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Consumers benefit from lower mobile termination rates

Mobile termination rates no longer pose an obstacle to competition. Cell C and Telkom Mobile have continued to place pressure on MTN and Vodacom to reduce their prices, even at the new higher rate of 20c.

Despite being less favourable to the smaller operators than those introduced in March last year by ICASA, the latest mobile termination rate (MTR) of 20c set following the legal review still allows Cell C and Telkom Mobile to compete with MTN and Vodacom's on-net[1] prices.

Table 1: ICASA MTR determinations		Oct-14	Oct-15	Oct-16
Old mobile termination rates	MTN & Vodacom	20c	15c	10c
	Cell C & Telkom Mobile	44c	42c	40c
	Asymmetry in %	120%	180%	300%
New mobile termination rates	MTN & Vodacom	20c	16c	13c
	Cell C & Telkom Mobile	31c	24c	19c
	Asymmetry in %	55%	50%	46%
Call termination regulations, 2014, pursuant to section 67(8) of the Electronic Communications Act no. 36 of 2005, as amended Rates in ZAR				

The termination rate asymmetry, though much lower than previously proposed, gives Vodacom and MTN good reason to charge more for off-net calls than for on-net calls.

[1] On-net calls are calls between subscribers of the same network, and off-net calls are calls between subscribers from one network to subscribers of another network.

The short-term cash flow benefit for Cell C and Telkom Mobile is unlikely to be significant. Revenue is a function of price multiplied by quantity. The asymmetry may result in higher off-net prices and thus lower off-net call volumes, and not more termination rate revenues as desired by the smaller operators. Vodacom and MTN can increase off-net prices for their dynamic pricing products (MTN Zone and Yebo 4 less) by giving fewer discounts.

ICASA would need to conduct a detailed traffic and effective price analysis to assess the impact of this regulation.

Mobile termination rates no longer pose an obstacle to competition

Generally, the 20c mobile termination rate for Vodacom and MTN is at about the cost of an efficient operator, and mobile termination rates no longer pose an obstacle to competition. Voice prices are likely to settle at lower levels in 2015.

Impact on Retail Prices

Advertised prices for Vodacom, Virgin Mobile and Telkom Mobile remained at the same level in the fourth quarter of 2014 for the cheapest prepaid product available for these operators.

Telkom Mobile, whose low end strategy had initially not been able to undercut Cell C, cut its tariffs in the third quarter of 2013 becoming the cheapest operator in the country.

In 2014 competition heated up between Cell C and MTN. Both decreased prices in the second quarter of 2014 through promotions (MTN's 1c per second and Cell C's 50c product) but then withdrew them again in the fourth quarter of 2014 to replace them with less

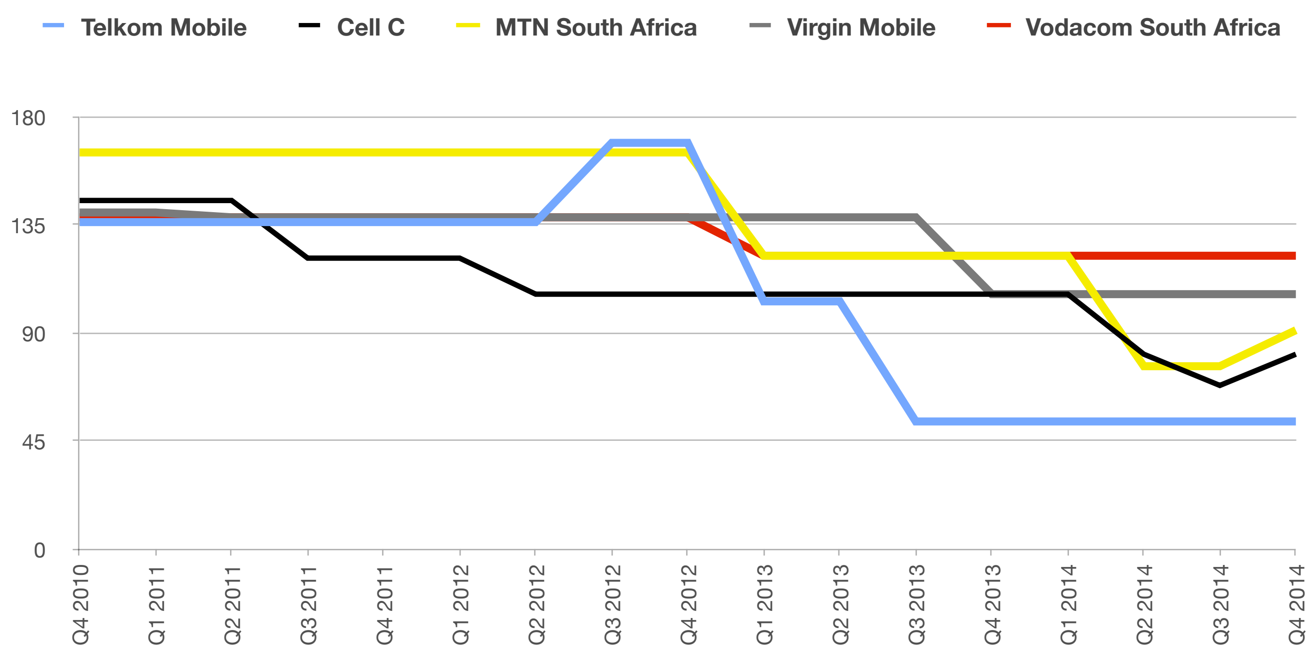

Figure1: Cost of cheapest prepaid mobile product for OECD-40calls-60SMS basket by operators in ZAR

generous promotions:. MTN's lowest tariff being Pay Per Second and Cell C's being 66c.

Historically MTN matched its prices with Vodacom, but when Vodacom reduced its prices following the first mobile termination rate reductions, MTN maintained their higher prices. This cost them handsomely with the loss of one million subscribers between 2013 and 2014.

With the haemorrhaging of their subscriber base, much of it to Cell C who had exploited the reduction in termination rates to increase market share, MTN has reduced prices since the interim and final MTR reductions last year.

Table 2: OECD mobile baskets, 2010 definition, 40 calls. Monthly call distribution, minutes and SMS

Country name	Cheapest product				% cheaper than dominant
	dominant operator		cheapest in country		
	USD	Rank	USD	Rank	
Kenya	0.98	1	0.98	1	Dominant is the cheaper
Egypt	2.69	2	2.69	3	Dominant is the cheaper
Sudan	2.83	3	1.06	2	63%
Ghana	3.58	4	3.11	4	13%
Ethiopia	3.8	5	3.8	6	Dominant is the cheaper
Mauritius	3.9	6	3.9	7	Dominant is the cheaper
Rwanda	4.28	7	4.28	8	Dominant is the cheaper
Tunisia	5.43	8	5.27	12	3%
Tanzania	5.7	9	4.7	10	18%
Algeria	5.91	10	5.91	14	0%
Nigeria	6.8	11	5.1	11	25%
Libya	6.97	12	6.97	17	Dominant is the cheaper
Uganda	7.71	13	6.69	16	13%
South Africa	**7.82**	**14**	**4.54**	**9**	**42%**
Namibia	8.62	15	7.53	19	13%
Sierra Leone	9.66	16	9.66	21	Dominant is the cheaper
Mozambique	10.06	17	10.06	22	Dominant is the cheaper
	Prices in USD for comparative purposes				

Looking at South Africa's performance on the African Pricing Transparency Index, the price basket of South Africa's cheapest product remained constant in ZAR in the fourth quarter of 2014 (the reduction is USD price is due to exchange rate fluctuations)

South Africa's cheapest product is five times more expensive than the cheapest product in Africa

While South Africa's prices have been hovering in the same range, prices in several other jurisdictions continue to fall. When compared to the rest of Africa, South Africa's cheapest product is five times more expensive than the cheapest product in Africa. The cheapest product from Kenya's Safaricom for the OECD basket is USD0.98. The cheapest product in South Africa, Telkom Mobile's Sim Sonke is 42% cheaper, at USD4.5, than the cheapest product from a dominant operator, MTN's Pay Per Second at USD 7.8.

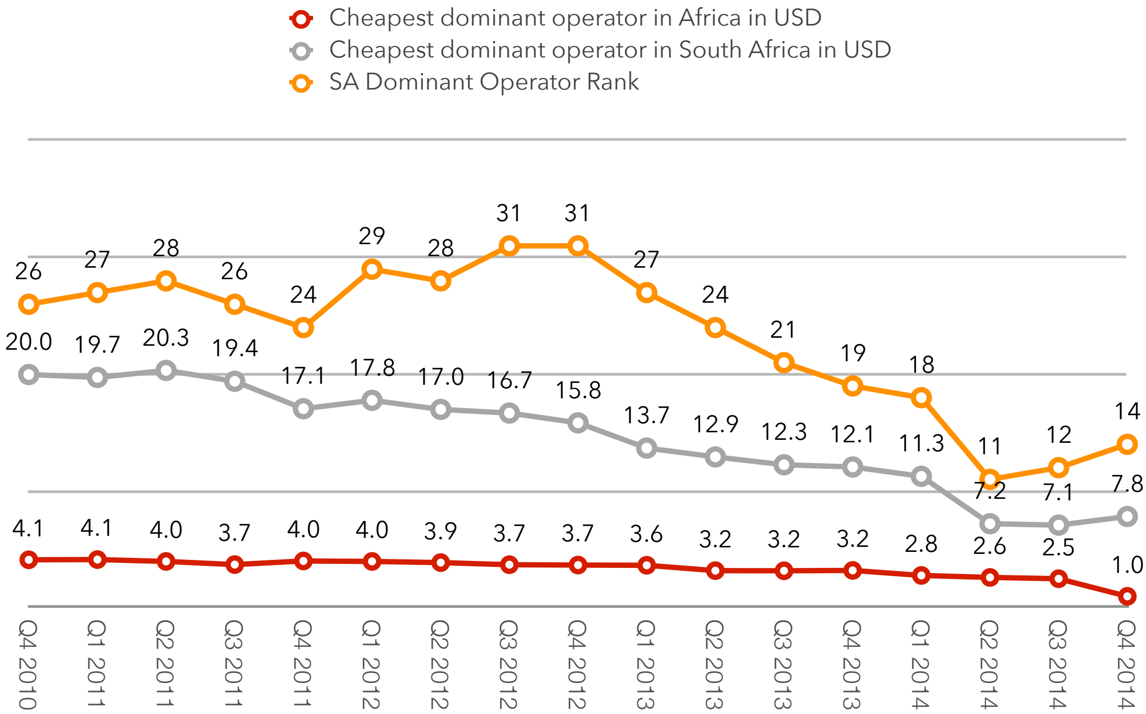

Figure 2: Ranking and cost of cheapest prepaid mobile product available from dominant operators for OECD 40 calls and 60 SMS basket

The change in the cheapest price by a dominant operator in the fourth quarter of 2014 shifted South Africa's dominant operator ranking from 12th to 14th position on the African Pricing Transparency Index.

In the previous quarter South Africa's dominant operator's cheapest product was only twice as expensive than the cheapest product from a dominant operator on the index, but in quarter four of 2014 it is close to eight times more expensive. This is explained by the removal of MTN's 1c per second product replaced by the R0.79 product, and the introduction of a cheaper product from Safaricom, Kenya's dominant operator.

On-net, off-net pricing

Cost-based MTRs remove the need to charge more for off-net calls

Mobile termination rates (MTRs) are an input cost for off-net prices. With MTRs at a level of the cost of an efficient operator there would be no need to charge more for off-net calls than for on-net calls.

An off-net call has two cost segments: call origination on own network and call termination on another network. An on-net call originates and terminates on the same network. With the MTR equal to the cost of termination on an operator's own network a cost justification for higher off-net prices falls away.

In South Africa,Telkom Mobile, the cheapest and smallest operator in the market, has an on-net tariff of R0.29 per minute and an off-net tariff of R0.75. The low on-net rate is not much of a risk to Telkom Mobile since most traffic will be off-net given its minute market share.

Cell C prepaid products do not differentiate by destination and neither do most of MTN's and Vodacom's prepaid mobile products, except for dynamic pricing products.

The price discrimination for Vodacom's and MTN's dynamic pricing products, however, cannot be assessed based on advertised prices since discounts are granted base station by base station, based on mathematical algorithms that may either maximise profit, optimise network throughput or drive customer acquisition at various points in time.

Only a detailed traffic and effective price analysis could assess the impact of the termination rate regulation.

Mobile Broadband

South Africa remains expensive for mobile prepaid broadband while at the same time its 3G network coverage and average download and upload speeds are high

Competition in mobile and fixed telecommunication is shifting from voice to data. Data revenues continue to grow while voice revenues are in decline, as they are around the world.

Research ICT Africa has started to track mobile broadband data prices across Africa. In 2014 mobile broadband prices were collected quarterly across 21 African countries for a 1GB monthly prepaid usage basket. This will be expanded during 2015.

While data prices are on a steep decline in most African countries covered by Research ICT Africa, they have been constant in South Africa at R149 in 2014.

The dynamic bundling observable in other countries such as Namibia has not yet been offered by South African operators. MTC in Namibia offers a prepaid product, Aweh Aweh Gig[2], that requires a weekly activation fee of R30 for which the user gets 700 minutes, 700 SMS and 1 GB of data. This translates to R120 per month for 2,800 minutes, 2,800 SMS and 4GB of data, which is less than what South Africans pay for 1 GB. The model is quite simple: MTC is profitable at a price of R120 per user and does not care about how many minutes its customers use, or how many SMSes they send. This gets close to the flat-rate pricing which is becoming more and more common in other markets.

[2] http://www.mtc.com.na/packages/pre-paid/aweh-aweh-gig

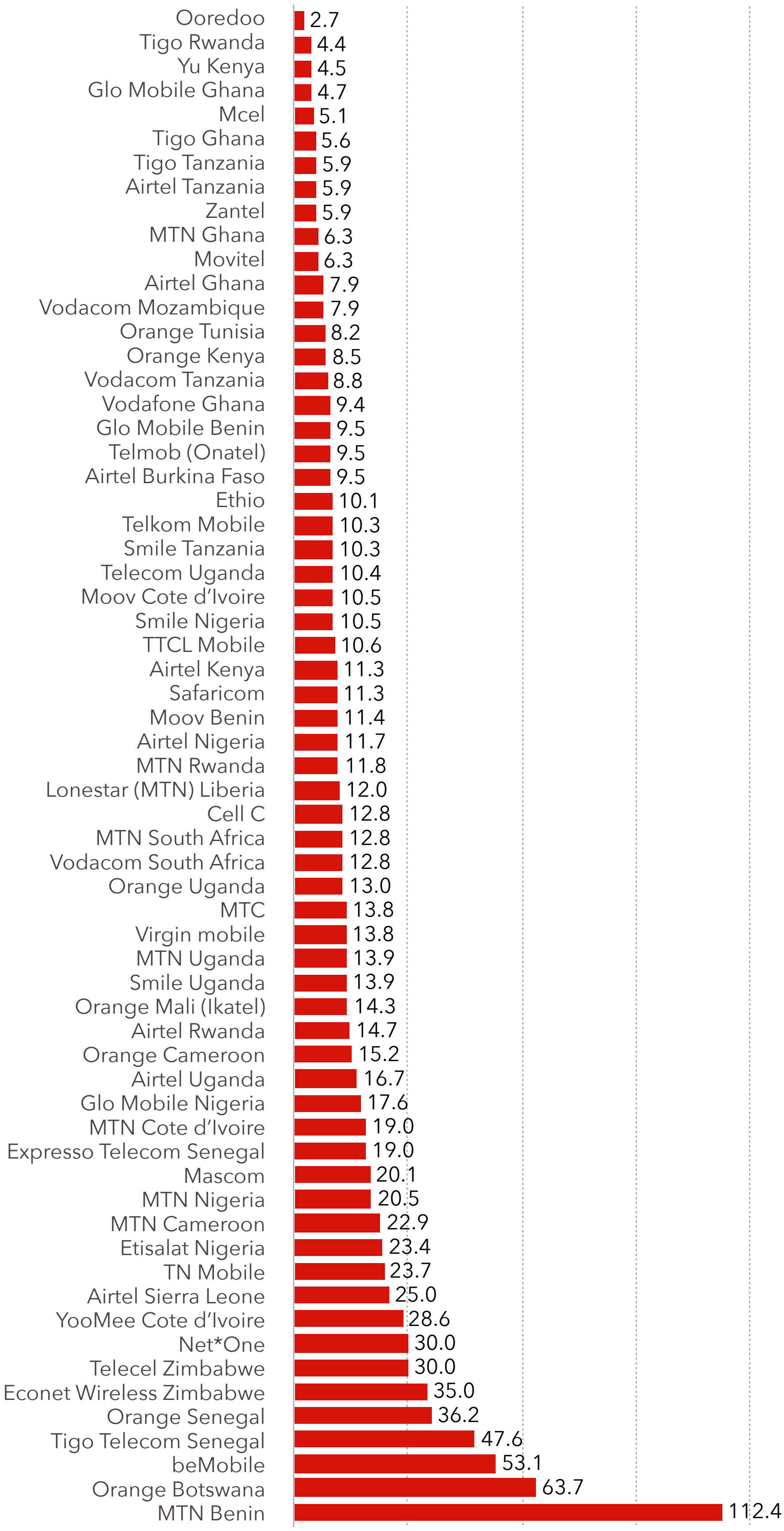

Figure 3: Q1 2015 USD Prices 1GB basket

Value for Money Index

Just as voice and data need to be understood in relation to each other, so do data prices and quality. Data is a far more difficult service to get meaningful indicators on and looking at these in relation to each other as the Value for Money Index, is one way of doing so.

While data prices are uneven, the quality of service is also a critical factor in determining which operator to select. The need to assess prices against quality of services has resulted in the Broadband Value for Money Index.

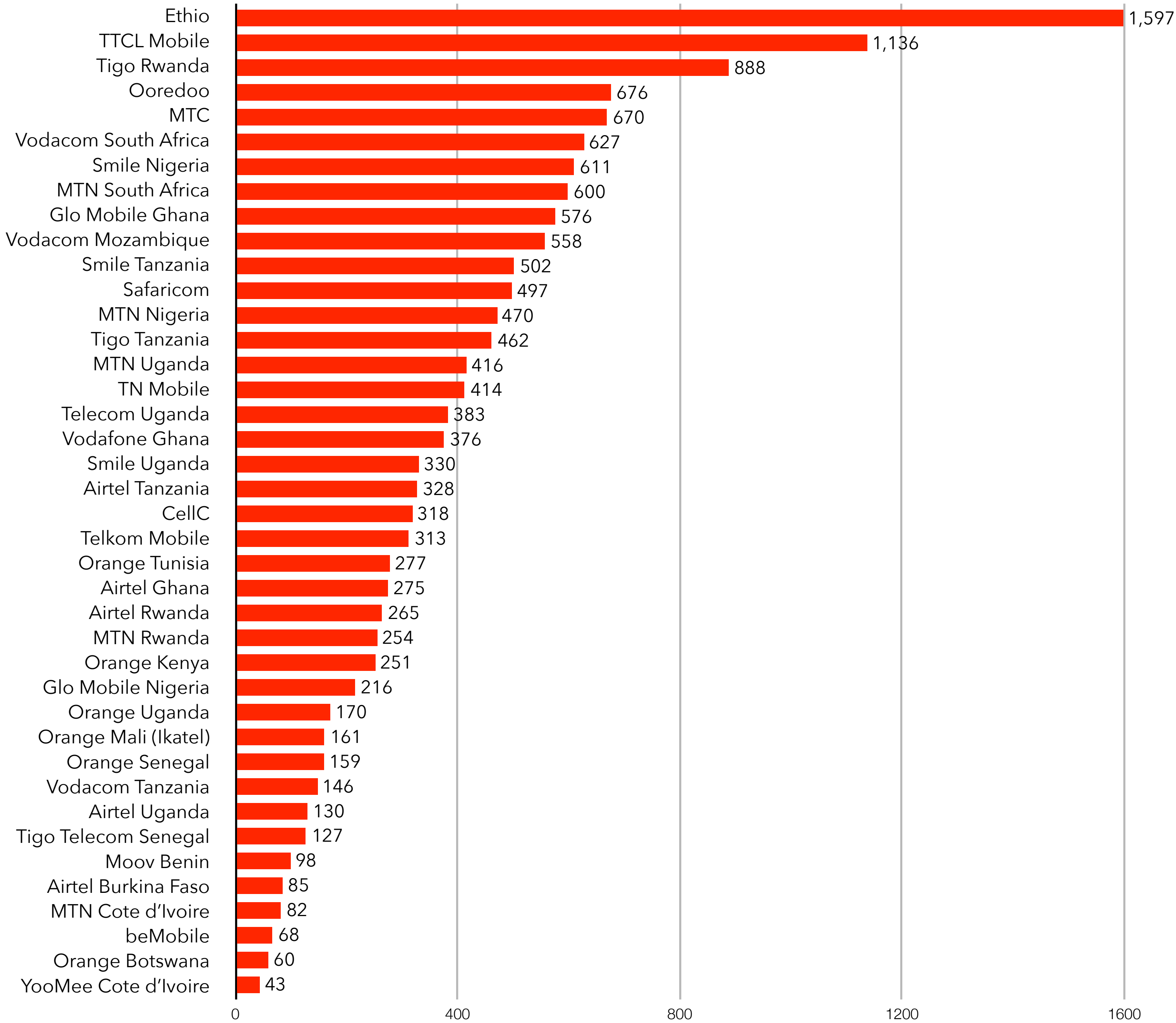

Figure 4: Value for Money index Q2 2014 (average speed in kbps/1GB cost in USD)

Vodacom and MTN are are not cheap but among the top 10 operators in terms of value for money

The Broadband Value for Money Index measures the average download and upload speeds as measured by the NetIndex (Ookla) ,and divides this average by the price of 1GB data use per month. A higher ranking on the index is attained either because the average speed is higher, or the price is lower, or both.

MTN Cameroon has, for example, the second lowest data price (figure 3) but due to poor download and upload speeds achieves only a low ranking on the Value for Money Index. Cameroon does not yet offer mobile broadband but instead offers EDGE or 2.5G speeds.[3]

Although Vodacom and MTN are amongst the more expensive operators in Africa, they fare well in terms of value for money and are among the top 10 operators.

Cell C's ranking has continued to drop since its initial ranking at 9th place in the first quarter of 2014, dropping to 21st place in the second half of the year.

Conclusion

While mobile prepaid voice prices in South Africa have come down significantly in the last year, from 99c to 66c per minute. The 50c promotion may just have been an attempt by MTN and Cell C to test the price elasticity of its subscribers. Vodacom, the dominant operator, is currently the most expensive operator and Telkom Mobile the cheapest for mobile prepaid voice.

South Africa is in 14th position on the RIA Mobile Pricing Index in terms of the dominant operator and 9th in terms of the cheapest product. This is a major improvement on their rankings in the 30s in previous years, but they still are not leading on the continent as South Africans have come to expect.

Regulation of wholesale mobile prices has brought down retail prices. The question that remains is what can be done in the broadband wholesale market to bring down the cost of data so that the internet becomes accessible to more people.

Operators are already adjusting their business plans to deal with the changing broadband landscape, regulators will need to keep up.

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[3] See RIA Cameroon Pricing Policy Brief 2014 which explains the licensing debacle that granted a 3G monopoly to Viettal, stifling the development plans of its incumbents MTN and Orange. The brief was part of a lobby to have the monopoly overturned which successfully happened in November 2014.