
Case 15-1

Africa 3.0

Investment in telecommunications and other sectors in Africa is being driven by a variety of factors. Several demographic trends are clear. For example, nearly half the population is under the age of 15. The World Bank reports that half the population lives on \$1.25 per day. However, according to a study by the African Development Bank, Africa's middle class now comprises 34 percent of the population, some 313 million people in all. The report defines "middle class" as those who spend between \$2 and \$20 per day. A narrower definition would include the 120 million people (21 percent) who spend between \$4 and \$20 per day.

Demand from this emerging middle class has been a boon to telecommunications companies. Between 2006 and 2010, compound revenue growth in the sector averaged 40 percent. In Africa, a cell phone is often a person's most valuable possession; more than 450 million people are cell phone subscribers. Kenya, for example, is home to more than 21 million active phone numbers for a population of 40 million people. In most parts of Africa, mobile networks suffer service interruptions. As a result, many people use more than one cell phone and have multiple providers.

Key industry players include Safaricom, Kenya's leading mobile phone service provider and the largest, most profitable company in East Africa. South Africa's MTN Group is the continent's leading mobile provider in terms of subscribers. MTN gained prominence in 2010 when it became the first African company to have a sponsorship for World Cup soccer. Globacon is in Nigeria.

One of the biggest African success stories involves Celtel International, a telecom created by Sudanese businessman Mo Ibrahim. In 2005, Ibrahim sold the company to Zain, based in Kuwait, for \$3.4 billion. In 2010, India's Bharti Airtel paid \$10.7 billion for Zain's African assets. Zain has operations in 15 African countries, including Malawi, Chad, and Zambia. The acquisition makes Bharti the world's largest mobile provider—165 million subscribers in all—with operations only in emerging markets.

Not surprisingly, the market opportunity is also attracting investment from other global telecom operators. For example, France Telecom has tens of millions of users in 22 countries in Africa and the Middle East. Executives are extending the company's African reach to span the entire continent; the goal is to become the "champion of rural Africa" by rolling out a range of new, low-cost mobile services under the Orange brand. For example, the company's E-Recharge service lets users exchange credits via text messaging. Price discounts of up to 99 percent for off-peak calls are also very popular.

Kenya has become a key battleground, as service providers cut prices to attract customers. Airtel Kenya has squared off against Safaricom, Orange Kenya, and other rivals; Airtel recently cut rates by 50 percent, to \$0.03 per minute for voice calls and \$0.01 for text messages. Parent company Bharti Airtel had previously used this tactic in India, where customers are making longer calls because airtime is less expensive. For his part, Safaricom CEO Robert Collymore says his company will focus on data and mobile banking services.

Arguably the biggest mobile innovation in Africa is M-Pesa (M for “mobile”; *pesa* is Swahili for “money”). M-Pesa is a mobile phone–based money transfer service developed by Safaricom Kenya and Vodafone, with backing from Britain’s Department for International Development. In 2014, Safaricom partnered with KCB, Kenya’s biggest bank.

Today, M-Pesa is the dominant mobile money platform and a case study of the way telecommunication companies are transforming the banking industry in Africa. About one-third of Kenya’s population uses M-Pesa regularly, with daily transactions adding up to about \$44 million. For example, Kenyans use M-Pesa to get cash and make payments for bills, school fees, and airline tickets. Safaricom’s service boasts a network of more than 100,000 agents. As competitors across the continent enter the mobile payments space, interoperability between service providers will increase in importance.

Just a decade ago, many mainstream banks would not have found it feasible to do business with low-income customers; the meager returns did not justify opening branch networks or setting up ATMs. As a result, a person with a city job would have to give money to a friend or a bus driver to deliver to relatives at home. Needless to say, highway robbery was a constant threat.

Today, however, banks can work with shopkeepers and bar owners who dispense or collect cash and then credit or debit a customer’s mobile phone account. The target market is the “unbanked”; that is, people who do not have bank accounts. In Kenya alone, the majority of adults have access to financial services today, compared with only 5 percent in 2006. In Nigeria, a country of 150 million people, only 20 percent of the population has a bank account. Nigeria’s Central Bank (CBN) is taking the lead, creating a system in which telecommunications companies will provide the infrastructure for offering financial services.

This approach is necessary because there are several dominant cell phone service providers in Nigeria.

Price wars are just one of the challenges of doing business on the continent. Africa is at the bottom of the World Bank's "Ease of Doing Business" rankings. Widespread corruption is part of the problem; as Sudanese telecom magnate Ibrahim puts it, "There is a crisis of leadership and governance in Africa and we must face it." Moreover, he notes, "These guys know that millions of children are going to bed without dinner. The blood of those children is on the hands of those who spend the money on arms and private jets."

Data compiled by Global Financial Integrity, a nongovernmental organization, support Ibrahim's assessment of the business environment. According to a recent report, more than \$350 billion flowed out of Africa as a result of corruption and illicit deals.

Discussion Questions

- 15-8. The United States and Latin America have been far slower than countries in Africa and Europe in adopting mobile payments technology. Why is this the case?
- 15-9. Further economic liberalization in Africa depends, in part, on government leaders overcoming suspicions that foreign companies want to exploit Africa. How quickly is this likely to happen?
- 15-10. If marketers "think local and act local," what are some of the new products and services that are likely to emerge from Africa in the next few years?