

# Top operators for personalised prepaid products

- Vodacom, MTN and Cell C are competing more and more on customised products for subscribers instead of strict service pricing.
- Telkom fails to exert pressure on other operators in spite of undercutting competitors' voice tariffs and monthly data prices.
- Cell C's strategy to champion best-value products, cheapest voice and SMS products, and subsidising an exclusive zero-rating strategy with a global social networking platform makes it the leader of the prepaid pack.

## Introduction

Pent up demand for internet service has driven strong growth in data revenues for operators throughout Africa. Traditional voice and SMS revenues have, in turn, been shrinking but have yet to lose their significance.

Operators are launching promotional and personalised data products as a means of adapting and gaining revenue. With Over-the-Top (OTT) services increasingly acting as substitutes for the traditional voice and SMS services, operators are opting not to resort to raising prepaid prices on their cheapest tariffs as a means of making up lost revenues. Regulatory interventions such as cost-based termination rates have created consumer expectations of continued price reductions.

Although some operators called for regulation of OTTs in the South African mobile market at Parliamentary hearings held earlier this year, their innovative new pricing strategies suggest responsiveness to this fast-changing environment. South African operators, in line with operators in other markets, have responded to these disruptions by introducing new products such as bundled data, voice and SMS, or service-specific promotions. Are these new products easier on the pockets of consumers and are they transparent enough for consumers?

## Pricing trends in South Africa

Research ICT Africa (RIA) measures the cost of communication by mapping African mobile prepaid pricing trends with a Voice and SMS basket, the RIA 1GB data basket and the Bundled Value for Money Index. Both, the Voice and SMS basket and the 1GB basket methodology calculate the minimal price for consumers in the South African market.

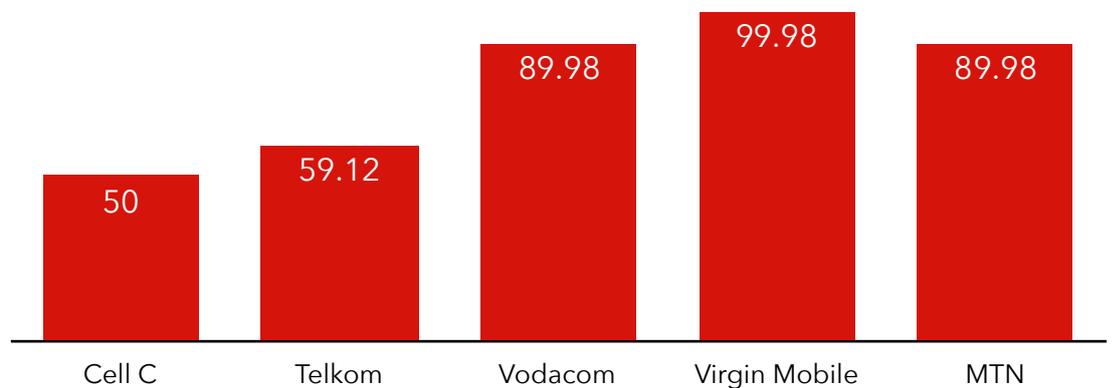
### **Methodology:**

**Voice/SMS basket (OECD basket):** 30 voice calls for a total of 50 minutes and 100 SMSs per basket per month.

**1 GB basket:** monthly cost of 1GB data based on prepaid data top-ups or bundled top-ups. Both baskets are converted to USD for comparison across African markets.

## Voice and SMS basket

Telkom Mobile, which has traditionally had the cheapest voice and SMS basket in South Africa, has been dethroned by Cell C (see Figure 1). The cheapest Voice and SMS basket would be satisfied by the Mega Bonus R5 reward product. The customer gets R10 extra for a R5 recharge leaving them with R15's worth of value (but valid for three days). As the Voice and SMS basket calculation is based on a monthly recharge calculated for 30-day validity, the Mega Bonus product has an airtime value of R150, which costs only R50 for the customer. For consumers willing to recharge R5 every three days for this value, this would be the cheapest product for Voice and SMS basket in South Africa. However, when looking at voice tariff prices, subscribers pay a higher tariff of R1.50 in comparison to R0.66 on Cell C's cheapest tariff.



**FIGURE 1: VOICE AND SMS BASKET COST TO CONSUMER (ZAR); SOURCE: RIA AFRICAN MOBILE PRICING (RAMP) INDEX**

Cell C's 66cents product has the cheapest flat tariff in comparison to MTN's and Vodacom's cheapest flat tariffs of R0.79. Vodacom's R0.79 is a promotional product that is valid only until 31 July 2016<sup>1</sup>.

Telkom's strategy on the prepaid market has been to undercut on-net and data prices to swing subscribers in the growing prepaid market. Its Sim-Sonke product, with the cheapest on-net tariff of R0.29, makes it the second cheapest operator in the Voice and SMS basket comparison (Figure 1). It also has the cheapest 1GB product on the market at R99 per 1GB (see Figure 2 and Table 3). At the same time, its 2GB is even cheaper than the price of 1GB offered by other operators at R139.0. This has resulted in a 37% increase in data revenue due to a large growth in mobile data traffic<sup>2</sup>.

Telkom Mobile experienced a 24% growth in total number of subscribers for the financial year ending March 2016. However, low-price strategy does not appear to be drawing subscribers in significant numbers.

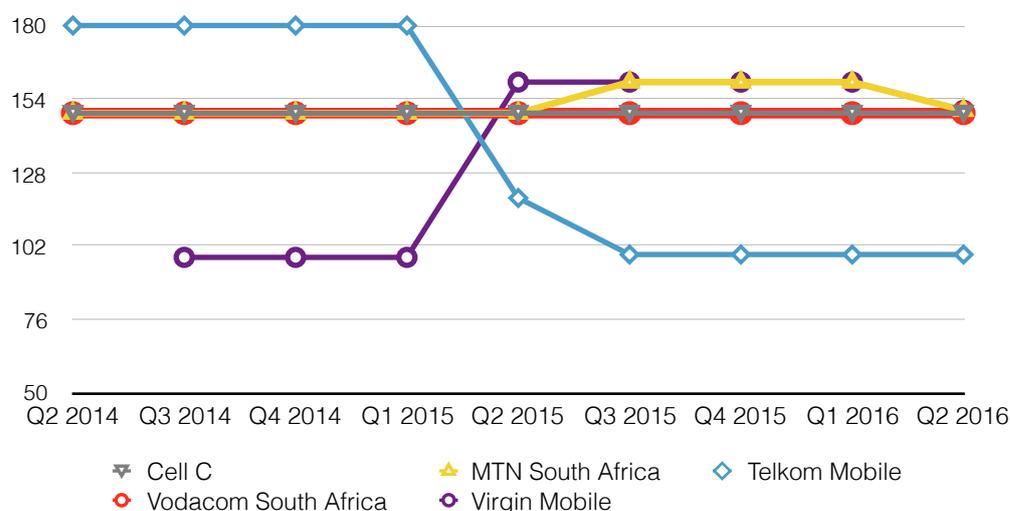
## 1GB data basket

The 1GB data basket in the South African market has not seen much change with operators either introducing competitively priced smaller data packs; running

<sup>1</sup> Vodacom 79c Ts&Cs: <http://www.vodacom.co.za/vodacom/terms/promotions/vodacom-prepaid-79c>

<sup>2</sup> RIA Policy Brief no. 2 2016: SA mobile operators wake up as 2020 draws closer <http://goo.gl/D5ihdB>

promotions that differentiate their data offerings or changing prices for lower or higher data volumes<sup>3</sup>. All operators, except for Telkom Mobile, advertise 1GB of mobile data for prices around the R150 mark (see Table 1).



**FIGURE 2: 1 GB DATA BASKET (ZAR) Q2 2014-Q2 2016; SOURCE: RIA AFRICAN MOBILE PRICING (RAMP) INDEX**

MTN’s prices dropped with the introduction of the R5 Data-on-the-Go bundle, which provides 35MB on 24-hour validity. A customer will get 1GB when they recharge everyday for a month at the price of R150. However its validity means that this dat does not accumulate.

MTN’s 1GB bundle remains R160 but it offers prepaid customers 50% give-back data valid for 15days. A customer who pays for 1GB will be given back 500MB. The Data-Back is a promotion valid from the 1st of July until the 31st of December 2016. Therefore, a lower price does not necessarily equate to the best option for the customer when one compares Data-on-the-Go with the 1GB monthly pack as one gets more data on the 1GB bundle.

Table 1: Operator monthly1GB prices in Q2 2016	Price (ZAR)
Telkom Mobile	99
Cell C	149
Vodacom	149
MTN	150
Virgin Mobile	150

Vodacom’s 1GB offered under the “Just 4 You” promotion has an advertised price of R79, almost half the price of a 1GB product - incredible value for those using data primarily as a text and voice substitute. As the validity of “Just 4 You” products is customised for consumers, validity cannot be determined for the purposes of basket measurement and is therefore excluded.

<sup>3</sup> Cell C data price increases: <http://mybroadband.co.za/news/cellular/167090-cell-c-data-price-increases.html>

*MTN’s 1GB bundle remains R160, but its ‘Data on the go’ daily bundle allows 1GB to be purchased for R150.*

## Product re-creation in the prepaid market

### Product types:

#### Combined-service top-ups or bundles

*Buying two or more volumes of service combinations e.g. minutes+data; SMS+data; minutes+SMS+data+application.*

#### Rewards plans

*Customers receive activity-based rewards such as airtime or redeemable points after using a service.*

As the above indices show, the cheapest products on the market are not simply based on the tariff or once-off cost, but rather product features that seem designed for different customer needs based on validity, volume or price.

Vodacom introduced the “Just 4 You” promotion customised for individuals with offerings that change constantly. For example, one could get a promotion pack for data or for making voice calls or for a combined service top-up with minutes and data based on the menu selection for the day. Vodacom reserves the right to vary offers therefore customers will not always have the same offer available. Customers need to be aware of the time sensitivity of these offers, knowing that they might not find the same offer again. Vodacom also introduced the “NXT LVL” tariff package for users not older than 25, seemingly designed to entice those users into the market. The package carries certain benefits and rewards such as zero-rated career service sites and Vodacom’s e-school.

With significant investments in infrastructure development, as in the case of Vodacom and MTN, it is clear that the dominant operators will also be seeking to distinguish themselves on quality and their ability to keep up with growing demand for data<sup>4</sup>.

## Bundled Value for Money Index

New pricing innovations that include two or more services are also new to the market<sup>5</sup>. RIA created the Value Money Index (VMI)<sup>6</sup> as a means to capture the value of combined data, SMS and voice packages on offer. Given the complexity and high number of products on the market, only bundles offering data, or application specific data, combined with voice and/or SMSes are captured.

Vodacom, Cell C and MTN offer combined bundles (see Table 2) often in product families such as MTNSky and MTN Boosta. Cell C offers the Infinity range with a flat price and the SupaCharge that ranges from R5 to R500.

Cell C’s Supacharge products dominate the BVI, with Supercharge 500 having the best BVMI. Cell C’s Supacharge volumes and validity increase as one recharges with between R5 and R500 airtime. The highest and lowest priced bundles both offer the best value compared to other South African products on the BVMI with Cell C’s Supacharge R5 product offering the second-highest value on the market.

However these benefits are only possible on airtime recharge; that means data recharges or bundle purchases do not qualify one for the Supacharge bonus.

MTN has the third most valuable bundle on the Index: MTN’s Sky Unlimited Uncapped product. However, a fair use policy limits daily minutes, SMS and data as stated by the operator (See Table 1 for limits).

<sup>4</sup> RIA Policy Brief no. 2 2016: SA mobile operators wake up as 2020 draws closer <http://goo.gl/D5ihdB>

<sup>5</sup> RIA Policy Brief No. 3 2015: Bundling up – new pricing strategies in the African prepaid market <http://goo.gl/LFu4kb>

<sup>6</sup> Refer to RIA website for methodology: [http://www.researchictafrica.net/fair\\_mobile.php](http://www.researchictafrica.net/fair_mobile.php)

Table 2: Bundled Value Index (Q2 2016)		Price (ZAR)	Validity	Free on-net Minutes	Free all minutes	Free SMS	Free MB	BVI
CellC	Supercharge R500	500	Month	7200	0	1000	1000	1.55
CellC	Supercharge R5 daily (30 times)	5	Daily	120	0	120	120	1.14
MTN	MTN Sky Unlimited Uncapped	1799	Month	4500	4500	12000	10000	1.05
MTN	Boosta 79	79	10 days	600	0	600	1500	1.02
MTN	Boosta 339	339	Month	700	0	700	2000	0.95
Voda com	Just for you 60	60	Other		60	0	60	0.9
MTN	Boosta 189	189	15 days	1000	0	1000	2000	0.87
MTN	Boosta R39	39	5 days	600	0	600	1200	0.85
MTN	MTN Sky Absolute 2GB	599	Weekly	4200	4200	12000	8000	0.65
MTN	MTN Sky Super Uncapped	999	15 days	4500	4500	12000	6000	0.64
MTN	MTN Sky Super 1GB	999	Month	4500	3000	12000	1000	0.49
MTN	MTN PAYG R35	1599	Month	462	308	700	525	0.43
CellC	Infinity	1000	Month	0	7200	1000	1024	0.38
MTN	MTN-to-MTN Sky Daily	25	Daily	4500	0	0	300	0.27
MTN	MTN Sky Daily	79	Daily	4500	4500	12000	600	0.20
MTN	MTN PAYG R7	7	Daily	180	120	75	75	0.18
		*Data, Voice minutes and SMS indicated above are monthly volume calculation						

MTN has the widest range of bundled products on the market. This is an effective strategy against OTTs because unlimited calls, data and SMSes means that the relative value of OTTs to consumers decreases. The only factor that might undermine this strategy is the people they are communicating with are using OTT substitutes only or primarily.

Vodacom's "Just 4 You" combined bundle is based on the advertised product on the Vodacom site. It is the 6th best product available on the BVI market. However its customisation means validity and availability is only determined if it is offered to the customer on the "Just 4 You" menu.

### Zero-rated services

Zero-rating is a relatively new tactic for South African operators. Cell C became the first mobile operator to offer South Africans access to the globally controversial

internet.org (subsequently Freebasics) at the end of August 2015. Cell C is the only South African operator subsidising an exclusive zero-rating strategy with a global social networking platform by partnering with Freebasics, which may be seen as a late-entrant strategy to bring customers onto their network. Cell C only zero-rates WhatsApp on the Trace Mobile Pack and has a R7.50 unlimited WhatsApp pack that excludes voice calling for customers.

Table 3: Zero-rated services by South African operators		
Operator	Product	Features
Cell C	Freebasics	<a href="http://internet.org">internet.org</a> application
	WhatsApp	Free WhatsApp on Trace Mobile
Vodacom	Vodacom e-school	Educational learning app. Also zero-rated on NXT LVL plans.
	Career sites	Zero rated on NXT LVL.
MTN	Twitter	
	Wikipedia	Only when accessed on Opera Mini.
	D6 communicator service	Allows schools to communicate with parents. (100MB data cap)
	MTN play	Selected sites are zero rated.
	MTN Vu	Video streaming service Max Vu subscribers only.

Vodacom and MTN South Africa have vehemently opposed OTT players in the mobile broadband market that compete with their voice and text services. This opposition arose as a reaction to the prominence of Facebook Mobile, Messenger and WhatsApp. Both operators clearly see OTTs as an existential threat and are hoping to counter it by offering attractive combined bundles and a wide range of their own zero-rated products.

The OTT services that they do offer either do not compete directly with their traditional services or are products that they have developed with local partners. For example, Vodacom zero rates their e-school application for all users while MTN zero rates entertainment sites. This helps demonstrate the dynamism in the mobile market and the strategies required by operators to remain relevant and profitable.

## Conclusion

New pricing strategies and products available on the market have clearly moved away from a singular tariff or price for services. For a customer to get the best product, they need to determine what it is they value and what works best for them from the options that service providers are pushing.

Cell C is leading the pack in terms of their customised products by offering higher-value products, cheaper-priced products and price-cutting products such as zero-rated Freebasics and an unlimited WhatsApp bundle.

Although prepaid products are flexible, this dynamic market makes it important for the consumer to be aware of the terms and conditions of all services in order to determine eligibility for a package and the accompanying benefits of changing to the package.

Though Telkom offers considerably cheaper on-net tariffs and data prices, it has not been able to exert pressure on its competitors to reduce prices, particularly in the data segment. Its market share of 2.6% indicates that its products are not resulting in a great march by subscribers to the operator. The quality of service, the cost associated with moving to a new operator and possibly brand perception are possibly the issues deterring price-sensitive customers from responding positively to the high-value product.

RIA has found that its approach of benchmarking voice and SMS prices in order to compare countries (as in the Voice and SMS basket and 1GB data basket) fails to explain how dynamic and innovative the mobile sector is. New strategies to retain revenues and shore up subscribers are continually being tested. The BVI is a critical tool in evaluating operator strategies in this dynamic market. A combination of the Voice and SMS user basket, the 1GB data basket and the BVI provides insight into which strategies are working and which need to be tested more thoroughly as well as the potential opportunities for smaller operators. While the value of promotions has not been determined, incumbent operators are using these to retain customers and defend their products from OTT services that are acting as substitutes for voice and SMS services.

Operators generally with a smaller voice market share are entering into relationships with global social network platforms to attract customers to data services from where their revenues will increasingly come. The supply-side assessment of pricing highlights price and offerings by operators that may be best for consumers. With the increasing availability of alternative means of connectivity, such as public WiFi and high speed broadband access at schools and colleges, there is need for a demand-side assessment of customer uptake and awareness to understand user access and use strategies.

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***\*The RIA African Mobile pricing portal is currently under construction. Please contact author to receive update on new portal launch and other pricing queries.***