Africa Telecoms Outlook
2014
Maximizing digital service opportunities

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Contents

Welcome ...............................................................................................................................................................................................3

Rapid rises in international connectivity and mobile broadband drive data growth in Africa .........................8

Low-cost smartphones are the key enabler of mobile data access in Africa .................................................................11

Advancing data take-up powers demand for digital services in Africa ...................................................................13

Digital music services juggle the OTT and MNO routes to market in Africa ..........................................................17

A view from the industry – maximizing digital services as a business opportunity ...........................................20

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Welcome

DIGITAL SERVICES OFFER NEW BUSINESS OPPORTUNITIES

The use of data services is growing strongly in Africa, along with data revenues, fueled by factors such as the continent’s improved international connectivity, the rollout of mobile broadband networks and the increasing availability of low-cost smartphones.

This expansion in data use is creating new business opportunities on the continent, not only in providing connectivity, but also in offering digital services including mobile financial services, e-commerce and digital content. Africa is already a world leader in mobile money, but now we are also seeing developments such as the rapid growth in online shopping in Nigeria, and a proliferation of digital ventures and services.

This report sets out our views at Informa Telecoms & Media about some of the key developments in the data and digital services market in Africa, and the opportunities that are opening up as a result.

The report also incorporates our findings from a survey that we conducted recently, focusing on the industry’s views on digital trends in Africa. Respondents revealed a keen interest in digital services, with half of them agreeing strongly that it is important for operators in Africa to seize digital opportunities now.

We hope that you find the report thought-provoking and useful. We would be delighted to hear your feedback and views.

Yours,

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Consulting and customized research

OUR CONSULTING EXPERTISE IS FOUNDED ON OUR DEEP INDUSTRY ENGAGEMENT AND DELIVERED BY AN EXPERIENCED NETWORK OF ANALYSTS.

ALL OF OUR CONSULTING PROJECTS BENEFIT FROM OUR CORE MARKET DATA AND FORECASTING EXPERTISE AND EXCLUSIVE ACCESS TO A DIVERSE COMMUNITY OF C-LEVEL EXECUTIVES.

YOUR OBJECTIVES

- Message construction and validation
- Market education
- Go-to-market planning
- ROI justification
- Pricing and positioning
- Competitor tracking
- Customer segmentation and targeting
- Sales enablement
- 1-5 year planning

OUR SERVICES

- Business opportunity analysis (sizing/prioritizing)
- Market entry planning (dynamics/demand)
- Competitor tracking (investment/activity)
- Information systems support
- Numerical and analytical tracking
- Benchmark analysis
- Surveys
- Webinars
- White papers
- Country analysis
- Forecasts
- Go-to-market analysis
- Case studies
- Event moderation
- Speaking engagements
- Strategic workshops
- Competitor tracker
- Data research

THOUGHT LEADERSHIP

Educate, inform and engage your audience

WHITE PAPER

Client: Global network carrier

Project objective: Our client needed to understand the dynamics and drivers of the LTE roaming market in order to strengthen its sales and marketing message accordingly.

Informa approach: A combination of our high-level telecoms contacts and incisive analysis were at the heart of our approach. A resulting white paper used the findings of our global survey of network operators and a series of interviews with technology executives to explore this significant operator opportunity.

The international roaming market is at a crucial stage. Technology, strategic and regulatory forces all have a role to play as a broad base of customers increasingly look to use data services on their travels.

SURVEYS AND CONSUMER INTERVIEWS

Understand consumer behavior patterns to define strategic direction

STRATEGIC PLANNING REPORT

Client: Global network equipment provider

Project objective: Our client needed to understand and forecast the consumer market demand for data services and build a set of usage profiles to illustrate their impact on the network. It was necessary to understand behavior by device type, network access, service usage and data plan.

Informa approach: Benefiting from our partnership with a consumer research specialist, Informa tracked the mobile data adoption habits of 6,000 consumers across 12 different markets. This information was verified with operators via a number of interviews and an online survey of telecoms executives, which resulted in a series of five-year forecasts into mobile data usage by service category, traffic and revenues.
RECENT CONSULTING ENGAGEMENTS

CUSTOMIZED MARKET INTELLIGENCE
Support and enable your sales and marketing teams to target your customers more effectively

QUARTERLY TREND ANALYSIS REPORT
Client: Leading OSS/BSS vendor

Project objective: Our client wanted to position its solutions better in the context of its customers’ strategic objectives. A detailed assessment of the challenges facing global communication service providers (CSPs) was required.

Informa approach: Informa’s expert research on the strategies of global CSPs forms the background to this engagement, which monitors CSP activity via regular interviews and briefings on their performance and strategic direction. Each quarter, Informa highlights the key opportunities and challenges facing CSPs and presents these in a live webinar discussion with some of our client’s business development executives dialing in to listen to and engage with Informa analysts.

SPEAKING ENGAGEMENTS
Connect your team and clients directly with our expertise

CASE STUDY
Client: Global network equipment provider

Project objective: Our client wanted to promote a deeper understanding of the opportunities around mobile broadband in sub-Saharan Africa with the aim of educating a large audience of mobile operator executives. In order to provide an independent analysis of the market, our client worked with Informa to provide a view of the potential market size and the growing consumer demand for mobile broadband services.

Informa approach: To produce credible and meaningful analysis, Informa used the richness of its existing data to create a webinar presentation to an audience of mobile operator executives. As well as highlighting the size of the current market and using its forecasts to project the future size of the market, Informa used industry and consumer analysis to demonstrate the extent of the opportunity afforded by mobile broadband services.
Flexible deliverables

**VISUALIZED DATA AND FORECASTS**
Our online services now include powerful visualization tools which enable you to interrogate, manipulate and experiment with our data in powerful new ways.

**POWERFUL DATA SERVICES**
Our online databases enable you to perform advanced queries on the industry’s most complete collection of live, intelligently-sourced data including subscriptions, KPIs, financial and operational indicators.

**TRACKERS AND FORECASTING TOOLS**
Our time-series data and 5-year forecasting tools now include additional charts, graphs and tables which make comparative insights quick and easy.

**ANALYSIS, CASE STUDIES AND COUNTRY PROFILES**
Our cases studies and country profiles provide detailed analysis of service launches, service provider strategies and converged market dynamics.
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INDUSTRY OUTLOOK

Now in its 12th year our annual Industry Outlook customer event brings together a world-class speaker line-up, our leading analysts and clients to discuss the issues shaping the market over the next 12 months.
Rapid rises in international connectivity and mobile broadband drive data growth in Africa

The story of Africa’s telecoms market continues to be about growth.

There were 778 million mobile subscriptions in Africa at end-June 2013 and the continent’s mobile-subscription count will reach one billion during 2015 and 1.2 billion by end-2018, according to forecasts by Informa Telecoms & Media.

Mobile voice revenues in Africa are forecast to continue growing over the next few years, whereas voice revenues in many other major regions are either already declining or expected to decline before long.

Mobile data usage and revenues are growing strongly in Africa, and at a significantly faster rate than voice revenues, albeit from a fairly low base. Annual mobile data revenues on the continent are expected to rise from US$8.53 billion in 2012 to US$23.16 billion in 2018, according to Informa forecasts (see fig. 1). Data accounted for 14.3% of mobile service revenues in Africa in 2012 but will account for 26.8% in 2018.

The growth in data revenues in Africa is being driven by factors including: the continent’s new submarine and terrestrial cables; the rollout of mobile broadband networks; the increasing affordability of data devices; and economic growth.

As well as facilitating a rise in data connectivity in Africa, these factors are creating a platform for a range of new digital services on the continent, such as mobile financial services, e-commerce and digital content and services for the business market.

CONNECTING AFRICA

A major driver behind the rise in the use of Internet and data services in Africa is the strong growth in international connectivity to the continent over the past few years. The activation of submarine cables, including EASSy, TEAMs and Seacom on Africa’s East coast and Main One, GLO-1 and WACS on the West coast, has hugely increased the international data capacity available to the continent.

Just a few years ago, there were no submarine cables at all on Africa’s East coast and only the SAT3/SAFE cable on the West. As a result, most of the continent’s international data capacity was via satellite and was expensive. The activation of the new cables has brought down prices for international capacity substantially, though the benefits are typically greatest in countries that are on the coast and directly served by the new cables.

For many African countries and regions that are landlocked or otherwise have limited access to the new submarine cables, international capacity remains relatively scarce and expensive. Some say that the bottleneck has moved: A few years ago it was connectivity to and from Africa that was scarce – now that problem has largely been solved, but terrestrial cabling within and between many African countries needs to be extended.

But there are initiatives to address that bottleneck too – and to target the growing demand for capacity. For example, Liquid Telecom, a subsidiary of Zimbabwe’s Econet Wireless, is building a fiber network across southern Africa, with a presence in Botswana, the Democratic Republic of Congo, Lesotho, South Africa, Zambia and Zimbabwe. In January 2013, Liquid extended its footprint to East Africa with its acquisition of ISPs in Kenya, Rwanda and Uganda. In June 2013, Liquid also acquired the fixed-line assets of Rwandatel.

In September, Liquid unveiled a new data center in Nairobi, which it described as the largest such facility in East Africa. The carrier-neutral data center offers a range of hosting, interconnect and other services and applications to operators and businesses. Liquid said the decision to develop the data center was driven by the growing demand for these types of service in Africa.

Also in East Africa, Dimension Data, a South Africa-based IT-services company and a subsidiary of Japan’s NTT, recently acquired AccessKenya, a Kenyan ISP that focuses primarily on the corporate market.
Again in Kenya, mobile operator Safaricom recently began building its own fiber network, saying that having its own backhaul network to handle the growing volume of data traffic would ultimately be less costly than leasing capacity from third-party providers.

The Central African Backbone project, which is backed by the World Bank, is also designed to remedy the lack of international connectivity in a number of Central African countries, particularly Cameroon, the Central African Republic and Chad.

Additionally, big changes are underway in Africa’s economy, and those changes are having a knock-on effect on the continent’s telecoms market. The economy of sub-Saharan Africa grew by 4.7% in 2012 and is expected to grow by more than 5% a year between 2013 and 2015, according to the World Bank. The expanding middle class and corporate sector on the continent both have a growing appetite for more sophisticated data services.

Of course, despite Africa’s generally good macroeconomic outlook, there are still substantial problems on the continent, including some political instability, often-poor infrastructure and the fact that many people have very low incomes. Regulatory matters, such as logjams around spectrum for mobile broadband, also need to be addressed in a number of markets.

BUILDING BROADBAND

Fixed broadband is sparse in much of Africa. The average fixed-broadband penetration was just 4.3% of households at end-2012, the lowest among major world regions.

The highest rates of fixed-broadband penetration on the continent are found in North Africa, South Africa and the islands, such as Mauritius, that have more advanced economies. Many countries in sub-Saharan Africa have fixed-broadband penetration rates that are well below the average for the continent; rates of around 1% or even less than 1% are common.

However, there is a growing amount of activity in the fixed-line sector in Africa, both in terms of fixed-access networks and in the building of new backhaul networks to support the rising demand for and use of data services.

For example, East Africa’s Wananchi Group has ambitious plans for the triple-play (fixed broadband, pay TV and VoIP) services that it launched in Nairobi, Kenya, in 2009 and which it plans to extend to other major cities in the region. Wananchi’s pay-TV service, Zuku TV, has also been launched in Uganda. Wananchi’s products are aimed squarely at the expanding middle class in African cities such as Nairobi, resulting largely from the strong economic growth on the continent in recent years.

The number of mobile broadband subscriptions on the continent is growing strongly, reflecting the growing number of mobile broadband network deployments and the increasing availability of affordable data devices. As a result, there were 62.05 million mobile broadband subscriptions in Africa at end-2012, up from 41.92 million a year earlier, representing year-on-growth of 48%. (Mobile broadband is considered here to comprise WCDMA, HSPA, LTE and 1xEV-DO.)

Mobile broadband is set for further strong growth on the continent: the total number of mobile broadband subscriptions in Africa will increase from 105.16 million at end-2013 to 805.85 million at end-2018, according to forecasts by Informa (see fig 2). Mobile broadband will account for a relatively modest 12.5% of Africa’s mobile subscriptions at end-2013 – but by end-2018, mobile broadband will account for about 66.8% of the continent’s mobile subscriptions.

Notably, a number of “4G” LTE networks have been launched in Africa over the past year or so, and commercial LTE services are now available in Angola, Mauritius, Namibia, Nigeria, South Africa, Tanzania and Uganda.

As in many other markets, LTE services in Africa tend to be aimed at the business and high-end consumer markets. Africa’s low rate of fixed-broadband penetration presents a particular opportunity to use LTE to provide fixed-broadband services on the continent.

Smile Communications, a new operator that is offering LTE services in Nigeria, Tanzania and Uganda, says its target markets include SMEs, households and hot-spot providers.

In both Kenya and Rwanda, there are plans to implement national LTE networks that will offer capacity to operators on
a wholesale basis. South Korea’s KT has reached an agreement with the government of Rwanda to create a joint-venture company that will deploy a national broadband network based on LTE technology.

The technology giants Google and Microsoft have also recognized Africa’s growth potential. Some of their activities seek to encourage that growth by plugging infrastructure gaps on the continent. Google’s African projects include the Wazi Wi-Fi service in Kenya, and a TV-white-spaces wireless-broadband project for schools in Cape Town. Additionally, Google has ambitious plans to use TV white spaces to provide wireless-broadband services across Africa and Asia.

Microsoft’s 4Afrika initiative, which was unveiled in early 2013, includes the launch of a low-cost smartphone that Microsoft developed with Huawei, and a wireless-broadband project in Kenya’s Rift Valley that is based on TV-white-spaces technology and is being run with local ISP Indigo.

A broader initiative to promote broadband recently got underway. In October 2013, a group of major technology companies, governments and public sector bodies launched the Alliance for Affordable Internet, an initiative to reduce Internet-access prices in emerging markets, including Africa, to less than 5% of monthly income, a target set by the UN Broadband Commission.
Although international bandwidth and data networks are much more widely available in Africa than before, the use of data networks and services can only grow if customers also have access to data-enabled devices such as smartphones. And if those devices are to reach a mass market in Africa, they must be affordable to those on low incomes.

Smartphone penetration in Africa is low at present, with smartphones accounting for just 11% of mobile connections at end-2012, compared with an average of 21% globally, according to research by Informa Telecoms & Media.

However, smartphones and other data-capable devices are becoming increasingly affordable as a result of competition, technological developments and economies of scale in the device business, as well as the marketing efforts of operators and others. As a result, the number of smartphone connections in Africa will rise from about 79 million at end-2012 to 412 million by 2018, according to forecasts by Informa (see fig. 3).

The arrival in the African market of low-cost smartphones, many of which are made by Chinese manufacturers and typically use the Android OS, is one of the key factors driving the increase in smartphone penetration on the continent.

Many African operators are also striving to make smartphones and other data devices more widely available and affordable, by forming partnerships with device manufacturers and, in some cases, by setting up device-payment plans with finance companies.

Kenya’s Safaricom has been active in its promotion of smartphones, especially lower-priced devices that are likely to be affordable in the local market. Safaricom set the tone for its smartphone strategy with its launch in January 2011 of the Huawei Ideos, an Android-based smartphone that Safaricom offered at a retail price of KES8,500, equivalent to about US$100 (see fig. 4). The Ideos launch was regarded as a major success and Safaricom has followed it up with other similar smartphone initiatives.

For example, Safaricom was the first African operator to offer Intel’s Yolo low-cost smartphone, an Android-based device that uses Intel’s new Atom processor, which is designed for emerging markets. Safaricom launched the Yolo in January 2013 at a subsidized price of about US$125; according to Intel, Safaricom’s initial stock of the device sold out in less than two weeks.

Safaricom also linked up with Microsoft to launch the low-cost 4Afrika smartphone, which was developed by Microsoft and Huawei as part of Microsoft’s 4Afrika program for the continent, in the Kenyan market. The 4Afrika smartphone is based on Huawei’s Ascend W1 model and uses Microsoft’s Windows Phone 8 operating system. Safaricom launched the 4Afrika device in Kenya in May 2013, at a price of KES16,000 (US$190).

Safaricom’s focus on smartphones seems to be paying off, as the operator said in its results for the year to March 2013 that it had 2.3 million 3G devices on its network, of which 1.2 million were smartphones.
Other African operators are also reporting substantial growth in smartphone use. MTN Nigeria said recently that its smartphone customer base had increased by 54% between 1Q12 and 1Q13, and that 9% of its customers were using smartphones in 1Q13. MTN Nigeria also said that its smartphone ARPU is 3.5 times larger than its non-smartphone ARPU.

MTN Nigeria’s efforts to encourage the use of smartphones include a device-financing program that the operator runs in partnership with Samsung and Standard Chartered Bank. The MTN program gives qualifying customers access to low-cost loans that are repayable over periods of three months to a year and can be used to buy Samsung smartphones and tablet PCs.

Samsung’s own initiatives in Africa include a partnership with Universal Music to develop The Kleek, a pan-African mobile-music-streaming service which was launched in March 2013. The Kleek will only be available on Samsung smartphones for the first two years.

Vodacom South Africa said it had 6.3 million smartphones on its network at end-June 2013, an increase of 1.3 million year-on-year. The operator’s active data customers totaled 14.4 million, up 16.5% year-on-year.

Some operators have commissioned manufacturers to build handsets that are designed to the operator’s specifications and which are typically sold under the operator’s brand.

For example, Etisalat has developed own-brand, Android-based, low-cost smartphones for some of its African markets. Etisalat Nigeria has introduced a low-cost Android smartphone, the P3, which is manufactured by China’s Tecno and uses Qualcomm’s Snapdragon processor (see fig. 5). Etisalat’s Egyptian subsidiary, Etisalat Misr, is offering the E-11 Etisalat smartphone, priced at EE699 (US$99), and has recently introduced the E-20, priced at EE1,111. The E-20 uses Intel’s Atom processor.

Orange recently announced a partnership with Shanghai-based Spreadtrum Communications to develop low-cost handsets, including smartphones, for Orange’s African and European markets.

Additionally, Airtel linked up with Nokia and Facebook to promote the Asha 501, part of Nokia’s Asha range of low-cost smartphones, which have proved popular in Africa. Airtel, Facebook and Nokia agreed to offer Airtel subscribers in Africa and India free access to the Asha 501’s Facebook app for a limited time.

Partnerships of this kind, between operators, device manufacturers and, in some cases, providers of content and applications, are important mechanisms for encouraging the take-up of smartphone and other data devices in Africa.
Advancing data take-up powers demand for digital services in Africa

As African telecoms markets develop, operators are not only experiencing and seeking to further encourage a burgeoning demand for data, they are also looking to develop new offerings in areas such as mobile financial services; e-commerce; digital media, such as music, gaming and video; and enterprise services, such as cloud and M2M. Sometimes these services are grouped together and described as digital services.

Of course, the transition to data and digital services in Africa is less advanced overall than in many other world regions. But Africa does lead the world in one of these new service areas – that of mobile financial services.

A consumer survey conducted recently by Informa Telecoms & Media among smartphone and tablet users in Nigeria and South Africa shows that there is significant use of other types of digital services on the continent too (see textbox).

SURVEY REVEALS DIGITAL SERVICES TAKE-UP
A survey of smartphone and tablet users in Nigeria and South Africa, conducted by Informa Telecoms & Media during 2013, shows consumers in these two major African countries making substantial use of digital services (see figs. 6 and 7).

Among the most popular data and digital services in both Nigeria and South Africa are: e-mail; instant messaging; browsing the Internet; and social networking services. For example, the average Nigerian respondent spends about 2.5 hours per week browsing the Internet and an equal amount of time using social-media services.

In South Africa, smartphone users spend an average of 1.5 hours per week browsing the Internet and 2.5 hours using social-media services, while for South African tablet users the figures are reversed, with an average of 2.5 hours per week spent browsing the Internet and 1.5 hours on social-media services. Instant messaging is very popular with South African smartphone users, who send an average of 150 instant messages a week compared with 25 e-mails.

The survey also revealed significant use of e-commerce, gaming, music, video and VoIP services. In both Nigeria and South Africa, smartphone and tablets users carried out an average of three e-commerce transactions per week. Nigerian tablet users spent an average of 2.5 hours per week watching streamed video and two hours per week listening to streamed music. In both Nigeria and South Africa, smartphone users spent 1.5 hours per week playing online games while tablet users spent 2.5 hours per week on online games. Nigerian smartphone users recorded three app downloads per week on average, while tablet users there recorded an average of 2.5 app downloads. In South Africa, both smartphone and tablet users downloaded an average of two apps per week.

Although the survey respondents are likely to be among the heavier data users in their respective countries, the results give an indication of the growth potential for digital services in African markets, as the use of data devices becomes more widespread.

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**Fig. 6: Nigeria, mobile service usage, consumer survey 2013**

<table>
<thead>
<tr>
<th>Service</th>
<th>Events per week</th>
<th>Mobile phone</th>
<th>Tablet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Video streaming</td>
<td>Hours</td>
<td>0.8</td>
<td>2.5</td>
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<tr>
<td>Video downloads</td>
<td>Downloads</td>
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<td>2.0</td>
</tr>
<tr>
<td>Music streaming</td>
<td>Hours</td>
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<td>2.0</td>
</tr>
<tr>
<td>Music downloads</td>
<td>Downloads</td>
<td>3.0</td>
<td>4.0</td>
</tr>
<tr>
<td>App downloads</td>
<td>Downloads</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Games online</td>
<td>Hours</td>
<td>1.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Games downloads</td>
<td>Downloads</td>
<td>2.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Location-based services</td>
<td>Hours</td>
<td>0.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Browsing</td>
<td>Hours</td>
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</tr>
<tr>
<td>VoIP</td>
<td>Hours</td>
<td>1.5</td>
<td>2.5</td>
</tr>
<tr>
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<td>Transactions</td>
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<tr>
<td>Instant messaging</td>
<td>Messages</td>
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</tr>
</tbody>
</table>

Note: Figures are for median average, based on a survey of 619 mobile data users in Nigeria

Source: Informa Telecoms & Media
Safaricom's revenues from M-Pesa in the 2013 financial year were up by 29.5% year-on-year and accounted for 18% of the operator's total revenues for that year. Non-voice services contributed 33% of Safaricom's revenues in the 2013 financial year, with M-Pesa accounting for more than half of those non-voice revenues, while the rest was split fairly evenly between SMS, and fixed and mobile data.

Safaricom has added further features to M-Pesa beyond its core money-transfer functionality. In November 2012, it introduced the M-Shwari banking service in partnership with the Commercial Bank of Africa. M-Shwari customers can open savings accounts with very small sums and can also access microloans, all via their mobile phones. Safaricom said it had 1.2 million M-Shwari customers at the end of the 2013 financial year. Other M-Pesa applications, including bill payments, retail payments and business-to-business payments, have also been introduced.

But it hasn't all been smooth sailing for Safaricom with M-Pesa. Perhaps partly as a result of the phenomenal growth of the service, there have been incidents of system delays and outages. As a result, Safaricom has embarked on a program to upgrade and expand the capacity of the M-Pesa system.

Vodacom Tanzania has also deployed M-Pesa and, although the service did not immediately enjoy the same level of success as in Kenya, there has been progress recently. Vodacom Tanzania said it had 4.9 million M-Pesa customers in March 2013 and that M-Pesa accounted for 14.1% of its service revenues in the year to March 2013.

A number of other major operators in Africa have also introduced mobile-money services. Orange launched its Orange Money service in Cote D'Ivoire in 2008 and the service is now available through a dozen of Orange’s operations in Africa and the Middle East. In February 2013, Orange said that it had 4 million Orange Money customers in Africa and the Middle East.

As well as extending Orange Money to additional markets, Orange has also added new features to the service. In Botswana in August 2013, Orange launched an Orange Money prepaid Visa card that allows customers to make payments in stores and online, and to use ATM machines. Orange plans to introduce the card in its other operations in Africa and the Middle East. Orange also recently introduced an international money transfer service across three of its African markets: Mali, Senegal and Cote D’Ivoire.

Airtel, Etisalat, MTN and Millicom also have mobile-money offerings. Airtel offers mobile-money services across much of its African footprint through a partnership with Ecobank. Etisalat has launched mobile-money in a number of its African operations, including those in Egypt and Nigeria. MTN said it had almost 12.1 million mobile-money customers at the end of June 2013, a year-on-year increase of 64.5%.

Early in 2013, Millicom unveiled a new strategy based on the growth in digital services, such as mobile money, in Africa and Latin America, the two regions in which the group operates. As part of that strategy, Millicom said that it expects to make revenues of between US$600 million and US$1 billion a year from mobile financial services by 2017. Millicom has already
launched mobile financial services in a number of its African operations: 42% of its customers in Tanzania are using these services, making Tanzania the group’s most advanced market for mobile money.

African markets have a number of characteristics that make them fertile ground for mobile-money services. The broader financial services market in many African countries is often under-developed. Many people do not have a bank account, but it is increasingly likely that they will have a mobile phone. That has presented an opportunity for the mobile to fill a gap in the financial-services infrastructure. The mobile-money services that have proved successful in Africa are SMS-based systems that work on the basic handsets that are prevalent on the continent.

A critical factor for mobile money to succeed is that there must be a favorable regulatory environment. The services also need to address real and substantial needs. The money-transfer function that is at the core of successful African mobile-money services like M-Pesa addresses the need of many in a rapidly-urbanizing Africa to send money from the city to family members in rural areas. From that base, additional and more sophisticated services can be introduced.

Distribution is also a vital element. A service like M-Pesa requires a wide and reliable network of agents. To set up, train and maintain a network of this type is a substantial organizational endeavor. And, of course, the mobile-money system itself must be robust and secure.

**E-COMMERCE**

E-commerce is new to much of sub-Saharan Africa, having been held back by factors such as the low level of access to the Internet and to credit cards in the region. But, as some of these restrictions are lifted, e-commerce is gaining momentum, as demonstrated by the launch and expansion of services such as Jumia and Konga.

Jumia is a shopping portal that sells consumer electronics and fashion goods; it has operations in Cote D’Ivoire, Egypt, Kenya, Morocco and Nigeria. Shoppers can pay on delivery, which circumvents the need for credit cards. Jumia recently launched an Android mobile app that allows customers to shop from their mobile phones.

Konga is a Nigerian shopping portal that also focuses on fashion and electronics.

Jumia is backed by Rocket Internet, a Berlin-based incubator of online businesses, which is also behind a number of other e-commerce ventures in Africa including: Hellofood, which allows customers to order food from restaurants; Jovago, a hotel-booking portal; Carmido, an online car dealership; and Kaymu, a trading platform.

Millicom has acquired a 20% stake in Rocket’s African ventures – as well as a similar stake in Rocket’s portfolio in Latin America – as part of the telecoms group’s strategy of focusing on the growth potential of digital services. Millicom expects its partnership with Rocket to bring in annual e-commerce revenues of US$1 billion by 2017, a huge rise on the US$13 million recorded in 2012.

Orange is also addressing the e-commerce market in Africa – and elsewhere – through a new subsidiary, Orange Horizons, which the French group set up in early 2013. Orange Horizons’ brief is to develop new businesses, such as online stores, other digital services or MVNOs in those markets where Orange is not present as a mass-market telecoms operator.

The first two projects launched by Orange Horizons were aimed at the South African market. One of the projects is an online store that sells telecoms devices and accessories, and the other is a content website that hosts news and other editorial designed for a South African market.

**DIGITAL MEDIA**

The growing availability of mobile broadband networks in Africa, combined with the take-up of advanced devices such as smartphones and tablets, is fuelling a rise in the use of digital media such as gaming, music, social-networking and video.

That growth is demonstrated by operator results, such as those from MTN Nigeria, which said recently that the number of unique users of its content portal MTN Play rose from 135,000 in October 2012 to 720,000 in March 2013. There had been a total of 2.3 million downloads of the MTN Afrinolly app by March 2013, with the number of app downloads – as well as the number of minutes spent viewing Afrinolly’s movie, music and celebrity news content – rising rapidly each month.

Increasingly, operators in Africa are forming partnerships with specialist content providers in order to offer services that are designed to produce additional revenues – either from the data-access or the content itself – and potentially improve customer loyalty.

For example, in 2012, Orange launched the music-streaming service Deezer in Africa through its subsidiaries in Cote D’Ivoire and Mauritius, by bundling access to Deezer with broadband subscriptions (see Chapter 4: Digital music services juggle the OTT and MNO routes to market in Africa). Orange also has an agreement with games publisher Gameloft to distribute Gameloft titles in Africa and the Middle East. MTN Nigeria is offering a dedicated data plan for Eskimi, the Nigerian social-networking service. Subscribers can buy unlimited access to Eskimi, which claims to have six million users, for a flat weekly or monthly fee.
Many major operators in Africa are offering Facebook Zero, a basic mobile version of the social-networking service that can be accessed free of charge. The availability of Facebook Zero, which was launched in 2010, is a key factor behind the popularity of Facebook on the continent. In 2012, to cater for the many African mobile users who only have very basic handsets, Orange began to roll out Facebook access via USSD to its operations on the continent.

CORPORATE AND CLOUD SERVICES
Africa’s business market is expanding as a result of economic growth on the continent and is an increasingly important target for operators.

Among them, Orange is extending its business-market activities and portfolio in Africa through its Orange Business Services unit. The operator is able to take advantage of its substantial resources in the region, which include: its local subsidiaries; its investments in submarine cables connecting to Africa; and assets such as the Orange Labs R&D unit in Cairo and customer-service centers in Cairo and Mauritius.

Orange Business Services says it is seeing business-sector demand in Africa for services such as VPNs, unified communications and IT services including data centers and cloud-computing services.

Vodafone recently revealed that its revenues from Africa’s business sector have been growing strongly, exceeding €1 billion (US$1.4 billion) during the year to March 2013. The operator said that it would set up new offices in Nairobi and Accra in order to meet the growing demands from corporate customers on the continent. These new facilities would be in addition to the existing customer-service centers for the corporate market that Vodafone runs in Cairo and Johannesburg with its subsidiaries Vodafone Egypt and Vodacom.

Cloud computing is a hot topic in the industry at present. MTN’s approach has been to develop a portfolio of cloud-based services for SMEs, which it launched in Ghana and Nigeria in April 2013 and plans to extend to Cameroon, Cote D’Ivoire, Uganda and South Africa.

Africa’s business sector is diverse, with numerous microbusinesses and SMEs, as well as some large corporations, and operators need to take that into account when addressing this market.
Digital music services juggle the OTT and MNO routes to market in Africa

A lot has been happening in the African digital music scene over the past year. New services have emerged, such as Mdundo and The Kleek; deals have been struck with operators, handset makers and labels by the likes of Spinlet, UrFilez and 7digital; and big international players like iTunes have opened shop in the region.

All these players are looking to tap into the huge appetite for music in Africa, where millions of people are already paying for digital music consumed on phones – but this is mostly illegally, in the form of SD cards sold in street markets full of pirated tracks.

The challenge for legal digital music providers is how to profitably reach music lovers in Africa – a continent with the lowest PC and smartphone penetration in the world; no ubiquitous, affordable mechanism for paying for digital content online; and a digital advertising industry that is still in its infancy.

All these factors make it very hard to take an over-the-top (OTT) route to market in Africa – some would say impossible. But that is not stopping some from trying.

There are strong reasons for wanting to partner with mobile network operators (MNOs), including billing, distribution, marketing, discoverability, data optimization and data bundling. Alternatively, partnerships with handset makers can provide music services with a surer way of getting preinstalled on phones – in a region where MNOs often have a loose grip on handset distribution and provisioning. It also gives the services a greater pan-regional reach, beyond the confines of a carrier’s network footprint.

Another challenge is content sourcing. Labels are few and far between, especially in sub-Saharan Africa, and only provide access to a small portion of the local music talent. Most artists in the region remain unrecognized and unsigned. This makes it particularly hard for overseas music services to debut in the region with enough of a local repertoire with which to gain traction. Music consumption in the region predominantly leans towards local artists.

Local music services, meanwhile, have to spend a long time ramping up for launch while they scout for talent to build up enough of a critical mass of signed artists – although they are increasingly rolling out online self-publishing platforms on which unsigned artists can submit their work, as a way of speeding up content sourcing.

Kenyan full-track-downloads service Mdundo, which launched in November 2012 with funding from Google-backed start-up accelerator 88mph, went live with a self-publishing platform. It invited artists from all over Africa to sign up and 200 signed up in the first two weeks (see fig. 9).

Mdundo has so far taken an OTT route to market. It set out with the aim of giving artists bigger pay-outs than traditional mobile FTD services, where the greatest share of revenue goes to MNOs in premium SMS fees or on-portal billing charges.

Instead, Mdundo is experimenting with scratch-cards and ad-funding, and has been lucky enough to be able to hook up to the local mobile-money service M-Pesa (see Chapter 3: Advancing data take-up powers demand for digital services in Africa). M-Pesa is one of the few mobile money services in Africa to have opened up to digital-content payments, and the fees levied by MNOs on mobile-money transactions are much smaller than on carrier-billing transactions – around 3-6%, compared with fees that are often 60% or more for carrier billing.

Nigeria-based iRoko Partners, another VC-funded start-up, also took the OTT route when it launched its iRoking music-streaming service in early 2012 with the same aim of providing a fairer deal to local artists. It is using a WAP site and downloadable Java apps to reach feature-phone users – the prime target for any digital content service aiming for the mass market in sub-Saharan Africa. It is trying to monetize the considerable audience it has built up within Africa by selling advertising space on its service.

**Fig. 9: Mdundo, key facts**

<table>
<thead>
<tr>
<th>Number since launch</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered users</td>
<td>50,000 (growing at a monthly rate of 25-50%)</td>
</tr>
<tr>
<td>Unique visitors</td>
<td>220,000 (translating into conversion rate of 23%)</td>
</tr>
<tr>
<td>Downloads</td>
<td>130,000 (on average, 2.6 per user/50% paid)</td>
</tr>
<tr>
<td>Registered artists</td>
<td>450 (98% Kenyan/signing up at a rate of 5-10 a day)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount since launch</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>US$25,000 (US$0.19 per track)</td>
</tr>
<tr>
<td>VC funding</td>
<td>US$150,000 (from Nairobi-based 88mph)</td>
</tr>
<tr>
<td>Subscription pricing</td>
<td>US$2 a month for unlimited downloads</td>
</tr>
</tbody>
</table>

**Source:** Informa Telecoms & Media
Both services have hit barriers, however. iRoking is only really managing to generate revenue from the roughly 40% of its 750,000 registered users who are based outside Africa (see fig. 10), those who are part of the huge African diaspora found mainly in North America and Europe. That's because there are better-developed digital advertising channels in these markets.

iRoko has also been frustrated in its bid to deliver a streaming service to its Africa user base, after finding that, no matter how much it compressed files, local networks were not sufficiently robust to provide a good enough streaming experience on feature phones. So it is now offering a download service instead. Its diaspora users, however, who mainly access iRoking via PCs, smartphones and tablets, continue to enjoy a streaming service.

Mdundo, meanwhile, has found that distributing scratch cards is too complex logistically and their take-up has been poor, so it is no longer issuing them – at least not for the time being. It started out by distributing individually-branded scratch cards to artists who sold them directly to fans. The artists kept all the money and the fans used the PIN revealed on the scratch card to download up to five of the artist's songs from the Mdundo platform.

Although initially determined to go it alone, iRoko is now looking to partner with an MNO – but not at any cost. It wants to add a premium tier to iRoking and would like to rely on carrier billing as a payment mechanism – but only if the MNO in question sufficiently lowers its billing rates. It would also like to explore ways in which an operator partner could help iRoking stream more smoothly over the 2.5G network.

Mdundo is also open to MNO partnerships, and has already worked on a few small projects with Airtel in Kenya. It is attracted by the huge distribution and marketing muscle that MNOs can offer. Mdundo is keen to break out of the Kenyan market and expand its service across Africa, so partnering with a pan-African carrier group could prove useful.

It seems that most OTT music services in Africa will end up tying up with carriers sooner or later. There is certainly a strong precedent for this in markets such as Europe, where subscription streaming services such as Deezer and Spotify have struck bundling deals with MNOs and ISPs.

Deezer entered the African market in 2012 on the tails of carrier group Orange, which is a part-owner of the French streaming company and bundles the Deezer service with mobile subscriptions in several countries, including Cote D’Ivoire and Mauritius. In January, Deezer also rolled out in South Africa, on the back of Orange Horizons, a new Orange subsidiary that seeks out business opportunities outside the carrier group's footprint, in markets such as South Africa where it has no mobile network.

Spinlet, another OTT music-streaming service primarily based in Nigeria, partnered with local carrier Etisalat in June, which enabled it to introduce several download-subscription plans billed through the MNO (see fig. 11). It also launched a co-branded Etisalat Spinlet Digital Music App.

Billing its subscriptions via Etisalat leaves Spinlet with a smaller margin that it would like, which it then has to share with artists. But, in the absence of any other option
in Nigeria, it is a sacrifice it is willing to make: In Kenya, it is connected to M-Pesa.

Spinlet’s other revenue stream comes from ads interspersed between tracks in its streaming service. It has only made downloads available as a premium subscription.

Another digital music service to partner with Etisalat, but at group level, is UrFilez, which has offices in New York and the Middle East. The deal was struck in early 2012 and the service was due to roll out initially in Nigeria and Tanzania.

Music services are also seeking partnerships with handset makers. In March, Universal Music Group (UMG) teamed up with Samsung to launch The Kleek, a music streaming service targeted at the African market, with a mix of local and international tracks. The Kleek is being embedded in Samsung Android handsets as part of a two-year deal in which the South Korean manufacturer will act as the service’s exclusive smartphone partner. Purchasers of the handsets will be able to access the service free of charge for the first 12 months, implying that UMG is likely to introduce some kind of paywall. The Kleek is funded by UMG and enabled by Indian mobile VAS platform provider IMImobile. It first rolled out in South Africa, followed by Nigeria, Kenya, Ghana and Angola, and plans to extend region-wide.

Spinlet is also partnering with Samsung. Its app is being embedded on the Galaxy Pocket SS300, which comes preloaded with five complimentary songs and credit to purchase an additional five songs. Spinlet has also struck a similar deal with Chinese low-cost-smartphone maker Tecno Telecom for the N3 handset.

The biggest digital music service of all, iTunes, made its debut in Africa in December 2012, with a wide footprint, it covers: Botswana, Burkina Faso, Egypt, Gambia, Ghana, Guinea-Bissau, Kenya, Mauritius, Mozambique, Namibia, Niger, Nigeria, South Africa, Swaziland, Uganda and Zimbabwe. But iTunes’ demographic reach will be the most limited of all services, due to the low penetration of PCs and iOS devices in the region.
A view from the industry – maximizing digital services as a business opportunity

The African telecoms executive is in confident mood. This is what is suggested by the results of an Informa Telecoms & Media online survey conducted in the lead up to AfricaCom 2013. Of the 347 respondents, 42% strongly agree with the statement “I feel confident about the prospects for the African telecoms industry over the next few years”, and four in five agree (see fig. 12).

There is a warning, however. One in three believes that the provision of telecoms services to rural markets in Africa remains inadequate. The suggestion is that much of the mass market is still being largely ignored. And perhaps the corollary of this is that the telecoms market recognizes the true potential for growth comes not from unconnected rural parts of the continent, but from a fast-rising middle class segment across urban Africa and has consequently focused its attention not on expensive infrastructure investment in rural Africa, but on providing digital media and entertainment services to a growing market segment.

THE RESPONDENTS

Three-quarters of the respondents to the survey are based in Africa (see fig. 13). The relatively large number of respondents in Europe and the Middle East suggest there is still significant investment interest in the African region from these parts.

Within Africa, the greatest number of respondents is from Southern Africa. The fact that only 11% of respondents from Africa were based in East Africa, however, did not stop Safaricom from emerging as the second most admired African operator (after MTN), according to our survey, for its activities in developing data and digital services.

There is a good mix of respondent in terms of job function (see fig. 14). One-third represent business development and marketing functions: The fact that such a high percentage of respondents is positive about business opportunities for digital services in Africa is interesting in this light, as it suggests that marketing departments see digital media services as a significant growth area.

DIGITAL SERVICE GROWTH DRIVERS

There is no single overriding growth enabler according to our survey: The most popular responses to ranking the most important drivers range from the arrival of submarine cables in Africa to retail prices for data services falling and data-
enabled devices becoming more and more affordable (see fig. 15). Investment in infrastructure enhancements has enabled MNOs and OEMs alike to review their business models and ensure data services and smartphones are at the center of business strategies.

The introduction of submarine cables may have brought down prices for international capacity but this has no impact on those countries that are landlocked, and where international capacity remains scarce and therefore more expensive. This explains why, when asked for the most important enablers for data service growth in five years time, 38% of respondents answered it would be improved terrestrial backhaul (up 10 percentage points on the number of respondents who said this was the most important enabler today).

But it seems to be the affordability of data services and smartphones that will be behind Africa’s rise in data service take-up, which will help Africa’s mobile data business become a US$23 billion market by 2018, according to Informa Telecoms & Media forecasts.

The introduction of LTE technologies is not currently considered a growth driver, only one in five executives see the launch of LTE as the most important factor behind data growth. The importance of LTE will change over the next five years, however, as more MNOs invest in the technology and over 40% of the respondents think that LTE will be a major growth enabler in five years time.

The perception of LTE as a growth driver is illustrated by the findings from a survey commissioned by Informa Telecoms & Media on mobile broadband traffic. Nearly 40% of the telecoms executives responding to that survey were based in Africa and they said that subscribers on LTE networks use five times as much mobile data than those with access to a non-LTE network.

However, the LTE business case in Africa is by no means clear: Many telecoms executives view the launch or extension of 3G networks as being as much a growth enabler for greater data adoption as the introduction of LTE. Indeed, according to our survey, one in three respondents believe there is not currently a strong case for LTE in Africa today, but that there will be a strong business case as LTE matures and the demand for data grows stronger.

What is almost beyond debate is the consumer demand for data services. Just one in 10 of our survey respondents thought that the lack of any such demand was a major barrier to the take-up of data services in Africa (see fig. 16). And by
and large, our respondents agree that MNOs are offering the right type of services, but the retail prices of these services remain too high, smartphones are still too expensive and there is a lack of investment in connecting rural areas to next-generation networks: These are the barriers to greater access to data services in Africa.

The smartphone market has the ability to change mobile device adoption habits in the same way it has transformed data usage in other parts of the world. The difference in Africa is the affordability of this type of device: Nearly 40% of our survey respondents strongly agree with the statement “Price-sensitivity means the African market is receptive to new, low-cost smartphone manufacturers” (see fig. 17).

However, Africa’s smartphone penetration is 11%, which is half what it is elsewhere in the world. Despite the arrival of many low-cost smartphone brands, Africa’s MNOs and OEMs still have more work to do to make smartphones more widely available and affordable. One in three of our survey respondents believe that even the cheapest smartphones are still expensive for many more Africans than before.

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The telecoms industry is changing in Africa as elsewhere, so it is important for operators to explore business opportunities in digital services now.

Fig. 17: The African smartphone market

Price-sensitivity means the African market is receptive to new, low-cost smartphone manufacturers
Operators will have to subsidize smartphones and other data devices if they are to reach a mass market in Africa
Price is more important than brand to Africans considering buying a smartphone
Even the cheapest smartphones are still too expensive for most Africans
Operator branded smartphones can be successful in Africa
Smartphones have become substantially cheaper and are now affordable to many more Africans than before
Brand remains a key factor to Africans considering buying a smartphone

Note: Respondents who strongly agree with the statements
Source: Informa Telecoms & Media Industry Survey 2013

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The telecoms industry is changing in Africa as elsewhere, so it is important for operators to explore business opportunities in digital services now.

Fig. 18: The digital service opportunity in Africa

The telecoms industry is changing in Africa as elsewhere, so it is important for operators to explore business opportunities in digital services now.
African operators that do not develop digital services risk being left behind by more innovative rivals
Operators wanting to develop digital services should do so in partnership with specialist providers
Operators wanting to develop digital services should set up and resource specialist units to work on this area
OTT messaging services represent a threat to operators’ voice and SMS revenues in Africa
Operators are capable of developing digital services in house
African operators should stick to providing voice, SMS and data access services and not venture into digital services
Digital services are interesting but the African market is not ready for them yet, so operators need not make a big effort in this area now

Note: Respondents who strongly agree with the statements
Source: Informa Telecoms & Media Industry Survey 2013

Fig. 18: The digital service opportunity in Africa

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Note: Respondents who strongly agree with the statements
Source: Informa Telecoms & Media Industry Survey 2013

Today. Half the respondents to our survey strongly agreed that it is important for MNOs to seize new digital opportunities now (see fig. 18) and a similar proportion agreed those that do not risk their very survival at the hands of more innovative competitors.

But what does this opportunity consist of? Given the relative sophistication of mobile-money services in Africa, it is perhaps little surprise that nearly half the survey’s respondents thought that mobile money was the most important type of digital service as a revenue generator currently (see fig. 19). It is perhaps a little surprising, however, that over half of the respondents believe these services will still form the greatest digital business opportunity in five years time.

There is a general recognition that e-commerce can also become a big revenue opportunity: Another indication that MNOs are expecting an increased wallet share from an emerging middle class able to spend more of its disposable income on consumer electronics and brands. Social media is also growing in popularity, as discussed previously, but so too are “utility” services for education, health and government services, according to our survey. Finally, 37% of our respondents point to video streaming and downloading growing as a revenue source over the next five years: This will depend on the take-up rate of LTE technology.
Being one of the larger MNOs in an African market has been a relatively simple business until now. Ensuring connectivity for a growing number of customers has been the main challenge. This has changed and instead MNOs need to address the threat of growing (and new) competition, deal with the evolving data service requirements of their customers and ensure an excellent level of service by investing in infrastructure – and all this at a time when their margins are coming under intense scrutiny.

It is clear our respondents see this challenge as particularly tough today when most African markets are reaching saturation levels, at least in urban centers.

Two in three of the respondents think operators have the greatest influence in the continent’s telecoms industry now (see fig. 20). Although the largest percentage of respondents think that the operators will continue to have the greatest influence, the actual percentage will reduce. Only 56% think that operators will be the most influential player in the value chain in 2018.

There is no clear agreement as to which group will have the most significant influence across Africa telecoms industry over the next five years. Approximately 40% believe device manufacturers will become increasingly important: This is undoubtedly true as they hold the key to the extent with which the smartphone revolution will hit Africa and whether it will permeate across all market segments. But media companies and OTT providers will also become influential, and especially as the smartphone market can enable growth in Africa’s media and entertainment market.

However, MNOs should continue to play a central part. In order to ensure this, they need to have a strategy in place for embracing digital service revenues – and they must also learn to develop this business line in partnership with specialist providers. Ignoring consumer demand for digital services and going it alone without expert support, be it infrastructural, device-centric or content-focused, is not an option.
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