

Pestle analysis: safaricom essay



**ASSIGN
BUSTER**

Safaricom Limited

Is a mobile network operator with headquarters in Nairobi, Kenya. With an estimated 10 Million customers and 1\$ Billion in revenues, it is, without a doubt, Kenya's leading telecommunications company. Further testament to this fact is the recent Initial Public offering of its shares which was the largest ever in East and Central Africa. Safaricom's main revenue generating activity is provision of mobile service although it has diversified its product range to include the following?

M-Pesa-this is a mobile money transfer service that has revolutionized the way people conduct business in Kenya e. . has made payments easier. M-Pesa is the first such service of its kind in the world ? Roaming-this is a service that allows travellers to continue using their Safaricom line whenever they travel outside the country, irrespective of whether the Safaricom network is available in the foreign country. To achieve this, Safaricom negotiates agreements with mobile operators in those countries to facilitate the service. However, this service is available at a fee. ? Safaricom Live-this is a service that allows Safaricom customers access the internet from anywhere in Kenya where there is Safaricom coverage.

This is achieved by the use of 3G modems which ensure high-speed internet. ? Multiple Top-up-this is a service which allows simultaneous top-up of mobile air-time to multiple mobile subscribers. This service targets employers who may want to provide mobile air-time to their employees e. g. at the end of the month In addition to the above, Safaricom also provides data services i. e. data storage, data streaming e. t. c Analysis of Macro?

Environment The main PESTEL factors of external influence on Safaricom's value are the following: Political factors

These are factors that are brought about by the prevailing political conditions in the country of the operation. These factors are very important to the Safaricom is generally subject to regulations governing the operation of its business. They take the form of global, national, regional, local and community trends, changes. events e. t. c some of these factors include; a)Legislative Regulations This refers to laws that are made that directly or indirectly affect the industry or even the company. In Kenya, there have been various laws enacted that attempt to regulate the telecommunications sector in the country.

One of these laws is the Kenya Communications Amendment Bill 2008. This amended law aims at regulating the telecommunications industry in many ways e. g. there is the requirement that all mobile service providers register their customers. This is a threat to Safaricom since the government has privileged information and should the information fall into the wrong hands, it could be used by competitors to sabotage the company.

There is also the requirement by the industry regulator, Communications Commission of Kenya (CCK) that the mobile operators apply for licenses whenever they are about to provide substantially different services from those which they were originally licensed to provide. This is a threat to Safaricom since it means that the company has to set aside some substantial sums of money whenever they venture into new areas. Safaricom's M-Pesa service has also come intense scrutiny especially from the banking industry.

This led the acting Minister for Finance to order an inquiry into the the lawfulness of the service which was however given a clean bill of health after the inquiry.

This is also a threat to Safaricom's future if politics is allowed to interfere with the company's operations. b)Tax Laws Safaricom is one of the most taxed companies in Kenya. Taxation on mobile airtime is composed of VAT (16%), Excise levy (10%), annual CCK operating fees and the soon to be introduced Universal Service Fund Levy (0. 5% – 1%) and all these continue to make the Kenyan telecommunications market one of the most heavily taxed markets. This is a threat since Safaricom will continue having to pay unnecessary taxes thus raising their prices and inadvertently chasing customers c)Stability of the political system

Kenya's political landscape is one which can be described as anything but stable. The 2007/2008 post-election violence exposed the fragility of our political system. It was during that period that our impressive economic years in the previous years started slowing down. There is also the constant bickering especially among government officials that sends mixed signals to the business community. The instability of Kenya's political system has made it expensive, in real terms, for companies to carry out business in the country.

This is a threat for Safaricom since the future of the company is pegged on favourable political conditions Economic factors All businesses are affected by economical factors nationally and globally. Whether an economy is in a boom, recession or recovery will also affect consumer confidence and

behaviour. The dramatic impact of reduced funds upon Safaricom is already very apparent. This will impact upon the nature of the competition faced by Safaricom and particular units within the company, upon service provision, and upon the financial resources available to Safaricom.

Economic factors affect the purchasing power of potential customers, and the state of the internal/external economy in the short and long-term. Some of these economic factors include; a)Economic Growth The GDP growth of 1.7 – 3.2%, for the year 2009 was impressive. However, this was less than expected and the stunted growth in GDP can be attributed to the failure of the rains as well as the post-election violence. This means that the GDP is only expected to rise. Safaricom therefore has an opportunity to continue providing innovative solutions and take advantage of the expected rise in GDP. b)Interest Rates

It refers to the general increase in the price levels of the products in the economy. In Kenya the rate of inflation is measured using Consumer Price Index. It increased from a low rate of 12.2% to settle at 27.7% in the years 2007 and 2008 respectively. However, in September 2009 the Kenya National Bureau of Statistics revised the method of inflation computation to reflect reality making it fall to 6.71% in that month and 6.6% in November. The fall in interest rate means that Safaricom will be able to lower prices of their products and hence more people will want to enjoy Safaricom products.

As a result, Safaricom will realize an increase in revenue. Social Factors Social factors will include the demographic changes, trends in the way people live, work and think and cultural aspects of the macro environment.

These factors affect customer needs and the size of potential markets (inside and outside of Safaricom). Some of these factors include; a) Population and Demographics This refers to the way the country's population is distributed e. g. geographically, in terms of age-groups e. t.

The productive segment of Kenya's population is mainly the 30-35 year age group. Also, much of the population resides in the rural areas. This is an advantage to Safaricom since they can employ marketing strategies targeting the specific age groups as well as specific geographic locations. b)' Calling culture' Not long ago, people shied away from making phone calls unless it was extremely necessary. This was due to the prohibitive cost of making a call. Nowadays, the cost of making phone calls has fallen considerably thereby cultivating a ' calling culture'.

This is an opportunity for Safaricom to enter new markets, segment existing ones since people have adopted the ' calling culture' c) Increasing Need For Communications We are in the so called ' information age'. As such, the need for information is ever higher. Mobile phones are increasingly becoming a convenient way of communication e. g. text messages. With just over half the population owning a mobile phone or having access to one, Safaricom has a golden opportunity to promote its services among owners of mobile phones and hence establish a strong foothold in the Kenyan market.

New approaches to doing new and old things and tackling new and old problems do not necessarily involve technical factors, however, technological factors are vital for competitive advantage, and are a major driver of change and efficiency. Technological; factors can for example lower barriers to entry,

reduce minimum efficient production levels, and influence outsourcing decisions. New technology is changing the way business operates. The Internet is having a profound impact on the strategy of organisations. . Expectations in relation to response times, for example, have altered dramatically.

This technological revolution means a faster exchange of information beneficial for businesses as they can react quickly to changes within their operating environment. Some technological factors affecting Safaricom include; a) Technological Improvements The telecommunications industry in Kenya has experienced exponential growth in the last 10 years. For instance, there were only two registered mobile phone operators in Kenya 10 years ago with only an a few thousand subscribers to boast of. Today, there are four mobile phone operators in

Kenya with a combined subscriber base of 10 million plus subscribers. Ten years ago, the mobile phones that were in use were bulky, expensive and only had the most basic of functions. today, the mobile phones are light, affordable and are equipped with the latest technology e. g FM radios and cameras. There has also been a massive upgrade of the infrastructure in the telecommunications industry. For example, there has been an upgrade of the country's data links from analogue to digital. There has also been the adoption of fibre optic technology to hasten the rate of data transfer.

All the above improvements have led to reduction of costs thereby enabling more people access these services. This is an opportunity for Safaricom to pioneer in the adoption of these new technologies and thereby gain a

competitive edge. b) Research and Development There is continuous research and development in the field of mobile telephony. For instance there has been the recent introduction of 3G services by Safaricom. Due to this new development, Safaricom is now able to provide new services such as video-streaming. Safaricom also recently introduced M-Pesa after extensive research and development.

The service has revolutionized the way money is moved from one point to another. All the above developments have given Safaricom the opportunity to continue being the market leader in the provision of mobile services

Environmental factors The environmental factors facing Safaricom are many and varied. The availability of land is a major concern to Safaricom. This is because the company requires land on which to put up its boosters so as to provide mobile services. Due to the increased cost of land, Safaricom is incurring more expenses to acquire land and this greatly affects the company's profit-making ability.

Another environmental factor facing Safaricom is the global push for the adoption of green and renewable energy. This will force the company to uptake new energy sources which will initially be expensive to use. There is also the drive by environmental groups to force big companies such as Safaricom to take part in environmental conservation programmes as part of their corporate social responsibility. Therefore, environmental factors in general are a threat to Safaricom. **Legal Factors** Safaricom, just like any other company registering all its subscribers effective January 1, 2010.

This directive was meant to curb the unlawful use of mobile phones e. g. kidnappings. On Safaricom's point of view, this will involve extra labour to successfully the 10 million plus subscribers which in turn leads to more expenditure incurred. Also, the industry regulator CCK has introduced new regulations that require mobile phone services to implement Mobile Number Portability. This will allow mobile phone subscribers change between mobile service subscribers without buying new sim cards. There is also a Presidential directive that all mobile phone service providers register their customers.

By virtue of being listed in the Nairobi Stock Exchange, Safaricom is bound by Capital Markets Act. It, for instance, must make public all its financial dealings by presentation in the final accounts. The company must also disclose the amount of profit realized as well as remunerations to directors and senior management staff. All the above regulations are meant to streamline the telecommunications industry. In the long-run, they will avail opportunities to Safaricom to conform to the law and avoid fines, penalties, e. t. c.

Conclusion

After the above analysis, it is clear that Safaricom has a favourable macro-environment. Developments in technology will continue providing Safaricom with solutions that will enable them provide higher quality services at a much reduced price. The political scene in Kenya is however not very promising at the moment so this will continue being one of the biggest threats to Safaricom's existence. Safaricom also has to interact more with

the macro-environment to get more out of it. It can do this through corporate social responsibility programmes. The establishment of the Safaricom Foundation which aims at correcting social wrongs is a step in the right direction for the company.