"A Critical Analysis of Telecommunication Sector of Rwanda Using Porter's Five Forces Framework"

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Abstract:

The present article focuses on the strength of the current Rwanda's telecommunication sector with the help of Porter's Five Forces Framework. The article provides detailed analysis on each of the aspect of Porter's Five Forces Framework for Rwanda's telecommunication sector. Through this study, it was found that, there is 1. No Threat of New Entrants, 2. No Bargaining Power of Buyers, 3. No Bargaining Power of Suppliers and 4. No Threat of Substitute Products or Services. However study reveals that conditions are challenging because of Rivalry among Existing Firms. At last, article concludes that Rwanda's telecommunication sector is favorable for existing operators

Key Words: Telecommunication Sector, Buyer, Supplier, Substitute Products, Rivalry

Introduction:

Rwanda was amongst the few African countries that embarked on developing an integrated Information and Communication Technology (ICT) Policy in the late 1990s. Moreover, Rwanda, with a clear vision of marking ICT an integral part of its global socio-economic development plan, with the hope that the country would move from an agricultural-based economy into a knowledge-base economy through the development of competitive service-based industries like in other few developing and developed countries (Nsengiyumva et. al., 2007).

Rwanda has experienced a sea change among the telecommunication sector and services being offered by the telecommunication industry over the past two decades. Concurrently, the country has gone through major economic restructuring that aimed at increasing competitiveness of the telecommunication industry and attracting foreign investment. One of the reforms among several was establishment of an independent regulatory body known as 'Rwanda Utility Regulatory Agency' i.e. RURA with mission of promoting fair competition, improving quality of services and to create an environment to attracts investors (Nsengiyumva et. al., 2007).

This article seeks to analyze telecommunications sector of Rwanda to review its strength of current competitive position, potential of profitability in an industry and strength of the position that telecommunication companies could consider to move-in with the help of Porter's Five Forces Framework.

Industry Profile:

The Rwandan telecommunication sector has shown particularly strong growth in recent years, buttressed by a vibrant economy and a GDP which has sustained growth of between 7% and 8% annually since 2008. As a result, the country is rapidly catching up with other markets in Africa, with increased penetration particularly evident in the internet and mobile sectors (RESEARCHANDMARKETS, 2014).

The telecommunication sector in Rwanda has recorded a universal growth in terms of subscriptions, revenues and investments since its liberalization in Rwanda. The country was slow to liberalize the mobile sector, allowing South Africa's MTN a monopoly until 2006 when the fixed-line incumbent, Rwandatel became the second mobile operator. The launch of services from Millicom/Tigo in 2009 sparked renewed subscriber growth, though competition has eroded mobile services revenue and average revenue per user since then (MARKETSANDRESEARCH, 2014). Moreover, despite the revocation of Rwandatel mobile license in April 2011, the licensing of an additional telecom operator (Bharti AIRTEL) in September 8th 2011 has brought about more competition in the sector as well as more and more affordable telecom services in Rwanda. Airtel pledged to invest US$ 100 Million in its operations over the next three years. More than USD 11 Million was already invested by June 2012 (RURA, 2014).

With three major operators in mobile telephony which are MTN Rwandacell Ltd, TIGO Rwanda Ltd and AIRTEL Rwanda Ltd, the penetration rate continued to grow while the fixed telephony provided by Rwandatel growth remained almost stagnant. Following table highlights mobile penetration overview across the country.

Table No. 1: Mobile and Fixed Telephone Subscription per Operator

<table>
<tr><th rowspan="2">Operators</th><th colspan="2">Active Subscribers</th><th>Fixed Tele-density</th><th>Mobile Tele-density</th><th>General Tele-density</th></tr>
<tr><th>Mobile</th><th>Fixed Telephony</th><th rowspan="6">0.40%</th><th rowspan="6">60.9%</th><th rowspan="6">61.3%</th></tr>
<tr><td>MTN Rwanda</td><td>3599540</td><td>10925</td></tr>
<tr><td>TIGO Rwanda</td><td>1900693</td><td>--</td></tr>
<tr><td>AIRTEL Rwanda Ltd</td><td>915110</td><td>--</td></tr>
<tr><td>Rwandatel</td><td>--</td><td>31875</td></tr>
<tr><td>Total</td><td>6415343</td><td>42800</td></tr>
</table>

Source: RURA Operators' Returns, 2013

Theoretical Background on Porters' Five Forces Framework:

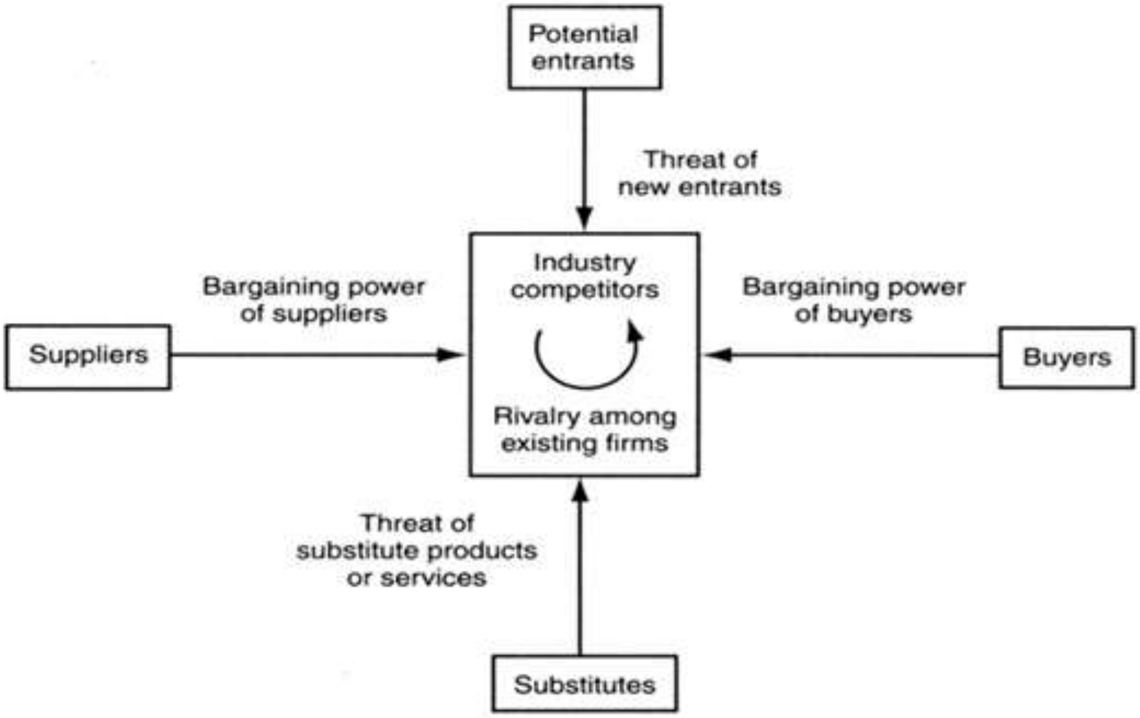
In 1979 Michael E. Porter of Harvard Business School identified five key forces that determined the fundamental attractiveness of a market or a market sector in the long term. This became known as Porter's Five Forces Analysis and it provides a model that enables organizations to analyze their industry in a way that takes competitors' activities into account. This is a vital part of creating a strategy, and it is important that managers understand how it works and how to contribute to it (Coyne, 1996).

Porter developed his Five Forces analysis in reaction to the then-popular SWOT analysis of 1970s, which he was not found rigorous and ad hoc. Of profit maximization Porter has developed his elaborate framework for the structural analysis of industry attractiveness within the framework of Business Policy. By using a framework rather than a formal statistical model, Porter identified the relevant variables and the questions that the user must answer in order to develop conclusions tailored to a particular industry and company (Rainer et. al., 2009).

Porter's five forces analysis is a framework to analyze level of competition within an industry and business strategy development. It draws upon industrial organization (IO), sub field of economics to derive five identified forces that determine the competitive intensity and therefore attractiveness of a market refers to the overall industry profitability (Porter, 1979).

According to Porter (1980), the five forces model should be used at the line-of-business industry level; it is not designed to be used at the industry group or industry sector level. An industry is defined at a lower, more basic level: a market in which similar or closely related products and/or services are sold to buyers. Strategy consultants occasionally use Porter's five forces framework when making a qualitative evaluation of a firm's strategic position. However, for most consultants, the framework is only a starting point or "checklist."

Figure No. 1: Porter's Five Forces



Critical Analysis:

1. Threat of New Entrants

If new entrants move into an industry they will gain market share & rivalry will intensify. The position of existing firms is stronger if there are barriers to entering the market. If barriers to entry are low then the threat of new entrants will be high, and vice versa.

As telecommunication sector in Rwanda is concern, it regulated under 'Rwanda Utilities Regulatory Authorities' (RURA) since 2001. The Authority plays a pivotal role between the policy maker, licensed service providers and consumers. The Authority reports to the Office of the Prime Minister and it coordinates with line ministries responsible for each regulated sector in executing its functions. Applications for the grant of a license are made to the Regulatory Board as required by law and should include all requirements in the correct and due form and set out the information required by the Regulatory Board (RURA, 2014). Thus, unlike other African countries, laws and orders controls the entry and exit of organizations under telecommunication sector with the set norms, policies and practices. Consequently companies may find difficulties to enter in the market of Rwanda telecommunication sector and conditions are challenging for new entrants.

But Liquid Telecom Rwanda is planning to invest $34 million (about Rwf24 billion) in Rwanda as part of its $200 million Africa expansion plans (Gasore, 2014). However, according to Sam Nkusi, the Liquid Telecom Rwanda chief executive officer, the money will be used to build Internet infrastructure like placing of fiber optic cable around the country. Liquid Telecom is second after MTN Rwanda in terms of revenues earned from the sector and Internet bandwidth. However, as analyzing the plans of Liquid Telecom Rwanda, it can be clearly stated that, company is not interested to compete directly with the existing players of telecommunication sector for mobile and fixed telephony subscribers.

Apart from this, in the near future, none of the national organization and international organization has any plan to enter into Rwanda telecommunication marketplace. Thus, it can be stated that conditions are very favorable for existing organizations in Rwanda telecommunication sector.

2. Rivalry among Existing Firms

What is important here is the number and capability of competitors. If there are many competitors, and they offer equally attractive products and services, then you'll most likely have little power in the situation, because suppliers and buyers will go elsewhere if they don't get a good deal from you. On the other hand, if no-one else can do what you do, then you can often have tremendous strength (Manktelow, 2014).

Significant developments have taken place in the Rwanda's telecommunication Sector. By December 2013, the number of active mobile-cellular phone subscriber had increased to 63.5%, up from 53.1% in December 2012 (Ministry of Youth and ICT, 2014). However, as per the statistics published by the RURA Operators' Returns (2013), MTN Rwanda was leading in terms of mobile subscribers with 56% of the market share followed by Tigo which had 30%, Airtel Rwanda had the lowest market share of 14%. Specifically, highlighting on Airtel, it is one of the largest operator from India and sooner it will prove its metal in the Rwanda's telecommunication sector by strategizing several activities. Statistics exhibited in table no. 2, from March 2013 to June 2013, clearly highlights the growth in the subscription by each subscriber without losing their past market share. And thus it can be concluded that, there is a cut throat competition among the existing rivals to increase the market share to lead the sector.

Table No. 2: Market Share per Operator

Operators	March, 2013		June, 2013	
	Subscription in Units	Percent	Subscription in Units	Percent
MTN Rwanda	3452182	57%	3599540	56%
Tigo Rwanda	1806271	30%	1900693	30%
AIRTEL Rwanda Ltd	781162	13%	915110	14%

Source: RURA Operators' Returns

3. Bargaining Power of Buyers

Here companies should understand that how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the importance of each individual buyer to your business, the cost to them of switching from your products and services to those of someone else, and so on. If companies deal with few, powerful buyers, then they are often able to dictate terms to you (Manktelow, 2014).

Customers in Rwanda do not have many options for telecommunication services. On the other hand, consistent growth is observed with the number of new subscription every year. However it is also observed that the difference in the tariff structure (MTN 36 RFW, Tigo 25 RFW and Airtel 20 RFW) exist still customers do not have much of the choices than these three options. Also, the coverage and geographical reach of available three operators are almost equal. Therefore, it can be concluded as, customers do not have enough bargaining power and conditions are favorable to existing operators.

4. Bargaining Power of Suppliers

Here companies should assess how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, the uniqueness of their product or service, their strength and control over companies, the cost of switching from one to another, and so on. The fewer the supplier choices companies have, and the more companies need suppliers' help; the more powerful suppliers are (Manktelow, 2014).

MTN is a global communications company and world-class cellular network. As a major communications company, MTN is specifically focused on the Africa and the Middle East. We believe that through access to communication comes economic empowerment. Serving Rwanda market since 1998, MTN Rwanda continues to expand its network, offer new and innovative packages and services and keep up with the latest trends in communications while maintaining affordability.

Tigo is a Multi-National Telecommunications Company. Tigo has Mobile Telecommunications Operations in 13 countries; 3 in Central America, 3 in South America and 7 in Africa. Currently Tigo has 31 million subscribers across all of these regions.

Airtel provides mobile communications services across 16 markets in Africa: Burkina Faso, Chad, Democratic Republic of the Congo, Republic of the Congo, Gabon, Ghana, Kenya, Malawi, Madagascar, Niger, Nigeria, Seychelles, Sierra Leone, Tanzania, Uganda , Zambia and in Rwanda since 2012. Airtel's African operations are owned by Bharti airtel Limited, a leading global telecommunications company with operations in 20 countries across Asia and Africa.

Telecommunication is no more a niche service which requires specialist suppliers for procurement. Looking at the status of operations and experience of existing operators it can be stated suppliers do not have enough bargaining power and conditions are favorable to existing operators.

5. Threat of Substitute Products or Services

This is affected by the ability of customers to find a different way of doing what companies do. If substitution is easy and substitution is viable, then this weakens companies power (Manktelow, 2014).

Existing services in telecommunication sector cannot be substituted by any other services easily. People across the nations are adopting these services at faster rate and telecommunication has become part and parcel of individuals' life. Thus, it can be concluded as there is no threat of substitute product or services for telecommunication sector in Rwanda and conditions are favorable for existing operators.

Findings and Conclusion:

At the outset, following table will demonstrate the findings of the study and conclusion from the authors' perspective.

Table No. 3: Findings and Conclusion

Sr. No.	***Forces***	***Findings***	***Conclusion***
1	Threat of New Entrants	No Threat of New Entrants	Favorable Conditions
2	Rivalry among Existing Firms	Rivalry among Existing Firms	Unfavorable Conditions
3	Bargaining Power of Buyers	No Bargaining Power of Buyers	Favorable Conditions
4	Bargaining Power of Suppliers	No Bargaining Power of Suppliers	Favorable Conditions
5	Threat of Substitute Products or Services	No Threat of Substitute Products or Services	Favorable Conditions

Finally, by using Porter's Five Forces Framework, it is concluded that Rwanda's telecommunication sector is favorable for existing operators.

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