Strategic Analysis of the Telecommunication Sector

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Country Level

PESTEL: Political, Economic, Social, Technological, Environmental, Legal

Sector Level

Five Competitive Forces

Competitor Level

Generic Strategies

SWOT Analysis: Strength, Weakness, Opportunity, Threat
PESTEL Analysis
PESTEL Analysis

- Overview of the different macro-economic and environmental factors
- Useful strategic tool for understanding market growth or decline, business position, potential and direction for investment
- Factors vary in importance based on goods or services offered: Telecommunication sector vs agriculture produce eg
Political: to what degree a government intervenes in the economy

- Share of SOE to GDP
- Tax policy
- Trade restrictions
- Tariff regulation
- Political stability
- Ownership limitations
Economic

- Economic growth (GDP growth)
- Interest rates (cost of capital)
- Exchange rates (costs of exporting goods and the supply and price of imported goods)
- Purchasing power of potential customers
- Inflation rate
- Work force productivity
Social

- Demographic aspects: population growth rate, age distribution
  - Ageing population has a different demand compared to young population
- Cultural aspects (various management strategies to adapt to it)
  - Women in management in Islamic countries
  - Public Holidays
  - Eating habits and rules
- Health aspects
  - Weakening of workforce through disease (HIV/AIDS, Malaria)
  - Safety regulations
Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions.

- R&D activity
- Automation
- Technology incentives and the rate of technological change (3G to 4G)
Environmental

- weather (humidity may be a problem for power generation)
- Climate
- Topography (mountains, water influence radio waves)
Legal

- Consumer laws
- Competition and antitrust laws
- Labour laws
- Health and safety laws and regulations
Porter: 5 forces
Application Telecom Sector: Five Forces

- Five Force Model can be used to analyse the attractiveness of an industry from a strategic investment perspective.
- It can also be used to assess the need for regulatory supervision.
Threat of new competition: Barriers to entry

- Profitable markets that yield high returns will attract new firms (MTC EBITDA margin - TN wants in on this)
- Many new entrants, which eventually will decrease profitability for all firms in the industry unless there are barriers to entry:
  - Patents and rights (site rights)
  - Licenses =market restriction by CRAN
  - 51% Namibian ownership requirement
  - Existing mobile network coverage and technologies Existing fibre and copper network of TN
  - Brand Loyalty - 081 nation -
  - Absence of number portability
  - Switching costs of postpaid customers (contract durations, keeping number etc.
  - Capital requirements: (eg 1 billion N$ to compete with MTC’s network, (probably also 1 billion N$ to replicate TN fibre and copper network)
  - Access to distribution (selling airtime through shebeens anywhere in the country)
  - Industry profitability; the more profitable the industry the more attractive it will be to new competitors. Fixed line?
  - Labour cost
  - Spectrum availability
Bargaining power of customers - ability of customers to put the firm under pressure

- Customer’s price sensitivity
- Buyer concentration to firm concentration ratio
  - other of operators to choose from
- Degree of dependency upon existing channels of distribution
  Bargaining leverage, particularly in industries with high fixed costs
- Buyer switching costs relative to firm switching costs:
  - Cost of acquiring a new customer vs cost of new SIM card?
- Buyer information availability: able to judge which product is the cheapest
- Differential advantage (uniqueness) of industry products:
  - iPhone
  - Black Berry (prepaid)
Threat of substitute products or services

- The existence of products outside of the realm of the common product boundaries increases the propensity of customers to switch to alternatives.
- Not competitors’ similar products but entirely different ones instead.
  - Tap water - Coke, not Pepsi: increased marketing for drinking tap water might "shrink the pie" for both Coke and Pepsi.
  - DVD rentals: not DSTV or streaming - but good weather, going for a walk.
  - Not contact lenses vs glasses but vs eye operations etc. More eye operations paid for medical aids will reduce the market for classes and contact lenses.
- Buyer propensity to substitute.
- Relative price performance of substitute.
- Buyer switching costs and ease of substitution.
- Perceived level of product differentiation.
- Number of substitute products available in the market.
Bargaining power of suppliers

- Presence of substitute inputs
  - telecommunications equipment - Siemens, Nokia, Huawei, ZTE
- Bargaining power of employees - trade unions
- Suppliers may refuse to work with the firm, or, e.g., charge excessively high prices for unique resources
- Supplier switching costs relative to firm switching costs
  - Services (consulting, technical, billing)
- Strength of distribution channel of suppliers (sole import rights)
- Supplier concentration to firm concentration ratio
  - Electricity - Nampower, alternative diesel or solar
Intensity of competitive rivalry

- Intensity of competitive rivalry is the major determinant of the competitiveness of the industry
- MTC monopoly vs MTC during Competition
  - until 2006 lagging behind South Africa
  - Since 2007/8 leading by far
- Sustainable competitive advantage through innovation, installing latest technology such as LTE
- Powerful competitive strategy: constant ARPU or flat rate

How to judge the competition within a sector?
- Price changes
- Aggressiveness of marketing campaigns- claim to be cheapest or best
- Number of promotions
Generic Strategies
Porter's Generic Strategies

Cost and price leadership

Risk of being stuck in the middle

Quality of service:
Coverage, dropped calls
Cost and price leadership

- High volume low margin
- Higher volumes reduce to unit cost - economies of scale
- Efficiency in network set up, billing, distribution channel etc
Quality of Service: Best network

- Lower volume - higher margin and or higher price
- Less customers for same infrastructure
- Faster data rates
- Better voice quality
- Bester customer service at retail outlets
Alternative: Market Segmentation

- Example MTC
- T49- cheapest prepaid product (bottom end)
- 4G LTE best mobile data product (high end)
SWOT Analysis
SWOT Analysis

- Internal: Strength and Weaknesses
- External: Opportunities and Threats
- Firm specific not sector specific compared to the 5 forces model
- Know your self and know your competitors
Strength

A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. Examples of such strengths include:

- Patents, know how,
- Strong brand names
- Good reputation among customers
- Cost advantages
- Favourable access to distribution networks
- Happy and motivated work force
Weaknesses

- The absence of certain strengths may be viewed as a weakness:
  - Weak brand name
  - Poor reputation among customers
  - High cost structure
  - Lack of access to key distribution channels
  - Disgruntled work force
  - Heavy reliance on outside expertise
  - In some cases, a weakness may be the flip side of a strength
    - High production capacity vs too big to reacting quickly to changes in the strategic environment
    - Few customers = better data service but higher cost per customer
Opportunities

- New opportunities for profit and growth
- Unfulfilled customer need: data
- Arrival of new technologies: LTE, fibre to home
- Loosening of regulations: new licences, converged licences
- Removal of international trade barriers: Voip providers in Namibia
Threats

- The flip side of opportunities may be threats
- shifts in consumer tastes away from the firm's products: fixed-mobile substitution
- emergence of substitute products: Facebook to SMS
- new regulations - new competitors
Strategies

- **S-O strategies**: pursue opportunities that are a good fit to the company's strengths
- **W-O strategies**: overcome weaknesses to pursue opportunities
- **S-T strategies**: identify ways that the firm can use its strengths to reduce its vulnerability to external threats
- **W-T strategies**: establish a defensive plan to prevent the firm's weaknesses from making it highly susceptible to external threats
Conclusion: Know the country, the sector your competitors and your own company