



The Movitel Miracle - New dynamism in the Mozambican mobile market

Vietnamese backed Motivel has shaken up the Mozambican mobile market with its high investment, low user cost business model – creating the largest 2G/3G network in the country and winning 37% of subscriber-based market share in its first three years of operation. Incumbents, Vodacom and mCel, have resultantly faced increased competition; prices for data and voice have fallen; and mCel has struggled to maintain market share. The Mozambican mobile market is now more dynamic than ever before.

- ✦ **Movitel's impact has led to substantial pricing pressure in the retail voice and data markets. mCel has reacted by undercutting Movitel's low prices. Vodacom has matched Movitel's low data prices but charges the highest voice prices.**
- ✦ **Competitive pricing has expanded the overall market but mCel has consistently lost market share while Vodacom and Movitel continuously grow. Mobile bundled offerings with shorter data expiration times than voice are being offered by Movitel and mCel with up to 200% additional on-net minutes in an attempt to stimulate voice use.**
- ✦ **While Movitel has the largest market share by number of SIM cards, it has the smallest revenue, lowest minutes of use and lowest ARPU. It remains a vulnerable new entrant requiring regulatory sensitivity.**

Introduction

Over the last few years the Mozambican mobile market has been remarkably dynamic. The unique roll-out and market strategy of the latest entrant, Movitel, a joint venture between the Viettel Group of Vietnam and Mozambique's SPI, has led to dramatic competitive outcomes in the Mozambican mobile market.

Movitel launched in 2012 and has focussed on its rural supply chain by rolling out 153 shops, 12 600 agents and points of sales, and nearly 4 000 direct sales staff in the country's rural villages. Movitel's supply chain covers 85% of Mozambique's rural population and more than 70% of the whole country's population. The success of a third entrant into an entrenched duopoly market is unprecedented in Africa. It is therefore necessary to understand how it affects the incumbent operators and if Movitel's model is sustainable.

Movitel - a back-to-front business model

In 2012, Movitel entered formally into the Mozambican mobile market. Its investment-heavy expansion and direct sales method in rural areas meant that the operator quickly gained market share (measured by number of active sims on the market).

Within its first three years of becoming operational, its aggressive marketing strategy earned it a large 37% of market share. Over time, the increased growth in Movitel's share was noticed alongside drastic decreases in mCel's,¹ the previous market leader's, share. An expanding mobile market allowed Vodacom to increase its market share between 2012 and 2015 - with some fluctuation in between.

Within its first year of operation Movitel's aggressive marketing earned it 37% of active subscribers in the mobile market.

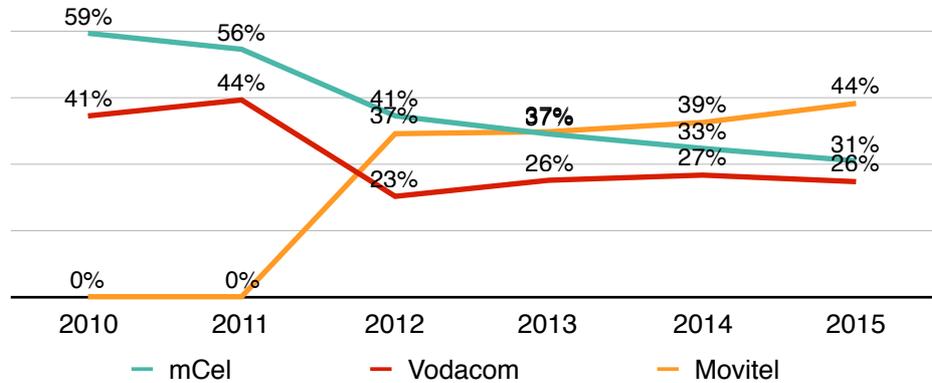


Figure 1: Operators' market shares (subscribers) 2013-2015. Source: INCM, 2015

Being a new entrant, Movitel, backed by Viettel, invested heavily in 2G/3G infrastructure across the country. By 2015 Movitel had 1 877¹ 2G/3G base stations throughout the country, where Vodacom only had 1 384² and mCel had 2 058³. While its capital expenditure has been high as anticipated with the rollout of a new network, Movitel's investment per subscriber was lower than Vodacom's in 2012 and 2013, but significantly higher in 2014.

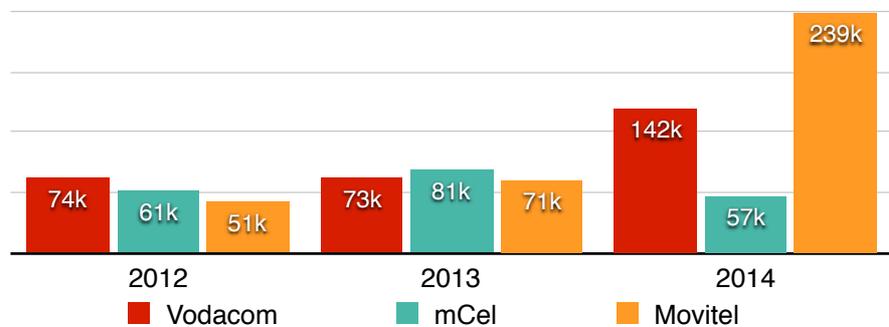
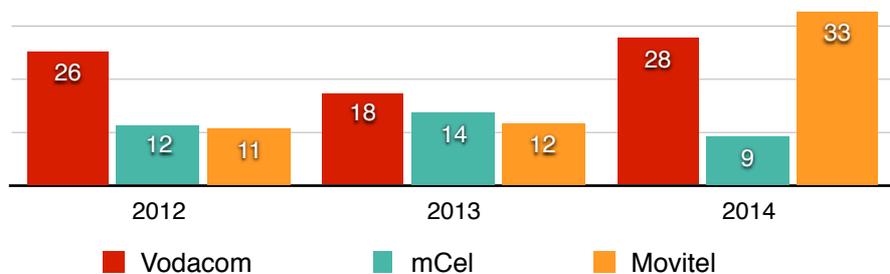


Figure 2: Investment by operator (USD 000's). Source: INCM, 2015.



¹ Movitel had 1 174 2G and 703 3G radio base stations in 2015.

² Vodacom had 890 2G and 494 3G radio base stations in 2015.

³ mCel had 2 058 2G base stations and only 456 3G base stations in 2015.

Figure 3: Investment per subscriber (USD). Source: INCM, 2015.

Movitel's wide coverage strategy has had astounding reach. As of 2015, it had 22 500 km of fibre optical cables, covering 100% of districts and highways, reaching nearly 80% of Mozambique's population.

The impact of Movitel on Mozambican mobile prices

Historically, the Sub-Saharan African region has not been known for its low retail mobile prices. For a long time Mozambique fitted into this picture well by having amongst the highest termination rates in the region (Mabila, 2013).

As part of the entry of the new licensee into the market, in 2012 the Mozambican regulator, INCM, instituted a symmetric mobile termination rate glide path. The termination rates set by the regulator became effective in 2013 and have enabled off-net competition spurred by Movitel, which continued as the rate glided to MZM 0.86 in 2015.

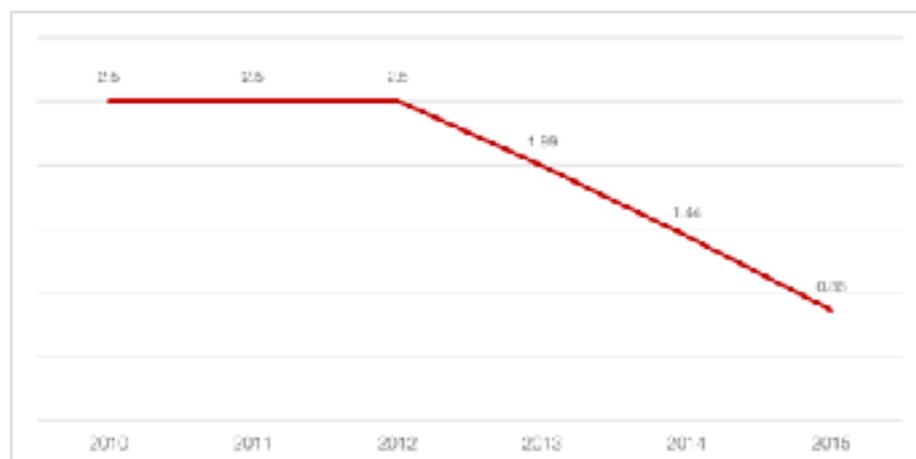


Figure 4: Mobile termination rate glide-path. Source: INCM, 2015.

The impact of Movitel's entry and strategy coupled with the MTR glide path instituted by the INCM in 2012 placed significant pricing pressure on incumbent operators, mCel and Vodacom.

Mobile Voice Prices

Quarterly data from RIA African Mobile Pricing (RAMP) since Q3 2015 onwards show that for a basket of calls, based on the cheapest product offered by each operator, Movitel does *not* offer the lowest priced product in the prepaid market. Instead, mCel is priced a little lower than Movitel's cheapest product. This illustrates the competitive pressure that Movitel has brought to the prepaid market, especially to mCel.

At first, Movitel's presence forced Vodacom to reduce its prices, alongside mCel in Q3 2012. However, Vodacom soon began pricing at a premium to both mCel and Movitel, distinguishing its service on the quality of its product. As of Q1 2016 Vodacom priced its cheapest

prepaid product at MZM437 for 30 calls and 100 SMSs per month. This shows that the increased competition from Movitel has not had a sustainable effect on Vodacom’s pricing. In fact, Vodacom has managed to benefit from mCel’s decline by offering high quality network service and pricing at a premium.

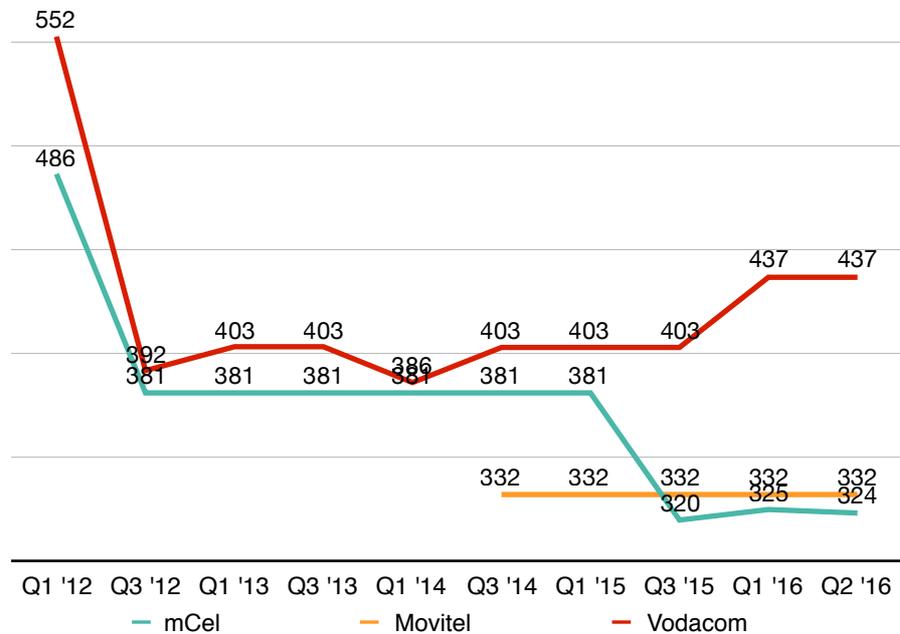


Figure 5: Prepaid voice prices (MZM). Source: RIA, RAMP database, 2014-2015. Data unavailable for Movitel before Q3 2014.

Mobile data pricing

Data prices have been declining since the introduction of Movitel in 2012, but are only available on the RAMP database for mobile data since Q1 2014. 1GB data basket prices are used as a proxy for all data prices and show that in 2014, Movitel priced 1GB of data significantly lower than either mCel or Vodacom, placing pricing pressure on the incumbents to reduce prices.

The presence of Movitel has led to lower retail data prices.

Two years after Movitel’s entry mCel began charging the lowest price in the market for 1GB of data.

As of 2016 Movitel and Vodacom charge the same for 1 GB of data - 200 MZM.

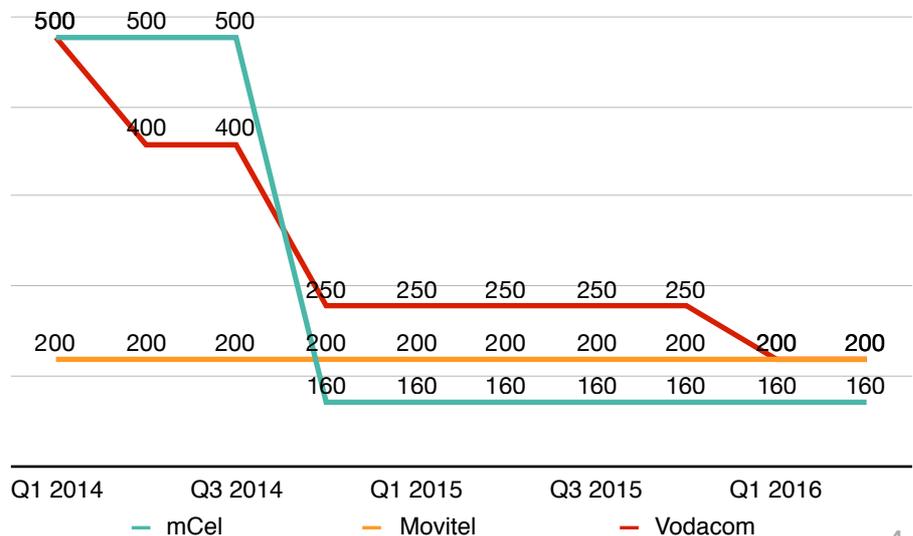


Figure 6: 1GB data prices (USD). Source: RIA, RAMP database, 2014-2015.

From Q1 2014 Movitel has charged a consistent rate of MZM200 for a 1GB package. Under pressure to attract subscribers and with data constituting a growing share of revenues, both Vodacom and mCel lowered their prices in response to the behaviour of Movitel. Vodacom reacted first, gradually lowering prices by between Q1 2014 and Q4 2014, to MZM250, but in Q1 2016 matched prices with Movitel at MZM200.

mCel dropped its data prices drastically in Q4 2014 to MZM160 - the lowest in the market. While prices may be lower, there is no data to measure the quality of service delivered by operators, though Vodacom plays on the perception amongst users that it offers a higher quality of service. Certainly their massive investments both in the base stations and in backhaul fibre networks concentrated in urban centres would provide a basis for such claims. (See investment below).

Vodacom may have a higher quality of service, since its high rates of investment are concentrated in urban centres.

Value of Bundle Offerings

Prepaid bundled offerings are becoming increasingly more prominent in the African market. The Bundled Value Index (BVI) was devised by RIA to measure the value a customer gets for bundled data, SMS and voice products on offer in a market. Given the complexity, as well as increased number of products on the market, only bundles offering data combined with voice and SMS or, data and voice, or data and SMS were captured. A high score on the index represents a high value.

Due to the volatility of promotional products, the RAMP Index does not include them. At the time of writing, Vodacom does not offer non-promotional bundles that comprise of voice and data, and thus is not included in the VMI calculation. In the Mozambican market (Q2 2016), Movitel offers the bundles with the highest value for money (1.59 score), which is 30% more value than mCel's best bundled product.

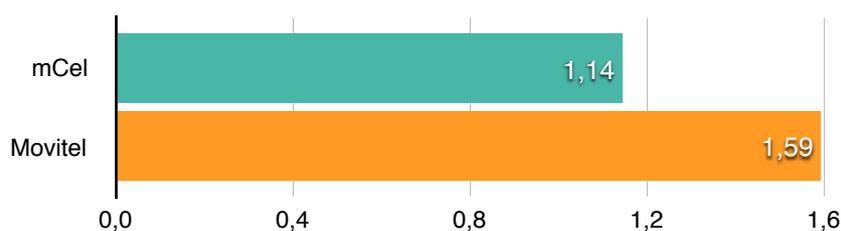


Figure 7: Value for Money Index on bundled products, Source: Q2 2016: RIA, RAMP database, 2016. Exchange rate sourced 23 June 2016, oanda.com

Consumers would therefore be better off using Movitel's Recharge products where they would receive, for example, MZM200 worth of airtime, 200MB of data, 60 SMSs and MZM400 bonus for on-net calls only. What is interesting about these Recharge bundles, as well as mCel's Recargas and Malta-M bundles, is that the data included has a much shorter validity period than the airtime – further indicating how much more valuable data is becoming compared to voice services. Such product innovations force users to purchase more data bundles more frequently and are growing rapidly throughout the continent.

Financial performance of operators post-Movitel

The positive effects of wholesale pricing regulation such as the MTR glide path introduced in 2012 (Figure 1) is evident in the late entrant Movitel's successful entry into the market. However, being required to start its roll out in primarily rural underserved areas has meant that despite its successful contribution to meeting national public policy objectives this has not been very lucrative for the operator.

Movitel's revenue is the lowest in the country given its late entrant status. Between 2011 and 2012 mCel was already losing some of its revenue to Vodacom as the two competed vigorously. Since the entry of Movitel, however, mCel's revenues have been in further decline, and in 2014 fell below Vodacom's.

Vodacom's revenue's decreased slightly between 2012 and 2013 due to increased competition from Movitel but the expanding market suggests that Vodacom managed to increase its revenues to a level higher than before Movitel entered the market. mCel has lost prominence in the market consistently and Movitel has gained consistently. Vodacom has benefited from mCel's loss.

An inadvertent effect of the decline of mCel after Movitel's entry has been the increase in revenue market share of Vodacom who offers a premium quality model unlike either mCel or Movitel.

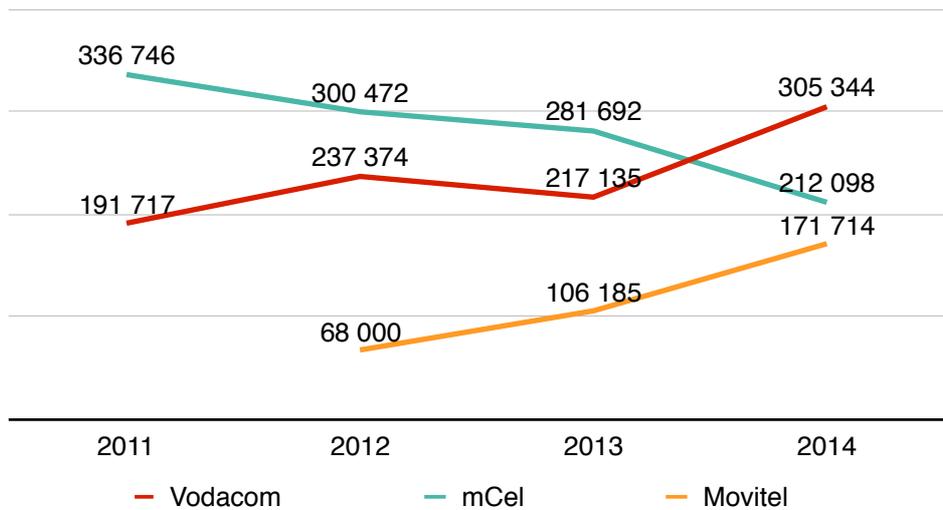


Figure 8: Operator revenue 2011-2014 (USD 000's) Source: INCM, 2015

Along with the lowest revenue Movitel has the lowest average revenue per user (ARPU) in the market. The introduction of Movitel, however, along with an expansion of the market brought the ARPUs of both Vodacom and mCel down from their original highs as pricing pressure pushed their prices down. Movitel has brought on stream price sensitive users resulting in a dilution of their revenue base with each user on average paying less than the users of the other operators.

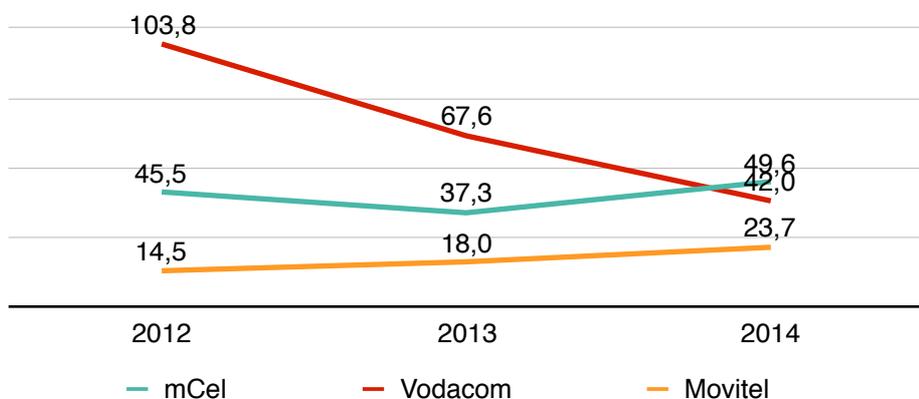


Figure 9: ARPU by operator (MZM) Source: INCM, 2015.

In 2015, Vodacom’s Minutes of Use (MOU) were more than 2.3 times higher than Movitel’s. Even mCel’s MOU was much higher than Movitel’s. The explanation for this is related to the operator strategies: Vodacom has targeted higher income, urban users offering better on-net bundles as well as higher (at least anecdotally) quality of service.

Movitel has targeted lower income, rural users with the aim of getting people on the network regardless of quality. Movitel’s strategy has translated into lower use and lower revenues despite much higher investment and a bigger network. Movitel has the lowest MOU since 2013) across the three operators.

Mobile bundle offerings are increasingly a way in which operators try and stimulate increased on-net voice use.

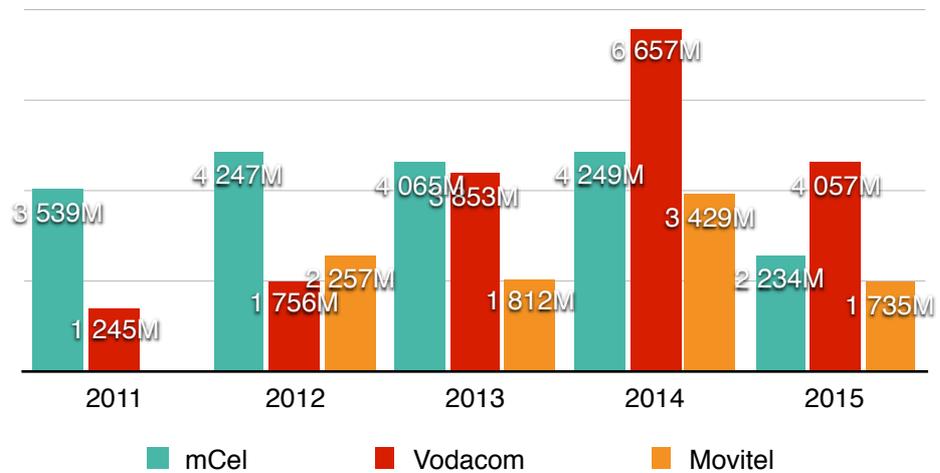


Figure 10: Minutes of use for all operators (Millions) Source: INCM, 2015.

In a bid to get consumers to increase their use of voice, Movitel introduced two prepaid bundle products in Q2 2016 which consist of voice and data. These bundles offer users twice as many on-net voice minutes as the value of the original bundle and an expiry time for the attached data that is shorter than the expiry time of the original voice minutes purchased, and the free on-net minutes. A similar bundled offerings were offered by the other two operators.

The Movitel Miracle - what next?

Movitel’s success should not be equated with its dominance; rather the impact its presence has had on competition and expansion of mobile access.

The entrance of Movitel into the Mozambican mobile market has brought about an increase in competition. Its presence has led to lower voice and data prices, and it has improved infrastructure country-wide.

Movitel has managed to garner the highest market share by active SIM cards in the country. However, due to the nature of its market, it has the smallest ARPU as well as the smallest revenue market share.

While Movitel’s low-margin, high-volume business model has been effective in Mozambique, and a tremendous catalyst to competition, the success of the business should not be equated with dominance or viability, and the overall profitability of the company is what should be assessed. A short-term assessment of the firm’s profitability is likely to

reveal the fragility of Movitel's success and could potentially imply a need for the protection of the late entrant by the regulator until its profitability is more stable.

Despite the positive short-term outcomes in the form of lower prices, the incumbent operator with the longest legacy – mCel – has not responded well to the competition introduced by Movitel. What has been witnessed is a constant decrease in the market share of mCel, coupled with a rise in the market shares of Vodacom and Movitel. mCel is the incumbent TDM's mobile arm and has historically targeted middle to lower income groups while Vodacom came in later at the higher end of the market.

If mCel's market position is not improved in the near future, the miracle impact that Movitel has had on the mobile market could be undone, as an exit of one out of three operators will lead to an increase in market concentration and creation of a duopoly with all the negative consumer welfare outcomes, particularly price setting, associated with that. However, exit from the market seems due to inefficiencies in a somewhat competitive market – rather than any anti-competitive practice – which is not suggested.

Although the reduction in prices can be described as a price war because of the negative impact on mCel, prices have never gone below cost. If a firm is unable to compete in a competitive market it must face the discipline of the market; changes must take place in the ownership / management / business model; or financing of the operator must change to make it more competitive. As this is not simply a supplier of ordinary consumables or widely available services, and infrastructure industries certainly do not provide perfect markets from which to exit or enter, or to which free market theories can be applied, a strategy to ensure it remains in the market is necessary.

Rather than blaming Movitel for the demise of mCel as a wholly state-owned subsidiary of TDM, ways of salvaging it need to be seriously considered.

A good starting point is to change its infrastructure levels, which lag terribly behind that of the other two operators. One of the options would be to bring in strategic equity partners who could fund the extensive network investment mCel requires to keep up with Vodacom and Movitel. However the company is in such poor shape now, attracting a strong investor is unlikely. The only option may be to permit the parent company TDM to absorb the mobile company and rebuild it through its centralised resources, though these are under pressure too. This would however, allow TDM to compete as an integrated mobile and fixed-line operator – as Movitel and Vodacom increasingly do so. This may enable it to attract a strategic equity partner which, as a minimally invested fixed-line operator, it would be unlikely to attract without.

If mCel can turn its operation around, and the regulator is able to acknowledge the positive impact Movitel is having on the market, then the novel investment and expansion approach adopted by Movitel may hold increasing returns for the market going forward – especially for consumers in lower income and remote areas.

Authors

Alison Gillwald, Executive Director

Safia Khan, Researcher.

Broc Rademan, Researcher.

Research ICT Africa

409 The Studios, Old Castle Brewery, Beach Road, Woodstock, Cape Town

T: +27 214476332

E: skhan@researchictafrica.net

W: www.researchictafrica.net

Francisco Mabila

RIA Network Partner

Maputo, Mozambique

W: mabila@uem.mz