Chapter 3

Selection of Market Entry Strategies: Perspectives from the Mobile Telephony Industry in Africa

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ABSTRACT

The purpose of this chapter is to investigate the selection of market entry strategies in the African mobile telephony industry with a view to developing appropriate business strategies and identifying risk factors. Using the survey methodology, the study focuses on six key enterprises, which account for over 60% of mobile phones in Africa. The empirical evidence suggests that market size in terms of population of the destination country and not psychic distance is the most important market selection criteria for enterprises entering Africa. The dominant entry market strategy for these enterprises is strategic alliances. Focused strategy is uncommon on the continent. More interestingly, and contrary to extant literature, political risk was not considered a market entry barrier. In any case, politically unstable countries tend to bring in higher returns. These findings are critical in informing investors engaged in or with intentions to enter Africa and in enriching international literature. The Stages model and the DMP framework individually are unable to explain the choice of market entry strategy in Africa. The key contributions of this study are both theoretical and practical insights on the process of internationalisation.

1. INTRODUCTION

Riley (2001, p. 4) defines globalisation as “the process of increasing connectivity, where ideas, capital, goods, services and people are transferred across country borders.” Globalisation has both facilitated and necessitated the development of businesses of all sizes towards internationalisation (Wood and Robertson, 2000). The decision to expand across borders, commonly referred to as internationalisation, is a complex process. It is one of the most important strategies in the development of an enterprise.

Internationalisation is a complex, multidimensional and dynamic process (Wattanasupachoke, 2002). In order to obtain a holistic understanding...
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of internationalisation, it is important to understand what exactly drives the process, sometimes from a situation where an enterprise had no international operations to a situation where the enterprise becomes a multinational. In developing any overall explanation of internationalisation, it is necessary to examine the factors which play an important role in maintaining forward momentum of internationalisation (Welch and Luostarinen, 1993, p.156).

Firms that have ambitions to internationalise must decide on a fitting strategy of entry into a foreign market in order to make the best use of their resources (Zekiri and Angelova, 2011). Littler and Wilson (1995, p.50) defines a foreign market entry strategy (or mode) as “the plan developed by a company to enter a new market or sub-market.” Any company operating in internal markets employs a strategy whether explicit or implicit to run its activities. Hence, market entry strategy includes both market selection and choice of market entry mode.

Africa is an extensive region consisting of 54 countries (including the newly created Southern Sudan) covering 30 million km$^2$. With a population of 1 billion people, the continent is the fastest growing mobile telephony market in the world and the second biggest mobile market after Asia (GSMA, 2011). From banking, education to entertainment, the mobile industry has transformed the way people live by affecting almost every facet of their lives.

Africa has witnessed a significant rise in the number of mobile customers, 338 million specifically, between 2006 and 2011, a 169% growth rate. In the same period, the mobile penetration rate rose from 22% to 65% (ITU, 2013). The emergence in the last five years or so of predominantly African based, pan regional mobile network operators and fierce competition between them are key reasons for the high mobile growth on the continent.

Major strategic investors in the mobile telecommunications industry in Africa since the early 1980s have been Etisalat (through subsidiary Atlantique), Airtel Africa (a subsidiary of Airtel India, formerly Zain), Econet Wireless International, Millicom, Mobile Telephone Networks (MTN), France Telecom (through its subsidiary Orange Telecom), Orascom, Vodafone and Vodacom. Between them, these enterprises account for over 60% percent of mobile customers on the continent.

In view of the high level of investment activity on the continent, signified by the entrance of transnational corporations in the mobile industry, it is important to step back and reflect on a number of crucial points. What market entry strategies have been used by these enterprises as they enter Africa, and crucially, what factors influence their market entry decisions?

1.1 Research Problem

There is little agreement on which conceptual framework best explains a firm’s market entry strategy in a foreign market as part of its internationalisation endeavour. Hence, the need for this is study.

1.2 Purpose

The purpose of this study is to analyse the choice and rationale of market entry strategy in internationalisation activities in the mobile telephony industry in Africa.

The study provides useful insights into internationalisation activities in Africa- an important perspective, given the cross-cultural nature of internationalisation.

1.3 Importance of the Study

The study focuses on market entry strategy because of two main reasons:

1. The theory of internationalisation remains poorly described causing both terminological and theoretical confusion (Bell, Crick and Young, 2004). There is need therefore,