ICT Policy Brief - CPR South

Mobile demand at the bottom of the Pyramid in Africa – A case study of low-income mobile users in South Africa and Nigeria - Dr Kammy Naidoo,

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Executive Summary

This policy brief provides a synthesis of a series of focus groups that were done over a period of three years in South Africa and Nigeria examining current usage of telecoms services to understand the demand for telecoms services in Africa and examines three ground-breaking business models to determine their potential for replication. Based on the research findings, this policy-brief proposes the following policy recommendations to enable consumer uptake from the increased competition:

- Progressive regulatory environment required that allows for open regulatory environments;
- Create markets of scale through creation of regional regulation that allows for integrated international roaming and inter-operability between networks thus creating a single network;
- Lowering the cost of services by allowing for competition to flourish through low interconnect rates to promote low prices overall and promoting mobile number portability that allows users to switch easily.

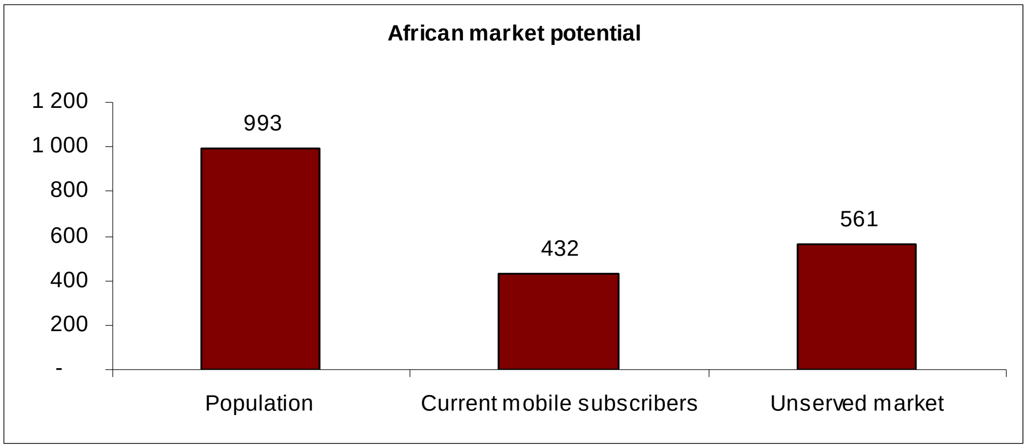
Introduction

There are large numbers of people who are currently receiving marginal access to services through the use of community phones and umbrella phones. Despite high mobile costs in Africa, there is still demand for mobile services. However, it is unlikely that this demand can be addressed with the current models of business from the existing African operators. Current models are unable to support a low-cost, high-volume business that is able to provide connectivity to the masses. A low cost model that relies on reducing network costs, possibly through extensive outsourcing and leveraging vendor relationships to reduce costs, lowers the cost of distribution thus extends its reach and lowers the costs of handsets. Building extensive and cost-effective sales and distribution channels that is able to reach Africa's largely rural population will be key to this strategy. The emergence of a successful low-cost operator in Africa should force many of the other operators to fundamentally rethink their approach to doing business on the continent. This research analysed the business strategies of three key players in the mobile telecoms space in Africa and India to understand the potential for replicability of their models in order to provide a low-cost service to consumers.

While 39% of Africa's population live in rural areas.[1], the vast majority of mobile operators focus on urban areas, where demand is large and it is easier to roll out services. Penetration in Africa is at

[1] (World Bank African Development Indicators data, 2010) http://databank.worldbank.org/ddp/home.do?Step=3&id=4

approximately 50%[2]. The key question for policy-makers, regulators and investors is how to service the remaining 50% of the market, who are desperately poor.



Demand side analysis - Key findings from focus groups

The objective of the study was to provide a qualitative understanding of user needs in terms of typical daily activities, social activities, media consumption and the role that communications plays to enable these activities. Four focus groups were held in South Africa and Nigeria in 2007 and 2010, respectively, with people earning US$1-US$2 a day specifically. Key findings include the following:

- communication is a necessity and cannot always be planned for.
- Most do not own handsets currently and utilise umbrella phones or kiosks for their communication needs.
- In emergency situations, money for calls are sourced from their daily wages, food budget for the day, friends and family members and other's airtime.
- Communication is a necessity. In some instances, they were integral to earning a daily income.
- Despite their poverty and lack of a personal handset, people living at the bottom of the pyramid were still using telecoms services
- The only factor hindering increased usage was affordability, of which the price of calls was a major issue.
- This illustrates that there is still significant demand for telecoms services, even at the bottom of the pyramid with people earning as low as US$1 a day.

The key question for mobile operators thus remains – while the majority of the high-income consumers in Africa has already been serviced, how can operators address the remaining 50% of the market who are unable to afford telecoms services in their current state.

[2] Informa Database, December 2009 data.

Supply-side analysis – Firm strategy in approaching developing markets

Growth in Asia and Africa has been market driven, as a result of high demand from consumers who have never had access to telephony services previously. African and Indian telecoms companies have approached their respective markets with very different strategies that has resulted in different market outcomes, though little difference in actual penetration. The budget telecom network driven by the largest Indian operator, Bharti Telecoms, is based on generating optimum usage of the existing networks from as many customers as possible. This model requires high network utilisation as prices are volume-driven. Increased competition in the Indian market has created a low-cost, high-usage network operating model with the following market impact:

- lower prices to attract newer consumers and drive network usage, thus expanding the market size;
- Increased demand for network equipment as operators quickly expanded network capacity resulting in decreased equipment costs;
- Prepaid charging models which lowered the costs of business and allowing for lower denomination airtime that is more affordable.
- Extending the reach of services through partnering with non-traditional channels eg Grameen Telephone Company allowing for service extension to rural areas;

Creating new markets in Africa – MTN Group

The African model, largely lead by the MTN Group, one of leading African telecoms companies, is based the following operational principles:

- 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.

Using the power of volume economics to create the minutes factory approach - Bharti Airtel

Bharti Airtel is the largest telecoms operator in India using high volume, low price strategies which has 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.