

Cell C readies for tough battle against rivals

SA's third-largest mobile operator, Cell C, is undergoing major changes that will either take it to new commercial heights or sink it.



The entry of new CEO Alan Knott-Craig, the fourth to head the company in 10 years, has telecom analysts and even rivals questioning whether his success at Vodacom will rub off on Cell C, which is yet to make a net profit.

Since he joined Cell C in April, Knott-Craig has made some decisions that could potentially disrupt the market. However, the decisions have also had a human cost, with 150 staff being retrenched. A staff member also reportedly committed suicide after being told he would be retrenched.

Knott-Craig's return could be seen as an attempt to undo the high prices that he helped create as the founding CEO of Vodacom.

Analysts believe that Cell C needs to implement additional drastic moves, like the recent 99c per-minute prepaid tariff on per second billing, in order not to stagnate and become irrelevant in a market that is already saturated.

Cell C trails its rivals, MTN and Vodacom, on customer numbers. Spiwe Chireka, a telecoms analyst at global company IDC, says, "At the moment, it looks like they are in the right places and the company will be able to continue more effectively."

Price war

Knott-Craig has already sparked a price war with the launch of four price cuts, with two more price-related products expected in the coming months.

The 99c per-minute (with per second billing) tariff has resulted in 2,1-million starter pack orders from Cell C distribution partners.

Major shareholder Oger Telecom recently boosted Cell C with a cash injection of R1,5bn.

Knott-Craig is working on improving relationships with Cell C's distribution partners and franchisees, and changing its business model into a more centralised entity. It will also cut its 1288 staff by 150, a move that has been criticised by trade union Solidarity.

The restructuring has also created job opportunities at a more senior level. Cell C will hire an executive to look after the regions. Knott-Craig says that Cell C is moving into a new era and will "have to be super

productive".

Trying to catch up

Dobek Pater, a telecoms analyst at Africa Analysis, says being the least-cost leader is something all operators strive for as voice (and eventually data) become commoditised. "In this respect, Cell C is trying catch up with Vodacom and MTN, and is therefore again in a position of disadvantage in the market. The large subscriber bases at Vodacom and MTN allow these operators to realise a lower cost per subscriber delivering many services, because of the economies of scale they have achieved," he says.

Knott-Craig is also lobbying for the reduction in the mobile termination rate, especially the asymmetric mobile termination rate (this allows small operators to pay a lower rate to big operators). He says the existing rate has done little to assist small companies since it was introduced two years ago. It will fall away next year when the termination rate goes down to 40c from the current 56c.

Knott-Craig says that the Independent Communications Authority of SA should do more to assist the small players. "The two big operators are not going to (voluntarily) reduce tariffs because it will hit their bottom lines," he says. "I don't like the idea of SA being ranked one of the most expensive in Africa or the world .. a lot can be done to reduce prices." The ideal price will be one with "reasonable returns" for investors, he says.

However, Pater says playing the price-reduction leader is always a difficult position for the "underdog", as he has the most to lose.

"What if the intended subscribers or traffic do not materialise or the growth is slower than anticipated? This translates directly into revenue loss, which Cell C is least (8ta aside) able to afford," Pater says.

Chireka says given the market in which Cell C plays, it makes sense for the company to run as "lean" an operation as possible.

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