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Disruptive competition

- Disruptive innovation, describes a technology, process, or business model that enables more people to afford and/or have the ability to use a product or service. The change caused by such an innovation is so significant that it eventually replaces, or disrupts, the established approach to providing that product or service. (Christiansen)
- Perfect competition not possible in infrastructure industries, generally constrained number of operators emulate each other - price, approach to services e.g. roaming.
- Policy and regulation to adjust behaviour of operators in competitive environments limited success. (Bauer 2005)
- Incumbents seldom innovate - they may use their dominance to buy out innovations - often to reduce threat of competition
- In rare instances they are forced to change their business as a result of innovations introduced usually by underdog
- Disruptive technologies - Internet, VOIP, wireless meshed networks, wifi
Roaming

- Like consumers across the globe, African mobile subscribers have been paying extortionately high charges to make and receive calls when communicating outside of their country of origin, using their domestic mobile service.

- This is despite the so called "death of distance" and even when countries were contiguous and the cost of calls could not be very different from the costs of local termination.

- So vexing was this to the European Union that in December 2008 after 10 years of endeavouring to do so, the EU finally introduced much contested regulations for roaming.
Lack of transparency dampens calling.

Confusion over service charges, in addition to the price of calls, prevents international roaming from taking off.

A fifth of mobile users cite confusion over roaming pricing as their primary reason for using their phone less when abroad.

Surprisingly this is especially true of younger consumers, where nearly a quarter (24%) of those aged 16-34 are still baffled by the costs of using their mobiles abroad.

TNS study of UK Experience 2008
Europe regulatory action

High charges raise complaints by consumers

- "International roaming charges in the EU are excessively high and cause significant damage to consumers. The lack of transparent tariff information and the lack of real consumer choice means that consumers are not given an opportunity to put competitive pressure on providers to reduce their charges." -

The European Consumers’ Organisation -2005

Response by European Parliament

- "The regulation introduces a Eurotariff at retail level (excluding VAT) not exceeding EUR 0.49 per minute for any call made and EUR 0.24 per minute for any call received for the first year. The price ceiling for calls made will automatically be reduced to EUR 0.46 and EUR 0.43, and for calls received to EUR 0.22 and EUR 0.19, in the second and third year respectively."

In the East of Africa, a cell phone company in Uganda originally called MSI, at the time Celtel and subsequently Zain, found itself on the brink of survival following the licensing of a major competitor, MTN who grew rapidly.

Celtel as it then was, identified its presence in three actively integrated markets - Kenya, Tanzania and Uganda - as a competitive advantage, the dominant players in each of these markets did not enjoy.

Following a buyout by Zain in 2006 Celtel launched One Network, a single service across the three East African countries charged at the local rate of origin when travelling in any of the other two countries.
ONE Network features

- Use the same phone number and SIM card across participating countries.
- Incoming calls are free.
- Outgoing calls and SMS’s at local rates.
- Prepaid customers are automatically charged in their home currency. Postpaid customers are charged at local rates converted to their home currency upon billing.
- Prepaid customers traveling into participating countries can recharge their phone with local top-up cards or with cards bought from the home Zain network.
Disruptive Competition

- The effects of this were dramatic. Subscribers flocked to Zain driving up their market share.
- Not only did they turn around their own business in Uganda and consolidate their market share in Tanzania and Kenya but they sent the dominant players in each of these markets scrambling for a solution.
- Within a few months, Vodacom in Tanzania, Safaritel in Kenya and UTL in Uganda had pieced together a network offering cross border services at domestic prices.
- The result of this head on competition was a significant rise in subscribers across all networks and a reduction in charges.
Where did this start?

- MSI - forerunner of Celtel and Zain - with operations in DRC and Congo Brazzaville. River Congo separates the two cities of 7 km apart.
- Calls across the river Congo had to be routed through Brussels at great cost – dampen call traffic.
- MSI concerned about the cost sought and got a license to interconnect by microwave across the river in 2002.
- Calls to each capital across the river become local from international. Call cost fell by 80%. All calls are post paid.
- 2004 Nov, governments grant approval given provide prepaid calls.
- Phenomena replicated in other border towns.
Drivers

- By 2005 Celtel, in Uganda which was the first mobile licence, has lost about 90% of it market share to second mobile operators MTN.
- In Kenya, various pricing and services strategies by Celtel fail to shake the dominance of Safaricom, which is perceived at the trusted incumbent, same CEO for 10 years, people’s company, continued value add - MPESA.
- No continuity in name, brand, leadership in Celtel/Zain
- In Tanzania, it is unable to shake the stranglehold of Vodacom on the market.
- This can be compared with Zain in Zambia which is not part of the ONE network due to restrictions on international gateway
- Deny both Zambians and international travellers the benefit of the ONE Network
- But because Zain dominant operator in Zambia, inclusion in one network not as driven at national level as in markets where it is the underdog.
Necessary conditions: integrated regional bloc

- Respond to the realities of the communities in the region where colonial boundaries cut across communities in the region - common language, extensive cross border traffic.
- Respond to travel/trade patterns in the region
- One Network is able to lobby at regional level and political co-ordination through ORAPTO.
- Political and regulatory pressure in region to reduce prices.
- Celtel is the only network which has operations in Kenya, Tanzania and Uganda
Infrastructure legacy in the region

- Until 1977 telecoms operators operated as one network under East African community,
- Still retain special code for the region -005,006,007
- Under East African Postal & Telecom Operators
- Regulators take a decision to allow operators to provide local instead of international services in town across the border. eg Busia Uganda and Busia Kenya
Value of roamers/roaming

- Operator interviews suggest that roamer Average Revenue Per Users are higher than average customers.
- They tend to churn less often (shift to a competing network).
- Contribution by visitors is higher than average local customer.
- Roaming is an important service to retain high end customers.
- According to survey,
  - "International roaming should be a good revenue-generating value added service for operators, but many customers leave their phones at home when going aboard because they think the service is unaffordable (or unavailable)."
  - "It’s only when the pricing and marketing are right that operators can hope to ramp up ARPU."

Qualcom 2003 (www.qualcom.com)
Enabling regulatory framework

- Liberalised markets with international gateways in Tanzania and Uganda existed before 2004.
- In 2004 Kenya liberalises international gateway and Celtel awarded an international gateway licence in 2005.
- This provides the opportunity for a regional network.
- Sept 2006, ONE network launched in East Africa.
- Nov. 2007, ONE network extended to Africa operations.
- April 2008, ONE network for Middle East.
Evolution of ONE Network: a first in the world

Sept 2006 connects East Africa

Nov 2007 connects operations in Africa

Aug 2008 connects operations in Africa to Middle Africa thus interconnecting 46 Million people as ONE Network
Increased number of subscribers for Zain initially, but also for others and in Kenya Zain drops off after initial marginal gains but Safaricom booms from the competition.

- Increase roaming traffic but only about 2% of revenues
- Retention strategy for roaming customers

Data source: Operator interviews & Informa
Response to One Network in East Africa

- Competing operators respond to the service by creating own service – Kama Kawaida
- Within East Africa roaming partners have a choice of two seamless networks with similar features.
- Operators without partners are disadvantaged
- Roaming revenue not significant to operators (2%) but a critical factor to the user
Response to One Network in Africa

- Nov 2008 MTN group announce plan to launch MTN Seamless to all countries with its operations
- Tested Cameroon, Nigeria and Ghana and found successful
- Decided to link all the countries of operation by mid-2009 (R5)
- Nigeria announce an initiative to have ECOWAS traffic with a common roaming tariff
### Outcomes of competition/innovation

- Reduces cost of business and supports the goals of economic growth and development through regional integration.
- Liberalisation unleashes real market competition and ushers innovation. As more players came into the market, One Network is a response to competition in the market.
- Creates competitive reaction from incumbents who have to find a competitive solution.
- Drives subscriber numbers up across all networks.
- Drives use of value added services across borders e.g. MPESA.
Recommendations

- Review policy with a view of enhancing liberalisation to enable business innovation e.g market entry and international gateways
- Remove tax regime to reduce cost by accepting Mode 2 supply for roaming traffic under WTO rules
- Should be part of general effort to move towards cost based pricing (interconnection and retail)
- Use regional associations to harmonise policy and remove policy constraints. (EARPTO, WATRA, SADC/CRASA)
- Create opportunities/incentives for marginal operators to partner to offer low cost roaming alternatives to major operators who continue to mutually exploit each others customers.