Airtel Kenya's CEO resigns

By Carole Kimutai

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On Monday 5 September, managing director of mobile operator, Airtel Kenya, Rene Meza announced his resignation. In Kenya's highly competitive telecom sector that has only four players, Meza's exit was big news.

Even more intriguing was Meza's departure to join Vodacom Tanzania, a subsidiary company of Vodafone, the single largest shareholder (40%) in Safaricom, Kenya's leading mobile operator and Airtel's competitor.

Last year, newly rebranded Indian owned Airtel came to the Kenyan market and unleashed a fierce price war that saw mobile call prices in Kenya literally tumble. According to the Communications Commission of Kenya (CCK) second quarter sector statistics report released in May 2011, the average tariff for on-net calls declined to KSh 2.67 per minute from 3.92 per minute in the previous quarter while the average tariff for off-net calls during the quarter was KSh 3.47 down from 5.10 per minute in the previous quarter.

The objective of lowering the price was to increase Airtel's subscriber numbers and target the mass market. The then new Safaricom honcho, Bob Collymore, said the price war was "morally reprehensible" adding that the prices were not sustainable. The other player in the industry Mickael Ghossein, CEO Telkom Kenya (partly government owned), had sleepless nights as the price reductions were eating into company profits adding that cannibalisation of other player's market share cannot be considered as industry growth.

The bloody price war

Airtel's price war strategy seemed to have borne fruits (at least from the numbers). The other players were forced to reduce their calling prices. According to CCK statistics, 2 935 223 new mobile subscribers joined the four mobile operators in Kenya representing a 12% growth. Airtel still coming number two registered 814 708 new subscribers compared to Safaricom's 736 777 new subscribers in its network between October and December 2010.

The significant growth was attributed to massive promotion and marketing activities by all the mobile operators. When Zain was bought by Bharti, word on the street was that Bharti Airtel had a massive war chest for penetrating Africa and especially the Kenyan market. According to CCK statistics, as at the end of December 2010, Kenya had 24 968 891 mobile subscribers from 22 318 610 at the end of September 2010. In three months, over there were over two million subscribers

In a sense, Collymore's worry was justified as he was not sure how long Airtel was going to fuel the price war. Having inherited a financially stable company from his predecessor Michael Joseph (who had run Safaricom for a decade), there was cause for worry. This battle for subscribers saw Safaricom increase its advertising spending to Sh3.1 billion (52%) in the six months to June.

The effects of the war that started in 2010 were revealed in May 2011 when Safaricom released their financial results. Safaricom's full-year profit fell by 13%. This was attributed to an increase in expenses and significant reduction in revenue from voice calls. With Bharti spoiling the party, Safaricom set its eyes on the data market "to develop and grow its non-voice revenue streams," CEO Collymore was quoted saying.

However, Airtel Kenya also has its eyes on the data segment. In March, the company launched a range of broad band internet data bundle rates aimed at wooing different categories of internet users.

Airtel's restructuring

Could hiring Meza be part of a strategy to disable Airtel? After Meza left, Airtel Kenya immediately appointed Shivan Bhargava, with title of chief operating officer and not CEO - Bhargava has worked for Airtel for eight years. In early July this year, Airtel Kenya's network director John Barorot left the company after only working for Airtel for three months - Barorot had joined Airtel Kenya from Safaricom. The departure of senior managers has left people wondering about the business strategy of the Indian owned company.

Changing ownership

The mobile company has had several owners over the past 11 years. It has changed names three times - from Kencell, to Celtel, to Zain and now Airtel.

The initial owners (in 2000) were Vivendi of France and Kenyan businessman Naushad Merali operating the brand name Kencell. Four years later, Mo Ibrahim (a Sudanese billionaire) bought the Vivendi stake and the company changed to Celtel. A few years later, it was bought by Kuwait's Zain telecom and rebranded to Zain. Early last year, the company was bought by Indian operator Bharti for a whooping US$ 8.3 billion.

This could be far from over as the lion (Airtel Kenya) now licks its wounds with the departure of Meza who led in the rebranding of Zain. Last year while revealing Airtel's plans for the Kenya market, Bharti Airtel's CEO, Manoj Kohli, said they were in Kenya for the long haul and were planning to invest US$ 150 million especially to expand its operations. Airtel may be down but not out; the industry should certainly expect a fierce war.

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