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## Mittal and the African safari

By K Jayshankar

Is Africa the next frontier for business? It would seem so if one were to track the footprint of global businesses that have, over the last few years, been beating a path all across the continent. While the erstwhile colonial nations have made an exit (but of course have not lost their influence), the story in recent times has been the rise of the Chinese dragon across the African continent.

Despite all the horror stories of corruption in public life, the economic opportunities that the emerging nations of Africa provide are too good an opportunity to miss. This has not gone unnoticed, and the latest announcement from Mark Mobius a few days ago raised many an eyebrow and a lot of happy smiles across African business leaders. Mobius is known to be a shrewd investor, and given his legendary lifestyle, is in many circles rated as a prophet of emerging markets who spots signs when others are sitting with puzzled looks. As the Executive Chairman of Templeton Asset Management, Mobius's conclusion is that 'frontier markets' are quite exciting because of the valuations from them, and made a special reference to Nigeria as being among 'the most attractive markets'. No wonder then that Africa seems to be a preferred destination for businessmen in a hurry!

Given this and a number of other factors, the African quest of Bharti Telecom makes an interesting tale. The story of the firm provides an interesting parallel to the emergence of India as a new and emerging economic and industrial powerhouse. The firm's origins lie in its early avatar as a manufacturer of telephone instruments at a time when securing industrial licenses was an art form by itself. Quick to recognise the changing landscape, Sunil Mittal, the intrepid founder, moved fast to become one of the early bidders for the wireless cellular licenses. Not many gave him a chance on building his network, but he surprised everyone by his resilience in the face of a tepid market, where the cell phone was seen as a status symbol and an attractive and expensive toy of the society upper-crust, industrialist, and the movie star.

Mittal's innovativeness and aggressive entrepreneurial instincts were underestimated, but they came to the fore and he changed the game as never before. Arguably, the price war in the Indian mobile market was not started by his firm (that credit goes to Reliance Telecom which set an unimaginable stretch goal of pricing a call to equate with the cost of a basic postcard, and thereby expanded the market virtually overnight). But Bharti went a step further: they were the first to understand that with the commoditisation of telecom, owning the customer would become the key. The innovative response: outsource the network and instead build the brand - and thereby hangs a tale!

This was an unprecedented step as till then a telecom company by definition had to be strong in its infrastructure aspect. The outcome: strong marketing has created a powerful brand in Airtel, which today is worth over USD 3 billion, with over 121 million subscribers and is known in India for extremely creative pricing that opened the market to sections of the society that never imagined a cell phone could ever be affordable. Of course, the current high decibel and ruthless price war being fought in the Indian market has truly benefitted only one constituency - customers - with all the telecom firms trying their best to stem the red in their books.

But the customer is not complaining and Mittal was not done yet. He had decided to take the Airtel model overseas, recognising that there is enough scope in the emerging markets of the world where he could successfully replicate the Indian model. The first step was Sri Lanka where Airtel Lanka began operations in January 2009. With his appetite whetted, Mittal turned to Africa. The MTN - Bharati flirtation is by now a case study of what can go wrong in a merger and acquisition situation. What was further proof of Mittal's determination was that even though he was jilted the first time around, Mittal went back to MTN (which had by then gone into - and then out of a relationship with Reliance Telecom - but that is another story) in 2009 with a renewed bid. After months of dalliance, the deal fell through under the multiple pressures of markets and political murmuring.

Mittal watchers had predicted by then - Sunil Mittal was never going to give up on his global ambitions. Sure enough, he moved next to Bangladesh when he acquired Warid Telcom in January 2010 but that just a pit stop in a longer race. Soon came the news that Zain Telecom had agreed to his overtures and last week the deal has been financially consummated at USD 10.7 billion. So, the African Safari has finally yielded results, and Bharti is now the world's fifth largest cellular business! The stock market did not respond well to the price that had been agreed to between the parties, but Mittal scoffed it, stating that his business was not going to be dictated to by financial analysts who seem to agree that Mittal had paid on the higher side for an asset which potentially faces legal hurdles in some countries.

One may wonder why Mittal has taken on this huge challenge. Calling it a 'pioneering step towards South-South co-operation', he claims that 'we will bring affordable telecom services to the remotest geographies and bridge the digital divide'. Nice rhetoric, but it is evident that Mittal is positioning his firm to be in a strong way when the digital era is full blown and the cell phone becomes the vehicle of change.

I believe that Mittal will change the rules of the telecom game in Africa. The beneficiary this time around: the African customer! Once the legal dust settles, I can confidently say that the Airtel brand will make significant impact in the marketplace with special offers and innovations, unlike what the local

markets have seen so far. Mittal has already made the right pronouncements expressing his view that the acquisition would be run as an African company with local talent and only a handful of Indian expatriates. Making this into a profitable business would only be the first of many challenges coming Mittal's way, and the old fighter is readying for it.

For, once he sets his house in order here, he will then cast his eyes on other markets, both within Africa and outside. The confidence in his model is so supreme that he is itching to take it to Europe where the high telecom costs are an invitation to his disruptive approach. The verdict: give him time & watch this space!

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