THE GLOBAL WIRELESS REVOLUTION: WHO SHOULD ENTER NEXT?

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A look at which telcos are best positioned to succeed in the new era of mobile communications

GLOBAL MOBILE TELECOM IS THE FIRST STEP IN international free trade. Among the world's recent telecommunications mergers and acquisitions, Indian telco Bharti-Airtel's $24 billion offer for South Africa's MTN certainly stands out. Not only was it telecom's largest deal proposal of 2009, but this example also reflects just how much the industry is evolving and stresses the need for telcos around the world to take notice. With mega telcos such as Vodafone and Orange already operating in as many as 31 different countries, it is only a matter of time before the telecom industry becomes an open space and allows for the free flow of both carriers and consumers.

A Tale of Two Races

As mobile communications goes global, wireless carriers should expect to face two worldwide races: one to provide the cheapest and most accessible service and another to secure the highest number of new subscribers. Given that dominant global players will need to offer competitively-priced wireless service to as many subscribers as possible, hundreds of telcos will compete for their share of the world's 2.4 billion current mobile users. Nevertheless, this is more than just a numbers game – international expansion is about strategic vision. The question that every major telco's CEO should now be asking is: who will likely be the players in these two global races?

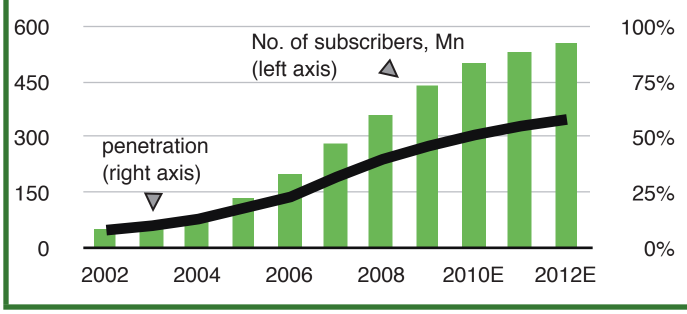
The Race for Cheaper and More Accessible Service

The race for cheaper and more accessible service stems from a strengthening consumer push to open up competition. State governments that once aimed to protect domestic interests by prohibiting foreign-owned telcos from entering their markets are gradually loosening regulations, even in some of the historically guarded telecom hubs, such as Canada and India. As markets increasingly open to allow foreign players, first-mover telcos will win the price and accessibility race by entering the market quickest, reaching out to consumers with competitive pricing offers first, and securing access to essential coverage areas. However, it's the carriers that currently operate in the highest number of geographic markets that will be best positioned to realize this critical first-mover advantage. A telco competing in multiple countries not only has the expertise of entering new markets, but the company can also leverage its existing international operations to offer access in multiple geographies - thereby eliminating current roaming charges.

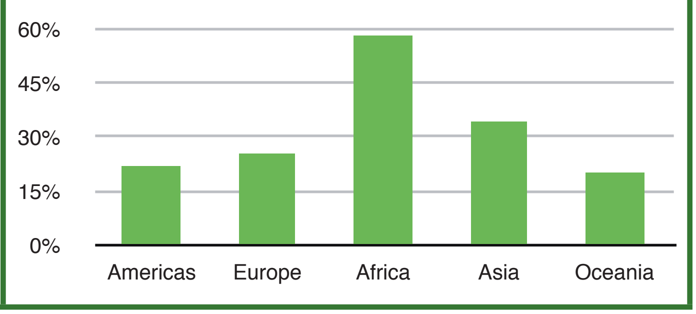
In looking at the mobile carriers most likely to win this race, Vodafone is extremely well-positioned, seeing that the British telco offers wireless service in 31 countries, while operating partner networks in another 41. French carrier Orange also stands a winning chance, as the company currently has a presence in over 45 countries spanning five continents. With their widespread global operations, these telcos can realize numerous economies of scale, build brand recognition and carry best practices into other markets in order to replicate home-grown success.

These benefits ultimately equip Vodafone and Orange with the necessary competitive weapon to truly threaten existing players in their respective markets. Should either of these two telcos choose to enter the United States one day, they would be able to leverage these benefits, in addition to eliminating roaming charges. In doing so, these telcos could potentially drive America's favourite telcos out of their home market by offering consumers wireless service for half the price charged by AT&T, Verizon Wireless or Sprint-Nextel.

Subscribers in Africa



Average Annual Mobile Growth (99-09)



The Subscriber Race

The second race in the mobile communications industry is one for subscribers. More subscribers means more bargaining power. Telcos would be able to dictate cross-border roaming agreements and exert influence over manufacturers in granting them the exclusive right to carry the latest devices. New subscribers can either come from the developed world, where consumers seek high functionality for low prices, or from the developing world, where consumers merely seek increased wireless coverage. Of particular interest to telcos should be high-growth subscriber markets, leading them to Africa, the last frontier.

Home to 34 of the 50 poorest countries on Earth, it might come as a surprise that Africa is by far the fastest-growing wireless market in the world. The continent plays a pivotal role in the imminent global race for subscribers, boasting an astonishing 440 million mobile users and counting. With a consumer base this large consisting of users who have only recently been introduced to mobile usage and have yet to develop any brand loyalty, Africa represents a golden opportunity for telcos to capture the large subscriber numbers needed to be dominant industry players.

As the first continent where mobile subscribers outnumbered landline users, Africa's wireless growth is largely fuelled through the innovative use of mobile phones by the growing low-income segment of the rural population. While farmers can use their phones to get the best price for their produce by checking market prices in advance, fishermen who may not have regular access to a bank can now actively perform mobile transactions. As rural adoption is being driven by both technological proliferation and using cell phones as substitutes for inaccessible activities, there now exists a clear need for mobile use. This status of necessity helps in ultimately justifying why Africa's poor are still willing to spend part of their minimal disposable income on wireless service.

Despite Africa's \$6-\$9 average revenue per user (ARPU) being alarmingly lower than the \$52-\$55 ARPU that foreign telcos enjoy in the developed world, per-capita income in Africa is growing by 31% per year. This means that as income levels and development continue to rise over time, Africa's mobile market will appreciate and will provide telcos with attractive revenue advantages. Telcos must therefore enter these markets early in order to gain a first-mover advantage in capturing untapped subscribers. Yet in order to capture, one must know how to succeed in a low-ARPU rural market – a task that few mobile carriers are poised to achieve.

KSFs: Familiarity and Experience

When Bharti-Airtel initially announced its interest in entering Africa, the company repeatedly referred to its success in penetrating India's low-income rural segment. By leveraging its understanding of consumer behaviour at the bottom of the pyramid, Bharti would be able to provide an appealing product offering to a familiar customer segment in Africa. Familiarity and experience are the two key determinants of a carrier's success in this market. Much like Bharti-Airtel, China Mobile and Telenor are also well-positioned.

In each of their current markets, these three companies have built service around low ARPU instead of viewing the metric as an entry deterrent. This approach consists of increasing ARPU through data services offering users tangible benefits that they are willing to spend money on, despite their financial situation. Bharti-Airtel, for instance, has developed SMS subscription services to update low-income rural users on two central aspects of Indian culture: cricket and Bollywood. China Mobile, however, has more directly engaged its rural consumers through SMS services, providing villagers with news updates in local dialects and fishermen with weather alerts. Likewise, Telenor has increased ARPU among Central Asia's rural users by encouraging consumers to share their phone with friends and family, as the more users sharing the phone, the more revenue generated from a single mobile subscription.

In looking at who will win the African, and thus the global subscriber race, China Mobile, Bharti-Airtel and Telenor are all well-positioned to thrive. With proven success in similar operating environments, ranging from the fields of inland China to the villages of Bangladesh, they are familiar with innovating, generating revenue and creating value in this market. Ultimately, they have the experience to understand the African game well – the game of working on high volumes, low margins, building economies of scale, and developing higher affordability. Using this knowledge, these players have a significant advantage in the race for global wireless domination – leaving companies such as AT&T, currently holding over \$7 billion in cash, to seriously consider this daunting reality.

Key Foreign Telcos In Africa [Global Subscribers]

#2 **Vodafone** (UK) – 428 million subscribers; present in Sub-Saharan Africa

#5 **Orange** (France) – 189 million subscribers; present in Sub-Saharan Africa

#10 **Orascom** (Egypt) – 111 million subscribers; present in Northern Africa and South Africa

#11 **MTN** (South Africa) – 108 million subscribers; present in Sub-Saharan Africa

Telcos Poised to Enter Africa [Global Subscribers]

#1 **China Mobile** (China) – 518 million subscribers; experience in rural China and Pakistan

#6 **Telenor** (Norway) – 172 million subscribers; experience in S.E. Asia, Eurasia

#9 **Bharti-Airtel** (India) – 116 million subscribers; experience in India and Sri Lanka