

African B2B telco – \$2bn of underserved demand today, growth of 26% p.a. ahead

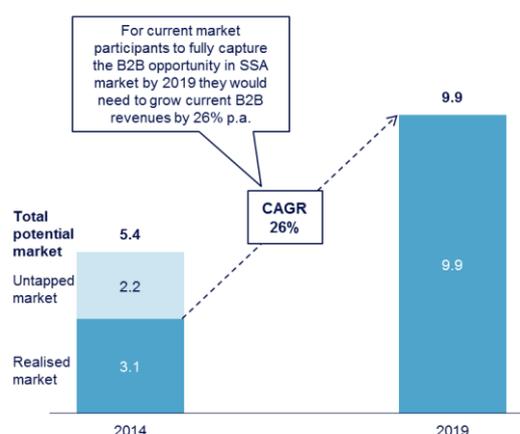
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African telcos are leaving as much as \$2bn of B2B revenue on the table - a result of chronically underserving the market according to new Solon research. Based on our extensive experience across the continent, we have developed a comprehensive market model for the Sub-Saharan B2B market (excluding South Africa): we estimate the 2014 market potential at \$5.4bn. Of this potential we believe, at most, only ~60% is currently being captured by operators (\$3.1bn) with the remainder (\$2.2bn) either served by low value-add B2C propositions or un-served. If these operators were to succeed in capturing the full B2B market potential over the next five years they would need to achieve a CAGR of 26% on their current B2B revenues as the market grows to nearly \$10bn by 2019.

What is the market potential?

Today, we believe operators are capturing (at most) 60% of the full market potential. With the market expected to grow at 13.1% CAGR over the next five years, current market participants would need to grow their B2B revenues 26% p.a. to capture full market potential by 2019 (as seen in figure 1). In order to realise this growth, we believe operators need to start actively positioning their services and organisational capabilities to best serve the needs of the B2B market, an

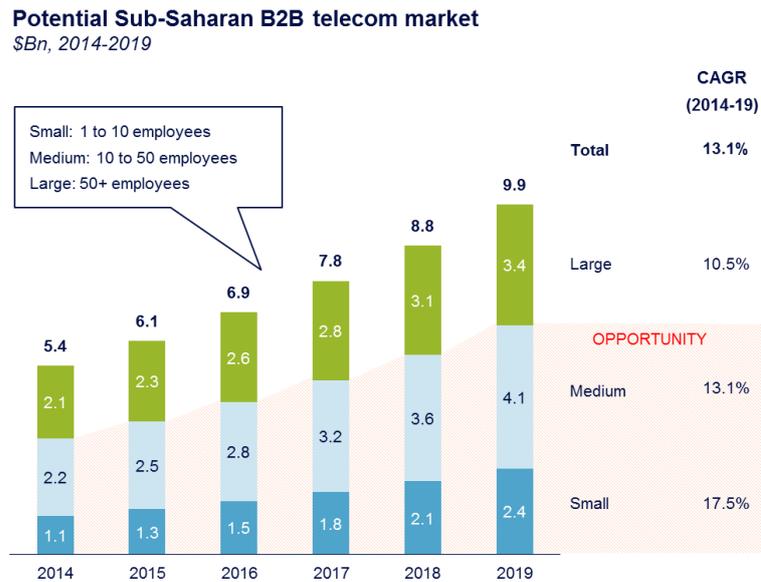
Sub-Saharan B2B market potential
\$bn, 2014-2019



area they have typically overlooked.

Within the B2B telco services landscape, we see significant value in the SME sector which makes up two thirds of the value of the opportunity in 2019. Based on our experience in Sub-Saharan markets, this remains a considerable area of weakness for operators today. With growth in the B2B market potential of serving SMEs expected to outstrip that of serving large businesses, operators will need to develop not only the sales capabilities to address this market segment, but also the ability to transition organisations served by B2C offerings into the higher-yielding B2B services.

FIGURE 2



What was our methodology?

Our bottom-up model was built to forecast B2B market potential (by segment and industry vertical, but excluding wholesale and M2M) in Sub-Saharan Africa excluding South Africa. The market potential was derived by forecasting the telecommunication needs of businesses defined by number of employees over the next five years in 10 Sub-Saharan economies, which represent 72% of the area's GDP. This approach allowed us to capture businesses that may otherwise be served by B2C solutions or not currently served at all. Specifically a number of parameters, detailed below, were used in the construction of the model:

- **Number of businesses** – Business counts extracted from available data sources on the registered number of businesses by country. Our sample accounts for ~72% of SSA's economies (by GDP excluding South Africa)
- **Business number growth** - The business counts were adjusted by GDP growth to achieve base year comparability and to extrapolate 5 year forecasts
- **Business size split** – To split the businesses by size we used country-level data where available and otherwise relied on SSA benchmark data

- **ARPU by business size** –Bottom up construction based on benchmark data in our benchmark countries on mobile and fixed services demand/ pricing by business size
- **ARPU by country** – ARPUs adjusted on a country level to account for local market conditions, GDP differentials and retail mobile ARPUs
- **Informal sector** – Revenue adjustment made to account for percentage of economy accounted for by the informal sector and expected addressability of the informal segment
- **Carrier-to-carrier & M2M**– These markets were excluded for the sake of simplicity in this sizing
- **Current B2B revenues in SSA** – B2B market sizing crosschecked against MNO operator revenues adjusted upwards for percentage of mobile subscribers in SSA

How can operators capture the B2B opportunity?

We believe there are five key areas in the Sub-Saharan B2B market, which would allow operators to address the full B2B opportunity in Sub-Saharan Africa. Specifically, opportunities exist in the:

- **Development of 4G services to accommodate SME businesses in their first step towards being connected enterprises**
- **Deployment of metro fiber to serve SMEs and larger enterprises**
- **Development of SME focussed services by mobile operators**
- **Development of data center space to accommodate the emerging market for cloud services in Africa**
- **Resale of cloud services to African SMEs**

Get in touch to find out more about our work across the African continent serving both B2B and B2C operators and investors.



Christian Teichmann is a Partner and Managing Director in Solon's London office. He has over 10 years of project experience in strategy consulting and investment banking. He is responsible for Solon's telco, fiber and data center activities focusing on business building, growth strategies and due diligences across Europe, LatAm and Africa.



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