ASSIGNMENT 2ND SEMESTER : SERVICES MARKETING (SERM)

MODULES COVERED : CHAPTERS 1 - 5
DUE DATE : 3 p.m. Tuesday, 18 August 2009
TOTAL MARKS : 100

INSTRUCTIONS TO CANDIDATES FOR COMPLETING AND SUBMITTING ASSIGNMENTS

The complete “Instructions to Students for Completing and Submitting Assignments” must be collected from any IMM GSM office, the relevant Student Support Centre or can be downloaded from the IMM GSM website. It is essential that the complete instructions be studied prior to commencing your assignment. The following points highlight only a few important notes.

1) You are required to submit ONE assignment per subject.

2) The assignment will contribute 20% towards the final examination mark, and the other 80% will be made up from the examination. However, the examination papers will count out of 100.

3) Although your assignment will contribute towards your final examination mark, you do not have to earn credits for admission to the examinations; you are automatically accepted on registering for the exam.

4) Number all the pages of your assignment (page 1 of 4, page 2 of 4, etc.) and write your name and surname, student number and subject at the top of each page.

5) The IMM GSM requires assignments to be presented in a typed format, on plain A4 paper. Unless otherwise specified, this assignment must be completed within a limit of 1500 words, excluding the bibliography.

6) A separate assignment cover, which is provided by the IMM GSM, must be attached to the front cover of each assignment.

7) Retain a copy of each assignment before submitting in case the original does not reach the IMM GSM.

8) The assignment due date refers to the day up to which assignments will be accepted for marking purposes. The deadline is 3:00 p.m. on the 18 August 2009. Late assignments will be accepted, but 25 marks will be deducted from the maximum mark, if received after 3:00 p.m. on the 18 August 2009 and up to 5:00 p.m. the following day – after which no assignments will be accepted.

9) If you fail to follow these instructions carefully, the IMM Graduate School of Marketing cannot accept responsibility for the return of the assignment. It may even result in your assignment not being marked.

Results will be available on the IMM GSM website: www.imm.co.za on Wednesday, 7 October 2009.
SPECIFIC INSTRUCTIONS

• ALL questions should be attempted.

Please Note:
• Keep to the required length.
• No marks will be awarded for examples, explanations or discussions taken directly from sources.

Read the following information and answer the questions that follow:

Cell C

Since the heady days of 1994 which saw the introduction of South Africa’s first democratic government and the first two cellular network operators’ licences being granted, the mobile telephone industry in South Africa has grown into a massive, multibillion-rand business. Few predicted the heights to which the industry would rise, or the vast potential waiting in the wings. At present there are approximately 10-million active cellphone subscribers in South Africa. The industry has grown and was given another boost when the third cellular network, Cell C, rolled out its operations.

Cell C’s solutions

Cell C hopes to achieve a sustainable 20% market share by 2007, by which time it also hopes to be breaking even. It is targeting the upper end of the prepaid market and the middle of the contract market. The company has put together a comprehensive strategy in order to capture this volume.

How to “cell out”

Cell C has worked hard at rapidly increasing its distribution network, since availability and convenience are two extremely important aspects in consumer’s purchase decisions. It distributes through Cell C-owned dealers, Cell C franchise stores and retail outlets (e.g. Clicks, Makro, Woolworths, Game, Caltex, etc.). Cell C was successful in breaking the exclusivity agreements Vodacom and MTN had with certain retail outlets (e.g. Clicks previously only sold MTN).

In April 2002, Cell C launched a clever distribution mechanism: Cell C Direct, a one-stop service for anyone wishing to purchase a Cell C contract package from the comfort of his own home. Jose dos Santos, managing director of Cell C, says, “Cell C Direct is a one-stop shop which claims to provide a prompt, efficient service with free delivery to your door anywhere in South Africa”. Cell C Direct is specifically aimed at the contract market and within its first month added in excess of 5 000 new postpaid subscribers to the Cell C network. Adds dos Santos, “Packages are simply ordered over the telephone and come with a standard 14-day money-back guarantee, and delivery is within 48 hours in main centres and from two to three days in outlying areas”.

Product innovation – a “ceiling point”

Cell C has been granted a GSM 1800 license, which provides scope for faster call switching and wireless opportunities. This puts them at an advantage over MTN and Vodacom, which still operate 900 GSM networks and frequently experience capacity problems, especially Vodacom with the biggest market share.

All Cell C contracts – both pre- and postpaid – come with a 32K SIM card. Previously one could only get such a card when purchasing one of the more expensive, top-end MTN or Vodacom packages. A SIM card of this size has more storage space, and so can be used for all the value-added application (e.g. cellphone banking).

Simplification

While the cellular industry has tried hard to take everyone’s needs into account by designing multiple packages, the net effect has been to complicate things to the extent that consumers do not really know what they want (MTN has 10 and Vodacom 12 packages from which to choose). Cell C has identified this element of confusion as an opportunity, and has launched a simplified, easy-to-follow suite of products. There are simply five chat packs available: Business Chat, Active Chat, Casual Chat, Easy Chat and Club Chat.

Within each package (excluding Club Chat) there are only two tariff structures. For example, Easy Chat, the prepaid service, offers two pricing options: “All Day” and “Standard”. Allowing the consumer to choose between a flat rate for all calls, or variable billing based on peak and off-peak periods.

Chatting up the youth

Cell C has cleverly straddled the pre- and post-paid contract markets by positioning one of its contracts as a lifestyle product – Club Chat: “the cell number that starts with 084-20 and ends with you getting more and paying less”. This is a product aimed directly at the youth market, which is where a high percentage of the market growth will come from.

It appeals to the consumer who has reservations about aspects of both pre- and post-paid contracts. Cell C describes the product in its advertising as follows: “It’s not a prepaid forgot-to-recharge, running-out-of-credit, need-to-make-a-call-but-I-can’t-type situation. Nor is it a long-term-commitment, sign-your-life-away, we-got-you-’til-you’re-grey kind of contract either. Believe it or not, Club Chat is a one-month contract only. And that rocks.”

Indeed, Club Chat is a one-month contract with no credit check required and no fixed monthly fee; the consumer merely agrees to spend a minimum amount of R78 on calls and SMS messages each month.

Extra information: Cell C

South Africa's third GSM operator, Cell C, signed up more than 3-million subscribers by the end of 2003. There are 1.9-million active users of the network. This represents 12% of all the country's mobile subscribers.

Some 84%, or 1.6-million of its subscribers were prepaid users and 16% were contract. Average revenue per user (Arpu) for prepaid was R62 and R409 for contract users, with a blended Arpu of R110.

Talaat Laham, the chief executive, said the company estimated that 51% of the growth was from new users and that Cell C had poached about 49% of its active subscribers from its competitors, Vodacom and MTN.

Cell C operates on GSM 900/1800mHz and is expected to start producing profit by the end of the year. It said it expected the total cellphone market to reach 20-million users by 2008, after revising its 19-million forecast six months ago.

Laham said Cell C's dropped call rate remained at less than 1% and its call set-up success rate was above the target of 96%.

Cell C has committed R4.4-billion to procurement and contracts and about R1.5-billion has been spent with black empowerment firms.

It has increased its staff numbers to 1 800 from 1 450 since last June, and has more than 5 000 active community service telephones.

"We believe this means we are on track to meet our licence obligation by the end of 2008," said Laham.


Extra information: Statistics of the cellular industry in South Africa

- Market size as of June 2004
  - 18.7-million users *(Note: only 80% of these are active users).*

- **Potential by 2006:**
  - 19-million users
  - It is dominated by Vodacom and MTN who operate at GSM 900 mHz.
  - A licence was awarded in June 2001 to the Cell C Consortium (live from Nov 17 2001). It operates at GSM 900 and 1800 mHz. Cell C has 3-m users. There are 1.9-million active users.
  - Some 84%, or 1.6-million of its subscribers, were prepaid users and 16% contract. Average revenue per user (Arpu) for prepaid was R62 and R409 for contract users, with a blended Arpu of R110.
  - More than 90% of all new connections are prepaid customers.
  - Over 9 000 users sign up per day (mostly prepaid).
• The SA market is currently worth R23-billion and will grow to around R54-billion by 2007. More than 5 500 Vodacom base stations are in place to provide coverage to 60% of the geographical area of the country.

• Together the three GSM networks cover more than 71% of the population.

• People in previously under-serviced areas are making over 35-million calls (65-million minutes) per month from Vodacom’s 2 135 community phone-shops.

• Vodago is Vodacom’s prepaid package, and was launched in November 1996, and now accounts for more than 90% of all new connections to the Vodacom network.

• Vodacom’s network currently switches 30% of telephone volumes in South Africa and 10% of Africa’s.

• Most of the urban areas and national roads in South Africa have GSM 900 coverage.


**QUESTION 1**

1.1 Lovelock (2007: 25) identified four additional P’s of services marketing, namely, process, physical environment, people and productivity/quality. Explain how Cell C uses processes, people and productivity/quality to address the unique challenges faced when delivering its service. (30)

1.2 Using the “flower of service”, discuss the supplementary services that Cell C currently uses to differentiate themselves from competitors such as Vodacom and MTN. (15)

1.3 Discuss the perceived risks that a client might experience when buying and using Cell C’s service. (14)

1.4 Cell C wants to export their services to African countries. The first step is to determine the barriers to export that Cell C might experience. Research the barriers to export opportunities to Nigeria.

Note:
• Discuss the export barriers (12)
• based on your research, suggest the best option for Cell C regarding entry into Nigeria. (4)

1.5 Discuss the pricing objectives that Cell C should consider when entering into a new market in Africa. (15)

**PRESENTATION**

ASSIGNMENT TOTAL: 100