

Ghana mobile telecoms market: How has it evolved and what strategic challenges lie ahead for local players? (Part I)

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Africa’s growth in the last few years has brought a new investment frontier to investors. With an expectation of double digit growth potential in several industries including mobile telecommunications, it is no doubt that investor interest is high. Recent deal activity such as the Bharti Airtel ~\$11B acquisition of Zain Africa and Vodafone’s ~\$1B acquisition of Ghana Telecoms are few of the deals that illustrate this growing interest.

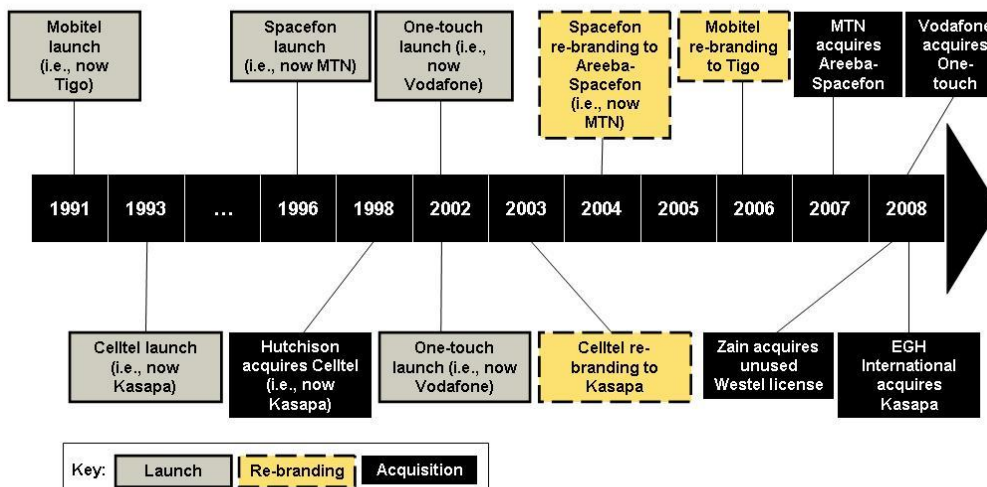
This article is the first of a two-part series covering the Ghana mobile telecoms market. Part I will look at base lining the industry and present basic information about the evolution of the market since deregulation. Part II will discuss my views on the future competitive landscape – what really lies ahead and what strategies companies need to employ to win.

The Ghana mobile telecoms space has evolved through waves of re-branding and M&A...

The first 10 years after deregulation, as expected saw very limited activity. The National Communications Authority (NCA) issued several mobile licenses and subsequent provider launches characterized the space between 1991 and 2002 (See Fig. 1). With low network penetration, deployment of old technology such as ETAC and AMPS, and a consumer base with limited or no experience with mobile technology, it is not surprising that the market struggled to hit 0.5M subscribers. With such low subscriber numbers, the market attracted limited or arguably no investor chatter - there was only one major activity between 1991 and 2002, the acquisition of Celltel by Hong Kong company Hutchison Whampoa.



Fig. 1: Ghana mobile telecom market evolution



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With five players in the market by 2002, and a growing consumer awareness and literacy around mobile technology, the market started to experience a steep uptick. Consumers began to have a voice and mobile companies were challenged to find new ways to create awareness and loyalty among a growing consumer community with a high propensity to switch and try other networks. This led to the re-branding wave observed between 2002 and 2007 (See Fig. 1) – Celltel became Kasapa, Spacefon became Areeba, and Mobitel became Tigo.

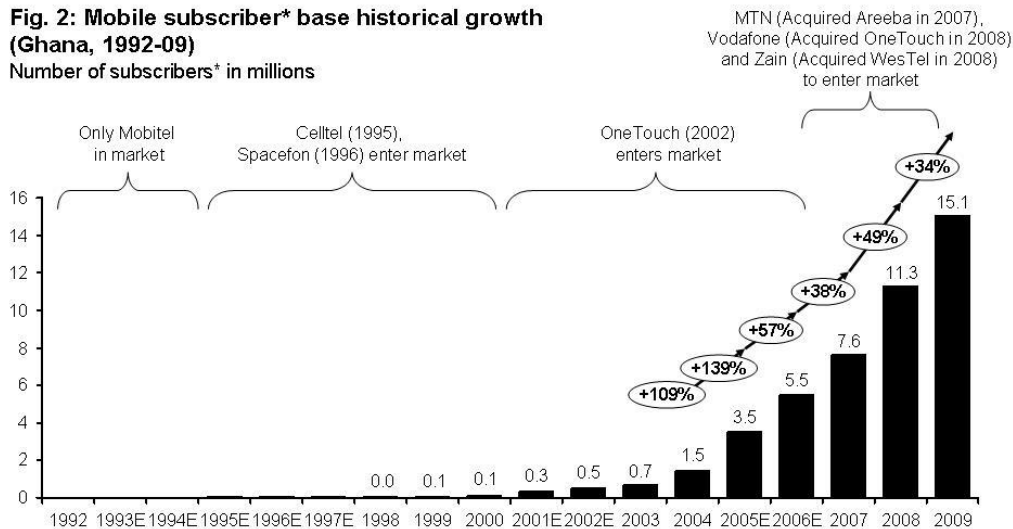
This tactic appeared to work and brought widespread attention and recognition to the Ghana mobile telecoms market. Brands such as Tigo, and Areeba, were able to leverage the stronger global brand equity of their parent companies, and created the much needed investor awareness that the sector craved.

With providers seeking to expand network connectivity, increase bandwidth and provide consumer support, the need for capital was high. In my opinion, this capital need, a growing awareness of the major brands in the space, and the attractiveness of the high growth potential of the Ghana mobile telecoms market explain the logical next wave of acquisitions from 2007 through 2008 (See Fig. 1).



Fig. 2: Mobile subscriber* base historical growth (Ghana, 1992-09)

Number of subscribers* in millions



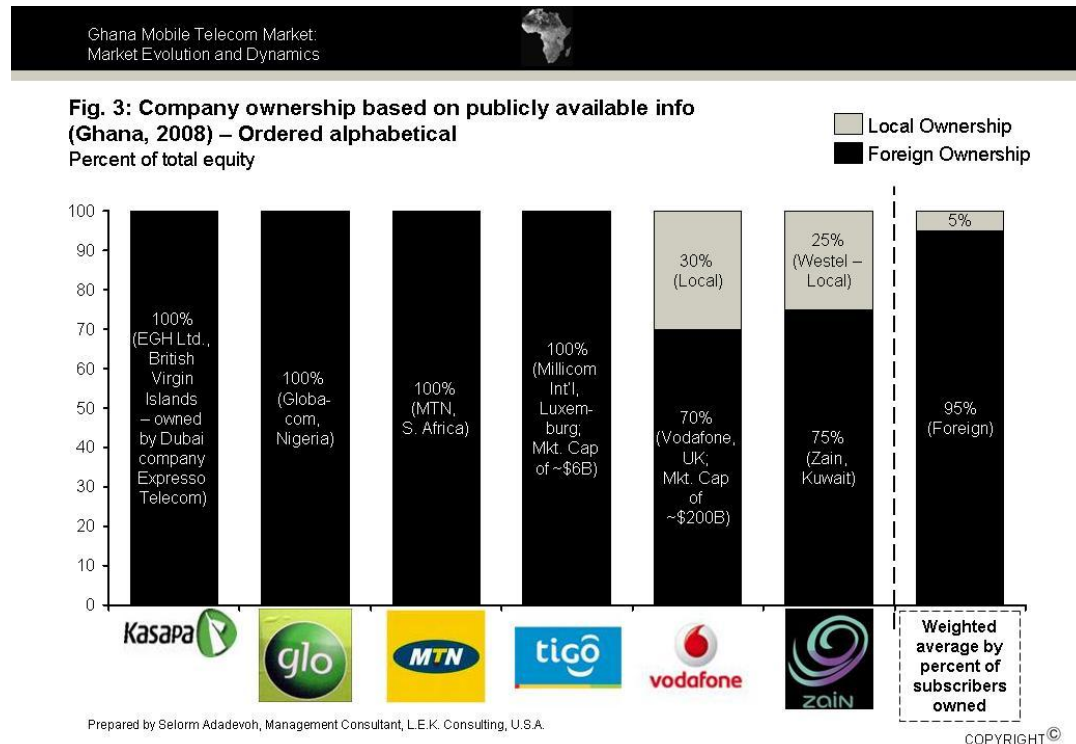
Note: Years appended with "E" (e.g., 1993E) had no available subscriber numbers and were estimated; * Does not represent the number of individual subscribers and is not adjusted for double-counting due to multiple SIM card ownership, missing, decommissioned or unused SIM cards

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In the short period between 2007 through 2008, four major acquisitions took place marking a new era for the Ghana mobile telecoms market. With subscriber growth of about 40-50% per year (See Fig. 2), and a seemingly stable core business, the level of M&A activity is not surprising.

With new capital to expand networks, both in coverage and in bandwidth, the subscriber base has continued to grow and promises to do so for the next 5-10 years or so, as providers try to maximize their current asset investments. The attractiveness of the Ghana mobile telecoms market rings true for a diverse set of investors (mainly strategic players) from not only neighboring African countries, but also from the Middle East, Western Europe and Asia.



Ghana is definitely on the world stage in the mobile telecoms space and investor interest continues to grow. In all of this growth frenzy, not all players have been successful and one can only wonder what the competitive landscape will look like in a few years from now.

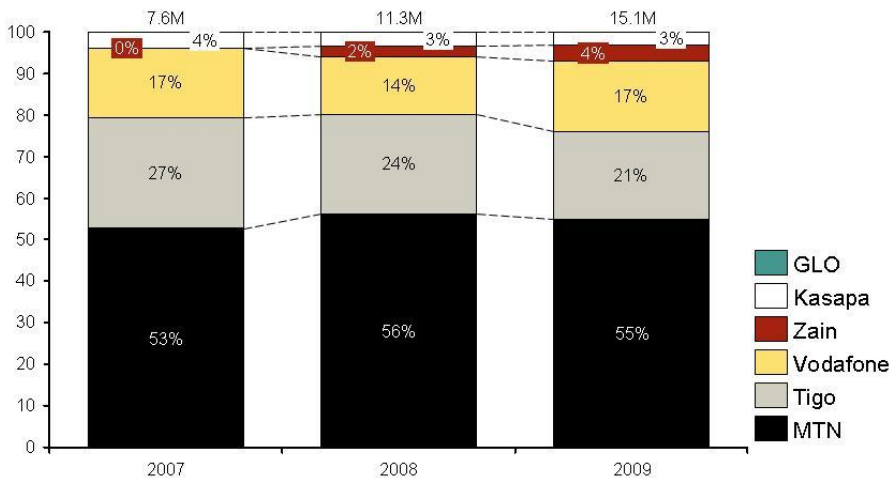
The competition is fierce but MTN continues to lead the pack...

The competition in Ghana is extremely fierce and the market opportunity can be described as modest at best. For one, Ghana has a population of ~24M people and a 2009 GDP of ~\$37B, and has 6 players competing for market share. Contrast that to 5 main providers in Nigeria with ~150M people, ~\$350B in 2009 GDP, or to 4 providers in Kenya with ~40M people, a 2009 GDP of ~\$63B, or to 5 main players in South Africa with ~50M people and ~\$490B in GDP. Ghana has the largest number of providers, the lowest total GDP (about a tenth of Nigeria's GDP) and also the lowest GDP per capita among these select countries. This only goes to underscore the level of competitive intensity and the hurdle providers have to overcome to succeed in Ghana in the long-term.

However, despite the level of competitive intensity, it is clear that MTN Ghana is doing something right. MTN Ghana has dominated mobile telecoms growth in the West and Central African regions for several years now and grew at ~2400 basis points by subscriber volume between 2008 and 2009, though losing ~100 basis points (See Fig. 4) in share of subscribers (unadjusted for multiple SIM ownership).



Fig. 4: Estimated share of mobile subscriber* base (Ghana, 2007-09)
Percent of total subscribers*



Note: * Does not represent the number of individual subscribers and is not adjusted for double-counting due to multiple SIM card ownership, missing, decommissioned or unused SIM cards

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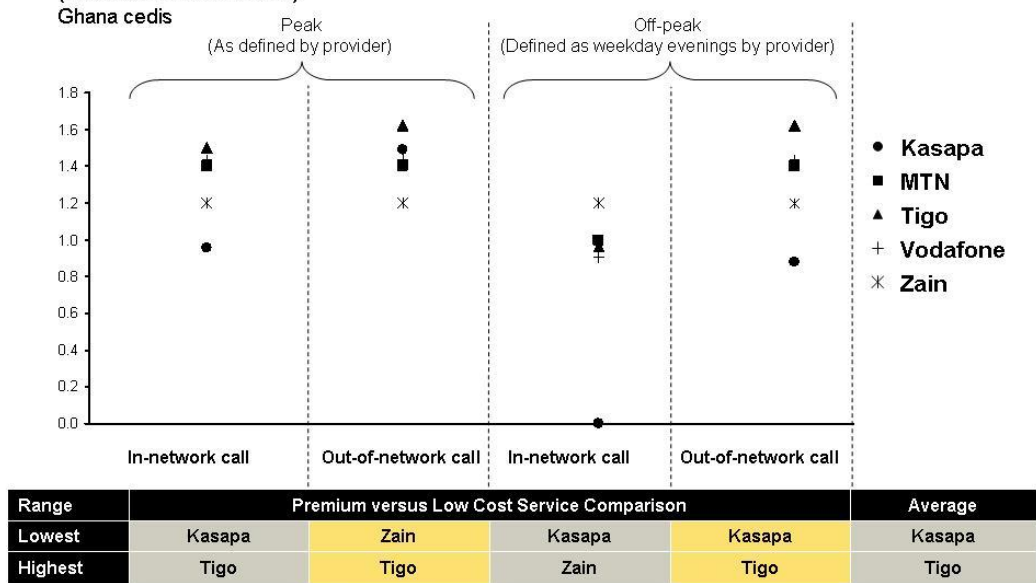
Vodafone appears to be slowly gaining ground on Tigo while Kasapa is slowly becoming irrelevant in the competitive space. With Bharti's acquisition of Zain and Glo's imminent launch, the landscape is likely to change dramatically. Companies will need to go beyond traditional marketing and branding tactics, to more creative innovative strategic planning to stay relevant in this market in the medium to long term.

Understanding the key performance drivers of each link within the value chain, and the drivers of performance for the various consumer segments in order to direct innovative product development to fill a specific consumer need will become even more critical. MTN appears to have led the pack in innovation and strategic intelligence and continues to differentiate itself from the rest through this.

Few companies such as Kasapa and Zain have tried to build a strategy around pricing tactics and this clearly has not worked. While low pricing does play a role in consumer trial, it does not appear to have a significant impact on loyalty (See Fig. 5). The lowest priced players Zain and Kasapa (even with its predatory pricing of free in-network off-peak calls), appear to have less than 10% of combined subscriber share.



**Fig. 5: Cost per 10-min call comparison
(Data as of Dec. 2009)**



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MTN and Vodafone appear to have a very similar pricing strategy with largely contrasting share of subscriber. It is not clear what this means for performance by average revenue per user (ARPU) but with higher pricing and higher subscriber numbers, it is probably fair to assume a higher ARPU or total revenue contribution for MTN and Tigo than some of the other players.

In summary, the Ghana mobile telecoms market is exciting and is at a critical point in its evolution. The landscape influencers such as Glo’s launch, Bharti’s acquisition of Zain, an increasing interest by foreign strategic partners, inflow of experienced leadership, and capital availability, will all change the game and only players with the foresight to be proactive in strategic decision-making are likely to survive long-term.

In Part 2, I will share my views on some of the issues that may affect the future competitive landscape such as the threat of Glo’s launch, cable / broadband development (e.g., Main One), SIM registration, number portability, and other developments in the market. The key question for companies is: “What will it take for companies to maintain a leadership position in the Ghana mobile telecoms space in the future considering all the imminent changes to the competitive intensity and pressures”.