

Analysis of the competitiveness of a chosen industry marketing essay



The purpose of this paper is to carry out an analysis of the competitiveness of a chosen industry using the PESTLE framework and Porter's 5 Forces (Porter, 1979). The industry this paper will analyse is the mobile telecommunications industry in Nigeria with specific focus on the years between 2001 and 2009. To carry out the analysis of the competitiveness of the mobile telecommunications industry in Nigeria, the paper begins with an introduction to the telecommunications industry in Nigeria to set the foundation on which the discussion and arguments within the paper will be built. The PESTLE framework and Porter's 5 Forces (Porter, 1979) will be used for analysis after which the paper will conclude with advice for a new firm considering entering this industry.

Industry Background

Nigeria is considered the biggest telecommunications market in Africa with 65 million mobile phone users (Corporate Nigeria, 2010). As of June 2009, mobile phone penetration in Nigeria stood at 45% and in a country of over 150 million people (NDIC, 2009), the potential for the mobile telecommunications market is huge. The fact that the country went from having a mobile phone penetration of about zero to 45% in just 9 years (NDIC, 2009) and the potential the industry has, prompted the author to focus on this industry. Although Nigeria had fixed telephone lines supplied and maintained by NITEL, the country's public telecommunications company since 1985 (Ndukwe, 2005), it wasn't until 2001 that 4 private companies were awarded licenses to carry out mobile telecommunications operations in the country.

Analysis Using the PESTLE Framework

The mobile telecommunications industry in Nigeria will now be analysed using the PESTLE framework.

Political/ Legal Factors

Nigeria has had a stable democratic government since 1999 following several years of instability under military rule (Corporate Nigeria, 2010). The country's renewed democracy and the security it has brought has created a stable environment for the establishment and development of the mobile telecommunications industry in the country. The effect of this is that the country and the telecommunications industry in particular is attractive to foreign investors with the 4th largest telecommunications operator in the country, Etisalat, being established in the country as recently as 2008.

Economic Factors

The political stability within Nigeria has brought about relative economic stability within the country (NDIC, 2009). The result has been a compound annual industry growth rate of about 50% in the telecommunications industry (Aliu, 2005) which indicates a positive effect of the stimulation of the economy. However, the global recession which began in 2008 may have affected the telecommunications industry. The telecommunications industry is capital intensive (Corporate Nigeria, 2010) and raising funds via loans from local banks has been difficult so telecommunications firms in Nigeria have had to source funds from foreign financial institutions, a situation made more difficult with the global economic crisis.

In addition, taxation in Nigeria is high. Apart from the 30% corporation tax telecommunications companies are charged, they are also levied with various taxes by local and state governments (Aliu, 2010). These taxes add up and eat into any telecommunications company's profits.

In spite of the global recession, the telecommunications industry appears to be growing especially in terms of profit earned by the telecoms companies. For example, Etisalat, the newest telecommunications company in Nigeria declared net profits of about \$2 million, a growth of about 16% over 2008 (Etisalat, 2010). The consequence of the economic situation in the country may cause a firm considering entering the telecommunications industry in Nigeria to hesitate before doing so.

Social Factors

Since the dawn of the mobile telecommunications industry in Nigeria in 2001, about 18 billion dollars has been invested in the country on infrastructure and human capital development (Corporate Nigeria, 2010). As a result, the country and its people tend to look at the telecommunications industry with positive eyes. The industry has provided employment to thousands of Nigerians in terms of direct employment and has given employment to hundreds of thousands indirectly in the form of recharge card sellers, security personnel, telephone kiosk operators, cleaners and much more (Ndukwe, 2005). The social factors in Nigeria affect the telecommunications industry positively which is incentive for a new firm to enter this industry.

Technological Factors

The mobile telecommunications infrastructure in Nigeria was much lower than what was required when telecommunications companies were awarded operation licenses in 2001 (Aliu, 2005). This meant that in addition to the license fees paid, telecoms companies had to build their own infrastructure throughout the country practically from scratch. In addition, the epileptic power supply in the country means that telecommunications companies have to have generators at each of the hundreds of cell-sites they have across the country as well as generating power for use at their offices (Corporate Nigeria, 2010). This has meant investing more time and funds in infrastructure than a telecommunications firm would have to invest in a more developed country. The technological factors facing new entrants to the telecommunications industry in Nigeria are huge which may be cause for concern for a company intending to enter the mobile telecommunications industry in Nigeria.

Environmental Factors

To carry out operations in Nigeria, mobile telecommunications companies have to build hundreds of cell-sites across the country and because of the irregular power supply within the country, generators have to be put in use at every one of those cell sites (Corporate Nigeria, 2010). Building cell sites involves the destruction of natural vegetation and the generators in use at those cell sites cause air pollution. In addition, the long-term effects of those cell sites on human beings (as many of those sites are in residential areas) are not known. In the author's opinion, although there is very little antagonism towards telecoms companies at the moment in terms of the

damage they may cause the environment, with time and as people become more knowledgeable, there may be possible negative reactions to these companies.

Although environmental factors probably will not discourage a new company from entering the telecoms industry in Nigeria, such a company must be aware of its impact on the environment and must put in place plans to minimize their effects as well as come up with plans for damage limitation should there ever be a major issue regarding that company's presence and its effect on the environment in Nigeria.

Conclusion of Analysis Using the PESTLE Framework

The PESTLE analysis of the mobile telecommunications industry carried out in this paper reveals that economic factors like the global recession and difficulty raising funds to finance operations and technological factors like the need for telecoms companies to build their own infrastructure and generate their own electricity appear to affect the industry the strongest.

Social factors like the greater employment opportunities created for Nigerians by the telecommunications industry, political/ legal factors like the country having a stable government and policies and environmental factors like the impact telecoms companies have on the environment such as the removal of natural vegetation and air pollution appear to be the weaker forces affecting the mobile telecommunications industry in Nigeria.

The result of the analysis of the mobile telecommunications industry in Nigeria using the PESTLE framework is that the industry is a good investment for a new firm considering entering the industry as though economic and

technological factors affecting the industry are significant, the social, political and environmental forces at work put the industry in a strong position.

Analysis using Porter's (1979) Five Forces

Here, the mobile telecommunications industry in Nigeria will be analysed using Porter's (1979) Five Forces.

Competitive Rivalry

Competition between mobile telecommunications companies in Nigeria is fierce, typified by regular tariff wars, introduction of new products (and the copying of such products) and a great deal of advertising. According to Porter (1979), activities such as those mentioned above indicate “intense rivalry” or “jockeying for position” by companies. The activities of mobile telecommunications companies written above suggest that though the industry is growing (Aliu, 2005), competition between mobile telecommunications companies is intense and it is a strong force affecting the industry.

Threat of New Entrants

The threat of new entrants to the mobile telecommunications industry in Nigeria is low as barriers to entry are high. The barriers to entering this industry include the large economies of scale which existing telecommunications companies in Nigeria have, the large amount of capital required by a new mobile telecommunications company in Nigeria; the license fees alone costs millions of dollars (Ndukwe, 2005) and because of the nature of the environment, a new telecommunications company would

have to build its own infrastructure throughout the country and generate its own power. Also, such a company would have to pay high taxes (Aliu, 2005). All of this means a potential mobile telecommunications company in Nigeria would need to be able to raise millions of dollars for its operations in the country. Differentiating itself from the incumbent telecommunications companies in Nigeria would also be difficult for a new entrant to the industry in terms of product differentiation, advertising and even brand image.

These points indicate that the barriers to entering the mobile telecommunications industry in Nigeria are high. In spite of this, a new telecommunications company, Etisalat, set up business in Nigeria in 2008 and declared a profit of about \$2million in 2009, a growth of about 16% over 2008 (Etisalat, 2010). This may indicate that in spite of the high barriers to entering this industry, financial profit is possible.

Bargaining Power of Customers

The bargaining power of customers in the mobile telecommunications industry in Nigeria is weak. Although Porter (1979) stated that one of the indicators of a strong buyer group is undifferentiated products or services by the industry, this does not seem to apply in Nigeria. In Nigeria, although there is innovation in the telecoms industry, products and quality are basically the same with all the companies (Corporate Nigeria, 2010). This means that customers see little advantage in changing from one mobile phone operator to another. This is still the case in spite of the fact that switching costs for the customer are low (Corporate Nigeria, 2010). The importance of this is that the bargaining power of customers in the telecoms

industry in Nigeria is low indicating greater profits for the telecommunications companies (Porter, 1979).

Threat of Substitutes

The threat of substitutes to the mobile telecommunications industry in Nigeria is low. The direct competition to mobile telecommunication appears to be fixed telephone lines but the number of fixed telephone lines in use in the country is about 1.4 million, a figure which has remained fairly constant since 2001 (Corporate Nigeria, 2010). In sharp contrast, the number of mobile telecommunications users in the country has risen from close to zero in 2001 to 65 million today (Corporate Nigeria, 2010). There is clearly very little competition from fixed telephone lines. Other competitors to mobile telecommunications include letter-writing - a quaint and vastly ignored means of communication in Nigeria today (Ndukwe, 2005). Another substitute to mobile telephony is the internet. Internet use is growing at an exciting rate in Nigeria from 10 million users in 2007 to over 23 million users in 2009 (Corporate Nigeria, 2010). The internet may pose a threat to mobile phones however the 4 biggest mobile telecommunications companies in Nigeria also offer internet services so it appears that mobile telecommunications companies provide the product (mobile telecommunications) as well as its major substitute (the internet). This is an interesting and positive position for mobile telecommunications companies in Nigeria further indicating that the threat of substitutes to the industry is low.

Bargaining Power of Suppliers

The bargaining power of suppliers to the mobile telecommunications industry in Nigeria is weak. Although the industry in Nigeria is relatively young, effectively being created in 2001 (Ndukwe, 2005), it has radically changed the Nigerian employment landscape. The industry provides direct employment to thousands of Nigerians and indirectly employs hundreds of thousands others (Corporate Nigeria, 2010). Some of those indirectly employed by the telecommunications industry include staff of supplier firms like advertising agencies, generator suppliers, cleaning firms and security firms. Many of these firms came into existence simply serve the telecommunications industry (Ndukwe, 2005). In addition, telecommunications firms are one of the best-paying companies in the country (NDIC, 2009). Without the telecommunications industry, many of these suppliers would see their incomes reduce or dry up completely. Suppliers of the products and services required by the telecoms industry are a dime a dozen in Nigeria. It is thus clear that those companies need the telecommunications industry more than the telecommunications industry needs them showing that the bargaining power of suppliers in this industry is low.

Conclusion of Analysis Using Porter's (1979) Five Forces

After analyzing the mobile telecommunications industry in Nigeria using Porter's (1979) Five Forces, it appears that the industry is in a good position. This is so because though competitive rivalry between the telecommunications companies is strong with constant price-cutting, undifferentiated products and intense advertising, the threat of new entrants

into the industry is low. The high capital required, difficulty in differentiating itself and high taxes levied on the firms mean that the barriers to entering the mobile telecommunications industry are high.

In addition, customers have little bargaining power as many Nigerians consider communication via the mobile phone important (Ndukwe, 2005) and products are generally undifferentiated meaning customers have little motivation to switch service providers. The threat of substitutes to the industry is low; some substitutes such as letter-writing aren't really competition considering the fact that a letter takes much longer to carry a message to its recipient than a phone call and what may be considered a strong substitute to mobile telecommunication, the internet, is provided by mobile telecommunications companies. It's a win-win situation for the industry in this case. The bargaining power of suppliers like advertising agencies, generator suppliers, cleaning firms and security firms is low as many of these companies rely solely on the telecoms industry for their income (Ndukwe, 2005) with the result that they need the telecommunications industry more than it needs them.

To conclude, analysis of the mobile telecommunications industry in Nigeria using Porter's (1979) Five Forces reveals that the industry is in a strong position and is an attractive one to investors.

Conclusion of Paper

The competitiveness of the mobile telecommunications industry in Nigeria has been analysed in this paper using the PESTLE framework and Porter's (1979) Five Forces. From the analysis carried out, it appears that entering

the mobile telecommunications industry in Nigeria would be a good investment for a new firm. This is because analysis of the industry using the PESTLE framework revealed that the strongest factors affecting the industry are economic like the global recession and difficulty in raising funds and technological including the need for every telecommunications firm to build its own infrastructure across the country and generate its own electricity while the weaker factors affecting the industry are social factors like the industry providing employment to thousands of Nigerians, political/ legal like political stability and well-structured policies and environmental factors including the potential for Nigerians to rise against the negative effects of telecommunications companies like pollution on the environment in the future. Analysis of these factors put the mobile telecommunications industry in Nigeria in a good position and makes it attractive to investors.

Analysis of the mobile telecommunications industry in this paper using Porter's (1979) Five Forces showed that the industry is in a strong position. This is because inspite of competitive rivalry within the industry being high with regular price wars, undifferentiated products and massive advertising and the barriers to entering the industry like high taxes and huge capital requirements being high, the other forces at stake in the industry make it an attractive one. These other forces are the bargaining power of customers which is low due to largely undifferentiated products and little motivation for customers to switch telecommunications operators; the threat of substitutes which is low as the substitutes to mobile telecommunication like letter-writing is very slow and incomparable with the swiftness of a phone call while the other substitute, the internet, is a service provided by mobile

telecommunications companies meaning they provide the product and its substitute - a powerful advantage for them; and the bargaining power of suppliers which is also low as many of the telecommunications industry's suppliers rely solely on the industry for their income putting the telecoms industry in a strong position.

In advising a new entrant to an industry, Porter (1979: 145) stated that " The key to growth...is to stake out a position that is less vulnerable to attack from head-to-head opponents...and less vulnerable to erosion from the direction of buyers, suppliers and substitute goods". Porter (1979) does not mention the bargaining power of customers in his quote written above but this author thinks it worthy of inclusion.

From the analysis of the mobile telecommunications industry in Nigeria carried out in this paper, it appears that the industry is one that would attract investors and investment in this industry by a firm considering doing so would be a good decision especially if such a firm took Porter's (1979) advice as presented in the quote above.