

MOBILE

TECHTRENDS

# High stakes

## Winners take all in the mobile game

AS THE MOBILE MARKET continues to bloom in South Africa, the stakes for the players at the top of the sector become more substantial. But it's a tough game to play: disruptions are rife, regulatory pressure is on, and new players – such as Telkom Mobile and reinvented players, like Cell C – are plotting to take down the kings of the castle – Vodacom and MTN.

International research and consulting group Delta Partners is looking to provide some guiding light in SA's frenetic telecoms sector and last week published a "white paper" called *South African Telecoms in 2010: high stakes for the big winners*, in which it makes some key observations.

Andrew Snead, senior partner for sub-Saharan Africa at Delta Partners, says industry growth last year was hampered by a mix of economic, regulatory and

other dynamics: but those also brought some clarity. The Regulation of Interception of Communications and Provision of Communication-Related Information Act (Rica), which requires cellular providers to register their customers, has had a negative impact. For example, declining subscriber numbers.

But Snead says Rica has also had the effect of reducing the number of non-active SIM cards in the market. It's also reduced the prevalence of single cellular subscribers carrying multiple cards. "That's led to a more realistic view of how many subscribers the networks have."

That said, Snead says Rica is failing in its goals, however noble those objectives are. "Rica is supposed to bolster security but the system itself has paved the way for black-market sales of registered SIM cards. There's no limit on how many SIM cards any one user can register and it's also easy to register with just a passport, in which case a proof of residence isn't required. So what that does is it enables people to buy many SIM cards, register them all fraudulently and then resell them."

The net effect is that cellular providers are being hampered in getting their services to market in a legitimate way, while the impact on crime is highly debatable. The white paper also points out while SA's broadband market grew significantly

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There's room for further price reductions

last year, it continues to lag its international peers. But it's a vital component, as it represents the most significant growth area for the year ahead, along with mobile payment solutions. Broadband is highly lucrative in terms of market potential, although there's a lot of work to be done.

Snead says mobile players are investing heavily in building HSPA data networks. Vodacom and MTN have already implemented the technology, Cell C plans to and Telkom is already some way down the path. "Their challenge is to maintain return on invested capital," says Snead. "Especially if prices erode."

On the topic of prices, Snead says more discussion needs to happen and that the focus of those talks could do with some broadening. There's a fixation on reducing costs in SA and regulator Icasa's announcement about the reduction in interconnect rates is the most recent example of how pressure is being placed on providers to reduce prices.

Says Snead: "When you look at the effective price per minute then you could argue there's room for further price reductions. However, we believe people should also look at the other constituent factors that should influence the overall decision and timeframe for further regulatory price

reductions on the interconnect side. Some of those factors would include the cost of entry. If you look at the SA market, the cost of entry in terms of handsets and starter packs, in relative terms, is quite low compared with other markets.

"Second, we think people should consider the cost to serve. Comparisons are often made with other markets comparing price per minute, but we tend to compare the SA market with markets like India, where there's a greater degree of urbanisation, which greatly impacts the cost to serve for networks. SA is less urbanised and therefore more expensive to serve – and that should be taken into account." Other factors include promotions. But the message is clear: there's more to the price discussion than just interconnect.

The research also mentions the Soccer World Cup, pointing out it can't be excluded from discussions about telecoms, with the event sparking a positive frenzy of infrastructure upgrading and expansion. It also makes the point that over the top players – such as Google and Apple – are taking the South African market more seriously and that those will become more relevant at a local level.

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