Celtel nigeria case study sample

[Business](), [Company]()

Celtel Nigeria

Celtel Nigeria was the second largest mobile telecommunication company in mid-2007. The company had a 28 percent market share and approximately 28 million subscribers. The company had experienced success in its operations in cities and large towns. In mid-2007, Celtel shifted its attention from the cities to the rural regions inhabited by poor consumers. The rural regions have 50 percent of Nigeria's population providing a massive untapped market. The company has experienced several challenges when reaching the rural customers. Majority of the rural areas had no connection to the national electricity grid and the telecommunication towers had to be run by diesel generators. This increased the cost of maintenance and diesel fuel costs. Communication towers in the rural are prone to vandalism and theft. The company lost several expensive communication equipment and generators to vandalisms and theft. This led to the employment of full-time security guards in almost every base station in the rural areas.

The rural areas are predominant with poverty with 65 percent of the poor population residing in these areas. Most of the rural residents did not have a cell phone and providing services to the rural population had to start by selling cell phones to the poor residents. The rural residents had low income and had to allocate about 14 percent of their savings to telecommunication spending. This was higher than the expenditure of several residents of the developed markets. The company erected GSM towers in the rural areas for network coverage. Distributions centers such as kiosks and umbrella men were contracted to sell recharge vouchers on behalf of the company. Some of the rural consumers with handsets were unable to purchase the recharge vouchers. Celtel introduced low denomination recharge vouchers to enable the rural customers purchase airtime. Phone shops were also introduced in the rural markets where customers would purchase handsets.

External analysis

Industry structure and trends

The Nigerian telecom sector experienced extensive liberalization and became open to new competitors. The Nigerian Communication Commission regulates the telecommunication sector in the country. The liberalization process introduced lower prices, wider service, more investments and new investors. However, the quality of service remained poor despite the growing market as operators continued rolling-out and maintaining infrastructure. The telecommunication market generated service revenues totaling to $7. 5 billion in 2006. This was a 40 percent growth rate of the Nigerian market. This made Nigeria a fast growing telecommunication market. By the end of 2006, mobile telephony had about 30 million subscribers, which was equivalent to 22 percent penetration. The growth rate was expected to slow down to an 8. 4 percent CAGR between 2007 and2012. The market would realize about 96 million subscribers or 60 percent penetration if it exhibited a continuous development trajectory.

Industry economics

The NCC bid the first UMTS licenses for the 2GHz band and only four bidders had met the NCC requirements. Alheri Engineering, MTN, Glo, and Celtel were granted the licenses at a minimum price of $150 million each. The licenses gave the operators access to the broadband market that had low quality and availability of fixed broadband. The fifth company to receive a GSM license was Mubadala, which was awarded in January 2007 at a price of $400 million. The rural market had potential of $1. 244 billion annual revenues. In 2006, the rural areas generated $23. 6 million in revenues. The rural areas would have a subscription rate of 80 percent between 2008 and 2012. This would increase the total revenue of the rural market to 20 percent from 2 percent in 2007.

Key Success factors

Market share positions were driven by coverage and capacity rather than advertisements and marketing. The initial market entrants concentrated on the urban areas and the rural areas offered potential and healthy margins for the first mover. There was an increasing demand for telecommunication services in the areas outside the cities. The incoming companies had to provide strong coverage for the mobile telecommunication services. Success in the rural areas was limited since several people did not own cell phones, and their purchasing power for recharge vouchers was limited. The companies had to introduce low denominations of recharge cards and provide cheaper handsets for the rural residents. The major ethical issue was providing affordable services to the rural residents. This included cheap handset, low denomination recharge cards and cheap services.

Competitive Forces

The urban areas had about 52 percent of the total population and competition was high since it was the cities and towns were the main targets for the companies. Accessing the rural areas would provide a potential market for mobile services. The acquisition of GSM licenses placed Celtel and other companies at an advantage over other regional operators. The rural region had a well distributed population that made it economical to introduce GSM base stations. The introduction of broadband services was another competitive field for the operators. The competitors such as MTN introduced IPTV services under the broadband spectrum. These services had a wide coverage in the urban areas and were slowly spreading to the local areas.

Internal analysis

Financial Analysis

Celtel International has remained in the African market since the mid-1990s. In 2005, Celtel International was acquired by MTC group for $3. 36 billion. In May 2006, Celtel International acquired a controlling stake in Vee Networks for $1. 005 billion operating in Nigeria. By mid-2007, Celtel had a market share of 28 percent. In 2006, Celtel Nigeria generated revenue worth $888 million making it the second telecommunication company.

Operations Analysis

The corporate segment had less than 1 percent of subscriber, which translated to less than 2 percent of industry revenues. The corporate segment was served by a dedicated sales team. Majority of the customers recharged their mobile accounts via prepaid recharge vouchers. The SME segment was the most important value driver for Celtel. Approximately 75 percent of the SME businesses were shop owners. This provided a consumer mass market for telecommunication services. Celtel utilized SMEs such as public call offices and umbrella man shops as distribution centers for recharge vouchers and SIM cards. The distribution of consumer products occurred through seven regional business units. By the end of May 2007, over 1, 193 had dealers purchased Celtel products directly from the company.

About 99 percent of the sales volume occurred through the dealers. These dealers sold the products to sub-dealers, kiosks, street hawkers, phone shops, and umbrella man outlets. Majority of the dealers were located in the urban areas with slow roll-out to the rural areas. Umbrella man outlets and road side stalls offered recharge vouchers and public call services. Seventy five percent of the recharge sales occurred through umbrella man outlets. These outlets provided low call rates and over 60 percent of urban dwellers made their calls through umbrella man stands. However, dealer-driven marketing lacked in the firm making majority of the dealers passive traders. This resulted to a slow penetration of Celtel products of 52 percent. This led to the introduction of 200 strategic urban dealers that would enable the company improve the market penetration. Since 2002, the company changed its brand three times and invented less in marketing and communication.

Marketing and competitive strategy

The company hired strategic dealers in urban areas to improve its market penetration. The company expanded the network coverage to the rural areas. This included promoting the acquisition of cheap handsets for rural residents and introduction of low denomination recharge vouchers. This would enable rural residents to access its services due to availability of handsets and cheap recharge vouchers. Celtel installed GSM towers in the rural areas that increased availability of fast and reliable wireless coverage. The base stations were operated by diesel generators enabling the Company to operate in areas without electricity. Public call offices and umbrella man outlets were also introduced in the rural areas for use by residents without handsets. . The company ranks lower in brand compared to MTN, which is the leading telecommunication company. Several consumers prefer MTN to Celtel due to marketing strategies, strong network and a strong brand.

Evaluation of Ethical Factors

The trends did not satisfy the stakeholders involved in the company. The customers were not acquiring complete coverage from Celtel and the investors were not acquiring full returns on investment. Utilitarianism theory considers all stakeholders and maximizes satisfaction for people's preferences. Charging high prices to the poor people does not meet the greatest human welfare since it makes them poorer. Lowering the call rate and reducing the value of recharge vouchers would present more total good for rural residents. The company was making losses due to vandalism of telecommunication equipment and power generators. This reduced the cost benefits for the investors due to the high cost of running the firm. Hiring security guards to guards the base stations increased the operating costs. The high costs of accessing telecommunication services were exerting undue pressure on the local residents.

Alternatives

The current trend can be maintained and improved by eliminating dealers operating in the urban areas. The dealers have become passive traders and they can be replaced with Celtel distribution centers where consumers can access products within a controlled environment. Investors would pump in more cash to construct the distribution centers in the urban and rural areas. The distribution centers would be actively operated by Celtel employees and would help the company penetrate the rural market. This would have a higher return on investment for the investors.

Recommendations

The telecommunication industry will require high bandwidth wireless services due to increased demand by businesses. Celtel can expand the coverage of broadband services to more rural areas. This can include the introduction of fiber optics networks in the urban and developing rural areas. The coverage of the rural areas is poor resulting to low quality services amid high charges. The company can extend the network of dealers providing products and airtime by introducing mobile money transfer. This would enable mobile users recharge their mobile accounts without purchasing recharge cards. The current rural population lives in extreme poverty, which results to low purchasing power. The company can introduce product packages for SMEs in the rural areas that enable them access services at a lower price. This would help the SMEs retain most of the revenue generated from the business by reducing the cost of telecommunication services. Several residents in the rural areas had several subscriber lines due to changes in charges across the networks. Introducing number portability and lowering cross-network call charges would increase the number of Celtel subscribers. The company relied more on dealers instead of marketing and advertising. Some of the rural areas are insecure, and marketers cannot access them. Introducing mobile advertisements through SMS services would extend the coverage of advertisements.