The Future of African Mobile Profitability

EXECUTIVE SUMMARY

Rarely has an industry been as celebrated as the African mobile industry over the past decade – and deservedly so. From its unprecedented ability to alter human interaction and communication, change the fabric of entire economic sectors, and attract massive infrastructure investment, the contribution of the telecom sector to African development over the past 15 years has been truly transformational.

But the fundamentals that have long underpinned the success of Africa's mobile telecom sector are now under significant threat, and the future of individual operators is far from certain. Xalam Analytics' latest research suggests that the African mobile market has entered a phase of acute turbulence, at the exit of which many players will come transformed, no longer mere telecom operators, but full-fledged platforms for digital service innovation. Others will not make this great trek, felled by the combined effect of OTT service cannibalization, destructive competition, regulatory apathy and short-sightedness, voracious and misguided tax policies, weak supporting infrastructure, shareholder impatience, and their own inability to realize they're in trouble and take appropriate corrective steps.

Part of Xalam Analytics' "Future of Telecoms" series, The Future of African Mobile Profitability provides a comprehensive overview and analysis of the dynamics that underpin mobile profitability in Africa. Building on extensive quantitative analysis, a dozen interviews with market players and one of the region's most extensive quantitative databases, the report proposes some answers to some of the most critical questions facing African operators, such as:

- What has been the evolution of mobile subscriptions and revenues?
- What will be the long term contribution of mobile data?
- Is Africa’s golden age of mobile over? Why?
- Will data services cannibalize voice and messaging revenues?
- How are OTT players impacting operator revenues?
- What are some approaches to dealing with OTTs?
- Can African mobile operators monetize data?
- Should operators leapfrog 3G to jump into 4G?
- What is the outlook for voice revenues?
- Is there a future for messaging revenues?
- Does mobile money really make a difference to the bottom line or is it mostly hype?
- What is the outlook for African mobile capex?
In *The Future of African Mobile Profitability*, Xalam Analytics lays out the roadmap for African mobile operator transformation from mere telcos into full-fledged digital platforms.

Sample key findings of *The Future of African Mobile Profitability* include the following:

- The overall African mobile revenue picture reflects the evolution of different phases of market growth. Between 2005 and 2010, the size of the African mobile market more than doubled, leaping from around $21 billion to nearly $50 billion. Those times are gone. Between 2010 and 2014, compound average annual revenue growth has been essentially flat.

- Profitability has been tough. Xalam Analytics estimates that at least half of the operators analyzed for this study have seen a sharp contraction in their profitability over the past few years. Only around 25% of the operators we analyzed have shown recent positive growth in free cash flows.

- The broader outlook for mobile Internet revenue in Africa is excellent – Xalam expects mobile connectivity revenue to double over the next five years. But the fundamental question now at the heart of the African business model is whether the data boom will ultimately translate into higher overall revenue and margin growth for mobile operators.

- African operators face a major predicament in monetizing data – investing in new technologies while not funding the instruments of their own demise. The challenge posed by OTTs in Africa, if not well addressed, is substantially more pernicious than the threat to mobile operators in more developed economies. In African countries the OTT risk is to both revenue floor and upside. It is a threat to the very structure of the African mobile service provider model. The pathway out of this challenge will require more aggressive investments in IP infrastructure.

*The Future of African Mobile Profitability* is published in PDF format.