,380 active lines against Reltel's 939,145 lines. (Technology times online, 2011)

Meanwhile, within the sector, Multilinks Telkom, which has indicated its intention to exit the Nigeria CDMA market on account of losses recorded by the company had just been acquired by Visafone for a sum of \$52million.

PRODUCTS/SERVICES

The industry is predominated by GSM services, which accounts for over 93% of total subscribers in Nigeria. Fixed line telephones accounts for less than 2%. Nigeria's internet user base is growing fast. However, there are very little reliable internet services in Nigeria. Not until recent times, the entire business and private internet subscribers/users had never have value for money. Introduction of underwater infrastructures by Globacom known as Glo-1, the Main One cable owned by Main Street Technologies, and the ongoing West African Cable System (WACS) cable project by MTN are the mediums that would enhance the capacities of internet services to Nigerian populace.

Other products include E-presence, Conference call, Internet notebook, ipad, Blackberry services and mobile TV introduced in April 2008 by MTN in partnership with Details Nigeria Limited and Nokia.

INDUSTRY LIFE CYCLE

The industry life cycle is the supply-side equivalent of the product life cycle, the introduction, growth, maturity and decline stages (Grant, 2010, p. 271). Industry life cycle has influence on investment decision cum strategy to be adopted by the new investors in the existing market.

The life cycle of the Nigerian telecoms industry is at growth stage. This is evidence by the increasing numbers of operators, expanding infrastructure facilities all over the country, introduction of dynamic products and services and geometric increase in subscribers (see figure 2). The industry has attracted \$18billion in investment since 2001 and all operators are still incurring huge sum of money to enhance the capacity of their facilities and acquiring new technology.

Evidence also is series of advertisement and sponsorship programs embark upon by telecoms operators. For example, MTN sponsored the FIFA 2010 world cup, incorporation of MTN Nigeria foundation by guarantee in July 2004 with the aim of improving the quality of life in the area of Health, Education and Economic Empowerment on a sustainable basis in such a way as to impact positively on the MTN brand. (MTN Nigeria Communications Limited, 2011) Similarly, other telecoms operators are running the same promotional activities.

Years

Figure – Telephone Subscriber data in Nigeriaria

NATURE OF COMPETITION

The fact that the Nigerian telecoms industry is deregulated and liberalised for capable private investors to participate, theoretically means that the industry is deemed to be highly competitive. Competition reduces industrial profitability but create satisfactions for users. Despite this, the huge capital required to obtain licence and acquired telecoms equipments have been a barriers for new entry into the market. For instance, the first set of digital

mobile licensees paid a lump sum of \$300million for licence only immediately the licences were awarded to them in January 2001 while second National operator licence fee was \$200million.

Subscribers have not been able to form a formidable group or union to agitate for cheaper tariff, nor come together to exercise their buying power for better services. The telecoms products and services have no close substitutes for users to alternate with. Meanwhile the demand for services continues to soar every month.

However, the few operators are almost of equal strength, hence, there is strong rivalry among the services providers which have led to innovation, efficiency and the upgrade of competitive advantage by the operators. e. g investment in fibre-optic cables by Globacom, MTN and Main Street Technology.

The telecoms industry begins serious price war when Airtel took over the major interest from Zain in last quarter of 2010. The strategies include aggressive advertisement and promotional activities cum call rate reductions.

Notwithstanding the trend, in accordance to (Grant, 2010, p. xii) If strategy management is all about managing to achieve outstanding success, then the essential tasks of strategy are to identify the sources of superior business performance and to formulate and implement a strategy that exploits these sources of superior performance. MTN has been able to identify the superior performance key by deploying resources facilitated by their financial strength to establish a favorable position of market leader.

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In line with Herfindahl-Hirschman Index (HHI) see Table 1 below; HHI is a model that measures market concentration. It is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers. (Investopedia, 2011) The closer a market is to being a monopoly, the higher the market's concentration (and the lower its competition). (Investopedia, 2011)

Herfindahl-Hirschman Index

Operators

Market share

Market Share $\sum s_i^2$

MTN

47.64%

2,269.57

Globacom

24.17%

584.19

Airtel

19.50%

380.25

Etisalat

8. 36%

69. 89

Mtel

0. 32%

0. 10

HHI

3, 304. 00

Table – HHI showing the competitiveness of Nigerian telecoms industry

From the above table, the index value of 3, 304 means that the market is neither monopolistic nor perfectly competitive; rather, the industry is highly concentrated market and indicates that potential investors could still actively participate in the market.

OPPORTUNITIES IN THE INDUSTRY

According to “ Design School” strategy is concerned with identifying opportunities in the enterprise’s external environment which it is better qualified to exploit than its competitors. (University of Leicester, School of Management, 2009, p. 38)

Given the population of Nigerian as 149million people and a total number of 88. 3million telephone subscribers (of which average person holds 3 different active SIM cards). It therefore means that only 30million Nigerians are currently using telephone out of 88million numbers of population that are

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above the age of 14-year; representing 34% of the populace that could use telephone. Also, it has been established that Nigerian population growth rate is 2% per annum. Nigerians social status and social networking is on the increase, everybody is on facebook, Twitter, Hi5, and Blackberry etc. Hence, the market will continue to grow as shown in figure 2 above.

Hitherto, Nigerian Banks have been providing mobile banking services to their customers, which are grossly short supply. Arrangement is going on between mobile telephone operators and Central Bank of Nigeria with the aim of obtaining mobile banking licence. This arrangement, when consummated promises to increase the revenue base of participating mobile operators with over 20million people that operates bank accounts.

As rightly mentioned above, provision of internet services is presently inadequate. Opportunities exist for potential investors to take advantage of this gap. Rural telephony is another huge and untapped business window, majority of Nigerian populace reside in rural areas and each of them has family members residing in cities hence, the need to communicate with one and other. Investors in rural telephony venture stand to enjoy a lot of incentives from government e. g concession of duties on importation of Equipment, low tax rate compare with urban telephone operators, free land for building Offices and erection of telephone masts etc.

Another opportunity is that NCC is formulating policy and guideline on infrastructure sharing which would save a lot of money for the operator in term of assets and equipments acquisition and overhead cost of maintaining the facilities.

Furthermore, Federal Government of Nigeria is committed to liberalising the power sector. Once this is achieved the current huge amount of money that is spent daily on maintenance of individual power generating set, cost of fuel and salaries and allowance of Electrical, Mechanical Engineers that manage these sets as well as security personnel protecting these equipments would be saved and thereby increasing the bottom-line i. e profit at the end of every financial period.

Existing also are opportunities for telecoms support services, like sales and installation of terminal equipment, repairs and maintenance of telecom facilities, and cabling jobs.

CHALLENGES CONFRONTING TELECOMS IN NIGERIA

According to the CEO of Etisalat Nigeria, Mr. Steve Evans. The main challenge is perhaps a little bit of uneasy balance between state government and federal government in terms of basically separating their desire to some high tax punitive to mobile operators because they seem to be on a face of successful business (Corporate Guides International Ltd, 2010, p. 158)

Another challenge is the increase in industrial rivalry and completion. This is depleting the revenues and ultimately shrinking value available for the investors. Though competition brings about better quality of service and innovation, it also means that profit that should be available to shareholders must be deployed back into the business otherwise operators will keep paying huge interest on bank facilities to finance acquisition of new technology.

CONCLUSION

After the change in the political system of administration in 1999, Nigerian telecoms had experienced tremendous growth due to deregulation and efficient independent regulator (NCC). Start up capital and overhead expenses are huge, hence, it is not all comers business environment.

Despite the enumerated threats, demand for the telecoms services shall continue to grow as Nigerians social networking activities through telecoms services is soaring by the day; hence, the industry remains viable for potential investors with adequate financial capability to acquire technological resources and adequate strategies to mitigate the identified threats.