Africa Prepaid Mobile Price Index 2012: South Africa

South Africa compares poorly to 46 other African countries for prepaid mobile affordability. Ranked only 32, South Africa is now way behind countries where the regulator has enabled competition by enforcing cost based mobile termination rates that have resulted in falling prices for consumers. Only a couple of years ago South Africa and Namibia shared the same termination prices and similar end users prices. Namibia is now enjoys amongst the cheapest mobile prepaid prices in Africa following the slashing of its termination rates which are now close to cost, enabling real pricing pressure on incumbents.

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SA ranks 32 in Africa

South Africa is only ranked 32 of the 46 countries for which mobile pricing data was available on the web in Africa for prepaid mobile. Kenya, Mauritius, Egypt and Namibia are amongst the cheapest.

Neighbouring countries several times cheaper

SA prepaid mobile pricing is three times more expensive than Namibia for the low OECD basket.

Lack of pass through of price reductions to end users

In South Africa even the modest reductions in termination rates imposed have generally not been passed on to end users.

CellC cheapest

Both later market entrants Cell C and 8ta have attempted to introduce cheaper products but these have not forced down prices more generally

SA operators do not compete for price

Dominant mobile operators have been able to withstand pricing pressure following price cuts by late entrants and prices have settled around the levels the dominant operators have set.

Introduction

There is very little pricing transparency in South Africa to allow for any meaningful assessment of prices either by consumers or the regulator. Operator tariffs are lodged with the regulator and approved by default after the prescribed period in which ICASA has to respond expires. These prices are never publicly assessed nor is an analysis of the prices either nationally or continentally published by the regulator. Lowest price price calculators being set up by regulators or by consumer groups in countries such as the UK do not exist locally. With over 100 voice products in the market alone, no consumer can truly assess the best priced package for their purposes.

OECD 2006 Baskets

To overcome comparative pricing complexities at least partially, the Organisation for Economic Development and Co-operation (OECD) has developed pricing baskets methodology. The OECD basket methodology is the heart of this price comparison. The OECD (2006) defined usage baskets are displayed in the Table 1 . Generally, basket methodologies have strengths and weaknesses. Strengths include the ability to compare products of an operator, comparing cheapest products of operators and comparing cheapest products available in a country. This allows benchmarking of countries, operators and products.

There are two main weaknesses in the OECD methodology:

- The methodology only includes dominant operators, the 2010 baskets of only the two largest operators. Price changes following regulatory interventions would mainly be expected from small operators that attempt to gain market share through lower price. On the other hand, dominant operators reflect what people actually pay better than comparing the cheapest product available in a country where this service may only be used by a fraction of the population.

Table 1: OECD mobile basket Definition 2006: Monthly call distribution, minutes and SMS

Destination	Time	Low	Medium	High
Fixed	Peak	4,75	12,29	28,56
	Off Peak	2,48	5,90	9,04
	Off Off Peak	2,67	6,39	10,00
On-Net	Peak	11,98	31,80	80,60
	Off Peak	6,24	15,26	25,52
	Off Off Peak	6,74	16,54	28,21
Off-net	Peak	5,24	15,19	44,60
	Off Peak	2,73	7,29	14,12
	Off Off Peak	2,95	7,90	15,61
SMS On-Net		21,45	32,50	35,75
SMS OFF-Net		11,55	17,50	19,25

- OECD baskets do not take into account the number of people on each package and actual minutes of use for each package. No one is an average user and actual consumption patterns of an individual might only poorly be reflected. The same basket is used for all operators while subscribers of smaller operators are likely to have a different off-net/on-net ratio compared to larger operators.

Table 2 above addresses this inconsistency by comparing the cheapest basket for a low user available in a country and the same basket of from the dominant operator (i.e. using the OECD 2006 basket).

The sixth column of the table compares these two baskets and shows the difference between the cheapest basket of the dominant operator and the cheapest basket across among all operators in a country. This demonstrates the absence or presence of pricing pressure on the dominant operator in the market.

Table 2: January 2012 OECD Low User Basket costs in USD

Country Name	Cheapest product from Dominant Operator		Cheapest product in country		% cheaper than dominant
	Rank	US$	Rank	US$	
Mauritius	1	2,39	5	2,39	Dominant is cheapest
Ethiopia	2	2,61	7	2,61	na
Namibia	3	2,74	8	2,74	Dominant is cheapest
Kenya	4	2,85	1	1,90	33,4%
Egypt	5	2,91	9	2,91	Dominant is cheapest
Sudan	6	3,53	6	2,46	30,5%
Ghana	7	3,87	11	3,28	15,1%
Libya	8	3,90	14	3,90	Dominant is cheapest
Rwanda	9	4,28	3	2,16	49,4%
Guinea	10	4,62	2	1,93	58,1%
Sierra Leone	11	5,04	13	3,88	23,1%
Uganda	12	5,51	10	2,94	46,6%
Congo Brazaville	13	5,63	17	5,63	Dominant is cheapest
Tanzania	14	5,82	12	3,75	35,7%
Algeria	15	6,21	4	2,28	63,3%
Tunisia	16	7,24	18	6,46	10,9%
Senegal	17	8,11	24	8,11	Dominant is cheapest
Botswana	18	8,16	20	7,66	6,0%
Sao Tome &Principe	19	8,21	25	8,21	Dominant is cheapest
Nigeria	20	8,40	16	5,22	37,8%
Madagascar	21	8,45	27	8,45	Dominant is cheapest
Mali	22	8,78	29	8,78	Dominant is cheapest
Burkina Faso	23	8,88	28	8,53	4,0%
Benin	24	9,10	22	7,92	13,0%
Mozambique	25	10,00	33	10,00	Dominant is cheapest
Chad	26	10,14	34	10,14	Dominant is cheapest
D.R. Congo	27	10,37	19	7,62	26,5%
Côte d'Ivoire	28	10,41	36	10,41	Dominant is cheapest
Cameroon	29	10,44	35	10,28	1,5%
South Africa	30	11,07	32	9,83	11,2%
Togo	31	11,18	38	11,18	Dominant is cheapest
Zambia	32	12,05	26	8,22	31,8%
Niger	33	12,30	31	9,77	20,6%
Central African Re-public	34	12,33	39	12,33	Dominant is cheapest
Angola	35	12,50	41	12,50	Dominant is cheapest
Swaziland	36	12,87	44	12,87	na
Malawi	37	13,01	45	13,01	Dominant is cheapest
Zimbabwe	38	13,48	43	12,67	6,0%
Morocco	39	13,56	42	12,53	7,6%
Gabon	40	16,11	30	9,09	43,5%
Lesotho	41	16,51	40	12,43	24,7%
Cape Verde	42	18,15	46	18,15	Dominant is cheapest
Gambia	43	na	15	4,33	na
Mauritania	44	na	21	7,77	na
Liberia	45	na	23	8,09	na
Seychelles	46	na	37	11,04	na

Note: na = not applicable.

Several of the countries that are experiencing higher levels of competition show a price difference. In Kenya, *Orange Kenya* has cut both on net and *Orange*-fixed off peak prices between May 2011 and June 2011 while the dominant operator, *Safaricom*, which dominates both the voice and data market with a market share of 75.9% and 92.18% respectively (CCK, 2011, September 2010 data) increased both on-net and off bet tariffs between September 2011 and October 2011.

In Tanzania, Rwanda and Uganda, the state owned operators are also the cheapest in the country. In Tanzania, TTCL is the cheapest operator and it managed to keep its prices at a lower level than the dominant operators (*Airtel* and *Vodacom*) throughout the year. Also,since January 2011 *Rwandatel* is the cheapest in Rwanda and it further reduced its tariffs in August 2011. In Uganda, Uganda Telecom, has the lowest tariffs in the country and it seems not to be affected by price competition keeping the same tariff plan throughout the year. In South Africa new entrant *8ta*,which is the mobile arm of Telkom South Africa, namely the partially state-owned incumbent fixed operator, kept its prices at a lower level compered to its competitors until August 2011, when Cell C introduced 99c on-net rates, a drop from ZAR 1.50 to 99c, becoming the cheapest operator.

In other countries, such as Mauritius, Namibia, Egypt, Sierra Leone, Libya, Congo Brazzaville, Senegal, Sao Tome & Principe, Madagascar, Mali, Mozambique, Chad, Cote d'Ivoire, Togo, Central African Republic, Angola, Malawi and Cape Verde the dominant operator is the cheapest.

Figure 2 shows that in Namibia, Chad, Congo Brazzaville, Mali, and Senegal, the cheapest product available from dominant operators, using the low OECD user basket, decreased between USD0,7 (in Senegal) and USD11 (in Namibia) in 2011. The most dramatic shift in prices is that of Namibia. This is as result of the aggressive price reduction by dominant operator MTC, following systematic interconnection rate reductions towards cost based termination rates. In June 2011, the dominant operator launched a 38 Namibian cents campaign for calls across networks with 100 free SMS a day subject to recharging of N$5 (5 ZAR).

Togo which is a duopoly market and Egypt, which has a market structure relatively concentrated with two dominant operators (Vodafone and Mobinil) and a third small operator (Etisalat) although the dominant operator is also the cheapest, increased prices. The cheapest product available from the dominant operators increased by 0.5 US$ in Togo and by 0,6 US$ in Egypt.

In Malawi, TMN was the cheapest operator in January 2011 but it increased its peak tariffs in February 2011 and in July 2011. As a result, the cheapest product available in the country increased by U$5.7 (low OECD user basket) between January 2011 and January 2012. This is another example of a state run fixed-line operator trying to compete with the dominant mobile operator (Airtel) by challenging on price but failing to sustain it over time.

Ethiopia's low prices reflect a politically determined price by the single state owned operator. The negative outcomes of even low prices if they are not cost based is that they do not generate sufficient surpluses to invest in the extension of the network. As a result while Ethiopia has amongst the lowest prices they also have the lowest penetration rate on the continent, with the service main available to the urban elite.

South Africa is only ranked 32 of the 46 countries for which mobile pricing data was available on the web in Africa for prepaid mobile. Even small neighbour Namibia is much cheaper. The cheapest product available in South Africa is 3.6 times more expensive compared to the cheapest product available in Namibia.

South Africa

South Africa has five mobile operators: 8ta, CellC, MTN, Vodacom and virtual network operator, Virgin Mobile. Fourteen products were analysed over the period January 2011 to January 2012. 8ta was the cheapest operator in the country until August 2011, when Cell C introduced the '99c' tariff, dramatically reducing on-net prices from R1,50 and becoming the cheapest operator in the country.

Using the OECD low user basket, Vodacom kept its prices at the same level throughout the year slightly above 8ta's prices having adjust their prices moderately following the termination rate reduction in March 2011. Virgin Mobile which operates virtually on the CellC network primarily kept its tariffs at the same level as that of

CellC until August 2011 but it did not reduce the prices when CellC did. MTN is the most expensive operator and the cheapest product available from MTN remained at constant level during 2011.

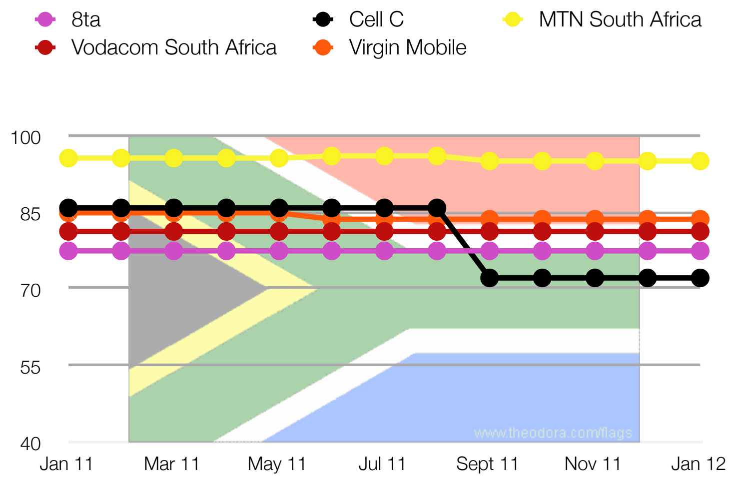

Figure 1 South Africa, Low User basket in ZAR

MTN zone products were priced as 70% of advertised advertised rates. The actual average price that consumers pay is not being stated by MTN and may change from call to call based on cell traffic.

Average Prices

Although Cell C and 8ta sought to undercut the prices of other operators with lower pricing of their cheapest packages, the average prices remained unchanged. The average is calculated as the average of per minute pre-paid call rates for peak, off- peak and off-off-peak rates for on-net, off-net and fixed-line calls in local currency. 8ta's prepaid voice service had the lowest average rates due to their 65 cents calls rate to fixed-line phones.

Table 3 Average prices in ZAR

Operator	Product	Average Voice Jan-11	Average Voice Jan-12	Price Change
8ta	Prepaid Voice	1,22	1,22	0,00
Cell C	Easychat 99c		1,33	na
	Easychat allday	1,50	1,50	0,00
	Easychat per second	1,82	1,82	0,00
	Easychat standard	1,67	1,67	0,00
MTN	Call Per Second	2,02	2,04	-0,02
	Call Per Second Peak	1,99	1,99	0,00
	Muziq	2,83	2,83	0,00
	One Rate	1,75	1,75	0,00
	Zone	1,50	1,51	-0,01
Virgin Mobile	Prepay	1,66	1,49	0,17
Vodacom	4U Prepaid		1,72	na
	Big Bonus Voucher		1,51	na
	Prepaid AllDay per minute	1,40	1,40	0,00
	Prepaid AllDay per second	1,70	1,77	-0,07
	Vodacom 4 less	2,79	2,79	0,00
	Day saver		1,75	na
na = not available blank = website did product did not exist at the time.				

Mobile Termination Rates

There is overwhelming international evidence that cost-based termination rates encourage competition and more affordable pricing. Cost based termination rates remove market distortions and provide efficient investment incentives. However the benefits appear only to really to kick-in once prices are nearing cost - not when the reduction still leaves the price way above the cost of an efficient operator. The net effect of fairer competition will be lower cost of communication, better services and more equitable returns on investment for all operators.

Call termination is a monopoly. While call origination can be made competitive in numerous ways, there is simply no alternative to terminating a call on the network of the operator who owns the number a caller is trying to reach. Termination rates should thus be based on the cost of an efficient operator.

South Africa has introduced a glide path toward a termination rate in March next year of 40c but by then this will still remain above what is globally considered to be the cost of an efficient operator. In Namibia mobile termination rates have been cut from N$1.06 to 0.30 in less than two years.

Table 4 Mobile Termination glide Path

Product	Peak	Off Peak
March 2011	73c	65c
March 2012	56c	52c
March 2013	40c	40c
Source: Government Gazette No. 33698, 29 October 2010. Call Termination Regulations		

On net off-net / Peak Off-Peak price differentials

The reduction in termination rates in South Africa in March last year represent a real reduction in total cost of off-net calls, and as such should have resulted in reduction of off-net call prices.

Table 5 displays the average difference between off-net and on-net rates.

- Virgin is the only operator that passed the MTR cuts on to end users, but only in the off peak tariff which dropped from R 1,99 to R 1,30. However, it increased off-net peak prices from R 1,99 to R2,60 and in January 2012 has the highest off-net differential with R 1,61.
- There was no change to Cell C's existing services but new products were introduced at a lower on net price than their existing services. While Cell C, who enjoyed asymmetrical termination rates, had previously had the same rates for off-net and on-net calls, their new on net products were 51c less than the off net.
- In the case of MTN, in June 2011 Call per Second on net peak tariffs decreased by 30c, while off-net peak tariffs decreased by 10c. Off net-off peak tariffs however increased by 20c and off-net off off peak tariffs increased by 11c.
- Vodacom increased the off-net off peak differential by 10 cents for the prepaid All-day per Second tariff.

Table 5 On net Off net differential

Operator	Product	Jan-11	Jan-12	Price Change
8ta	Prepaid Voice	0	0	0
Cell C	Easychat 99c		0,51	na
	Easychat allday	0	0	0
	Easychat per second	0	0	0
	Easychat standard	0	0	0
	Call Per Second	0	0,17	-0,17

Table 5 On net Off net differential

Operator	Product	Jan-11	Jan-12	Price Change
MTN	Call Per Second Peak	0	0,00	0
	Muziq	0,50	0,50	0
	One Rate	0	0	0
	Zone	0,35	0,35	0
Virgin Mobile	Prepay	1,00	0,74	0,26
Vodacom	4U Prepaid		0,18	na
	Big Bonus Voucher		0,26	na
	Prepaid AllDay per minute	0	0	0
	Prepaid AllDay per second	0	0,10	-0,10
	Vodacom 4 less	0,29	0,29	0
	Day saver		1,75	na

Conclusion

The regulation in March 2011 by ICASA of the termination price that operators charge each other to terminate calls on each others networks has not had the intended outcome of creating a fairer competitive environment and a reduction in prices for consumers. With the introduction of 8ta into the market in October 2010 there were some prices fluctuations, with 8ta prices the cheapest in the market (using the OECD basket) just below Vodacom. Cell C,who together with 8ta enjoyed asymmetrical terminates rates, undercut these prices in September 2011 and becoming the cheapest in the market. However the other operators have withstood this pricing pressure and retained their prices which remained relatively static since then.

Mobile pre-paid prices demonstrated that the dominant mobile operators, MTN and Vodacom, are sufficiently entrenched in the market not to be affected by price cutting efforts by late entrants CellC and now 8ta. Unlike MTN and Vodacom CellC slashed its prices to compete with 8ta. This however had little impact on the incumbents who, having reduced only their on-net prices marginally have keep their basket price constant over the last year at nearly a third more than CellC and 8ta.

MTN has had the highest price for the OECD low user basket at between R95,05 and R 96,04 while Vodacom been constantly at R81,26. By the end of 2011 the average price of the low user basket was R81,91, with 8ta the lowest at an average at R77,45 and Cell C at at R72,15.

MTN has constantly remained the most expensive in the OECD low user basket price. In the high user category its price was R57 a month more than its rival Vodacom and R84 more than 8ta. Only Cell C was R31 less than 8ta. From September 2011 these prices levels have remained stable with little evidence of competitive pressure on pricing.

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