6/4/2010

What the Nigerian mobile telecom users want

This is an abridged version. For a full version, contact us by sending a request to editorial@ciuci.us

Ciuci Consulting

Contents

Executive Summary

Innovation and advancements in technology led to the development of mobile phones which could be classified as perhaps the most significant invention in the last three decades. This phenomenon, as well as the growing need to interact with the wider world, has fuelled the expansion of the global telecoms sector. Penetration rates in developed countries (which are generally above eighty percent) and those of less developed countries (which although less than fifty percent are growing geometrically) are reflections of how essential mobile communication has become to the modern world.

In Nigeria, telecommunication has evolved since the days of NITEL – the government owned monopoly that provided analogue fixed wire communication services. Regulatory agencies such as the presidency, the Ministry of Communication and the Nigerian Communications Commission, (NCC) have been responsible for driving telecommunication in the country such that it aligns with global trends and standards. The establishment of the NCC in 1992 and the subsequent revision of the telecoms sector policy in 2003 contributed significantly to the growth and expansion of telecommunications in Nigeria. This expansion is mirrored by the current structure of the sector which can be broken into different segments, with each consisting of various agents playing different roles within the segment and the value chain.

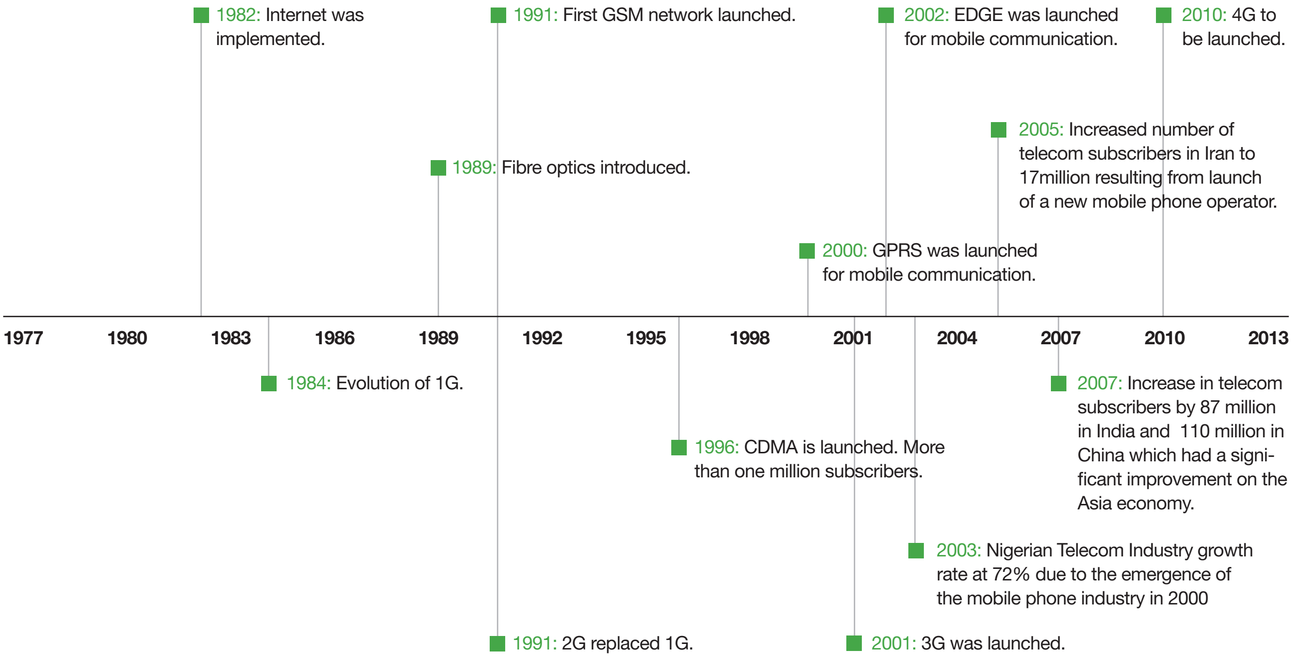
The fallout of the revision of the telecoms sector policy was the liberalisation of the market which ushered in the adoption of mobile phone technology on a large scale and the era of competition. Consequently, foreign telecom companies and service providers seized the opportunity to provide mobile communication services to the virgin Nigerian market. Remarkable achievements were recorded as the market's response to the introduction of mobile phone services proved to be unprecedented on the continent. The growth of mobile phone subscribers in the country in the period following the launch of mobile services exceeded projections and heralded the period which can be aptly referred to as the "Boom period" in the history of the Nigerian telecoms industry.

In the years following this period, stability has seemingly been achieved as the remarkable growth rates previously recorded continue to decline. Focus has now shifted from merely expansion and growth to efficient provision of services and customer satisfaction in a bid to maintain market share and grow revenues.
The following report analyses global trends in mobile communication as well as the Nigerian telecoms sector and the dynamics of the local market in terms of the key players and their share of the market from a revenue and subscriber base perspective. It also seeks to present the results of a survey commissioned by Ciuci Consulting to provide answers to the question "what do Nigerian mobile phone users want?"

Global Telecoms Sector Overview

Major advancements in telephone and internet technology as well as socio – cultural advancements, have fuelled the growth of the global telecoms industry, making it one of the largest in the world. As of 2008, the global telecommunications industry was valued at $3.8 trillion (TIA), with a subscriber base in excess of 4 billion people worldwide (ITU, 2008).

Earlier methods of communication were driven by fixed wire telephone services that leveraged telephone lines for communicating over long distances. As time went by, innovation led to the development of alternative means of communication, which in turn led to the development of the fixed wireless telephone, mobile phones and the internet or the World Wide Web. These channels which facilitate easier communication over longer distances are the basis for the global communication revolution. The growth of mobile communication which is driven by several factors including demand, innovation and globalization, has been impressive since the concept was first introduced in the 1970's. Since then, several major advancements which have contributed to the overall growth and development of the industry have been recorded. Some of these include the establishment of the first generation networks (1G) in Japan and subsequently Finland, Denmark, Norway and Sweden. This first generation network, which was the first commercial and fully automated network, laid the foundation for mobile/cellular communication. With further advancements and modifications to the existing 1G network came the second generation (2G) network. This was a digital network system that is regarded as the first modern network. The 2G network supported data services as person to person SMS (Short Messaging Service, a term used to describe the function of sending and receiving text messages over mobile phone networks) was introduced as a product on mobile technology. Other products introduced include the purchase of content and commercial payment systems which enabled the conduct of transactions using their mobile phones. The launch of the third generation (3G) network came with the turn of the millennium and had as its hallmark, the incorporation of high speed data transfer over mobile networks and the compatibility of the internet with mobile phone technology. The recent launch of the fourth generation network (4G) further emphasises the evolution in mobile phone technology. This generation of communications technology aims to offer wireless broadband and high speed data transfer services on mobile phones. The chart below highlights major trends in mobile telecommunications since the 1970's and the growth of the mobile telecoms subscriber base.



Key Trends in the Global Telecom Industry

Mobile phone communication leverages a cellular network of specialized base stations or cell sites as well as Fibre optic networks and satellite technology to facilitate the transfer of voice and data between different locations. The predominant technological standards for mobile communications are the GSM and CDMA technologies, which are digital communication technologies. The global GSM market, which is the largest segment of the mobile phone market, has a global subscriber base of 3.6bn users, while the CDMA market has a global subscriber base of 472 mn. The growth of the mobile sector is fuelled by increased mobile penetration in the developing regions of the world including China, Brazil, India and Nigeria, while the saturated markets of the developed countries in Europe and America cease to expand.

Growth in the Asian region, fuelled by the continued expansion of the developing Chinese and Indian markets remains one of the fastest in the world. Its overall global subscriber base as at 2008 was 1.5 billion subscribers, while regional penetration stood at 48% (GMFB '08). It is worthy to note that the Chinese market which is the largest in the world with a population of 641 million subscribers (Frost and Sullivan, '08) accounts for 43% of overall subscribers in the Asian region (CC). The Indian market, with a mobile subscriber base of 261 million is the second largest in Asia, and the world. Major operators on the continent include: China Telecom (China), Bharti Airtel (India), NTT Corp (Japan)

The European market, which is one of the most sophisticated in the world is characterised by almost 100% mobile penetration in most of its countries. The Russian market with a subscriber base of over 150 million is the largest market in Europe with 18% of Europe's mobile subscribers. This is followed by the Germany, Italy and the UK marlast quarter of 2009 (NCC) is the largest and fastest growing in Africa. With such impressive figures, penetration still stands at about 50%, revealing the existence of considerable expansion and growth opportunities for the telecom operators. The South African market which was previously the largest in Africa, achieved a penetration of almost 100% in 2008. As a result, telecoms operators in the country have shifted their focus to increasing revenues from ancillary services. Major operators on the continent include MTN (various), Multilinks Telkom (SA), Zain (Various).

Nigerian Sector

The Evolution of the Nigerian Telecoms Industry

The origin of telecoms services in Nigeria can be traced to the establishment of a submarine cable link between Lagos and London in 1856. With the amalgamation of the Northern and Southern Protectorates in 1914, posts and telecommunication networks were linked to and from the basic national network. By independence in 1960, there were fewer than 100,000 telephone lines in the country. Successive governments made attempts to expand the telecoms infrastructure and increase penetration.
By 1985 when the Nigerian Telecommunications Limited, NITEL was established, programs initiated by the government through the third National development plan aimed to add an additional 121,000 lines to the country's network. The projects executed at the time made up the core of the analogue network that supported telecommunication within the country until the reforms initiated at the turn of the century.
Prior to the establishment of NITEL in 1985, the Ministry of Communications was responsible for regulating all telecoms activities in the country. The federal government also fully owned the Nigerian External Telecommunications Limited, the agency responsible for international communication. In 1992, the enactment of an Act to amend the regulation of the telecoms sector led to the establishment of the Nigerian Communications Commission (NCC). The regulatory hierarchy of the sector was consequently reviewed as the NCC became an agency under the Ministry of Communications. Operators included NITEL which was the dominant monopoly, and other licensed private telecom operators. The NCC was mandated to create a regulatory environment to facilitate the supply of telecoms facilities and services as well as the entry of private enterprises into the telecommunications sector. It was also responsible for promoting fair competition and efficient market conduct. The decree also led to the establishment of public pay phones and the provision and operation of private network links employing cable, radio communication and satellite. Further reviews of the NCC's role led to an expansion of its function to include:

- The assignment and registration of the radio spectrum to licensed operators
- Administration of the national numbering plan
- Establishing mechanisms for promoting universal access to telecommunications services nationwide
- Enforcing technical standards and protection of customers from unfair practices by licensees

1985: The telecommunication arm of the old department of post and telecommunication was merged with the Nigerian External Telecommunication (NET) to form NITEL

1986: Total number of subscribers to telephone lines at the end of December 1986 was 230,000. Total installed capacity was 320,834

1991: NITEL's network capacity reached 450,516 lines

1992: The Nigerian Communication Commission was established in November. Nitel's capacity also increased to 600,000

1993: The Nigerian Communication Commission commenced operations in mid 1993 with the inauguration of the first board of the commission

1996: The country had almost 1,000,000 subscribers to telephone lines all of which were handled by standard A antennae.

2000: Econet receives GSM license

2003: Globacom entered the telecom industry as the country's second national carrier

2004: Revenue from telecom services alone estimated at USD 2.5 trillion as at 2004

2006: Estimates placed the industry's revenue at $1.2 trillion. A mono- selection license was given to Etisalat

2008: IZAP was introduced by starcomms to bring fast internet access. Etisalat rolls out services in 7 states.

2009: Main One Cable company secured a $66 million loan from the board of directors of the African Development Bank group (ADB) as financing to its undersea fibre optic cable connection along the West African coast

1982 1985 1988 1991 1994 1997 2000 2003 2006 2009

Key Trends in the Nigerian Telecoms Industry 1982-2009

Regulation

The regulatory structure of the Nigerian telecoms sector was significantly altered in 1992, with the enactment of a new telecoms Act which effectively delineated the functions of the regulatory bodies. The National Communications Commission (NCC) was setup as a result of this Act to regulate telecoms operations in the country. Prior to the reform, the Ministry of Communication was solely responsible for operational and policy based regulation of the sector. Other key regulatory bodies include:

- The Presidency
- The Ministry of Communications

The Presidency: The Federal Government of Nigeria exercises its regulatory function over the telecoms sector through the presidency. The main functions of the Federal government include:

- Giving overall direction for telecommunication development
- Ensuring that the telecoms policy is consistent with other national policies
- Enacting necessary laws and taking other measures that are in support of the National Telecommunications Policy

The Ministry of Communications: The communications ministry is the executive body of the government responsible for broad regulation of the Telecoms sector from a policy perspective. Functions of the Ministry include:

- Proposing policy options and recommending legislation to the government
- Implementation and monitoring of the government's regulatory policy
- Representing the government at international organization meetings

bid to diversify their revenue streams. Notwithstanding the declining ARPU, total revenue based on Q3 '09 figures equals approximately N1.5tn or $9.9bn

In 2009, the total subscriber base of the GSM market was 61.9mn, while that of the CDMA market was 6.9mn

Table 1: Nigerian Telecoms Market Indices 2009

Total GSM Subscriber Base		61,998,716
Total CDMA Subscriber Base		6,994,329
Total Mobile Subscriber Base		68,993,045
	N	$
ARPU (Per Month)	1,800	12
Annual ARPU	21,600	144
Total annual industry revenue	**1,5tn**	**9,9bn**

Source: NCC, Financial Derivatives

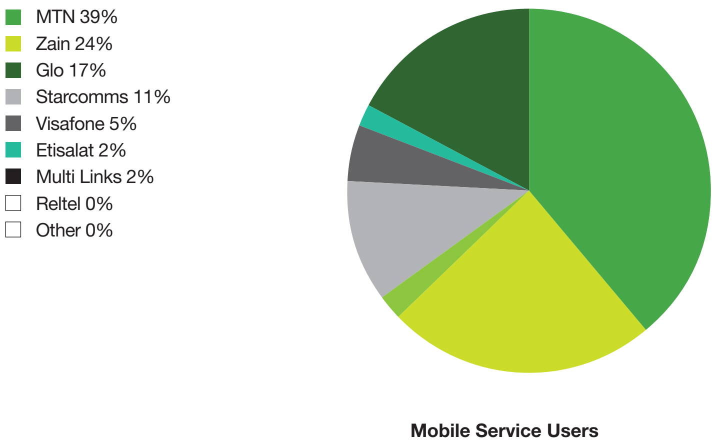
Market Share

In terms of the volume of subscribers, MTN Nigeria leads the mobile market, with an estimated 28.7m subscribers at Q3 '09. This translates to 41.7% of the overall mobile market, while Globacom follows with 16.2m, accounting for 23.5% of the market. Overall, the GSM service providers' control approximately 90% of the Nigerian mobile market, while the CDMA providers account for the remaining 10%. The following table shows a detailed breakdown of the companies and their respective subscriber bases.

Table 2: Mobile Service Providers Subscriber base/ Subscriber Market share

Company	Subscribers	% of Total Mobile Market
MTN	28,740,000	41.7%
Glo	16,228,556	23.5%
Zain	14,935,770	21.6%
Etisalat	1,835,870	2.7%
Mtel Limited	258,520	0.4%
GSM Total	**61,998,716**	**89.9%**
Starcomms	1,527,415	2.2%
Visafone	2,533,812	3.7%
Multilinks	1,820,750	2.6%
Zoom(Reltel)	1,112,352	1.6%
CDMA Total	**6,994,329**	**10.1%**
Overall Total	**68,993,045**	**100.0%**

Source: NCC Subscriber Data 2009



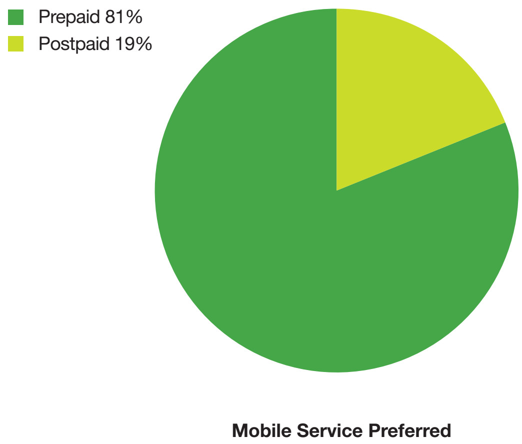
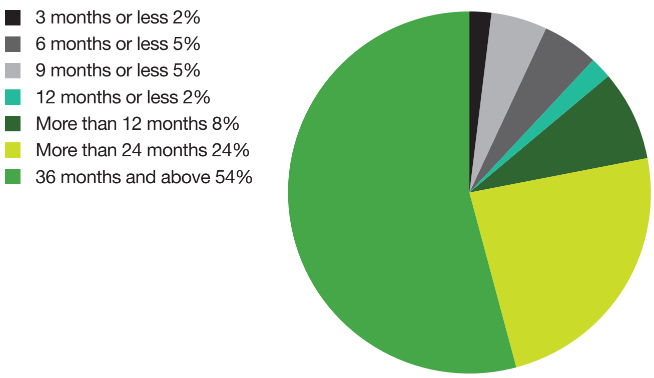


Chart 8: Distribution of Respondents by Operators and Segments

8% of the respondents have subscribed to the service providers they use for more than 12 months, while more than 50% have subscribed to their service providers for more than three years, citing the quality of service, cheaper tariffs and a reluctance to lose their numbers as the top reasons why they still maintain relationships with their service providers.

Chart 9: Respondents length of Relationship with Service Provider



Source: Ciuci Consulting Analysis

Tariffs

Call tariffs continue to be a topical issue among both operators and users of mobile services. Consumers constantly groan about the high cost of services, while the operators find reasons to justify why the charges for services are what they are. Questions' asked included if they perceived the rates charged by the providers as affordable, if they would switch their service providers for one that offered cheaper rates, if the service providers charged consistent rates for services i.e. the advertised call rates or SMS rates, if they received discounts for doing business with the providers overtime and