Introduction

Telecommunication is central to an economy's functionality. Through it, information can be relayed and received via a number of channels, allowing businesses and individuals to stay in touch and propelling a wide range of transactions. Initial investment in and expansion of telecommunication infrastructure is no less important if the provision of telecommunication services is to be made possible and sustainable. For this reason, the importance of telecommunication service providers is underscored the world over. Among the globally recognized names include Vodafone, Etisalat, T-Mobile and MTN among a host of others. The focus of this report will be on Kenya's telecommunication sector and its rise over the years to become one of the most developed and profitable in East and Central Africa. It will specifically provide information on Safaricom, Kenya's largest and best known telecommunication service providers. Details will include analyses of the company's history, its performance, brand distribution, product offerings and the various types of risk it is exposed to in its operations.

General Overview

Telecommunication in its most general form refers to the transmission of messages in some format using electric or electromagnetic means, covering telephony, telegraphs, broadcast, satellite and cable. For the purposes of the company in question, this report will restrict itself to telephony and related services.

In Kenya, this sector telephony was initially restricted to fixed lines, also known as land lines. Over a number of decades, the dominant player in telephone service provision was Telkom

Kenya, operating telephone booths throughout the country and servicing offices and domestic users. However, with the reliance on fixed-line telephones, there were restrictions in the range of services that could be offered. Though dominant in the 1980s into the early 1990s, Telkom Kenya's prominence shrunk in proportion in the late 1990s with the expansion of the industry and the entry of new market players. It was around this time that mobile phone use was introduced in Kenya, at the time with only Safaricom and Kencell (currently Airtel) being the competing firms. Telkom sought to remain relevant by entering a working partnership with Orange S.A. which saw the birth of Orange Kenya in 1999. In 2008, the industry would be expanded with the entry of Essar's yuMobile, increasing the level of competition and consequently, the quality of service as well as product portfolios across the board. Equity Bank has also made an attempt to enter the telephony business with its Equitel Mobile Virtual Network Operator (MVNO) running on Airtel's communication infrastructure.

The uptake of mobile phone use has been on the increase, driven by the increased need to communicate, with or without internet connectivity. In 2012, the number of mobile connections in Kenya stood at 30.4 million, a figure which rose 31.2 million in 2013. This increased by a further 7.4% to 33.6 million subscribers in 2014 and 36.6 million in 2015. This steady increase of subscribers has placed Safaricom in a position of advantage in terms of a potential client base. Based on the 2009 census, Kenya has a population of about 38.6 million, which points to a 95% mobile telephone penetration rate. Competition for such a lucrative market as posed by the identified market players not only provides an opportunity for telecom companies, it also avails options and improved quality to consumers.

Corporate Analysis

About Safaricom

Safaricom Limited, known simply as Safaricom, is a Kenyan telecommunication service provider, technology solutions firm and retailer in associated products. It was established in Kenya in 1997 under the guidance of its then chief executive officer Mr. Michael Joseph. It is headquartered in Nairobi, Kenya and has its head office in Westlands, located slightly outside the central business district area. The company is publicly traded, having been listed on the Nairobi Securities Exchange in 2008, and currently trades under the stock ticker *SCOM*. Ownership of the company is by British firm Vodafone Group Plc, with the Government of Kenya claiming a stake through the Permanent Secretary to the National Treasury, the figures standing at 40% and 35% respectively. The rest of the company's ownership is in smaller quantities, with the general public included. Mr. Joseph was succeeded by Mr. Robert Collymore who is still the company's CEO in May, 2015. Safaricom has a workforce that exceeds 3,000 employees. Its tagline is *The Better Option*, and its primary color is green.

Brand Distribution

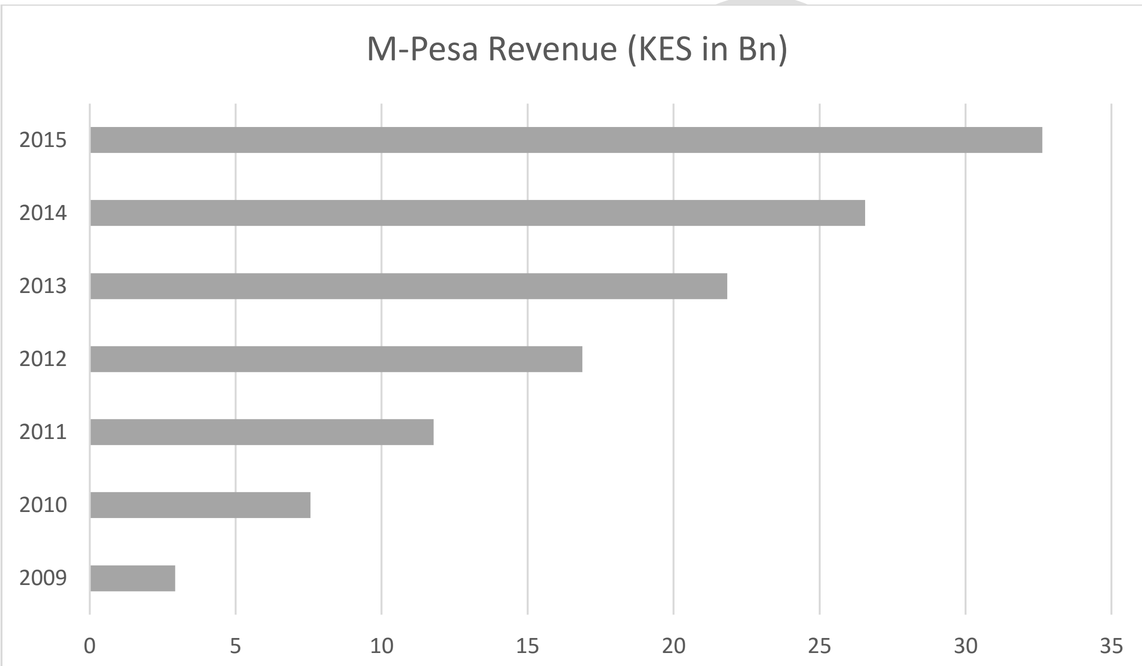
Safaricom has a nationwide reach. The geographical spread of the company has been contributed to by the product range on offer other than the traditional telephone call capability, data provision and text messaging service. The head office is in Nairobi, with customer service centers spread across all major towns and cities in the country. This has served to increase the brand's visibility, in part contributing to advertising and marketing. The retail aspect especially, which will be discussed in a later section, spreads Safaricom's area of operation. Additionally, road shows and partnerships, and supporting various initiatives have spread the brand's recognition.

Product Portfolio

The primary product in Safaricom's stable is the provision of telephony services. Under this fall regular voice calls and short messaging services (SMS). With the advances made in cell phone technology, Safaricom introduced data services to its customers. This has been significantly upgraded over the years, with the company availing 3G internet technology in 2007 and launching 4G LTE (Long Term Evolution) technology in 2014. As has been mentioned, Safaricom is involved in retail, with its customer care shops countrywide stocking hardware to compliment the provision of solutions on regular network use, registration for services. Hardware is most notably in the line of mobile handsets, tablets, laptops and modems in a one-stop-shop approach to service delivery.

Also included in the company's portfolio is its mobile money transfer service dubbed *M-Pesa* ("m" which stands for mobile and "pesa" which means money in the Swahili language), which allows customers to make a variety of monetary transactions using their phones. Some of such transactions include sending and reception of money, talk time purchases, depositing and withdrawal of funds from bank accounts and settlement of outstanding bills as well as payment for goods and services. M-Pesa agents are spread out countrywide to cater for deposits into and withdrawal of funds from customers' accounts. Based on the success of the M-Pesa service, other mobile service providers have modelled their own money transfer systems on M-Pesa.

There have also been a number of related initiatives have sprung up offered by Safaricom. *M-Shwari* is a mobile savings and loan service, while *M-Kesho* is a bank account mobile system which also avails micro-credit facilities. The following illustrates the commercial success of M-Pesa over the years:



Source: Safaricom Annual Reports

Safaricom is engaged in the provision of technology solutions for businesses as well, with its Safaricom Business offering. Through it, the company caters to the needs of businesses of all scales, with the availability of fixed lines, high speed data packages and cloud storage. By so doing, the telecommunication giant accommodates both individual and corporate clients.

In line with the global migration from analog to fully digital frequency use, Safaricom has sought to take advantage of the boom in pay television service. It has done this with its *Big Box* which aims to compete with established brands such as MultiChoice's DStv & GO TV, and Zuku. To make this product more attractive, Safaricom has added Wi-Fi internet connectivity, essentially providing both digital television and added internet connectivity. As at May 2016 however, the project is yet to gain as much traction as was originally intended.

Partnerships

In order to reach as wide a client base as it has done, Safaricom has had to forge strategic partnerships which not only bank on the partners' existing clientele but also create new clients. The partnerships cut across almost its entire portfolio.

The M-Shwari initiative is a partnership with the Commercial Bank of Africa (CBA) which was launched in 2012. It allows customers to save as little as KES1. M-Kesho is also a partnership with a bank, Equity Bank, which allows savings as well. Through partnering with banks, Safaricom has been able to take advantage of their existing goodwill in assuring customers of the legitimacy and solidity of the offerings. It has also been in a position to gain valuable experience in bank-related services from working with institutions specializing in banking services.

Innovation has been a major contributor to Safaricom's success and competitive advantage. Its *Skiza Tunes* initiative allows customers to set varying sound effects and music to entertain callers, as opposed to them hearing the traditional extended beep while waiting for a call to be answered. This has been made possible through content produced in partnership with a number of companies, namely Interactive Media Services, Liberty Afrika, MTech Communications, Bernsoft Interactive, Cellulant, Qasiida Technologies and Air Networks.

Education has been transformed by wave of technology, aimed at making education more accessible to all. *Shupavu 291* is a partnership with startup Eneza Education which avails entire curriculum content, including quizzes and question and answer sessions in an SMS-based system. In order to ensure affordability, the service has been priced at KES10 per week. Since its inception in 2014, the partnership has attracted about 469,000 primary school pupils and 86,000 high school students, with 17,000 teachers undergoing training on how to use the system.

Other partners on other projects include iCow, Google, Virtual Essence, M-KOPA and Flytxt.

Industry Risks

This section covers risks that Safaricom faces in the telecommunication industry in its entirety. They include technological risks, business cycles, product obsolescence, tastes and preferences and barriers to industry entry.

Technology

Safaricom is heavily technology-reliant in its areas of operation, and telecommunication in the broader sense calls for investment in technology. The use of 2G internet connectivity covers about 92% of the country as at 2016, and the roll-out of the more advanced 3G technology has been positively received. It is currently the most widely used internet technology after 2G, covering about 69% of the population. The launch of 4G LTE internet connectivity was Safaricom’s avenue to stay ahead of its local competition, providing even faster internet speeds. To do this, the company has had to invest heavily in its frequency spectrum, with $75 million having been paid to the Communications Authority of Kenya for increased frequency coverage.

Additionally, its $148.1 million national security project which it has undertaken in conjunction with the Government of Kenya has seen Safaricom's technology investment increase significantly, far surpassing its core telephony business.

Business Cycles

In telecommunication there are few business cycles significant enough to cause notable booms and busts. In a bid to further cushion itself against the risk created by business cycles, the company had diversified its interests into a number of ventures which will be examined in detail in a later section. With the need to communicate on a daily basis, Safaricom's customer base has seen the service provider record stable performance. It has registered increased penetration into the Kenyan market over the years. In 2009, Safaricom had an estimated 13.36 million subscribers. In 2011 this figure increased to 17.18 million, 19.1 million in 2012, 19.42 million in 2013, 21.57 million in 2014 and 23.35 million in 2015. Its M-Pesa subscription rate has also soared from slightly under 2 million in 2008 to 32.63 million in 2015, a 1,531.5% increase over the 7-year period. This is a clear indication of Safaricom's stability and ability to counter business cycle risks.

Tastes and Preferences

In Kenyan telecommunication, customer tastes and preferences are determined by pricing competitiveness and the attractiveness of packages offered, especially by mobile telephone service providers. The trade-off is between price and package content. Safaricom has made attempts to be the most preferred network service provider through a number of competitive offers. Its data packages cover both daily and longer term users while packages for post-paid customers have also been differentiated to cater to all income level consumers. The telecom company has also invested in money transfer services and business solutions to retain its appeal to both individual and corporate clients.

Product Obsolescence

To avoid losing its competitive advantage to its competitors, Safaricom has made attempts to refresh its product offerings. A number of seasonal competitions to attract more customers have made calling and messaging services increasingly popular. The same has been done with its money transfer and savings services, introducing customers to more options and revitalizing projects with seemingly reduced consumer enthusiasm. Heavy investment is required for an entity of Safaricom's proportion to avoid product value depreciation in the long run.

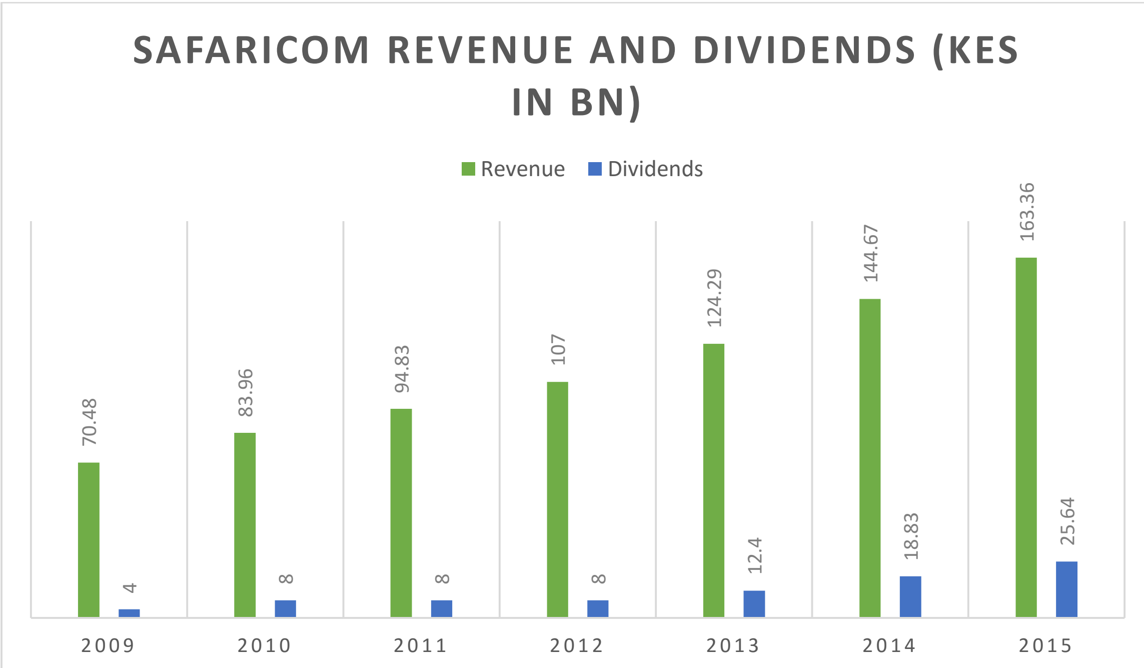
Barriers to Entry

These pose an industry risk in the sense that the more barriers there are to entry, the more difficult it is for new players to join the fray, and so established players are exposed to lower risks of being edged out of the market. In Kenya, the telecommunication industry as far as telephony is concerned, operates as an oligopoly. This means that there are a few large suppliers (or in this case, service providers) and many consumers who provide demand. The suppliers are in a position to set prices and the decision of one supplier to alter prices affects the other players. Safaricom is in active competition with Airtel and Orange Kenya, although the latter's influence has greatly diminished in the recent past, potentially making the market a duopoly. High costs of set up and operation due to the capital-intensive nature of technological ventures has presented the most significant barrier to entry. Additionally, compliance requirements set by the Communications Authority as well as general consumer perceptions and brand loyalty have established more barriers to entry. Safaricom has taken advantage of these facts to strengthen its grip on the Kenyan market.

Company Analysis

The company analysis will be done based on Safaricom's sources of revenue, as well as the stability of such identified sources.

Revenue for the telecommunication giant has been primarily from voice calls and messaging services. Revenue from voice calls alone in 2012 stood at KES68.96 billion ($685.5 million). The introduction of data services pushed up revenue, providing alternative communication channels through social media platforms and applications the most famous of which include Facebook, Twitter and WhatsApp, among a host of others. M-Pesa has also been a commercial success in Kenya since its launch in 2007. According to its annual reports, revenue grew from KES47.45 billion ($471.7 million) in 2007 to KES83.96 billion ($834.6 million) by 2010. The following gives a graphical depiction of Safaricom's revenue and dividend payout over a 6-year period.



Source: Safaricom Annual Reports

Diversification into a variety of services has ensured that Safaricom's revenue stream is stable. Additional evidence of stability is presented by the increasing nature of revenue despite numerous expansion campaigns and the existence of other competitive service providers. Further stability has been indicated by an increasing pattern as far as dividend payouts are concerned. Dividends are paid out from the profits of a business entity. With sums reaching highs of KES25.64 billion ($254.8 million) in dividends, the company's financial position is indicative of stability.

Business Risks

In addition to industry risks, there are business or company risks which are more specific to a business entity. Business risks faced by Safaricom will be grouped and analyzed in several criteria. These are operational diversity, financial diversity and regulations.

Operational Diversity

Operational diversity is considered in terms of how expansive Safaricom is in terms of its product lines, businesses and centers of operation. As has been illustrated, the telecom company has a number of products under its stable. In addition to its voice and data offerings, the company is involved in savings services, money transfer, surveillance, business solutions and it sponsors a variety of sporting events across the country. Such a broad range of diversification provides options in the event that one product line suffers a slump in demand.

Financial Diversity

Linked to operational diversity is financial diversity. Along with its core business and identified diversifications, Safaricom holds derivative financial instruments, securing its financial position. The Lipan a M-Pesa initiative where customers are able to pay for goods and services at a variety of establishments using M-Pesa has created added financial diversity while promoting M-Pesa as a solid product. It is worth noting that the product has become so entrenched in Kenyan society that the term M-Pesa is loosely used in reference to any mobile money transfer transaction.

Regulations

There is a considerable absence of many regulatory bodies in Kenya as far as the telecommunication industry is concerned. However, the most influential authority is the Communications Authority (CA), with its reach being adequate enough to govern the market in its entirety. The lack of a myriad of regulatory bodies reduces the business risk that the company is exposed to since only CA's compliance requirements need to be considered.

Management Analysis

Safaricom is highly hierarchical, a feature common to a large percentage of Kenyan business entities. The Board comprises of committees, namely the audit, ethics and nomination & remuneration committees. Under the chief executive officer come the various departments, some of these being risk management, internal audit, corporate affairs, resources and technical & IT among others.

Management can also be analyzed in terms of its operational and financial streak, as well as its tolerance or averseness to risk. The more open to risk management is, the riskier investing in such a company is, unless such risk tolerance is duly justified and accompanied by sound back-up plans.

Safaricom's management can be considered as being moderately risk tolerant. The decision to launch M-Pesa in South Africa was informed by the success of the model in Kenya as opposed to performing initial testing the product in South Africa. Therefore, large scale expansion into foreign markets is dependent on the already proven success of a product. The tolerance to risk is further illustrated by the telecom company's venture into the money services scene, an area dominated by banks more than by telecommunication companies. The same risk tolerance is demonstrated by the venture into digital television, but the risk is mitigated by the fact that Safaricom is experienced in frequency-related services, which aid it in signal distribution.

Financial and operational streaks have been positive, judging by the revenue and dividend figures as well as growing goodwill of the company. The entity has been the most profitable in Kenya in between 2013 and 2015, with pretax profits of KES17.5 billion ($173.9 million), KES23 billion ($228.6 million) and KES32 billion ($318.1 million) respectively, trouncing even financial institutions. This in addition to the increasingly strong market capitalization and steady stock price which has increased from KES5 to KES17 between 2008 and 2016 indicated sound managerial skills and calculated risk-taking.

Conclusion

Safaricom Limited is an example of firm managerial direction, careful investment consideration and capitalization on institution strength. In addition to aggressive marketing and advertising, the company has endeared the brand to the local population through a variety of corporate social responsibility ventures, most of which have benefited surrounding communities throughout Kenya. the uptake of new technology ahead of competitors in a tightly contested industry has seen the telecom company rise to become one of the most advanced institutions in the country, to the extent of being involved in national surveillance. Product and service diversification has increased Safaricom's cash flow while mitigating its risk exposure. Aforementioned partnerships avail more avenues for the company to establish itself as the most dominant telecom service provider, cementing its revenue and furthering Safaricom’s reputation as the most profitable company in East and Central Africa.