



# Rise of the underdogs - South Africa's smaller operators increase contract values.

A year on from the mid-contract price increases by Vodacom, MTN and Cell C that disgruntled many consumers, we reflect on the post-paid market in South Africa to see what has transpired:

- The value offered by South Africa's smaller operators has increased, most notably for Cell C and Me&You mobile.
- Smaller operators are tailoring their offers to increase consumer value.
- The value offered by Vodacom and MTN has decreased.
- Vodacom and MTN have experienced a loss in postpaid subscribers.

## Introduction

South Africa's dominant operators, Vodacom and MTN, have increased the average price of postpaid contracts in Q1 2016, following the mid-contract price hikes that took place in Q2 2015. Vodacom and MTN's price increases have taken the form of increases in monthly subscriptions, or decreases in the quantity of bundled minutes, SMSes and data. While a few of the plans offered by Vodacom and MTN operators have remained unchanged or have decreased in price, most plans have undergone direct or indirect price increases.

All is not doom and gloom, however, as smaller players in the market have increased their contract value offerings across the price spectrum. Contract users stand to gain the most in value by selecting from a range of these smaller operators and MVNO's, especially Cell C, Me&You Mobile and Telkom Mobile.

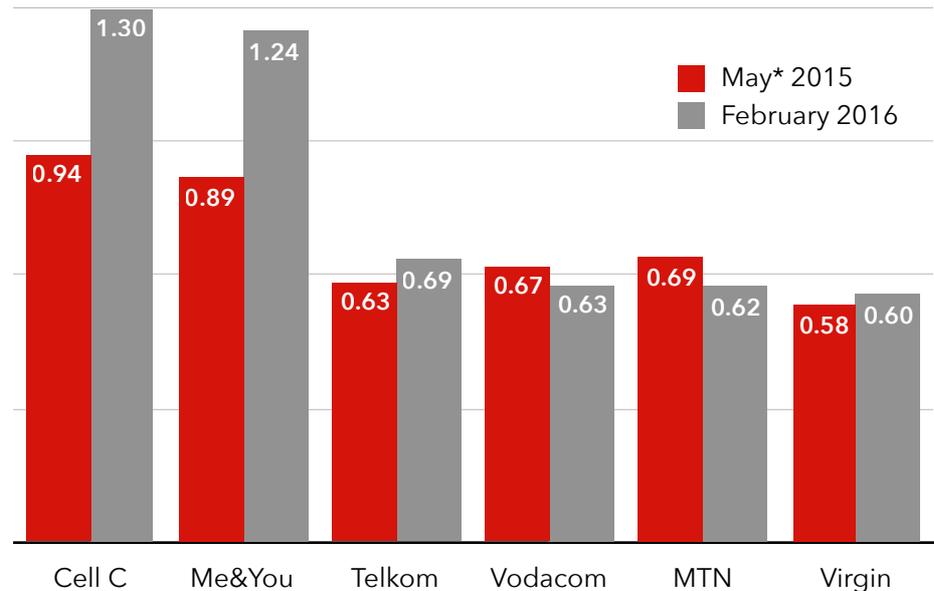
Research ICT Africa uses its unique tool, the Postpaid Value Index (PVI), adapted to a data intensive and smartphone heavy environment, to analyse these postpaid price changes.

## Rise of the underdogs - increases in the Postpaid Value Index (PVI) of smaller operators

The Postpaid Value Index (PVI) measures the value a customer gets for the monthly subscription price they pay in terms of bundled minutes, SMSes

and data<sup>1 2</sup>. When the price of a plan increases, or there is a decrease in the number of bundled minutes, SMSes or data, the associated value of that plan declines on the PVI. Both MTN and Vodacom's average value offerings on the PVI have dropped between Q2 2015, when the mid-contract price increases were instituted, and Q1 2016. The average value offerings for all the smaller operators, Cell C, Me&You Mobile, Telkom Mobile, and Virgin Mobile have increased in the same time frame (Figure 1). As of Q1 2016, Cell C offers the highest average contract value at an average PVI of 1.3, followed by the MVNO Me&You Mobile at an average PVI of 1.24.

**Figure 1: Ranked Average PVI between Q2 2015 and Q1 2016**



\* May 2015 - Postpaid price increases took place

The decrease in the value offering of Vodacom by 6%, from 0.67 to 0.63, can be attributed to an increase in the price of all its UChoose products (price increases took place in Q4 2015), and its Smart product offering (price increases took place in Q3 2015). This is despite decreases in the price of its UChoose Smart offering in Q4 2015.

MTN's average product value has also decreased. This can be attributed to increases in the prices of its MTN My Choice, MTN MyChoice Top Up and MTN Off Peak products. MTN's offerings on the PVI rank second to last when including MVNOs, and last when only comparing MNOs.

Telkom mobile offers greater average contract value on the PVI than Vodacom and MTN in Q1 2016, with an average PVI of 0.69. Virgin Mobile offers the poorest average contract value on the PVI of 0.60 for Q1 2016.

<sup>1</sup> See Methodology box.

<sup>2</sup> The PVI makes use of USD exchange rates for inter-country comparisons. For this brief the average exchange rate for February 2016 was applied to both Q2 2015 and Q1 2016 to keep the index comparable by accounting for the depreciation of the rand over the last three quarters.

## Top three contracts by price bracket

Table 1 lists the top three performing contract products as measured by the PVI, by monthly price ranges for Vodacom, MTN, CellC, Telkom Mobile, Virgin Mobile and Me&You mobile. The products are first grouped by price, then ranked, and the top three PVI's are selected. Quality of service (call drop rates, connectivity, etc) is not factored into the calculations as there is a lack of publicly available data for this purpose.

Table 1: Top three operator contract offerings (PVI) by monthly price range Q1 2016					
Price Range	Rank	Top Thee Operators	Product	PVI	Value of offering relative to third ranked product in price range
R00-R50	1	Me&You	Structure your own 25	2.6	17.0
	2	Telkom Mobile	Smart Saver 50 sim only	0.26	1.7
	3	Telkom Mobile	SmartPlan 50 with sim only	0.15	-
R51-R100	1	Cell C	Epic 150	1.52	1.1
	2	Cell C	Epic 100	1.45	1.0
	3	Cell C	Smart Chat 1GB	1.44	-
R101-R150	1	Cell C	Epic 200	1.55	1.5
	2	Me&You	Structure your own 150	1.19	1.2
	3	Vodacom	uChoose Flexi 150	1.01	-
R151-R250	1	Cell C	Smart Chat 3GB	1.72	1.2
	2	Cell C	Epic 350	1.53	1.1
	3	Cell C	Smart Chat 2GB	1.44	-
R251-R350	1	Cell C	Epic 500	1.47	1.5
	2	Me&You	Structure your own 275	1.06	1.1
	3	Vodacom	uChoose Flexi 350	1.00	-
R351-R450	1	Cell C	Smart Chat 6GB	1.91	1.6
	2	Cell C	Epic 650	1.45	1.2
	3	Me&You	Structure your own 450	1.19	-
R451-R600	1	Cell C	Smart Chat 8GB	1.91	1.9
	2	Vodacom	Smart More Data 4GB	1.04	1.0
	3	Vodacom	uChoose more data 4GB	1.00	-
R601-R800	1	Cell C	Epic 1000	1.43	1.2
	2	Vodacom	Smart More Data 6GB	1.22	1.0
	3	Vodacom	uChoose more data 4GB	1.17	-
R800-R1000	1	Telkom Mobile	Completely Unlimited sim only	4.58	17.3
	2	cell C	INFINITY SELECT	1.73	6.5
	3	Vodacom	Red Advantage	0.26	-
1000+	1	MTN	My Sky	1.24	1.2
	2	MTN	My Choice top Up 1500 or Anytime 1500	1.00	1.0
	3	MTN	My Choice Top Up 1200 or Anytime 1200	1.00	-

Cell C scores the highest on the postpaid value index for 7 price ranges. Its value offerings are between 1 and 6.5 times better than the third best product offered in those price ranges.

Cell C offers the best contract value in South Africa, with the highest PVI in seven monthly price ranges between R51.00 and R800. Cell C's Epic: 150, 200, and 500 contract offerings offer between 1.1 and 1.5 times greater value than the third ranked product in the R51-R100<sup>3</sup>, R101-R150<sup>4</sup>, and R251-R350<sup>5</sup> price ranges.

Cell C's Smart Chat 3GB, 6GB and 8GB packages offer the most value for the customer with between 1.5 and 1.9 times more value than the third ranked product in the R151-R250<sup>6</sup>, R351-R450<sup>7</sup>, R451-R600<sup>8</sup> price ranges. The average PVI of Cell C's contracts in Q1 2016 is up 38% since the mid-contract postpaid price hikes in Q2 2015 (Figure 1).

The virtual mobile operator Me&You Mobile<sup>9</sup> offers the best value in the contract pricing category under R50 in South Africa (Table 1). Its R25.00 structure your own value offering consists of R50.00 "free" airtime and 100MB of data lasting a month. Me&You also offers the second highest average PVI in South Africa in Q1 2016, with an index ranking up 39% from Q2 2015 (Figure 1).

## Methodology

The PVI measures the value a customer gets for the monthly subscription price in terms of bundled minutes, SMSs and data. It does not take into account out-of-bundle rates. OECD usage baskets that RIA uses for prepaid products are based on out-of-bundle rates. The PVI complements this by looking at post-paid value of South Africa operators, together providing a comprehensive view of the market.

The PVI adds the value of bundled voice minutes, SMSs and data and divides it by the price. The value of bundled minutes is derived by multiplying the number of minutes with a fixed USD value inclusive of tax. The PVI is constructed from the perspective of a smartphone / OTT user. One MB of data is more valuable than 1 minute voice call or a single SMS. One minute is valued at 0.2 US cents, 1 SMS at 0.1 US cent, and 1 MB data at 1 US cents and 1 MB dedicated to Social Media at 0.5 US cents. An offering with 50 minutes, 500 SMSs and 1000MB data bundled, with a price of 10 US\$ will then have the following PVI:

$$\text{BVI} = (50 \times 0.002 + 500 \times 0.001 + 1000 \times 0.01) / 10 = 1.06$$

This means that the consumer gets 1.06 times the value of the bundle offering. The higher the score in the index, the higher the value. We used the same USD values across all operators and countries for comparative purposes. Unlimited calls, SMSs or data contracts were made comparable to capped packages by applying the following rules:

- Unlimited minutes = 240 minutes per day or 7200 minutes per month
- Uncapped SMS = 240 SMSs a day or 7200 per month.
- Uncapped data = the smaller value out of the fair terms of use policy limit and 30 GB.

Generally RIA captures postpaid products without handsets. In cases where handsets are attached to the contract the effect would be an underestimation of the actual value offering.

Bundled minutes and SMSs are not distinguished by destination (on-net or off-net) or time period (peak or off-peak).

Handsets are not taken into account, and where available only SIM-only products are captured.

<sup>3</sup> Cell C's Smart Chat 1GB is ranked 3rd.

<sup>4</sup> Vodacom's uChoose Flexi 150 is ranked 3rd.

<sup>5</sup> Vodacom's uChoose Flexi 350 is ranked 3rd.

<sup>6</sup> Cell C's Smart Chat 2GB is ranked 3rd.

<sup>7</sup> Me&You's Structure your own deal worth R450.00 is ranked 3rd.

<sup>8</sup> Vodacom's uChoose more data 4GB is ranked 3rd.

<sup>9</sup> To analyse Me & You mobile, a selection of benchmark bundles were chosen to represent choices a consumer would make. The bundles were chosen at random, and data for the same bundles are updated each quarter.

**Telkom Mobile's Completely Unlimited SIM only contract offers South African postpaid consumers the best value for money.**

Telkom Mobile offers the best higher-end plan, with its Completely Unlimited Plan offering unlimited calls, unlimited SMSs and unlimited data (30GB) at a cost of R999.00 per month. This offers over twice the value on the PVI of Cell C's Infinity Select product which is also unlimited but offers only 10GB of data. Telkom Mobile's Completely Unlimited plan offers 17.3 times more value than Vodacom's Red Advantage plan in the same price bracket. Overall, Telkom Mobile offers the third best average contract value in South Africa - its average PVI is 0.69 on the index is up 9.5% in value since Q2 2015 (Figure1). Telkom Mobile's out-of-bundle rates are also exceptionally well priced, boasting an incredibly low out-of-bundle data rate of R0.29 per MB, unlimited on-net minutes and, in the case of some of its plans, free data<sup>10</sup>.

Vodacom's average PVI ranking puts the operator fourth in the postpaid mobile market value offerings. Vodacom does not rank first in any price ranges according to the PVI (Table 1), but comes in between second and third in the price ranges R101-R150, R251-R350, R451-R600, R601-R800 and R800-R1000.

Vodacom's best competitive postpaid product is its Smart More Data 6GB, which boasts a PVI of 1.22 for a monthly subscription of R699.00 offering 6GB of data and 75 minutes at the flat voice call rate of R1.75<sup>11</sup> per minute across all networks. Vodacom's Smart More Data offers a better voice call rate per minute than its Uchoose More Data and Uchoose Flexi products.

Vodacom's UChoose More Data (4GB, 6GB) and its UChoose Flexi (150 and 350) product offerings rank between second and third in their price ranges. However, users should be aware that the UChoose More Data packages consist of a higher flat call rate (in- and out-of-bundle) of R1.85 to any network including Vodacom itself<sup>12</sup>. Vodacom's UChoose Flexi products boast an even higher flat call rate of R1.90 per minute to all networks<sup>13</sup>.

MTN offers the second worst value (coming in 5th) on the South African contract market Q1 2016, with an average PVI of 0.62 and lower value offerings only offered by Virgin Mobile. The only MTN product that offers significant value is its My Sky product in the price range R1000+. For R1399 a month, My Sky offers unlimited voice minutes, and SMSes and 10GB of data at a PVI of 1.24. However, this is exactly what the Telkom Completely Unlimited (30GB) and Cell C's Infinity select (10GB) products are offering at the much lower price of R999.00 each - a whole price bracket lower.

**MTN Sky's unlimited product is not great value for money - Telkom and Cell C offer similar products that are R400 cheaper.**

<sup>10</sup> Note that out of bundle rates are not captured in the PVI.

<sup>11</sup> <http://www.vodacom.co.za/vodacom/shopping/plans/smart-more-data-6gb>

<sup>12</sup> [http://www.vodacom.co.za/vodacom/shopping/plans/uchoose-more-data-4gb?cid=srch\\_10\\_dsgn\\_4271&qclid=CjwKEAiAo7C2BRDgqODGq5r38DsSJAAv7dTPUrBuoekK7CnXNLb4gFu1m-ZYj9WjGwSGhyzYEo63PBoC-4Hw\\_wcB](http://www.vodacom.co.za/vodacom/shopping/plans/uchoose-more-data-4gb?cid=srch_10_dsgn_4271&qclid=CjwKEAiAo7C2BRDgqODGq5r38DsSJAAv7dTPUrBuoekK7CnXNLb4gFu1m-ZYj9WjGwSGhyzYEo63PBoC-4Hw_wcB)

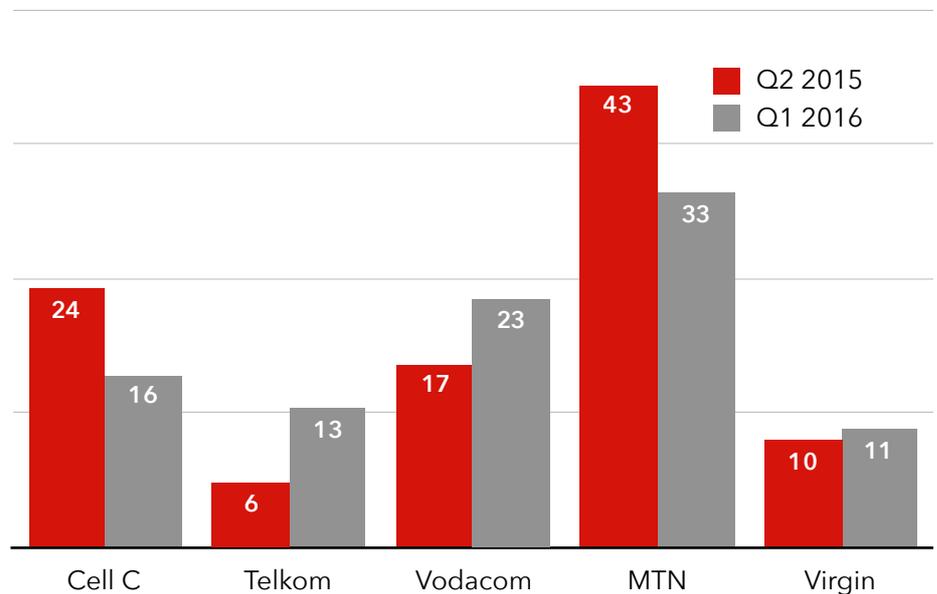
<sup>13</sup> Vodacom exhibits high out of bundle rates for contract subscribers especially on its data heavy contracts - this could be Vodacom's way of incentivising bundle purchases and in bundle data and voice use.

## Consumer Choice

The number of contract offerings in the market<sup>14</sup> has decreased in total between Q2 2015 and Q2 2016, from 100 to 96 total offerings (Figure 2). Telkom mobile, Virgin Mobile and Vodacom all increased the number of contracts on offer between Q2 2015 and Q1 2016, while Cell C and MTN have reduced the number of postpaid products on offer.

Telkom Mobile's increase in offerings from 6 in 2015 to 13 in 2016 bodes well for consumers who seek variety. In Q1 2016, Telkom Mobile introduced its SmartSaver Plan product suite which offers more value than its initial product offering, SmartPlan. For example, Smart Saver 50 (SIM only) offers 75MB of data, 50 all network minutes and an SMS promotion, offering more value than a previous product called SmartPlan 50 (SIM only) which included 50 all network minutes, no data, and no SMSes<sup>15</sup>.

**Figure 2: Number of contract offerings by operator Q2 2015 Vs Q2 2016**



Cell C has rationalised the number of contract offerings available to consumers in a bid to streamline offers. The decrease in the number of postpaid products offered by Cell C is the reason for its increase in average value on the PVI, since it has rationalised its less valuable Straight Up product offering. Such product rationalisation makes it easier for consumers to make cost effective choices.

MTN has decreased the number of contract products on offer and Vodacom has increased the number of contract products it offers. Both these entrenched operators are trending toward lower value offerings to consumers. MTN and Vodacom offer the highest number of products on the market, but several products are very similar, making it difficult for consumers to select products that suit their requirements.

<sup>14</sup> Me&You mobile has been excluded from this analysis because there are over 70 product combinations to choose from.

<sup>15</sup> It does however include unlimited Telkom Mobile to Telkom Mobile calls.

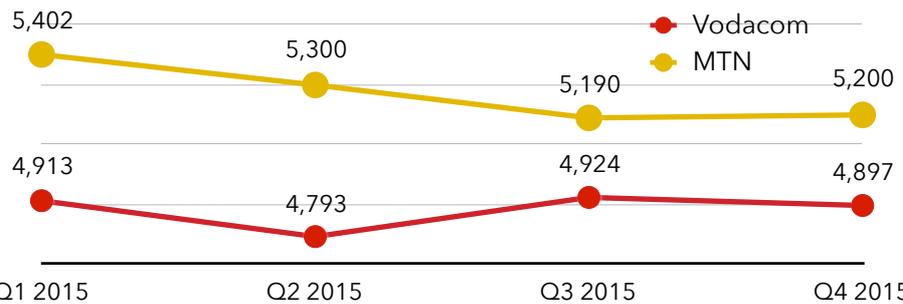
## Are users voting with their feet? Subscriber and revenue trends for Vodacom and MTN

### Postpaid Subscribers

Did SA's biggest operators increase prices at the same time last year to avoid post-paid churn? It does not look like this was the case for MTN or Vodacom - high prices mean that both are at risk of losing even more postpaid subscribers.

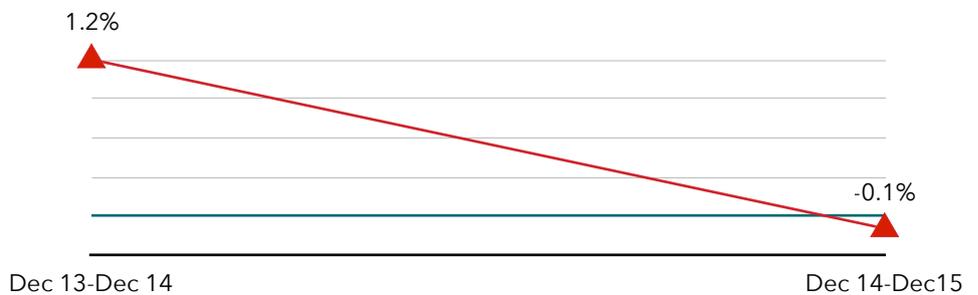
Vodacom's postpaid subscriber segment has declined slightly between Q1 2015 and Q4 2015. Even after the mid-contract price hikes<sup>16</sup> Vodacom gained subscribers between Q2 and the end of Q4 2015 (Figure 3).

Figure 3: Quarterly postpaid subscribers (000's) 2015



However, Vodacom has seen a decrease in the growth rate of its postpaid subscriber base over the last two years (Figure 4). Between December 2013 and December 2014, Vodacom's postpaid subscriber base increased by 1.2%. However, between December 2014 and December 2015 its subscriber base contracted by -0.1%. MTN, on the other hand, has consistently lost contract subscribers between Q1 and Q4 2015<sup>17</sup>.

Figure 4: Vodacom annual change in postpaid subscribers 2013-2015



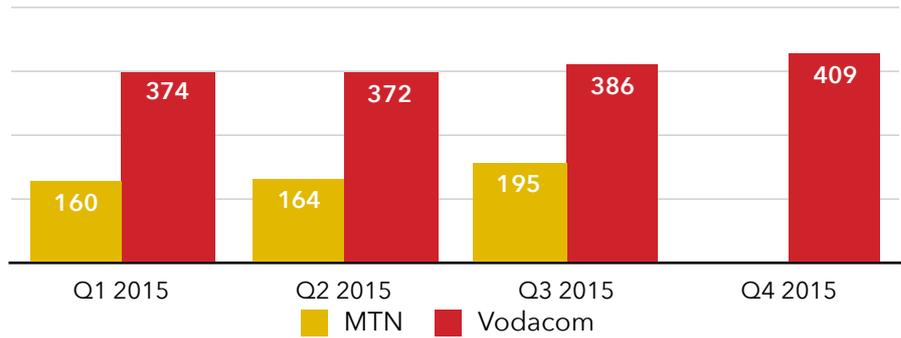
Contract revenues are a safe source of income for operators - with over 46% of Vodacom's Service revenue in S.A coming from its postpaid base (Vodacom, 2015).

### Postpaid ARPU

For both MTN and Vodacom, the quarterly contract ARPU in 2015 has consistently increased. The large increases that took place between Q2 and Q3 ARPUs are a result of the mid-contract increase in prices. Increasing ARPUs for MTN are also due to losses in its subscriber base, which were evident from Q1 to Q3. Contract revenues are a safe source of income for operators, and because of long subscriber contract terms (usually 24 months) fluctuations in contract ARPU's are less volatile than prepaid ARPUs.

<sup>16</sup> between Q2 and Q3 2015.

<sup>17</sup> Note that MTN did not report exact figures for its Q4 2015 postpaid subscribers - it listed it as 5.2 million.

**Figure 5: Quarterly Contract ARPU 2015 (ZAR)**

## Conclusion

Vodacom and MTN have increased the prices of a large proportion of their contract products in Q1 2016. This increase in price has decreased the average value of their postpaid offerings more than the drop in value that occurred after the mid-contract price increases in Q2 2015. Vodacom's average value on the PVI fell by 6% between Q2 2015 and Q1 2016 and MTN's by 10%.

MTN has seen a strong decrease in its contract subscriber base since Q1 2015. Losses in subscriber numbers have temporarily inflated ARPU for MTN. MTN ranks fifth out of six operators on the average ranked PVI for Q1 2016.

Vodacom ranks fourth on the PVI. Vodacom exhibits high prices that have increased even further since last year with the result that its contract ARPUs are increasing, but Vodacom's postpaid subscriber growth rate is slowing, with an average postpaid growth rate of -0.1% between December 2014 and December 2015.

Both MTN and Vodacom face secure revenue streams from their postpaid subscriber base. However, contract subscribers are not completely price insensitive and are likely to vote with their feet upon contract cancellation. This leaves MTN and Vodacom with not much scope to sweat their postpaid users further for additional revenue gains.

This quarter we have witnessed the rise of the underdogs - all smaller South African operators have increased the value of their offerings. Overall Cell C and Me&You Mobile offer the highest average PVIs to consumers this quarter.

Cell C boasts the highest contract value offerings for plans between R51 and R800 according to RIA's PVI. This increase in consumer value comes after Cell C chose to revise its contract offering by eliminating low value products. Me&You Mobile offers great value to consumers and offers them the autonomy to choose what best suits them.

Telkom mobile offers the highest value to consumers in the high-end price range with its Completely Unlimited Contract. It's product offerings on the other end of the scale - under R50 - are also highly competitive.

There is also no shortage of choice for consumers when it comes to postpaid products. While choice is not a challenge, consumers should be

cognisant of high in- and out-of-bundle rates for voice calls and data when entering a postpaid contract.

The South African market is undergoing subtle changes as smaller operators customise their products and provide greater value in order to attract subscribers. The entrenched operators - MTN and Vodacom - are slowly losing market share as subscribers opt for better value products from smaller operators. New subscriber data released in the upcoming quarters will shed more light on these trends.

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