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## **SA telecoms: 'Cheaper is not always better'**

**Johannesburg, South Africa, May 2010**

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**May, 2010** - South Africa's mobile telephony offerings may not be as expensive as the general perception may suggest, and while there is potential scope for further reduction in pricing, the issue does warrant broader consideration.

This is one of the key findings of a new whitepaper entitled *South African Telecoms in 2010: High stakes for the big winners*, published by Delta Partners, Africa and the Middle East's largest telecoms investment and advisory organisation.

According to Andrew Snead, Senior Partner for sub-Saharan Africa at Delta Partners, much has been said in 2009 regarding the price of mobile communications in South Africa.

"From a consumer perspective, the comparative effective rate per-minute supports the commonly-held view that prices remain relatively high and there is room for further price reductions," he says.

"Whilst this is possibly true one should also consider three other factors," he adds.

Firstly, in relative terms, the cost of entry to mobile services in South Africa is comparatively low, and this is an important consideration in the overall equation.

Operators offer very low-cost SIM starter packs that are often pre-loaded with additional benefits, whilst also offering highly subsidised handsets, even in the prepaid space, which is a rare practice worldwide.

"Consumers have been taught by operators that handsets are effectively *free* while also offering attractive post-paid promotions - including DVD players, video cameras and game consoles - to entice new customers, raising separate issues surrounding customer lifetime value," Snead says.

Secondly, when viewed in a global context, South Africa is not a particularly densely-populated country; it has a medium degree of urbanisation and has high energy prices (with unreliable sources that call for costly back-up alternatives such as generators), all of which contribute to the cost per minute.

This is why a direct per minute price comparison with countries such as India and Singapore should be avoided.

Thirdly, there is a significant degree of investment taking place that should, if executed properly, deliver highly reliable, fast and innovative mobile services to the South African market.

Markets with the lowest price-per-minute are often characterised by low levels of investment, innovation and quality.

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“There are grounds to suggest prices could be further reduced in South Africa although the debate warrants broader consideration, beyond price-per-minute, which is too one-dimensional.

“Authorities should be careful about what they ask for. Overly aggressive reductions might actually impede the long-term objectives of price competitiveness, quality and innovation,” Snead says.

## **Value creation**

South Africa is still in a stage of relatively high capital investment in terms of telecommunications infrastructure, which adds additional challenges to the network operators’ cash flow generation.

Operators will need to squeeze as much return on invested capital as possible and increase their overall efficiency in order to remain competitive.

One strategy to accomplish this, Delta Partners says, is that operators need to move from rhetoric to reality regarding infrastructure sharing and optimised sourcing.

“Tower sharing has been popular and a well-understood topic of debate for some time but the market is yet to fully exploit the opportunities, despite recent announcements that MTN and Telkom, as well as Cell C, are involved in various deals,” Snead explains.

“Not enough is being done at a time when the savings potential is at its greatest,” he points out.

Secondly, operators need to address the high subscriber acquisition costs in the form of handset subsidies and sales channel commissions.

“Our internal benchmarks suggest that subscriber acquisition costs in South Africa are materially higher than some of its peers. The ‘middle-men’ have historically extracted a disproportionate level of the value and perhaps the time has arrived for operators to get a little tougher. The market is maturing and operators must shift their mindset from revenue and gross additions to shareholder value,” Snead explains.

Operators that place a genuine emphasis on customer experience and churn will become the true winners of 2010.

Finally, in a further attempt to monetise their investment; operators may seek to drive wholesale revenues, as illustrated by the recent roaming deal between MTN and Telkom.

“Beyond such mega-deals, operators could also position themselves to serve the smaller niche data players with wholesale-type solutions,” Snead says.

“We expect the wholesale data market to grow significantly given the low level of penetration and demand for high-bandwidth services within the Government, corporate and small and medium enterprise (SME) space,” he continues.

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## **The future of telecoms - data and mobile payments**

With fixed minutes in decline and very low Internet and broadband penetration rates, it is clear the next area of growth will be mobile data.

Broadband subscribers are expected to reach over nine million by 2013, representing an annual growth of over 20% for the next four years.

"2010 is likely to be a very eventful year with the arrival of high-speed HSPA infrastructure that will undoubtedly play a key role in shaping the battle for broadband and service superiority," Snead adds.

With a very significant unbanked community, South Africa also offers a material opportunity within the mobile-payment (m-payment) and money-transfer/remittance space.

"Though operators have attempted m-payments in one form or another," Snead adds, "the sector remains relatively emerging and fragmented.

"However, this will change in 2010 as both banks and operators address the key issues such as ease of use, reliability and access.

"Vodacom is rumoured to be in the process of launching M-Pesa, which has the potential to catalyse the market," Snead says.

In Kenya, M-Pesa, available through Safaricom, has close to 10 million users and over two million M-Pesa transactions are processed daily.

Whilst Safaricom's very strong market position and local Government support has been key to this success (potentially explaining why M-Pesa has been less successful in Tanzania), it is clearly an effective proposition.

"The various elements of the South African telecommunications industry are likely to combine and result in an exciting and dynamic year for this market," Snead concludes.

## **For further information**

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## **About Delta Partners**

Delta Partners is the leading TMT advisory and investment firm in emerging markets. With more than 160 professionals the firm operates across 50 markets in the Middle East, Africa, Eastern Europe and Emerging Asia. Delta Partners provides three synergistic services: management advisory, corporate finance and investments from its offices in the UAE, Bahrain, South Africa, Spain and Singapore. Delta Partners delivers tangible results to its clients and investors through its exclusive sector focus on telecom, media and technology, and a unique approach to services, combining strategic advice and a hands-on pragmatic approach.

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