Mobile demand at the bottom of the Pyramid in Africa – A case study of low-income mobile users in South Africa & Nigeria

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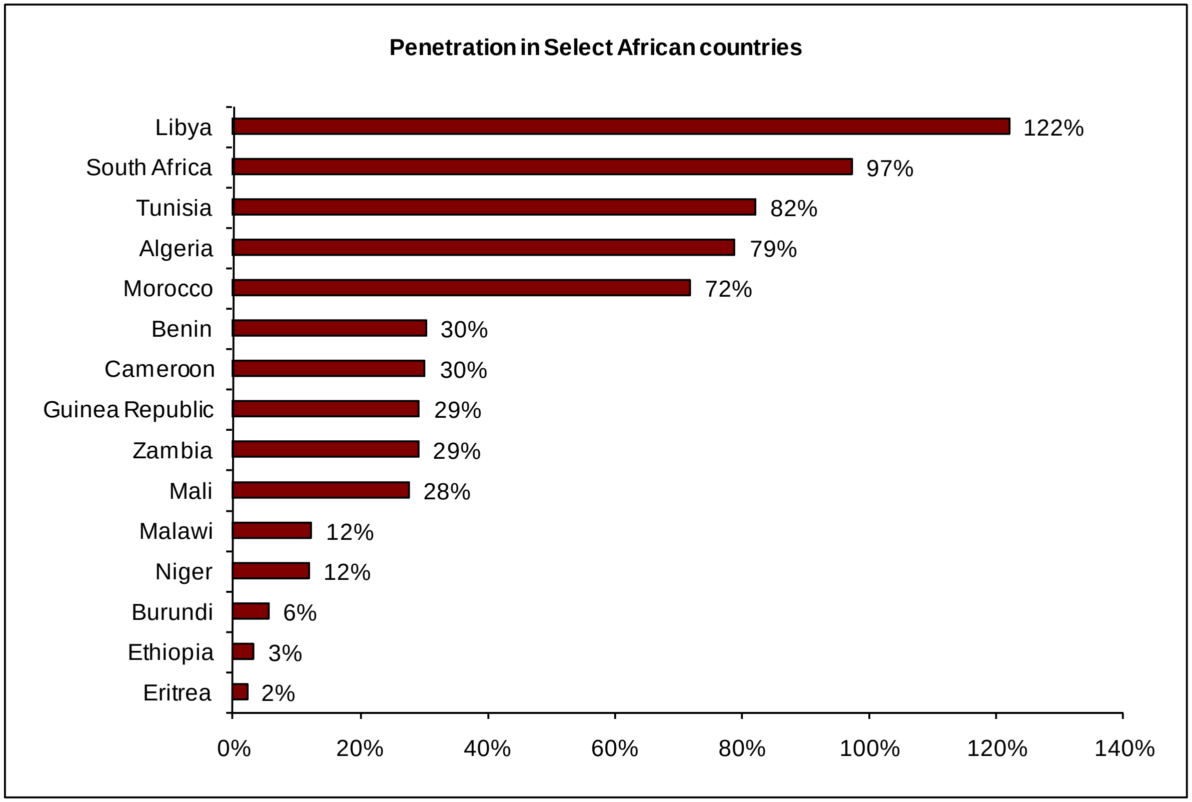
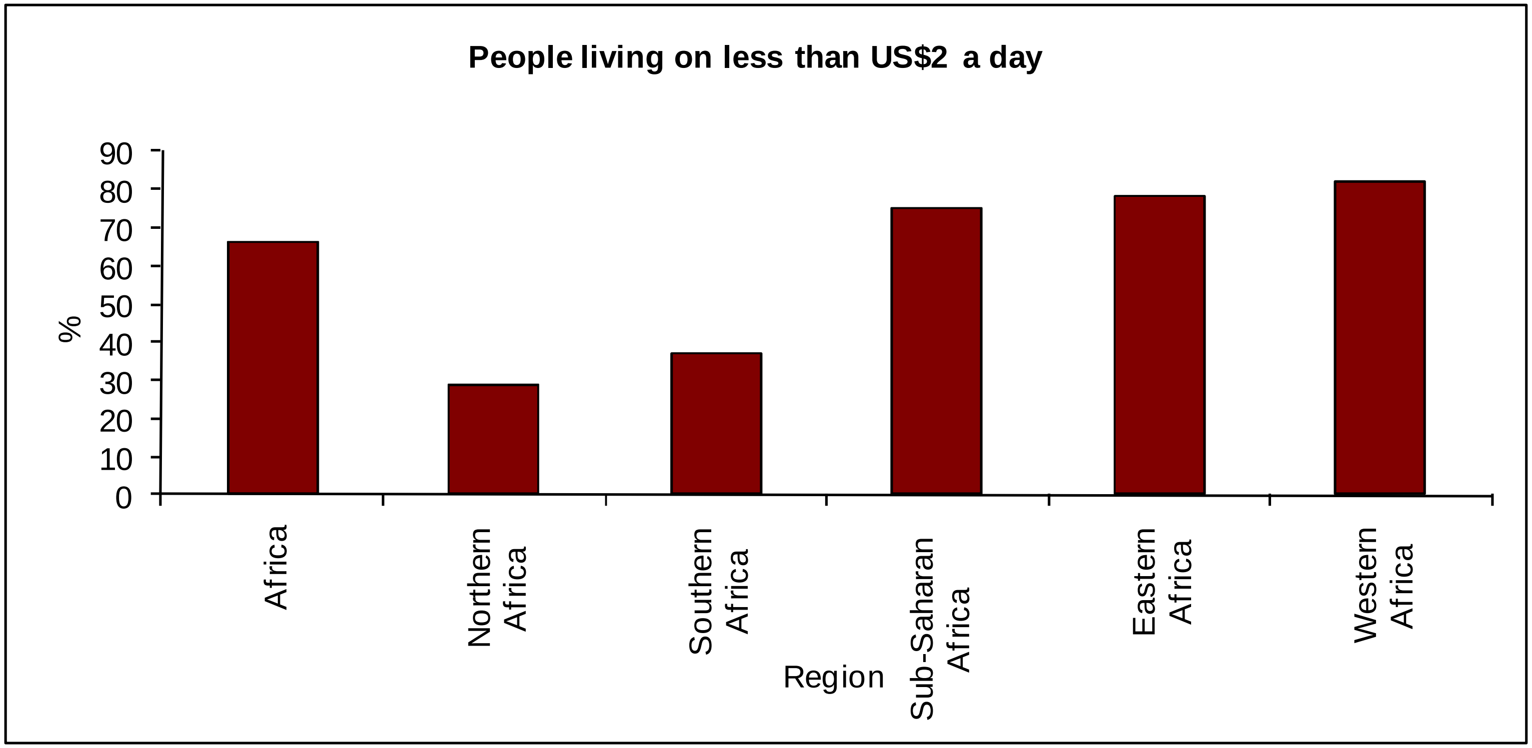
Introduction and background



- After more than 10 years of market liberalisation, large portions of the African market still do not have access to basic voice services and are thus unable to participate in the information economy.
- Penetration levels on average still remain at half the populatio

Introduction and background



- Operators focus on urban areas where demand is high, infrastructure is better and hence easier to roll out services - 39% of Africans live in rural areas;
- Average penetration is 50%, not considering dual sim ownership which could be as high as 20-30%;
- Almost half the continent live on less than US$2 a day, ARPU average currently US$10

Demand analysis

- Key objective of research: Analyse how people earning low incomes interact with telecoms services
- Four focus groups were held in South Africa and Nigeria in 2007 and 2010, respectively.
- Focus groups comprised of between 8-10 people earning US$1-US$2 a day
- Despite poverty and not owning their own handset, people living at the BoP were still using telecoms services; only factor hindering increased usage was affordability;
- Price of calls was a major issue.
- Still significant demand for telecoms services, even at BoP

Demand analysis

Key findings from focus groups

	Nigeria	South Africa
Lifestyle	• Short term informal or daily employment doing jobs like gardening, car washing, tailor, street vendor, etc. • Daily lives are consumed with the constant struggle to find work and "make ends meet". • Often limited or no access to water, electricity, roads, and flushing toilets where they live	
Communications Usage	• Communication is a necessity and cannot always be planned; • Do not own handsets and use kiosks; • In emergencies, money for calls sourced from daily food budget, friends and family members and other's airtime. • Integral to daily operations of small traders - *"I can stay in one place and control my business in another location."* • *"I call my customers at least twice a day so they can locate me wherever I am to patronize my business."* • *"If I do not call my customers, I may starve for that day."*	

Supply-side analysis

Successful private sector strategies

- Grameen Village phone programme highlighted the potential for successful business opportunities among low-income users;
- Network operators offered Grameen a bulk airtime rate that was then sold to ladies in Villages through micro-loans to sell single calls;
- Key success factors:
  - Unusual partnership that extended the sales and distribution channel
  - Ability to reach consumers that the mobile operator were traditionally unable to reach;
  - Allowed for single calls for those that were unable to afford even the lowest denomination pre-paid

Supply-side analysis

Successful private sector strategies

MTN Group – creating new African markets

- Early mover advantage – MTN is often the first or second operator to be licensed in country and uses an aggressive network roll-out strategy to become the first operator to offer services.
- Aggressive capex roll-out – MTN has an aggressive capex roll-out plan that ensures that its network in both coverage and quality is superior to its competitors.
- Premium branding, marketing and sales – MTN's branding is often seen as a status symbol in the markets that it operates in. MTN's customer contact centres are state of the art, not only in the mobile space but in the retail sector in the country of operation in general.

Supply-side analysis

Successful private sector strategies

Bharti Airtel and the budget telecoms model

- Bharti Airtel is the largest telecoms operator in India using high volume, low price strategies
- Allows for penetration into market segments with lower incomes versus MTN's high cost, premium brand and high income focus.
- While, Bharti Airtel has marginally more subscribers with substantially less revenue, EBITDA margins remain the same for both MTN and Bharti Airtel.
- Bharti Airtel subscribers use their services almost 3 times as much as MTN subscribers while their spend is half as much as MTN with Bharti ARPU at US$5 and MTN at US$10.

Conclusion

- Large numbers of people receive only marginal access to services through shared access; despite high mobile costs;
- Unlikely that this demand can be addressed with current mobile models which are unable to support a low cost, high volume business.
- A low cost model that relies on
  - reducing network costs, possibly through extensive outsourcing and leveraging vendor relationships, lowers the cost of distribution thus extends its reach and lowers the costs of handsets.
  - Building extensive and cost-effective sales and distribution channels able to reach Africa's largely rural population.
  - Sales and distribution partnerships required from non-traditional partners (Village Phone, FMCG – Coke, baby formula, matches, etc) with extensive networks outside of the mainstream channels.
  - Creativity in structuring the partnerships and managing the channel to market
  - Keep costs at a minimum while also increasing its' subscriber base by passing on cost savings to customers

The emergence of a successful low-cost operator in Africa will force others to fundamentally rethink their approach to doing business

Policy and regulatory implications

- Progressive regulatory environment required that allows for open regulatory environments and embraces competitive markets.
- Low interconnect rates are required to promote low prices overall.
- Focus on creating regional regulation to create markets of scale.
- Mobile number portability should be implemented to allow users to promote low prices overall.

Encourage the creation of markets of scale particularly for large pan-African operators to lower costs and provide seamless service