

Value-added services key for telecoms comps

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Service providers Altech Autopage and Nashua Mobile will have to invest in more value-added services to mitigate the potential losses brought by the proposed reduction in termination rates.



Mobile call rates are likely to fall. Image: freedigitalphotos.net

South Africa's telecommunications regulator has proposed that termination rates - fees mobile operators pay to carry each other's calls - drop to 10c by 2016 from the current rate of 40c.

The cut will enable smaller companies to place further pricing pressure on the big companies and that could result in a drop in retail pricing.

Altech Autopage and Nashua Mobile resell mobile services bundles and packages for mobile network operators Cell C, MTN, Vodacom and Telkom Mobile. The resellers had limited flexibility and often their retail prices are linked to the charges from mobile network operators.

Telecommunications analyst at Ovum, Richard Hurst says companies such as Nashua Mobile and Altech Autopage are going to find themselves coming under increasing pressure, particularly in the wake of the latest mobile termination rate determination.

"These companies will probably find a niche in being able to serve the larger enterprise and business segments of the market but will have to diversify these services to make voice a smaller part of their overall revenue stream," he says.

In its latest interim results, Altron reported revenue at its subsidiary Altech Autopage was marginally down as a result of a decline in the voice environment and a clean-up of the subscriber base.

However, the business increased pretax profit by 14%, showing the benefits of its strategy of bundling products and value

adding services along with the traditional voice product.

Average user revenue drops

Altron, the owner of Altech Autopage, said the average revenue per user has dropped, although average revenue per users on new subscriptions is encouraging, while churn is being maintained at industry levels. Value-added services and data sales were up and the number of subscribers increased to about 1.1m.

"I think that given the circumstances the company did well to produce these numbers. I think that margin pressure will see companies such as Altech focusing not only on bundled services but also efficiency," says Hurst.

Altech Autopage's managing director Boyd Chislett says the reduction in termination rates did not affect the group, but it is the expected decline in the retail rate that could have a knock on effect for the company.

"There is some protection. We have a fixed-margin agreement with network operators, which provides some degree of certainty," he says.

Chislett says retail prices could drop by half to 45c per minute over the coming years as a result of the reduction in termination rates.

As mobile termination rates decline, Vodacom and MTN are expected to embark on a defensive strategy to protect their market share and profits.

Hurst says service providers should focus on maintaining their existing relationships with their customers and their partners such as MTN and Vodacom, but look to inject greater value to their enterprise customers.

Greater dependence on data

"This could be achieved via data services or perhaps even a greater focus on enterprise mobility services and the ability to sell a service over a simple connection or SIM card," he says.

Frost & Sullivan business unit leader for ICT Ian Duvenage says more focus on value added services from Nashua and Altech could be required to make up for potential losses caused by a decrease in income from packages sold.

Altech Autopage has already started providing value-added services to its clients. It will provide a platform for consumers and enterprises to buy airtime from any mobile network and will strengthen its Internet service provider business.

"We have a broader spectrum of services and products so we can mitigate the risk by introducing new services," says Chislett.

Meanwhile, executive director at Research ICT Africa Alison Gillwald says as the voice market reaches saturation, and competitive pricing begins to reduce voice revenues, mobile operators are increasingly looking to their growing data revenues for profitability.

"As smartphone take up increases and more people substitute voice over Internet protocols and other free IP voice and text services, the data market will become increasing important revenue stream," she says.

"In South Africa and other countries where large numbers of people will not be able to afford to effectively use smart devices, ensuring affordable access to voice and SMS services remains important, but it may be less important to operators as it stops being their major revenue stream," she says.

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