

# **VODACOM OPPORTUNITIES AND CHALLENGES**

**By**

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**"Due to the confidentiality of the information in this study it will be restricted for a period  
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## **CHAPTER 1 INTRODUCTION**

### **1.1 Introduction**

The need for communicating while on the move has made mobile communication the fastest growing sector of the telecommunications industry.

Cellular technology developed and continues to develop around four distinct phases. The first being simple communications and messaging. The second phase – Informational - is currently in its peak and slowly starting to decline. The third phase is still growing strongly. This phase, called the transactional phase, will focus on mobile banking, data and fax capabilities and e-commerce transactions. The fourth and final stage is in its infancy and will focus on mobile solutions. During this phase the mobile office will gain popularity, with e-commerce solutions and full mobile integration (Deloitte Consulting, 1999).

In part two the focus will fall on the Telecommunications industry in Africa. In part three the focus will fall more specifically on South Africa. The growth of the industry as well as future prospects will be described briefly.

In part four the South African cellular landscape will be described and analysed. In this section the focus will fall on the industry structure, the industry growth and technology. Reference will also be made of the possible new entrant to the market.

Vodacom currently has the biggest share of the South African cellular market. In part five of the report an overview of the company and its structures will be provided. In this section the strategy formulation process, as well as some financial results will also be discussed.

## **1.2 Background of research**

There are currently more than 400-million cellular subscribers worldwide. That means that cellular now accounts for over 30% of all telephone connections. By the end of 2002, this should increase to around 50% - a remarkable achievement for an industry that is less than 20 years old. Rapid advances in technology are driving the market, by commercial opportunities and by falling prices. Cellular grows at 50% per year, fixed lines by just 6% and there are similar statistics for the migration of voice from fixed line to mobile by 2002, mobile telecommunications will predominate and may well become the largest segment in the intelligent network market. Society as a whole will benefit from individuals being contactable from any location and while on the move. The need for mobile communications is becoming a normal part of business life, with users ranging from the multinational executive to the local plumber (Sunday Times, 2000).

This renaissance is also evident in the African telecommunication market: growth in main telephone lines in 1997 was the highest in over ten years, the number of mobile cellular subscribers almost doubled, and twice as many African countries were connected to the Internet by mid-1998 compared to the beginning of 1996.

Almost twenty new mobile cellular networks came online in Africa in 1997 and 1998, a clear indication of the dynamism of this market. The number of cellular subscribers in the region neared the two million mark in 1997, probably surpassed three million by the end of 1998 and is forecast to reach over 7.5 million by the year 2002. There are currently no less than 12 million subscribers in South Africa alone.

Telecommunications in South Africa is a thriving industry, contributing to more than 7 per cent of GDP. It is expected to show even more vigorous growth in the new regulatory environment created by the Telecommunications Act (RSA, 1996), which has been hailed as one of the most advanced of its kind in the world (Department of Communication 2000).

The South African government's vision is to bring about universal service by increasing quality telephone connections, and to make access affordable. The United Nations

estimates that more than half the world's people live more than two hours away from a telephone. In parts of South Africa there are remote villages some 24 hours away from a telephone. A new form of poverty is thus looming in the developing world –“information poverty”. The gap between the "information rich" and the "information poor" is widening. The former has better access to resources and opportunities, enhancing the global phenomenon of the rich growing richer and the poor poorer. In an increasingly information-driven world, South Africans' competitive ability will to a large degree depend on their ability to access and exchange information globally (Department of Communication 2000).

### **1.3 Motivation for research**

The average African cannot yet afford the cost of an individual telephone connection. Furthermore, the majority of the region's inhabitants live in rural areas where telephones are few and far between. Therefore governments should focus on providing wide-scale reasonable access to telephones by adopting policies that call for the availability of a telephone within a certain distance. This requires a better understanding of the spatial characteristics of those without telephones (Mbendi, 2000).

Widespread public telephone availability is the cornerstone of a universal access policy and more relevant measurements of commitment to accessibility for the region include public telephone density and the share of public telephones to total telephone lines. A growing number of countries realise this and are implementing policies to enhance the supply of public telephones either by establishing targets that operators must meet or by allowing the private provision of public telephones. An example of the former is South Africa, where the two cellular operators have been mandated to install 29,500 community public telephones. In addition, the fixed-operator, Telkom, must install 120,000 payphones between 1997 and 2002 as part of its license conditions (Mbendi, 2000).

The last few years have been a period of significant growth in the African telecommunication landscape. Economic revival, regulatory reform and private sector involvement are fuelling this upswing. A significant development is the rapid growth in mobile cellular with the number of networks doubling over the last four years.

Ironically the characteristics of mobile cellular – personal use and mobility – stand in stark contrast to the existing situation in Africa. The majority of Africans live in rural areas where poor transport places limitations on their mobility. Further most Africans cannot afford a personal telephone service. Policies are needed to extend shared access such as programmes to increase the availability of public telephones by franchising their operation to private entrepreneurs, obligating incumbent and new operators to install public telephones in rural and disadvantaged areas and promoting widespread use of pre-paid cards. These types of initiatives, involving local private business people, will be just as important as the more visible large-scale privatisations in alleviating telecommunication access shortages and making the telecommunication recovery underway sustainable and beneficial to the majority of the region 's inhabitants (Mbendi, 2000).

Vodacom's expansion into the rest of the African continent is paramount to its success and survival in the ever-evolving industry of cellular technology. Highlighting the corporation's strengths and challenges over its relatively short but profitable existence can only serve as a spring board to even greater heights, not only in Africa but globally.

#### **1.4. Value of the research**

The study will highlight the opportunities, strengths, weaknesses of the cellular industry. It will also assist in providing strategic direction based on historical strategies and world class strategies or best practices adopted by other cellular companies in the world.

The benefits will include seizing opportunities or minimising the weaknesses and trying to formulate a strategy that will ensure the success of Vodacom in the future. It will also provide an eye opener to the Vodacom group in terms of its strategies and help highlight focal points with a vision of steering Vodacom in the direction of achieving long term growth.



### **1.5 Problem statement**

Vodacom is not nearly achieving the market penetration in Africa as a cellular provider as compared to other providers. MTN already has successful operations in Uganda, Rwanda and Swaziland and is in the process of securing licenses in Cameroon and Nigeria. With the saturation of the South African market and the focus changing towards Africa, Vodacom may experience difficulty entering these markets when another cellular provider is already present in a particular country (Insight 2000).

The Telecommunications Act requires SATRA among others to:

- Strive for the growth and development of a telecommunications environment that will pro-actively promote economic growth.
- Correcting past imbalances by for example encouraging participation by large portions of the population that was previously marginalised (Satra 2000).

It is especially the second requirement that poses a challenge for the existing cellular network providers. Mr. Nape Maepe chairperson of SATRA stated at the Cellexpo Africa '99 seminar that the third network operator has to be owned substantially by historically disadvantaged, women and disabled. The aim is to bring these people in the mainstream of the economy. He has stated a problem with the higher cost that a pre-paid customer has to pay per minute than a person who is on a contract and who can afford a higher cost. It is expected of the new operator to understand these issues and take opportunities to assist the previously disadvantaged.

The challenge for Vodacom is clear – to balance pure business considerations with the aim to maximise profits, with decisions to comply with policies of the Government of the day. Some of these have been stated in the Joint Economic Development Plan Agreement signed 30 May 1994. One of the aims is the social and economic upliftment of disadvantaged communities. Emphasis is also placed on training of South African citizens, job creation, and participation in international linkages, foreign investment, and using export credit finance for import products.

Vodacom does not have the same strong brand name as in their earlier years of operation. The image of a competitive differentiator does not hold true anymore, and it is therefore very important that all promises and statements made through advertising campaigns are supported in the customers' actual experiences.

### **1.6. Objectives of research**

The purpose of this report is to identify the challenges and opportunities the cellular revolution poses for Vodacom. This will be done against the backdrop of the revolution taking place in the cellular industry in South Africa in general.

Vodacom is constantly looking at ways to become a winning company, which includes past successes, however does this mean Vodacom will succeed in the future?

This study will try to highlight the strategies of the past, recommend and or advise on new strategies.

New technology and regulations and expansions of Vodacom will be benchmarked using other cellular companies in the world, this will provide a comparison of Vodacom to other companies and how Vodacom can adapt their business to ensure that the service and products are of a world class quality.

### **1.7. Research methodology**

Explorative: Qualitative

I will augment my knowledge of Vodacom's history, strategy, technology and strengths by interviewing the managing director and other relevant directors.

This interview process will also be accompanied by a questionnaire regarding how the directors perceive the future of Vodacom.

Questionnaire design: A self-administered questionnaire will provide the most cost effective information on Vodacom. Investigative questions such as, "Does Vodacom have a strategy for the future?" "How does it compare with other world class cellular companies?"

A combination of open and closed ended questions will be used. Personal interviews will be carried out with the questionnaire. I anticipate a maximum of 15 questionnaires or interviews will be conducted.

A sample of two other cellular companies will be used as a comparative analysis to benchmark Vodacom performance and challenges.

Videos or presentations and Internet sites representing the history or life and future of Vodacom will be analysed to obtain the necessary information.

Measurement will include formulating the ordinal data and a comparison established between Vodacom's performance and other companies.

A combination of rating and ranking scales will be used to analyse the questionnaire response form and personal interviewing results.

### **1.8. Limitations of project**

Due to the brief existence of the cellular industry in Africa, information regarding the industry may not readily be available, even on the Internet, libraries or journals. Sources of information cannot be updated as fast as the ever-evolving technology used in the industry.

Information gathering from other cellular companies can become problematic due to trade confidentiality.

The budget available for this project can also be a limiting factor, as all the work has to be covered within its constraints. Securing crucial interviews with high-level directors within the company can also become a problem when their schedule limits you in terms of time and availability.

### **1.9. Structure of the research**

Chapter 2 contains the theoretical framework and model. Chapter 3 be an in depth case study of Vodacom. Chapter 4 involves the evaluation of the study and Chapter 5 includes recommendations and conclusions.

### **1.10. Summary**

In South Africa, two networks, Vodacom and MTN were switched on in 1994.

When the cellular phone industry was launched the most optimistic predictions were that market saturation would be reached within 10 years, with a total of 351 400 subscribers. Demand however quickly outstripped even the most optimistic projections, and further impetus to demand was added when the pre-paid system was introduced at the end of 1996. There are currently 12-million cellular phone users in South Africa. However, while the industry incumbents in the form of the two networks have carved an enviable set of business performances, concern is growing about the future of the industry (Sunday Times, 1999)

## **CHAPTER 2 STRATEGY IN CONTEXT**

### **2.1 Introduction**

“ Strategy can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals” -Prof. Anton Ferrira.

The aim of strategy is to ensure survival, prosperity and, in the final analysis, victory. This brings competition into the picture. Practically there appears to be a difference between corporate strategy and business strategy. Corporate strategy addresses the question: What business to be in? Business strategy, on the other hand, refers to ways of competing within a chosen business and, more specifically, how to gain a competitive advantage over rivals and how to sustain such an advantage once achieved.

Corporate strategy concerns an organisation's basic direction for the future for example Vodacom's plan to expand into the rest of the African continent and the subsequent Congo and Tanzania. It also concerns the purpose, ambitions, resources and how it interacts with the world in which it operates.

Every aspect of the organisation plays a role in this strategy – its people, finances, production methods and its environment. There are five key elements of strategic decisions that are related primarily to the organisation's ability to add value and compete in the market place. These are sustainability, development of processes to deliver the strategy, offer competitive advantage and exploit linkages between the organisation and its environment and vision.

Strategy needs to come from solid analysis of a company's external environment and internal situation. The two most important considerations are industry and competitive conditions and secondly, a company's own competitive capabilities, resources, internal strengths and weaknesses and market position.

### A GOOD STRATEGY SHOULD CONFIRM TO THE FOLLOWING TESTS:-

- Value added test – increased profitability, market share, innovations, satisfaction of employees

Examples include: -

- ✓ Profitability / sales turnover increasing
- ✓ Productivity improvements
- ✓ Employees ideas and contribution increasing

- Consistency test – consistent with circumstances surrounding a business.

Consistently trying to improve processes, increased research and development, product innovation, competitive agreements such as joint ventures, partnership agreements etc.

- Competitive advantage test – sustainable competitive advantage.
- The originality test – something totally different.
- The purpose test – purpose of the company.

This is evident in the company's strategy.

- Logical consistency test – recommendation flow in clear, logical way

The approach to improve existing operations and secure existing markets and then try to achieve market share in other markets is an example of a logical consistency test.

- Risk and resources test – risks and resources sensible in relation to the company.

The risk of teaming up with competitors and establishing agreements with competitors is risky.

Setting up processes in other emerging markets is risky, however the benefits derived could be great.

- Flexibility test – flexibility to adapt to changes in environment.

The company must be able to adjust to changing markets effects, the economy, the competitors, and new technology.

## **2.2 Vision statement and strategy**

A vision expressed by an organisation indicates the direction it envisages to follow.

### **2.2.1 Strategy Formulation Process**

At Vodacom the corporate vision is the point of departure in the strategy formulation process. The vision statement is the articulation of the management's objectives and aspirations for Vodacom. It is determined after careful consideration of the strengths and weaknesses within Vodacom as well as the opportunities and threats from the external environment. After the formulation of the corporate vision a five-year business forecast is developed detailing the expected financial results using certain specific assumptions. The main driver of the financial forecast is normally the subscriber base forecast. The five-year forecast consists of a base scenario and a few variations from the base scenario's detailing the expected financial results if the original assumptions are not met. The different scenario's in the latest business forecast revolves around the timing of the availability of the 1800Mhz spectrum and the market share after the introduction of the third operator (Bezuidenhout, 2000).

The opportunities created by the emergence of new technologies and the actions that need to be taken to translate those opportunities into strengths is a central theme throughout the strategy formulation process. From the shared vision among the top executives, a corporate strategy is developed. The corporate strategy articulates the general direction that the company should take. From the opportunities that were identified in the SWOT analysis as well as the assumptions made in the scenario planning, the top executives determine which of those opportunities should be exploited and turned into a competitive advantage.

While the corporate strategy gives an indication of what needs to be done, the critical success factors indicates what need to be in place in order to achieve the strategic aspirations. These critical success factors will ensure that Vodacom becomes and remains a leading cellular network. Detailed strategic objectives are formulated and based on these critical success factors. The following variables are taken into account during the formulation process:

- Financial
- Service quality
- New technologies
- Empowerment
- Procurement

The strategic objectives are determined through consultation and consensus, and are developed to be very detailed, precise and measurable. It should be noted that very few subjective measures and targets are included in the objective statement. After consensus has been reached on the objectives to be included in the company-wide objective statement the corporate vision, strategy, critical success factors and objectives are further broken down into the various divisions within the organisation. Each division develops their own vision, strategy, critical success factors and objectives. They decide what kind of measures to use and what the time frame is in achieving specific goals. This is the time when the corporate strategy is “sold” to operational employees. This is the first time operational employees are involved in the corporate strategy formulation process. The following divisions develop their own divisional specific objectives:

- Engineering
- Billing and Administration
- Southern Region
- Northern Regions
- Information Technology
- Finance
- Marketing

Based on the above and in conjunction with divisional management specific targets are set for operational employees. Detailed target dates and project plans are developed to ensure that divisional goals are achieved. Targets are weighted to indicate the priority. (Bezuidenhout, 2000).



### **2.2.2 The Vodacom vision and strategy**

Vodacom has the following vision statement:

*“To be amongst the top ten leading cellular networks in the world. This shall be achieved through a systematic application of cutting edge technologies aimed at identifying future trends and customer needs and devising new products and services, which will satisfy the customer needs. Strategic alliances will be formed to ensure delivery to our customers, of value added services ahead of the competition ensuring value for money at all times.”*

Vodacom’s strategy is to utilise the latest technological innovations in order to be amongst the world leaders in the provision of “new age” communications. This strategy will be achieved through:

- Identifying future technological trends and designing products and services to ensure that the customers enjoy maximum benefits from these products and services.
- Identifying future GSM usage trends or patterns and gearing the business, through the utilisation of cutting edge technology, to fully benefit from these.
- Identifying strategic alliances to ensure maximum benefit from the projected increase in GSM data traffic and lifestyle services.
- Continuous improvement of network quality and expansion of the network capacity and coverage.
- The acquisition and maintenance of customers at an affordable cost while maintaining market share of at least 50% once the third operator has commenced business.
- The development and introduction of tariff packages which are competitive and affordable to the customers, while always ensuring value for money.
- The creation and utilisation of a diverse highly skilled and motivated workforce that represents the demographics of the country.
- Maintenance of the current profitability and value add to stakeholders.

- Attracting all stakeholders, customers, suppliers, employees and shareholders to Vodacom by being a socially responsible corporate citizen.

The critical success factors that will ensure that Vodacom becomes and remains the leading cellular network are:

- The provision of a world-class network quality level of service and concomitant customer care.
- The expansion of network coverage and network capacity to meet customer demands.
- The speedy implementation of key strategic infrastructure projects to support new technologies such as:
  - Unified messaging – to be able to extract and react on any message (e-mail, voice mail, fax mail) using a cellular phone or computer
  - Wireless Application Protocol
  - General packet radio services
- The ability to bill, administer and support new products and services.
- To maximise the benefits derived from the Vodacom brand in the acquisition and retention of customers.
- Refocusing the marketing emphasis to better position and capitalise on the main market, which will be the strongest growth point in future.
- To address environmental issues especially with regards to bio-electromagnetic radiation and to keep all stakeholders informed of the latest developments.
- The acquisition of the 1800Mhz spectrum.

Participating in forums with SATRA in which the future of the regulatory framework of the telecommunications industry is designed (Bezuidenhout, 2000 and Ntshingila, 2000).

All organisations including Vodacom operate in a macroenvironment consisting broadly of the economy at large, population demographics, societal values, government legislation and immediate industry and competitive environment.

### **2.3 SWOT analysis**

Looking at a company's resource strengths, weaknesses, external opportunities and threats, commonly known as SWOT provides a picture of whether the company is healthy or not. SWOT analysis is grounded in the basic principle that strategy-making efforts must aim at producing a good fit between a company's resource capability and its external situation (as reflected by industry and competitive conditions, the company's own market opportunities, and specific external threats to the company's profitability and market standing).

Perceptive understanding of a company's resource capabilities and deficiencies, its market opportunities, and neutralizes the threats to its well-being becomes a chance proposition indeed.

#### **Identifying company strengths and resource capabilities**

A strength is something a company is good at doing or a characteristic that gives it enhanced competitiveness. A strength can take any of the several forms :-

- A skill or important expertise – e.g. technological know-how, expertise in providing consistently good customer service.
- Valuable physical asset – state of the art equipment.
- Valuable human assets – an experienced and capable work force, talented employees in key areas.
- Valuable organisational assets – proven quality control systems, key patents, loyal customers.
- Valuable intangible assets – brand name image, company reputation.
- Competitive capabilities – short development times in bringing new products to the market, strong partnerships with key suppliers
- An achievement or attribute that puts the company in a position of market advantage – market share leadership, a superior product, a wide selection of products.
- Alliances or cooperative ventures-collaborative partnerships with suppliers and marketing allies that enhance the company's own competitiveness.

### **Identifying company weaknesses and resource deficiencies**

A weakness is something a company lacks or does poorly (in comparison to others) or a condition that puts it at a disadvantage.

A company's internal weaknesses can relate to (1) deficiencies in competitively important skills or expertise or intellectual capital of one kind or another (2) a lack of competitively important physical, organisational, or intangible assets; or (3) missing or weak competitive capabilities in key areas.

Internal weaknesses are thus shortcomings in a company's complement of resources. A weakness may or may not make a company competitively vulnerable, depending on how much the weakness matters in the market place and whether it can be overcome by the resources and strengths in the company's possession.

Sizing up a company's complement of resource capabilities and deficiencies is akin to constructing a strategic balance sheet where resource strengths represent competitive assets and resource weaknesses represent competitive liabilities. The ideal condition is for the company's strengths / competitive assets to outweigh its weaknesses / competitive liabilities by an ample margin.

### **Potential resource strengths and competitive capabilities**

- A powerful strategy supported by competitively valuable skills and expertise in key areas.
- A strong financial condition, ample financial resources to grow the business.
- Strong brand name image / company reputation.
- A widely recognised market leader and an attractive customer base.
- Ability to take advantage of economies of scale and/or learning and experience curve effects.
- Superior technological skills / important patents.
- Superior intellectual capital relative to rivals.
- Cost advantages.
- Strong advertising and promotion.
- Product innovation skills.
- Proven skills in improving processes.

- Sophisticated use of e-commerce technologies and processes.
- A reputation for good customer service.
- Better product quality relative to rivals.
- Wide geographic coverage and /or strong global distribution capability.
- Alliances / joint ventures with other firms that provide access to valuable technology, competencies and / or attractive geographic markets.

**Some of the sources of competitive advantage:**

- Product differentiation
- Lowest cost of production
- Niche marketing
- High performance and technology
- Quality
- Service
- Vertical integration
- Synergy
- Culture, leadership, and style of organization
- Market adaptability
- Winning against competition
- Adding value through enhanced performance or service
- Delivering human resources objectives (autonomous structure and participative shared vision approach)
- Link between manufacturing and marketing.

**Potential company opportunities**

- Serving additional customer groups or expanding into new geographic markets or product segments.
- Expanding the company's product line to meet a broader range of customer needs.
- Utilising existing company skills or technology know how to enter new product lines or new businesses.

- Using the internet and e-commerce technologies to dramatically cut costs or pursue new sales growth opportunities.
- Falling trade barriers in attractive foreign markets.
- Openings to take market share away from rivals.
- Ability to grow rapidly because of sharply rising demand in one or more market segments.
- Acquisition of rival firms or companies with attractive technological expertise.
- Alliances or joint ventures that expand the firm's market coverage or boost its competitive capability.
- Openings to exploit emerging new technologies.

#### **Potential resource weaknesses and competitive deficiencies**

- No clear strategic direction.
- Obsolete facilities.
- A weak balance sheet, burdened with too much debt.
- Higher overall unit costs relative to key competitors.
- Plagued with internal operating problems.
- Falling behind rivals in putting e-commerce capabilities and strategies in place.
- Too narrow product lines relative to rivals.
- Weak brand image or reputation.
- Weaker dealer network than key rivals or lack of adequate global distribution capability.
- Short on financial resources to fund promising strategic initiatives.
- Behind on product quality and /or R&D and / or technological know-how

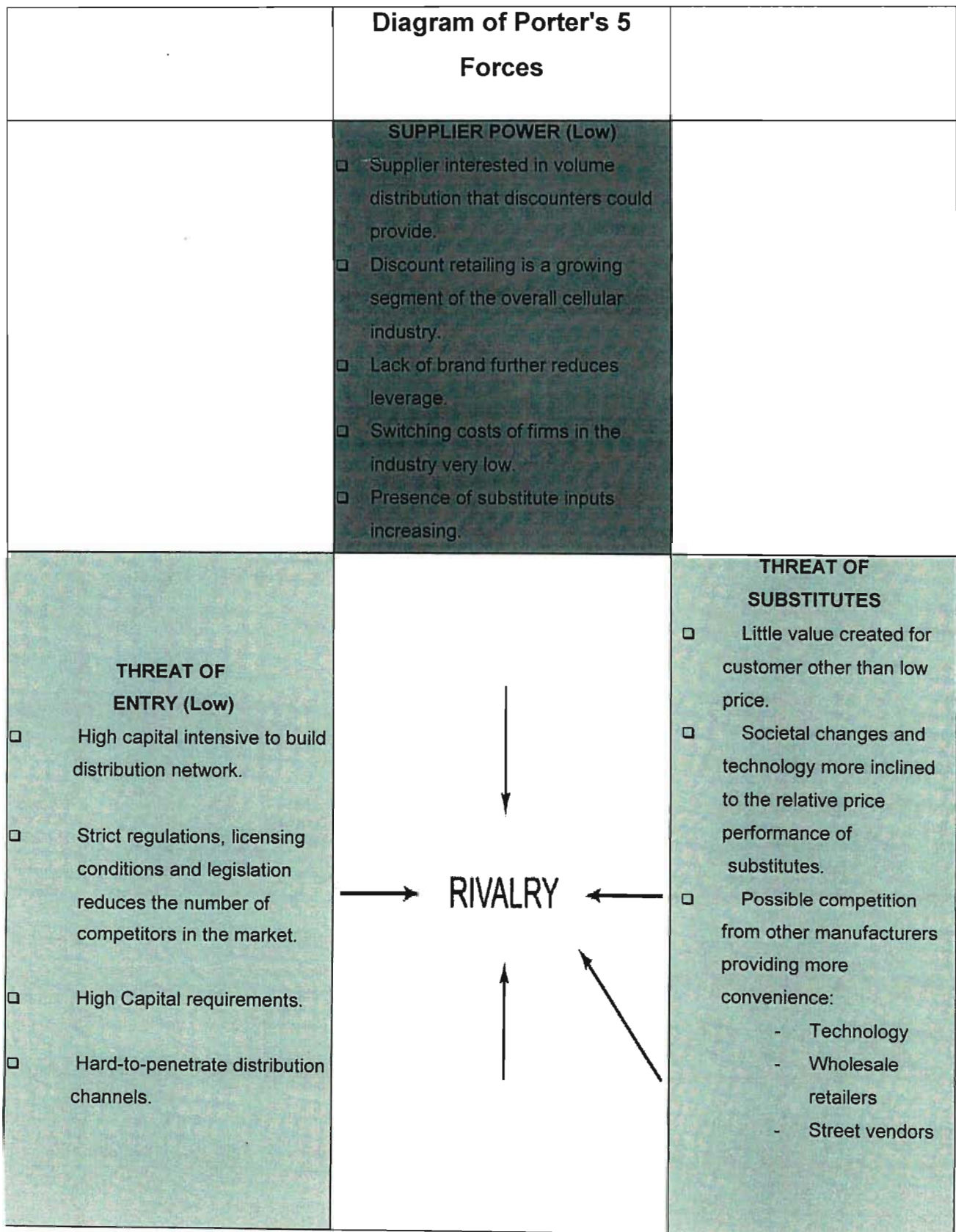
#### **Potential external threats to company's well-being**

- Likely entry of potent new competitors
- Loss of sales to substitute products
- Mounting competition from new Internet start-up companies pursuing e-commerce strategies

- Increasing intensity of competition among industry rivals-may cause squeeze on profit margins
- Technological changes or product innovations that undermine demand for the firm's product
- Slowdowns in market growth
- Adverse shifts in foreign exchange rates and trade policies of foreign governments
- Costly new regulatory requirements
- Growing bargaining power of customers or suppliers
- A shift in buyer needs and tastes away from the industry's product
- Adverse demographic changes that threaten to curtail demand for the firm's product
- Vulnerability to industry driving forces

In order for any company to succeed it is imperative that the competitive environment it finds itself in, be analysed or scrutinised for continued success. The most appropriate model that can be used for Vodacom is what has become known as Porter's Five Forces Model as presented.

FIGURE 2.1 PORTER'S FIVE FORCES





		<b>DEGREE OF RIVALRY (High)</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Low concentration of industry with a few dominant players</li> <li><input type="checkbox"/> Little differentiation among competitors</li> <li><input type="checkbox"/> Competition primarily revolves around cost and price</li> </ul>
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Source: Thompson, AJ Strickland 111, 2001, Crafting and executing strategy

This type of analysis involves the identification of the five basic forces that can act in an organisation, in this case Vodacom:

1. Bargaining power of suppliers;
2. Bargaining power of buyers;
3. Threat of potential new entrants;
4. Threat of substitutes;
5. Extent of competitive rivalry.

This type of model allows us to see how Vodacom needs to form its strategy to develop opportunities in its environment and protect itself against competition and other threats. The basic assumption of the model is that all organisations will wish to benefit and protect their own interests first.

In pursuing advantages over rivals, Vodacom has chosen several competitive moves:

- Changing prices - lowering prices to gain a temporary advantage.
- Channels of distribution - using a distribution channel that is novel to the industry for example the use of retailers such as Clicks. Pick 'n Pay and Vodashops.
- Launching new and innovative products like its Multi-Message Service (MMS) – the advanced version of the old Short Message Service (SMS). The My Life advertising campaign has been met with much success, adding to the list of Vodacom's accolades.

- The introduction of General Pocket Radio Service (GPRS), the much more efficient method of transporting data via satellite.

### **Threat of substitutes**

Cell C's Friends and Family package deal and MTN's ICE are alternative products that could impact on the cellular industry.

While the threat of substitutes typically impacts an industry through price competition, there can be other concerns in assessing this threat.

### **Barriers to entry / threat of entry**

The incumbent rivals are not only the ones that pose a threat to firms in an industry; competition is also affected by the possibility that new firms may enter the industry. Theoretically, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits are nominal. Reality, however, indicates that industries possess characteristics that protect the high profit levels and inhibit additional rivals from entering the market. These are:

#### **Barriers to entry**

Barriers to entry can be regarded as more than the normal equilibrium adjustments that markets typically make. For example, when industry profits increase, additional firms are expected to enter the market to take advantage of the high profit levels - over time driving profits down for all firms in the industry. When profits decrease, some firms exit the market thus restoring market equilibrium. Falling prices, or the expectation that future prices will fall, deters rivals from entering a market. Firms also may be reluctant to enter markets that are extremely uncertain, especially if entering involves expensive start-up costs. These are normal accommodations to market conditions. But if firms individually (collective action would be illegal collusion) keep prices artificially low as a strategy to prevent potential entrants from entering the market, such **entry-detering pricing** establishes a barrier.

These barriers are unique industry characteristics that define the industry. From a strategic perspective, barriers can be created or exploited to enhance a firm's competitive advantage. Barriers to entry arise from several sources:

TABLE 2.1 Barriers to entry and exit

Easy to Enter if there is:	Difficult to Enter if there is:
Common technology	Difficulty in Brand switching
Little brand franchise	Patented or Proprietary know-how
Access to distribution channels	High scale threshold
Low scale threshold	Restricted distribution channels
Difficult to Exit if there is:	Easy to Exit if there is:
Specialized assets	Saleable assets
High exit costs	Independent business
Interrelated businesses	

### Supplier Power

Suppliers in this industry are not very powerful force in pricing. Quality is the problem, which can easily be overcome if a manufacturer builds a relationship with the supplier.

The following tables outline some factors that determine supplier power.

TABLE 2.2 Supplier Power

Suppliers are Powerful if:	Example
Suppliers concentrated	Cellphone manufactures such as Siemens, Motorola and Nokia's relationship with Vodacom.
Significant cost to switch suppliers	Vodacom's relationship with Siemens regarding the network roll-out in comparison with for example, Motorola.
Customers Powerful	Corporate clients boycotting a particular cellular network.

<b>Suppliers are Weak if:</b>	<b>Example</b>
Many competitive suppliers – product is standardized	Cellular industry relationship to cellphone manufacturers
Concentrated purchasers	Cellular industry relationship to major distribution outlets.
Customers Weak	Subscribers relationship to a particular cellular network.

### **Power of consumers**

The power of buyers is the impact that customers have on a producing industry. In general, when the power of buyers is strong, the relationship to the producing industry is near to what an economist terms a **monopsony** - a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopsonies exist, but frequently there is some asymmetry between a producing industry and buyers. The following tables outline some factors that determine buyer power.

TABLE 2.3 Buyers' Power

<b>Buyers are Powerful if:</b>	<b>Example</b>
Buyers are concentrated – there are a few buyers with significant market share	Corporate clients deal only with Vodacom.
<b>Buyers are Weak if:</b>	<b>Example</b>
Producers threaten forward integration – producer can take over own distribution/retailing	Vodacom purchasing other distribution outlets like Teljoy.
Significant buyer switching costs – products not standardized and buyer cannot easily switch to another product	Vodacom's contractual packages prevent customers from switching from one network to another.
Producers supply critical portions of buyers' input – distribution of purchases	Cellphones supplied to Vodacom by manufacturers such as Nokia.

## **2.4 Summary**

The purpose of industry and competitive analysis as shown above is to enable an organisation, like Vodacom to develop a competitive advantage and retain it against rivals in the cellular industry.

Thus Porter's Five Forces is an excellent way to analyse and find ways to gain this competitive advantage.

Suppliers gain the advantage or are in a stronger position when they can demand a price premium for their products or goods due to superior branding, quality etc.

The buyers or customers on the other hand are in stronger positions when they can negotiate prices, quality and service.

New entrants pose threats to already established organisations when they can enter the market or industry relatively easily due to lower costs and more attractive packages for the consumer.

Substitutes pose a threat due to technological breakthroughs and offering more cost-effective products.

The model serves as a useful tool in competitive analysis.

## **CHAPTER 3 CASE STUDY OF THE ORGANISATION**

### **3.1 Introduction**

Vodacom is the leading cellular network operator in South Africa and has a market share of 60%. The R 9 billion network currently handles 30% of the country's entire traffic volumes and 10% of the African continent's. Vodacom's core business is to build and manage a GSM cellular network and to provide bulk airtime to service providers who sell it to individual cellular customers by means of airtime contracts and prepaid airtime vouchers. The network which enables Vodacom to service some 7 million customers consists of over 4000 base stations, and covers 13 000 km's of national roads, about 80% of the country's population and 52% of the total land surface (Vodacom 2000a).

### **3.2 Shareholders**

Vodacom has the following shareholders:

#### **Vodafone Airtouch**

Vodafone AirTouch Plc. is the world's largest mobile telecommunications company and is headquartered in Newbury in the United Kingdom. Vodafone Airtouch Plc. owns 31,5% of Vodacom Group (Pty) Ltd.

#### **Telkom**

Telkom SA Ltd. is presently South Africa's sole fixed-line telecommunications operator. Telkom SA Ltd. owns 50% of Vodacom Group (Pty) Ltd.

#### **Hosken Consolidated Investments**

Hosken Consolidated Investments (HCI) is a trade union investment vehicle and is controlled by the SA Clothing and Textile Workers' Union (Sactwu) and the National Union of Mineworkers (NUM). Hosken Consolidated Investments own 5% of Vodacom Group (Pty) Ltd.

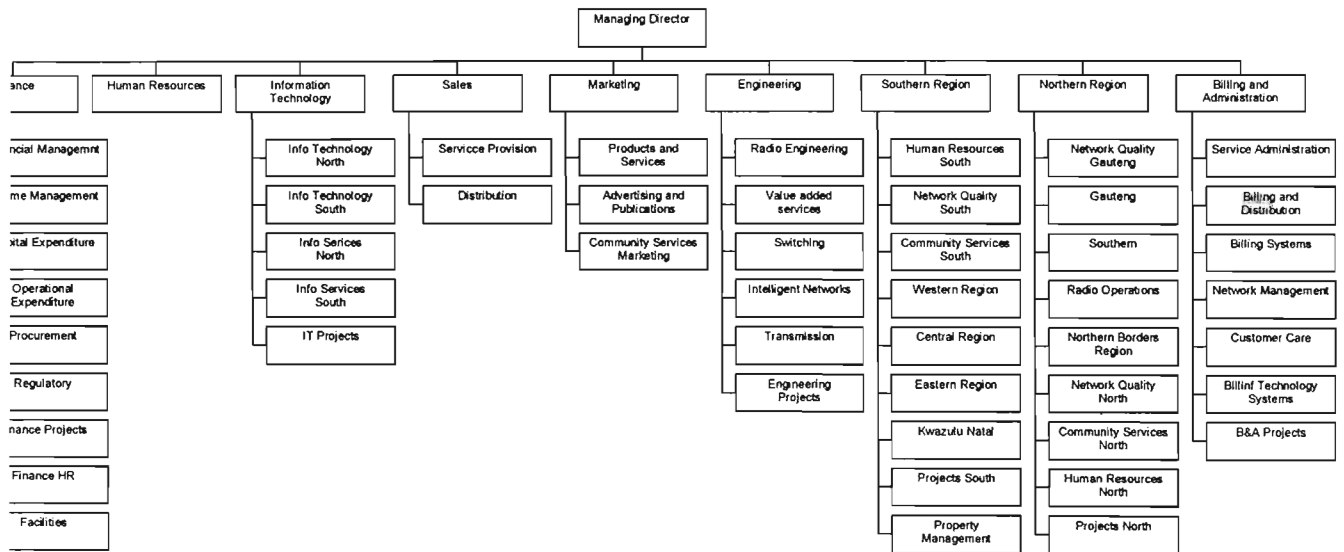
#### **Venfin**

Venfin, the investment arm of Rembrandt is an investment holding company based in Stellenbosch and deriving its income mainly from dividends from investments in tobacco products, banking and financial services, printing and packaging, engineering and motor components, adhesives, life assurance, medical services, mining, petrochemical-

products, portfolio investments, pulp and paper, cellular communications and food. Venfin Limited owns 13,5% of Vodacom Group (Pty) Ltd. (Vodacom 2000 a).

### 3.3 The company Structure

Figure 3.1 : The internal Vodacom structure



Source: Vodacom 2000a

### **3.4 Company history and growth**

In September 1993 Vodacom was granted one of two GSM network licenses in South Africa. Before the first democratic election in 1994, government agreed to a test phase for the cellular networks starting on 1 March 1994. There was a scramble for the first 2 000 phones to be connected to the network. After the first month another scramble followed for the first 10 000 cellular connections. The cellular networks officially started commercial operation on 1 June 1994, and within the first month Vodacom had attracted 50 000 subscribers. By the end of October Vodacom had doubled its subscriber base to 100 000 (Vodacom 2000a).

Call volumes increased by 540% in five months and network capacity expanded as fast as the equipment could be shipped in. At this stage Vodacom was the fastest growing network in the world and one of the busiest in terms of call volumes. A crucial factor in gaining and maintaining the lead was to establish an effective retail infrastructure. Service providers were already in place and attracting subscribers through fierce competition at retail level. Cellular phone prices dropped to some of the lowest levels in the world. By the end of 1994 Vodacom took another bold step which further entrenched its position as market leader. As South Africans were planning their end of year holidays, Vodacom was rolling out its network on 3000km's of national highway. This strategy led to another surge in subscriber numbers to 140 000 as cellular phones increasingly became essential for personal safety. One of the spurs for growth was personal safety. Vodacom expanded its two emergency services to launch Vodacom 702 Cellwatch, broadcasting incidents of stolen or hijacked vehicles. Personal safety became one of the key messages in Vodacom's advertising.

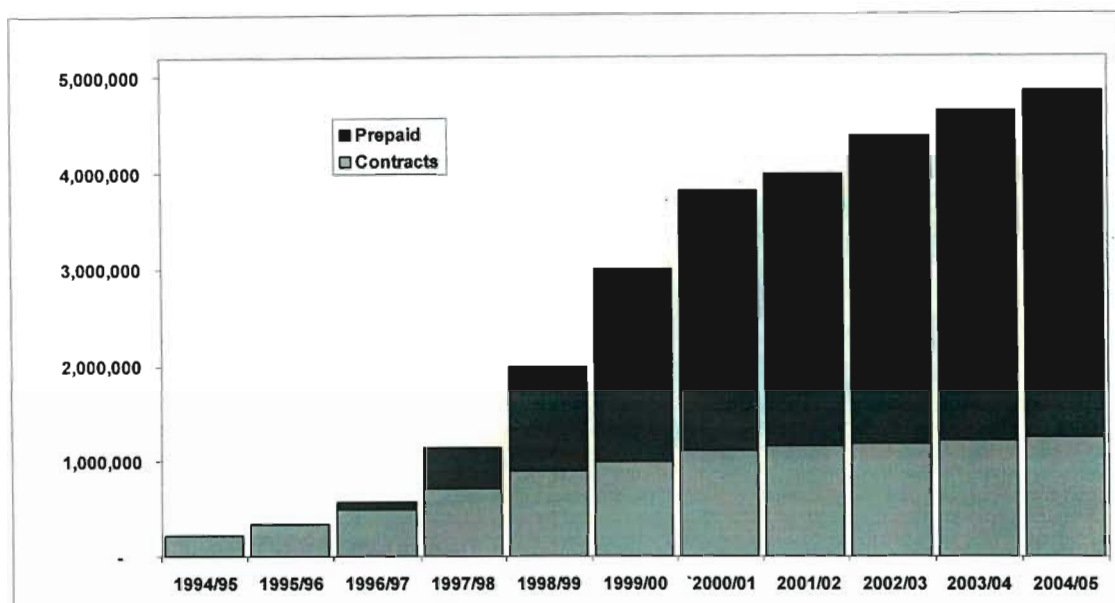
Early in 1996 the number of Vodacom subscribers passed the 300 000 mark. At this stage the company had no less than 1 200 base stations covering almost 13 000 km's of national roads and covering well over 70% of the country's population, the network was considered as one of the best in the world, maintaining a minimum call success rate and call retention of more than 95%.

Midway through the year Vodacom had started building its Intelligent Network (IN)



platform, which would open up a new world of opportunities. The IN platform would pave the way for a number of new products, which would attract new groups of consumers to cellular phones. Enabled by the new platform, Vodacom's four new bundled tariff packages entered the market by October. These were designed to be user-friendly, were aimed at specific user groups and followed thorough research into the market and call patterns (Vodacom 2000b).

FIGURE 3.2 Vodacom sa growth and expected growth



Source: Vodacom 2000 a

However, the most spectacular new growth would come from the introduction of Vodago, a pre-paid, no contract, and no credit product. In fact, the introduction of the pre-paid cellular service would propel the cellular industry into the fast-moving consumer goods market. Consumers were attracted by the 'no strings attached' service and Vodago flew off the shelves. Within two months of Vodago's launch in November 1996, 8 000 Vodago packages had been sold, a target set for February 1997. In the pre-Christmas rush the demand was so strong that retail outlets ran out of recharge vouchers.

The innovation of pre-paid airtime held a huge advantage for Vodacom's community services. It was now possible to deploy a phone loaded with pre-paid airtime, substantially reducing the administration burden. Meanwhile, Vodacom had jointly

developed a new community phone unit with Siemens and Psitek called a Sigi. These individual units pre-loaded with airtime paid for by the operator would take Community Services another step closer to putting a phone service in place on every street corner in townships. Some 2000 Sigi's went into production in October and a further 8 000 were manufactured by the end of the year.

In the beginning of 1997 Vodacom's subscriber base passed the half-million mark, boosted by the extraordinary success of Vodago, which had already attracted 42 000 active pre-paid subscribers. In April, a new service called Shareline was launched jointly with Business Report and Dow Jones, giving investors instant access to JSE share price information. Two weeks later Shareline was clocking up 3 200 calls a day and two months later the service was expanded to include unit trust prices, gilts, gold price, JSE indices and an improved currency service, generating almost 6 000 calls per day (Vodacom 2000b).

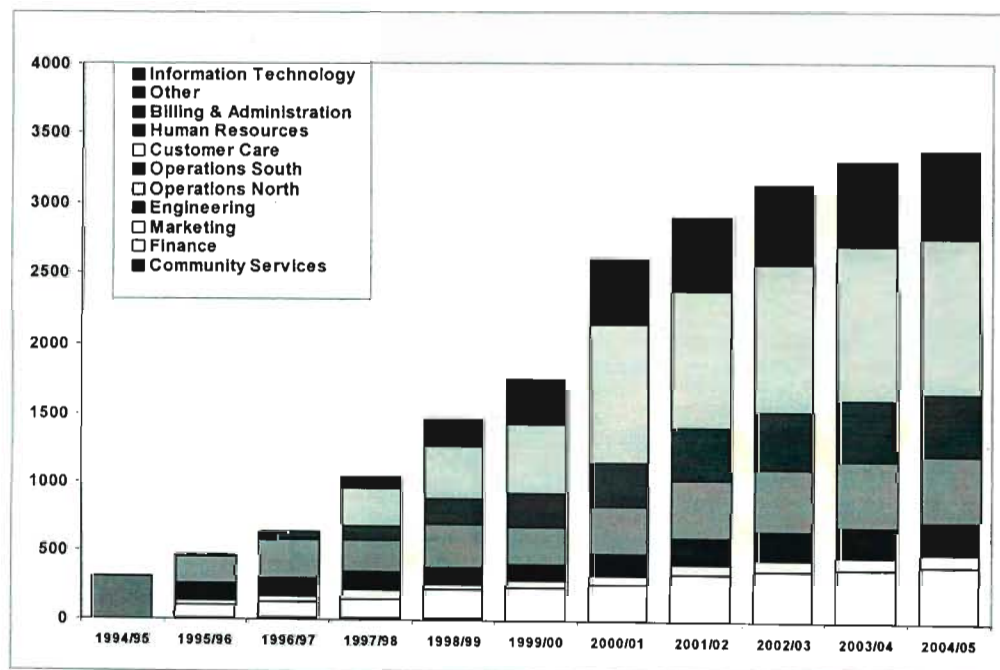


Figure 3.3 The growth and expected growth of Vodacom employee complement

On 27 May 1997, on the eve of the South African cellular industry's third anniversary, the total number of cellular phone users in the country passed the one million subscriber

mark. Vodacom's subscriber base reached 606 000, giving it a 60% market share. Vodacom was expanding its network at an average rate of two to three base stations per day and new coverage was and remains one of the strongest spurs for growth.

In 1998 Vodacom entered the Internet market with the launch of Vodacom Internet Company, its new Internet Service Provider, and Yebo!Net which offers prepaid access to the Internet at local Telkom rates - a world first. Vodago prepaid cellular vouchers can now be used for Internet access. Vodacom realised that the convergence of cellular and the Internet were not as far into the future. The next generation of cellular phones will all be fully Internet capable and it was logical for Vodacom to move into the Internet Service Provider business. Vodacom reached an agreement with USKO in April 1999 whereby Vodacom acquired all the rights to USKO's consumer dial-up base operated under the Global Internet Access (GIA) brand. Vodacom furthermore, has an option to assume outright ownership of the base, the option being exercisable after 30 September 2000. The agreement brought the total number of Yebo!net's dial-up customers to 60000, making it the second largest ISP in South Africa. Yebo!net became the fastest growing web host in the country in 1999 and Yebo!net also had 45 access points of presence (POP's) in the country, the most of any ISP (Vodacom 2000a).

In the last quarter of 1998, Vodacom expanded the horizons of its subscribers when it became the first South African cellular network to sign a digital roaming agreement with an American operator in New York State. In the first quarter of 1999 it reached an agreement with Global Star Southern Africa. Vodacom subscribers will because of this agreement be able to enjoy blanket mobile telephone coverage of South Africa and the world. Globalstar will meet the needs of cellular users who roam outside terrestrial-based cellular coverage and South African subscribers will be able to use dual-mode phones capable of switching from conventional cellular telephony to satellite telephony automatically or as required. Graph 2 illustrates the Vodacom subscriber growth over the past 6 years and graph 3 illustrates the employee growth at Vodacom over the past 6 years.

### **3.5 Vodacom in Africa**

In July 1999 Vodacom won a bid to operate Tanzania's second GSM cellular network. The 10-year license is Vodacom's first outside the Southern African Development Community (SADC) and is worth more than R500 million. Having previously concentrated on dominating the South African market, resulting in a 60% share of Africa's most profitable cellular market, Vodacom is looking at all opportunities on the African continent which make economic sense. Vodacom has further expanded into Lesotho, Democratic Republic of Congo and acquired licenses to operate in Mozambique.

### **3.6 The product offering**

Vodacom offers eight types of contracts divided into two main groups. The one group aimed at Business Subscribers while the other is focussed on satisfying the needs of the average family user. The family packages include the popular "Everyday Weekender Plus" package which offers 120 free off-peak talktime minutes for a monthly subscription of approximately R129. Standard calls in peak time costs R 2.51 per minute for all the family packages (Ntshingila, 2000).

The monthly subscription for business packages is slightly more expensive, ranging from R170 to R1000. The benefits for these packages include increased free talktime minutes during all hours and not just off-peak as it the case with the family packages. The "Talk 1000" for example offers 1000 free anytime talktime minutes for R1000 monthly subscription. The standard call charges for business subscriber's range from R1.19 to R1.50 per minute (Ntshingila, 2000).

The other option available to subscriber is the pre-paid route. This option does not bind the subscriber to a two-year contract. The subscriber buys a "recharge voucher" which allows him/her access to the network for a fixed number of days and enables him/her to make outgoing calls up to the value of the voucher. The major disadvantage for the prepaid subscriber is the increased standard call charges per minute. During peak period a standard call will cost the prepaid user R2.75 per minute while the Talk 1000 business

user will only pay R 1.19. Vodacom addressed this by lowering the rate during off-peak periods to R1.50.

Vodacom currently offers 4 different recharge vouchers

- R55 with 14 days airtime window
- R110 with 30 days airtime window
- R275 with 90 days airtime window
- R1000 with 365 days airtime window

In addition Vodacom also offers a voucher called “Vodago Incomer Voucher”. This voucher costs R120 and enables the subscriber to receive unlimited incoming calls for 365 days. This voucher does not entitle you to make any outgoing calls, but the subscriber may recharge with any of the above recharge vouchers. This voucher is enormously popular in the lower income groups (Ntshingila, 2000).

In order to use a prepaid package you are required to purchase a Vodago Starter Pack. This pack contains a Vodago Cellular number, SIM card and a user guide.

Certain service providers constantly offer a combination of any of the above vouchers and starter packs at huge discounts. For example a R120 Incomer Voucher plus a Starter pack (normally retailing at R95) plus a R55 recharge voucher is currently selling for less than R140.

All of the above packages include certain value-added services like 15 free short text messages per month and free voice mail retrieval. Vodacom also assists subscribers in emergency situations with the various emergency numbers and services.

### **3.7 Market composition**

Vodacom’s market can be segmented into contract subscribers and pre-paid subscribers. The prepaid subscribers represent approximately 80% of the total subscriber base. The contract subscriber base may be broken down into two categories being business subscribers and economy subscribers. The economy subscribers are typically using the popular Everyday Weekender plus and Family Call packages, while the business users is

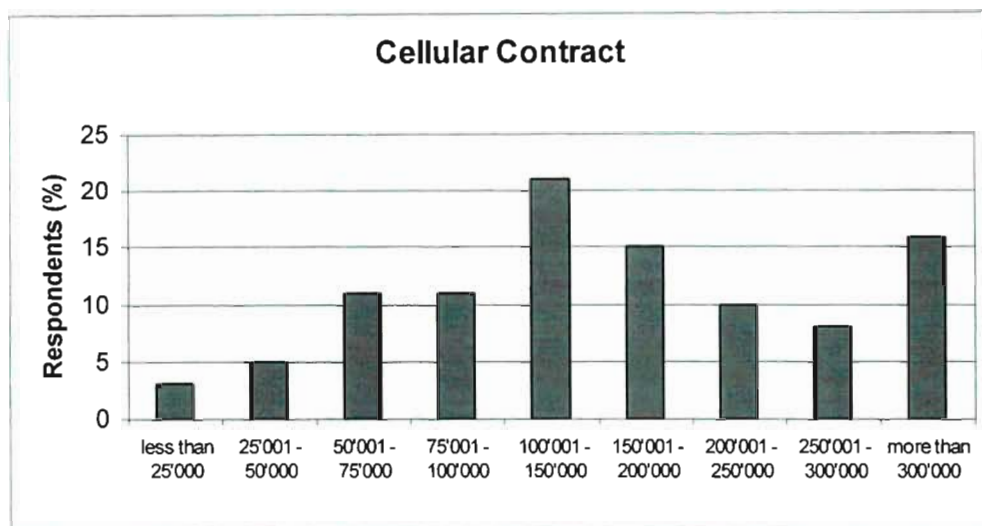
using the Talk 100 to Talk 1000 packages. These two types of contract subscribers share evenly in the remaining 20% of the total subscriber base (Ntshingila, 2000).

The business users are predominately white males between the ages of 35 and 50. They are typically highly educated with an average income of more than R 200 000 per year. Figure 3.4 illustrates the average income of Vodacom contract subscribers. They tend to have high cellular phone usage during business hours. These types of subscribers are high users of the value-added services like Voicemail, Fax mail and Short Text Message Systems. They are professional entrepreneurs that adapt early to changes in technology and services. In addition they have a high propensity to spend. These subscribers will also use the latest state-of-the-art handsets (Ntshingila, 2000).

The typical economy user is between 15 and 35. The economy user includes people from each walk of life from professionals to blue collar workers, from housewives to students. They typically do not earn more than R 200 000 per year. This type of contract is mainly used for family purposes with mixed usage patterns between peak and off-peak usage. The economy subscribers tend not to use the value-added services mentioned before very extensively. They are price conscious and require good value for money.

The pre-paid user is typically from the lower income bracket between the ages of 15 and 50. They have little or no education and may have difficulties in qualifying for subscriber contracts due to a low credit rating. Graph 5 illustrates the average income of Prepaid subscribers. Their usage patterns are much lower than the average contract subscriber is. These packages are predominately used for recreational use during off-peak periods. They tend to use secondhand handsets. These subscribers are highly price-sensitive. The switching cost between the network providers are at the lowest in this market segment due to the fact that these subscribers are not locked into a 24 month contract.

Figure 3.4 The income distribution of Vodacom Contract subscribers

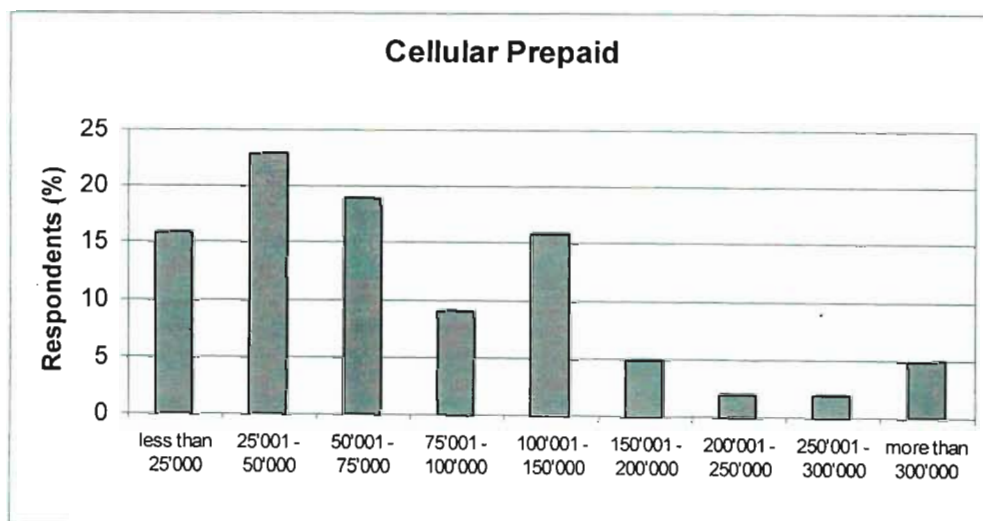


Source: Vodacom 2000 b

It should be noted that although the pre-paid subscribers represent 70% of the total subscriber base, they only contribute 30% of the total revenue earned. This is largely due to the lower usage patterns of the pre-paid subscribers and the fact that the pre-paid subscribers tend to use the network during off-peak.

Figure 3.5 The income distribution of Vodacom Prepaid subscribers

Source: Vodacom 2000 b



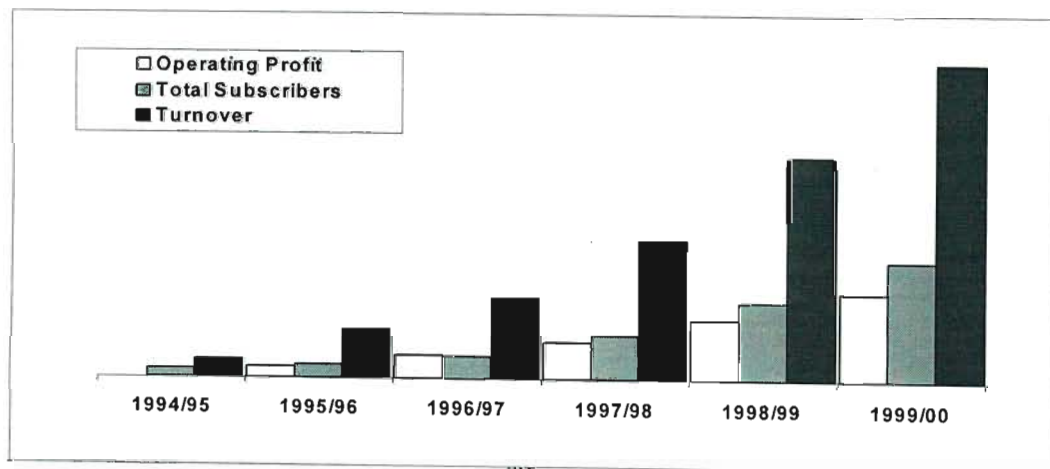
### 3.8 Financial status

Telkom SA, Vodafone and Rembrandt invested just more than R1 billion in the form of loans to Vodacom. These loans are regarded as equity in all the financial statements and reports as they form part of the initial equity investment in the company. The major shareholders share in the wealth created by Vodacom by the way of market related interest earned on the loans. The returns on their investment are therefor largely fixed.

Furthermore Vodacom group has never paid any dividends to its shareholders since inception in 1994. Vodacom rather opted for the traditional approach of a new expanding business. The company retained all earnings and cash for the expansion of the network infrastructure and forward integration of certain service providers. This can be seen in the huge capital expenditure the company undertook since inception. Since 1994 until March 2000 Vodacom has spent more than R8 billion on network infrastructure (Swart 2000).

The long-term liabilities of the group consist mainly of external long-term loans and finance lease liabilities of approximately R815 million. The finance lease liabilities is a result of the accounting treatment of the finance structure used to finance the corporate head office, the Vodaworld retail center and the office building for the customer care division in Cape Town.

It is clear that the exponential growth over the last years were mainly funded form own resources and not from external liabilities. Vodacom financial results were relatively stable since inception with all indications that the trend will continue in future. There was a strong correlation between the numbers of subscribers and the financial results of the company. Figure 3.6 illustrates this relationship.





*Source: Vodacom*

It is expected that the future subscriber base will have the same significant impact on the future profitability of the group. Vodacom's ability to build on the existing subscriber base will determine the future financial performance.

### **3.9 Summary**

The network which enables Vodacom to service some 7 million customers consists of over 4000 base stations, and covers 13 000 km's of national roads, about 80% of the country's population and 52% of the total land surface (Vodacom 2000a). The vision statement is the articulation of the management's objectives and aspirations for Vodacom.

After the formulation of the corporate vision a five-year business forecast is developed detailing the expected financial results using certain specific assumptions. The five-year forecast consists of a base scenario and a few variations from the base scenario's detailing the expected financial results if the original assumptions are not met.

The strategic objectives are determined through consultation and consensus, and are developed to be very detailed, precise and measurable. Each division develops their own vision, strategy, critical success factors and objectives. Vodacom's strategy is to utilise the latest technological innovations in order to be amongst the world leaders in the provision of "new age" communications.

The most spectacular new growth would come from the introduction of Vodago, a pre-paid, no contract, and no credit product. In fact, the introduction of the pre-paid cellular service would propel the cellular industry into the fast-moving consumer goods market. It was now possible to deploy a phone loaded with pre-paid airtime, substantially reducing the administration burden.

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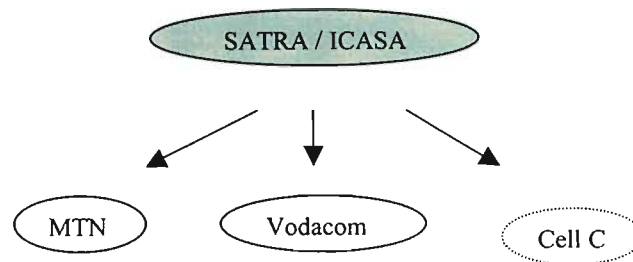
Vodacom's market can be segmented into contract subscribers and pre-paid subscribers. It should be noted that although the pre-paid subscribers represent 70% of the total subscriber base, they only contribute 30% of the total revenue earned.

Telkom SA, Vodafone and Rembrandt invested just more than R1 billion in the form of loans to Vodacom. Furthermore Vodacom group has never paid any dividends to its shareholders since inception in 1994. Vodacom rather opted for the traditional approach of a new expanding business. The company retained all earnings and cash for the expansion of the network infrastructure and forward integration of certain service providers. Vodacom's ability to build on the existing subscriber base will determine the future financial performance.

## CHAPTER 4 EVALUATION OF THE SITUATION

### 4.1 Introduction

Figure 4.1 The Industry Structure



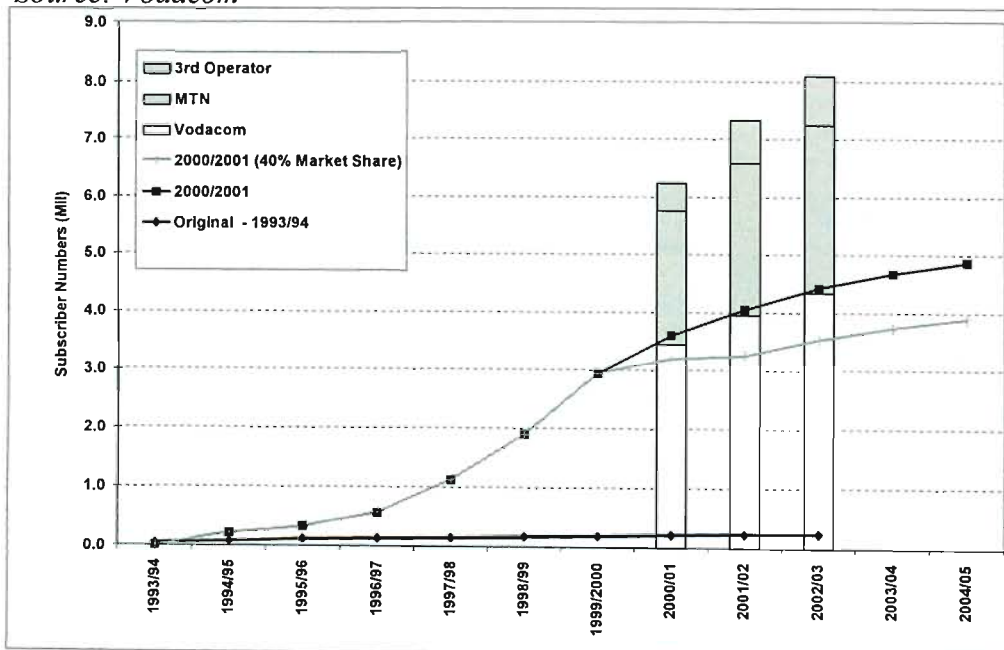
The industry was, however, very nearly still born because in 1993 the ANC (the then government in waiting) threatened to revoke the cellular licenses on assuming power. Last minute negotiations set conditions, which included minimum levels of black participation, subsidised cellular phones in disadvantaged communities and the R2.5 billion Joint Economic Development (JED) programme referred to above.

The participation of government in the cellular industry is currently much less politicized. Licenses permitting a cellular network to operate in South Africa are currently issued by ICASA / SATRA. Figure 4.1 illustrates the current industry structure.

### 4.2 Industry growth

Figure 4.2 Industry growth over the past five years.

Source: Vodacom



#### **4.2.1 The industry**

While South Africa has a teledensity of almost 10 phones per 100 inhabitants (one of the highest in Africa), telephone infrastructure is skewed to historically white areas. This has led to a situation where the teledensity in white areas averages 64 per 100 inhabitants, while the teledensity in rural black areas is below 1 in 100 (Department of Communication 2000).

According to Porter's five forces model, for a company to excel it has to be aware of the competitive rivalry that exists in its environment or industry. Vodacom has to take into account the regulatory barriers regarding the entry and exit of competitors in the marketplace.

There is a direct relationship between foreign direct investment and communication infrastructure (the higher the investment the greater an area's teledensity). As shown by the world's highly developed nations, telecommunications enhance a country's ability to deliver a better quality of life, among others through electronic health care and distance learning services. Better telecommunications open up opportunities to train and equip people with the skills needed for high technology research, development and manufacturing. For the South African economy to grow at 5% and more per annum, and to create half a million employment opportunities a year, a telecommunications sector strategy is needed that ensures global competitiveness. To this end, the Joint Economic Development Plan (JEDP) - a R2, 5 billion economic development plan spanning 10 years was introduced by the Government and is administered by the South African Telecommunications Regulatory Authority (SATRA). When Vodacom and MTN received their cellular telecommunications licenses in 1994, a condition was the signing of a JEDP Agreement. The objectives of the JEDP are:

- To benefit the entire South African economy through developing the country's manufacturing capability in the areas of telecommunications and electronics.
- To enhance distribution and related services in the telecommunications sector.
- To facilitate the development of opportunities for the hitherto disadvantaged sectors of South African society.

SATRA recognises the importance of a convergence of technologies in the fields of broadcasting, telecommunications, information and multimedia to bring all of these services to communities countrywide, soon and efficiently. SATRA also recognises that the resources to build an appropriate countrywide telecommunications infrastructure will have to be found in well-structured public-private partnerships (Department of Communications, 2000).

### **The major role players**

There are three main players in the South African telecommunications industry

- Government, responsible for telecommunications policy.
- The operators, responsible for providing telecommunications services (i.e. Telkom, Vodacom , MTN and Cell C).
- ICASA (previously SATRA), responsible for the administration of government policy, issuing licenses, managing the frequency spectrum, and for implementing a wide range of tasks mandated by the Telecommunications Act. No.103 of 1996.

This three-tier structure encourages transparency and accountability - two basic tenets that are fundamental to successful telecommunications development in a country. In restructuring the telecommunications environment, South Africa has established a dispensation way ahead of many countries that claim to be the strongest proponents of regulatory independence (Satra, 2000).

In order to fully understand the complexities of the cellular industry in South Africa it is however essential to analyse the industry in more detail.

### **4.3 Product offering**

In line with Porter's theory, product offering has to be of a superior quality to secure the competitive advantage over rivals. Product differentiation and pricing allows Vodacom to be the market leader in the cellular industry.

The worldwide cellular industry is focussed around providing two distinct services to subscribers. The market in South Africa is no exception. Cellular subscribers may choose to enter into a two-year contract or may opt for the flexibility of a pre-paid package.

The battle for market share however continues and as consumers becomes more cellular literate, the focus shifts to value added services. Vodacom achieved a number of world-firsts in the value-added service arena. It was for example the first network to offer a commercial cellular fax/data service and the first to offer a cellular pay-as-you-use access to the Internet with Yebo!net. A large number of value added services have been launched and have become an important competitive advantage, especially in attracting business users (Vodacom 2000a). In the section 5.7 the Vodacom service offering will be discussed in more detail.

### **4.4 Technology**

Cellular technology developed and continues to develop around four distinct phases. The first being simple communications and messaging. During this phase the focus was on voice mail, international roaming, call forwarding/waiting and simple data messaging. This phase is currently in its declining phase. The second phase – Informational - is currently in its peak and slowly starting to decline. The informational phase focused on call-number displays, remote LAN access and informational services like stock exchange information via SMS. The third phase is still growing strongly. This phase, called the transactional phase, will focus on mobile banking, data and fax capabilities and e-commerce transactions. The fourth and final stage is in its infancy and will focus on mobile solutions. During this phase the mobile office will gain popularity, with e-commerce solutions and full mobile integration. During this phase it is expected that mobile Internet usage will become available (Deloitte Consulting 1999). The so-called third generation (3G) technology, which characterise this phase involves among others:

- Wireless Application Protocol (WAP) which allows cell phones to communicate with the Internet. This technology presents the ultimate solution in the quest to bring instant Internet services to the mass. WAP applications will allow users to access information, transact electronically and conduct financial services without having to go to cities.
- Unified Messaging (UM) essentially enables access to information any time, anywhere. Mobile workers are enabled to check voice, fax, and e-mail messages while out of town. Productivity should benefit greatly from this facility.
- General Packet Radio Services (GPRS) is an enhancement of the GSM technology. The main advantages of the GPRS technology are the accelerated speed at which data can be transmitted, enhanced convenience in using mobile data, and location-based data services and personalised information services. With a GPRS handset Internet mobility will increase since no modem will be needed. Users will be connected online and charged only for the quantity of data transmitted.
- Universal Mobile telecommunications systems (UMTS) is the broadband 3G of mobile communication to be built on GSM/GPRS technology making use of high frequency radio frequency access linked to a convergent network of fixed, cellular and satellite applications.
- Enhanced Data rate for Global Evolution (EDGE) will allow existing GSM radio bands to offer wireless multimedia Internet Protocol services and applications at speeds up to 384 Kbytes or even higher (Vlok 2000).

The different role players in the cellular industry develop the above technologies and more. The challenge for the cellular networks is to ensure that compatible technologies are employed to provide the best service to the end-users. No significant competitive advantage has been gained by any single cellular network on the basis of superior technology. So far the introduction of new technology in the system of the one cellular network was soon followed by the employment of similar technology by the other network. The tendency towards vertical integration of the industry by the cellular networks like the integration of Teljoy and Globalstar into the Vodacom network might provide the basis for a different scenario in future. However, the technological

developments in the industry are not confined to the cellular networks and are at this moment easily and widely accessible for all networks (Sunday Times, 2000).

According to Porter the development of new technologies and keeping abreast of technological advancement enables a company to have a firmer hold on the market.

An aspect one has to keep in mind is that the application of these technologies is capital intensive and therefore might give an advantage to those with bigger financial power. The late entrant into the industry will be in a disadvantaged position in that it will have no infrastructure for example radio masts to support its operations and will therefore be forced to enter into roaming agreements with existing networks for the 900MHz band (Sunday Times, 2000).

#### **4.5 Suppliers and complementors**

Suppliers to the cellular networks are firstly the cellular phone handset manufacturers. Technological advancement of the handsets creates tremendous opportunities for cellular networks to offer value-added services to consumers. Accessories to cellular phones like hands free car kits, carrying cases and detachable faces all contribute to the feeling created to be a subscriber to a cellular network.

Porter explains that suppliers pose a threat and are in powerful positions in the market if they are concentrated and there is significant cost attached to switching from one supplier to another.

Operators sell bulk capacity to service providers such as Teljoy, GSM, Mtel, and Vodac. Vodacom recently started to acquire some of the major service providers (70 % of all the service providers are currently owned by Vodacom) (Vodacom 2000). The service provider is responsible to sell contracts or prepaid airtime to consumers. The service provider therefore acts as a distributor of airtime on behalf of the cellular phone operators to millions of consumers.

Service providers provide customer care with hands on dealing with the actual customer and at the same time carrying the credit risk for customers defaulting on their accounts. With special deals (including a free handset for example) luring new customers to the



cellular networks as well as promoting the network itself, the service providers are very effective complementors to the cellular networks (Ntshingila, 2000).

The Internet is also playing an important role as complementor to the cellular networks. Websites of networks and service providers offering services like itemised billing, sending of free short message services (SMS) and even downloading new ringing tones to subscribers' phones, are adding value to the services that the networks supplies (Ntshingila, 2000).

The major limitation of a fixed network is its inability to cover all remote areas, like deserts and mountains, economically. Satellite technology will allow near total global coverage to mobile phone users on a specific satellite system called Global Mobile Personal Communication System. This system provides a cost effective, high-quality digital communication service to areas currently without any communication services.

Vodacom have partnered with Globalstar to offer its subscribers this mobile satellite service. Vodacom is however waiting for SATRA and the Minister of Telecommunications to approve the satellite license. Expected users of the satellite service will be people that live or work in areas covered by a fixed cellular network, but venture frequently into areas not covered by a current network.

Using satellite services is just as easy as using a normal cellular phone. Within the existing cellular coverage a dual band phone will operate as a normal cellular phone, while outside the normal coverage area it will automatically switch to satellite mode. Subscribers will simply take their existing SIM card and insert it into a dual band phone. The subscribers will retain their normal cellular number and be billed by the normal service provider for calls made on the satellite service.

#### **4.6 New entrant**

SATRA chose Cell C, which is backed by conglomerate Saudi Oger, as its preferred bidder for the country's third cell phone license. According to Satra, Cell C's ability to compete, which is based on its sound business plan and its financial strength, means that

it is likely to make an ongoing and constructive contribution to the cellular telephony industry.

According to Porter a new entrant, will be deterred by the relevant regulations and legislation governing the cellular industry for example the influence of ICASA and government on the awarding of licenses.

Since the initial announcement that Satra has chosen Cell C as the preferred bidder the five losing bidders, (of which Nextcom is the most vocal) are however busy with legal action against Satra. They are of the opinion that the decision was controversial. In early July 2000 Satra released a 200-page report in which they amended the scores of the six bidders, but not enough to topple Cell C from the podium. In the report Satra ranks Cell C as just one crucial point ahead of Telia-Telenor, by lowering Cell C's original score of 76 to 74, and raising Telia-Telenor's score from 69 to 73. Nextcom has also been upgraded from its original 64 points to 67.

The closeness of those scores has fuelled the determination of losers to challenge the verdict. Nextcom as well as Scandinavian bidders Telia-Telenor confirmed their determination to fight Satra's decision after the release of the report. Themba Vilakazi, chairman of Telia-Telenor's black empowerment partner, Afrozone, indicated they would lodge an appeal after studying Satra's reasons for its choice, as that was likely to influence the content of its court case.

In its explanatory document, Satra praises Telia-Telenor's business plan as particularly strong, but pointed out that its empowerment offering was a weak point. Satra is according to the report also impressed with Cell C's move to strike roaming and infrastructure sharing deals with the incumbent operators MTN and Vodacom. Overall, Cell C's realistic targets put it in a good position to compete effectively with the existing operators and introduce competitive services for the good of consumers, the report stated (Business Day, 2000).

#### **4.6.1 Cell C corporate structure**

Cell C is controlled by the holding company 3C Telecommunication, which is 60 percent owned by Saudi Oger and 40 percent by CellSaf. Saudi Oger a Saudi Arabian based group, is a private company owned by the Hariri family, and has generated revenues of more than \$25 billion since 1978. Saudi Oger and its affiliates employ more than 28000 people worldwide and have interests in banking, construction, hotels, telecommunications and broadcasting (Beets and Pienaar, 2000).

CellSaf represents 33 groups, including the private equity company Ubambo Investment Holdings, Women owned technology groups: Investfem Holdings and Temoso, Kunene Brothers, the 80000 member African Council of Hawkers and Informal Businesses (Achib), the SA Taxi Association Company (Sataco), which has 120000 stakeholders. Other companies represented are Provincial Technologies, Investment Company Ipostel, Contralesa Development Trust and the National Movement of Rural Women. CellSaf has empowerment representation from all nine provinces, and the informal sector, rural women, education and training bodies and the disabled (Beets and Pienaar, 2000).

#### **4.6.2 Technology**

Cell C's technology partner is the US telecommunications group GTE. Cell C is interested in having access to the main GSM 900 band outside the main rural areas, where Vodacom and MTN are not fully utilising their present allocation. Such an agreement, if acceptable, would offer the best overall viability in terms of network cost and handset cost. Cell C's choice of GSM 1800 technology also offers substantial advantages. From an operator point of view, however, there are drawbacks to GSM 1800. For every GSM 900 high site, GSM 1800 requires between two and three high sites to provide the same coverage. This represents a substantial capital investment (Beets and Pienaar 2000).

#### **4.6.3 Market share**

Cell C's business case assumed a total market size of 10,3 million users in 2009, which is substantially below other forecasts which put the total market at 13, 5 million by that time. Cell C's business model assumes it will capture at least 18 percent of these 10,3

million users and will not wrest market share from the established operators. All its growth is expected to come from new market entrants. The rate of switching between Vodacom and MTN is about 17 percent, and while Cell C might expect to pick up some of these customers, its business model assumes no churn for business users, and between 10 percent and 12 percent for consumer contracts, rising to 21 percent for prepaid customers.

Cell C's reliance on new entrants rather than market churn rules out a tariff war against Vodacom and MTN. It will offer packaging to win new customers, especially in the lower income LSM (Living Standards Measure) 5, 6 and 7 brackets, where cellular penetration is just 12 percent. Using an innovative mix of prepaid and contract marketing, Cell C expects to persuade prepaid users to migrate to postpaid contracts over a period of time (Beets and Pienaar, 2000)

#### **4.7 Summary**

Africa has emerged as the region with the world's highest economic growth with Mauritius, Uganda, Senegal and Cameroon forecast to be among the ten fastest growing economies in the world in 1999. If these trends can be sustained, the continent will be one of the world's most dynamic telecommunication markets as we enter the new millennium (Mbendi, 2000).

A number of factors are driving growth in African cellular markets:

- *Private sector investment*

Private strategic partners back almost all new cellular networks on the continent. These include established cellular investors such as Telecel of the United States and the Luxembourg-headquartered Millicom. More recently, larger multinational telecom operators have entered the African market. The strategic partners bring expertise and leverages with equipment manufacturers that will help get African cellular networks up and running quickly.

- *Pent-up demand*

The undeveloped state of fixed-line networks in the region means that there is considerable unfulfilled demand for telecommunications. More than half of all new

telephone subscribers in Africa in 1997 signed up for cellular service and the ratio of mobile to fixed subscribers is increasing.

- *Competition*

The cellular market has been opened to competition in a number of African countries. Allowing additional market entrants helps boost growth as shown by countries, which have licensed more than one operator. For example, the Côte d'Ivoire, Guinea and Tanzania, each with more than one cellular operator, doubled their cellular subscribers in 1997.

- *Marketing*

Mobile cellular brings a whole new concept to telephony. Unlike stodgy state-owned fixed-line operators, mobile cellular companies invest a lot in marketing to attract subscribers. This includes a variety of packages tailored to different customers. One concept that revolutionised the adoption of mobile cellular in Africa is the introduction of the pre-paid card. Pre-paid makes mobile available to many whom would not normally qualify for a regular subscription. In South Africa, more than two thirds of the market-leading Vodacom subscribers are pre-paid. If inexpensive handsets can be made available – either through subsidies, mass production or programmes to import used handsets – then it is not hard to envisage a day when pre-paid mobile subscribers will outnumber post-paid telephone subscribers in Africa (Mbendi, 2000).

## **CHAPTER 5 RECOMMENDATIONS AND CONCLUSIONS**

### **5.1 Introduction**

Based on the above analysis the authors have identified the following challenges that might prevent Vodacom from achieving its objectives.

As was indicated in section 3.1 the regulating function of the telecommunications industry is currently still being handled by the South African Telecommunications Regulatory Authority (SATRA). It will be replaced by the Independent Communications Authority of South Africa (ICASA) founded in terms of Act 13 of 2000. The ICA will be taking over all the functions of SATRA and the Independent Broadcasting Corporation (IBC).

SATRA was founded to separate the responsibilities of the three main role players – (i) the Government responsible for policy formulation, (ii) the operators responsible for providing telecommunication services, and (iii) SATRA responsible for the administration of Government policy by issuing licenses, managing the frequency spectrum and implementing the tasks mandated by the Telecommunications Act. Although the regulating authority claims independence from Government, parliament still provides the funds for the operations of the authority and the President appoints the members of the board.

### **5.2 Competitive position**

The cellular industry is becoming increasingly competitive, hence the need to develop and maintain high levels of market awareness and loyalty - not only through marketing but also through superior service quality.

Factors that lead to an increase in competition in the cellular industry are among others the following:

Service levels are very similar and new products are easily imitated.

- MTN and Vodacom are very similar and target the same market segments, which intensifies competition between them.
- The proposed introduction of the third cellular service provider.

### **5.2.1 Direct competition**

MTN and Vodacom compete in the same market, and their networks are covering similar areas in South Africa. Vodacom managed to roll out their network quicker and subscribe more customers over the same time period as MTN. Vodacom captured the largest part of the cellular market (60%). Vodacom's aggressive promotion and advertising efforts helped to establish a strong brand name in the early years of operation.

Subsequent to the inception of the cellular industry, competition between the two networks was on the basis of achieving the broadest area coverage and to subscribe as many customers as possible. Soon most economically feasible areas were covered by both networks, and saturation point in this regard was reached.

Thereafter the focus of competition switched to value added products supplied by the networks. New ideas like short message services and access to certain information regarding the cellular service on the Internet were introduced by a network, only to be imitated soon by the other.

Competition also focused on the prepaid sector as soon as new technology (the smart card system) enabled networks to compete on this basis. This was however also relatively easy to imitate, and the role players are competing on a reasonable level playing field in this regard.

Insight Customer Satisfaction (Insight 2000) assessed Vodacom's competitive position relative to MTN in terms of the following:

#### **Pre-paid market segment**

The study has shown that MTN pre-paid subscribers have significantly better value perceptions than Vodacom's pre-paid subscribers, which holds true across all cultural groups. When the pre-paid package was first launched, it provided Vodacom with a competitive advantage but MTN has now taken the lead in this market. MTN's pre-paid subscribers believe their network has a wider range of products, is more innovative in developing new products, and is providing better value for money. MTN's pre-paid

subscribers are more positive with regards to their network's commitment to customer satisfaction and technical performance. (Insight 2000).

### **Contract market segment**

The study further shows that Vodacom holds some advantage over MTN in the contract market – Vodacom subscribers feel more positive about the brand visibility and advertising of the network. The value perceptions of Vodacom's contract subscribers are driven by perceptions of image, network quality and service provider performance. However, the study shows no significant differences between Vodacom and MTN's performance. As was indicated in 5.8 the contract market is currently more profitable than the pre-paid market. (Insight 2000).

### **Image**

Vodacom was considered to be a competitive differentiator in the early years of the company's life. These image perceptions were formed mainly through advertising and the experience of the product and the service offering. Currently the company's image is not as strong as in the past, and Vodacom is not enjoying the previous competitive advantage anymore insofar image is concerned (Insight 2000).

### **Advertising**

Vodacom's advertising campaign in the predominantly white contract market has been very successful and well received. This does not however hold true in the pre-paid market in which MTN subscribers are significantly more satisfied than Vodacom subscribers (Insight 2000).

### **Service providers**

Vodacom's service providers started to integrate with the network recently. Service providers have a high impact on the value perceptions of contract subscribers, which supports the integration process. The study shows that there is currently little difference between the performance of Vodacom and MTN service providers, providing an opportunity for competitive differentiation (Insight 2000).



## **Africa versus South Africa**

Vodacom gained the largest local market share (60%) by focusing on the South African market. Little effort was directed towards the rest of Africa.

### **5.2.2 Threat of the new entrant**

As time passes by, the threat of a new competitor to the other players in the cellular industry is dwindling. The ability of the new entrant to gain market share against already established operations like MTN and Vodacom is weakening progressively as the announcement is delayed repeatedly.

The new entrant will be facing barriers like resistance from subscribers to change to a new network from an existing one (new telephone number), high start up costs as well as to stand up against already established brand names with a proven track record. Vodacom and MTN have the advantage of already established operations, which have the means to fund fierce advertising campaigns.

The new entrant will probably be forced to win customers along the masses not yet subscribed to a cellular network. Although the new entrant may find it financially challenging it will most probably approach the market with a price cutting strategy.

The limited capacity of the 900 MHz frequency in metropolitan areas like Sandton in Johannesburg is however threatening the quality of service that Vodacom delivers to its client base. To make it viable for a new entrant in the cellular service market, it is widely expected that SATRA will give the new entrant exclusive access to the 1800 MHz frequency. This frequency is better suited for urban areas with high volumes of cellular traffic. Vodacom needs access to this frequency in order to serve the growing traffic volume on its network in such areas.

The new entrant also poses a threat in terms of attracting employees with specialized expertise and experience from both Vodacom and MTN. It is commonly expected that the new entrant will receive help from SATRA to gain a foothold in the market. The uncertainty about the way the new entrant will approach the cellular market and what

official help it will get in doing so, makes it all the more difficult for Vodacom to formulate a strategy on how to approach this challenge.

### **5.2.3 Substitute competition**

#### **Telkom**

Telkom has the advantage of a well-established network and customer base. The parastatal is also well equipped to meet the proposed increase in the demand for data traffic. It is projected that data traffic will surpass voice traffic as an income earner by the year 2005. Telkom will compete with Vodacom and MTN in this market. The mobility of cellular communication gives cellular companies an advantage over Telkom. The main obstacle for cellular communication not surpassing landline communication is the fact that the unit cost of cellular communication is much higher than the unit cost of landline communication. In this regard Telkom is already offering cheaper rates over weekends.

A lot of internet users are connecting to the web via Telkom lines, where Telkom offers a flat rate of no more than R 7 per call over weekends. Not one of the cellular networks is currently competing with this option.

### **5.3 The growing data traffic segment**

As was indicated technology within the cellular industry developed around four distinctive phases. When the cellular industry in South Africa was launched in 1994 and up until very recently cellular phones was mainly used to enable mobile voice communication between cellular phones and between cellular phones and landlines. Cellular operators thus focussed all their marketing efforts on attracting new subscribers. In 1996 Vodacom launched the first prepaid cellular system in order to attract subscribers that cannot afford fixed contracts.

The Cellular industry is entering the fourth phase, (the era of so-called third generation (G3) technology.) Specific reference was made to a range of new technologies that has a huge impact on the usage possibilities of cellular phones in addition to voice communication. The Wireless Application Protocol (WAP) for example allows cellular phones to communicate with the Internet. WAP applications will allow users to access

information, transact electronically and conduct financial services without having to go to cities. Unified Messaging (UM) enables access to information any time anywhere. Mobile workers are thus enabled to check voice, fax and e-mail messages while on the move. General Packet Radio Services (GPRS) is an enhancement of the GSM technology. The main advantage of GPRS technology is the accelerated speed, at which data can be transmitted, enhanced convenience in using mobile data, and location-based data services and personalised information services. GPRS will increase Internet mobility since no modem will be needed.

Services introduced in foreign countries can give an indication of what could be expected to succeed in South Africa. However the realities in South Africa are unique and global trends should not be followed blindly. Huge opportunities exist for cost effective transmission of data into rural areas without fixed line infrastructure.

The Vodacom market composition was described and it was indicated that prepaid subscribers currently represent approximately 80% of the total subscriber base. It was also indicated that this part of the subscriber base only contributes 30% of the total revenue earned by Vodacom. The above results are achieved in an environment where the mobile data traffic highway is still relatively quiet. It is thus very clear that the biggest profit opportunities for cellular operators currently lies not within the pre-paid voice communication segment but within the contract segment. These profit opportunities will grow even further when the mobile data traffic highway is used more extensively.

#### **5.4 Rising to the challenges**

Slywotzky and Morrison (1997) are of the opinion that the value of any product or service is the result of its ability to meet a customer's priorities. Customer priorities are simply the things that are so important to customers that they will pay a premium for them or, when they can't get them, they will switch suppliers.

Traditional approaches to strategy focus on where companies want to go. They emphasize choosing an attractive market and picking a unique strategic positioning, a specific set of competencies, or a particular vision for the future. As was illustrated in part 4 intense, high velocity changes is relentlessly reshaping the face of the cellular

industry in South Africa. Companies within the industry can thus not only rely on standard survival strategies and strategic planning methodology to ensure that they achieve their objectives.

Vodacom's vision, strategy and key success factors were discussed in great detail. It was indicated that Vodacom's strategy was driven by their vision to be amongst the top ten leading cellular networks in the world. The creation of shareholder value was identified as one of the specific strategic objectives. From a shareholder's point of view value is created when a required return on investment is achieved or surpassed.

That is normally achieved when a company becomes more profitable. In an industry like the cellular industry, profitability is maximised when a provider of the service has the majority of active lines in a particularly profitable market segment. Selection of the correct market segment towards which all the efforts of the company should be directed is thus of crucial importance.

Although Vodacom should not neglect those market segments that mainly use cellular phones for voice communication, the authors are of the opinion that Vodacom should focus most of their marketing energies on the emerging mobile data traffic segment. This is probably the segment with the greatest growth as well as profit potential. It should also be noted that data traffic will be more important in the corporate business environment, and most corporate users of cellular networks are subscribed via contracts and not the pre-paid system. The market segment that should be targeted must thus be the one where corporate businesses will subscribe to cellular networks via contracts and where mobile data traffic will increase progressively in future.

### **5.5 Exploiting the growing mobile data traffic segment**

Brown and Eisenhardt (1998) is of the opinion that the goal of a company's strategy should be to ensure a continuous flow of advantages, and that a strategy should be measured in terms of its ability to change if needed. Success is only possible if continual reinvention takes place. In the light of the above the authors propose the following strategy to ensure that Vodacom is in a position to exploit the emerging mobile data traffic market optimally.

## **5.6 Building the mobile data traffic highway**

In line with the critical success factors discussed Vodacom should continuously build their technological capacity to ensure that they have the infrastructure to handle the growing amount of mobile data traffic. The infrastructure should have the highest levels of reliability and flexibility. In order to be the undisputed leader in this segment, the quality of the infrastructure should not be negotiable.

Closer co-operation with suppliers of technology should be pursued in order to assure that the infrastructure will live up to expected demands in future. It is important for the suppliers of this technology to buy into Vodacom's vision for the future of this market segment. Thereby Vodacom can assure that its vision for this market segment, can be realised.

## **5.7 Creation of a suitable internal environment**

In addition to the fact that Vodacom should technically be in a position to handle large volumes of mobile data traffic, management should ensure that a Corporate environment and culture is created and maintained in which employees from all organisational levels can adopt quickly to the continuously changing external environment.

This can be achieved by keeping organisational structures flat and by developing and implementing an effective and efficient communication strategy. This strategy should ensure that employees are not only aware of management's vision for the company and strategic challenges the company faces, but that they can also make a contribution in the strategy formulation process.

Roles and responsibilities of all employees should be clearly defined and co-ordinated as part of an integrated process. Management should further more continuously encourage creativity.

## **5.8 Brand positioning and promotion**

Vodacom should position themselves in the market segment as being the undisputed leader in the field of mobile data traffic. Positioning of the brand should initially be in the

corporate and high-end business segment. As the focus will be on the data traffic market segment, positioning should take the nature of the user of this technology into consideration. It will most probably be corporate organisations where good quality, timeous information is crucial to make important business decisions, and where data traffic on a global scale would enhance the quality of the decisions enormously.

Positioning the brand correctly will add to the positive perceptions the consumer or potential consumer will have towards the brand. This can be achieved by being the first to market, in the process creating as well as consolidating the new market for Vodacom. Being first to market will give Vodacom a head start against opposition in the industry, increasing the possibility of gaining and maintaining the majority of market share.

As mentioned there is already a positive sentiment towards Vodacom's brand in the contract segment. Branding in this new segment should be strengthened via applicable promotion towards the specific target market. Broad advertising directed towards the general public as we have seen up to now from Vodacom is probably not the most effective for this target market. Effectiveness can probably be achieved by advertising in financial publications or airing particular advertisements during business programs on television or radio.

### **5.9 Value Adding Corporate relationships**

Vodacom should exploit already existing corporate relationship, but also focus on building new relationships with corporate clients. Knowledge of corporate customer's needs is paramount in this regard. Part of this strategy might include the development of customised packages for specific corporate clients. Offering special tariffs for companies switching to Vodacom. Vodacom should also consider subsidies for expensive handsets in order to grow the market.

### **5.10 Structuring of packages**

It is clear that data traffic will not carry the same premium that voice services have carried to date. The tariff will have to reflect the cost to Vodacom of providing the service and the capital cost of implementing the service into account. The projected level

and time of usage should be factored into the equation as well. The final tariffs need to reflect the perceived value to the customer.

The billing system should be simple to understand. The customer must be able to predict his/her cost. Experience has shown that customers are resistant to volume based charges as it is complex to calculate the cost in advance.

Vodacom should consider the following packages to charge subscribers for using data technology:

- The first option is to base the charge on the length of time the service is used. This is typically what Vodacom is currently using for the voice-based systems.
- The second option is to charge the user a flat charge on a monthly basis for either a single service or a portfolio of services.
- The third option is to charge the user for a specific event like sending a SMS or accessing a specific Internet site.
- Fourthly the originator of the service can be charged, who will use the service as a means of advertising their products or services.
- The fifth option is to base the value of the charge to the customer on the value of the transaction.
- Finally Vodacom could make the charge dependent on the volume of the information accessed. (e.g. per Mb of data downloaded).

Each type of charge has its advantages and disadvantages. These will need to be considered very carefully before a final decision is made. A combination of the above is also possible.

### **5.11 Conclusion**

SATRA was founded to separate the responsibilities of the three main role players

- (i) The Government responsible for policy formulation,
- (ii) The operators responsible for providing telecommunication services, and
- (iii) SATRA responsible for the administration of Government policy by issuing licenses, managing the frequency spectrum and implementing the tasks mandated by the Telecommunications Act.

Although the regulating authority claims independence from Government, parliament still provides the funds for the operations of the authority and the President appoints the members of the board.

The cellular industry is becoming increasingly competitive, hence the need to develop and maintain high levels of market awareness and loyalty - not only through marketing but also through superior service quality. Vodacom's aggressive promotion and advertising efforts helped to establish a strong brand name in the early years of operation.

Vodacom holds some advantage over MTN in the contract market – Vodacom subscribers feel more positive about the brand visibility and advertising of the network. The company's image is not as strong as in the past, and Vodacom is not enjoying the previous competitive advantage anymore insofar image is concerned (Insight 2000). There is currently little difference between the performance of Vodacom and MTN service providers, providing an opportunity for competitive differentiation (Insight 2000). Vodacom gained the largest local market share (60%) by focusing on the South African market.

The uncertainty about the way the new entrant will approach the cellular market and what official help it will get in doing so, makes it all the more difficult for Vodacom to formulate a strategy on how to approach this challenge. Telkom has the advantage of a well-established network and customer base. The main obstacle for cellular communication not surpassing landline communication is the fact that the unit cost of cellular communication is much higher than the unit cost of landline communication.



It was indicated that Vodacom's strategy was driven by their vision to be amongst the top ten leading cellular networks in the world. Vodacom should technically be in a position to handle large volumes of mobile data traffic, management should ensure that a Corporate environment and culture is created and maintained in which employees from all organisational levels can adopt quickly to the continuously changing external environment. Vodacom should also consider subsidies for expensive handsets in order to grow the market.

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