

Since the heady days of 1994, which saw the introduction of South Africa's first democratic government and the first two cellular network operator licences being granted, the mobile telephone industry in South Africa has burgeoned into a massive multimillion rand

business. Few predicted the heights to which the industry would rise, or the vast potential waiting in the wings. As Vodacom's Managing Director, Alan Knott-Craig said when the company launched its business, "Cellphones will change our lives as much or more than television did". Very few people understood what he meant then, but the numbers speak for themselves; today calls made on mobile telephones outnumber those made on land lines. At present there are approximately 10 million active cellphone subscribers in South Africa, a figure which Cell C predicts will escalate to 17 million by 2011. The industry has grown at a rate of knots, and was given yet another boost when the third cellular network, Cell C, rolled out its operations.

Cell C's challenge in the marketplace

While the South African market has seen remarkable growth, the gradient of the curve has tapered off, and the third entrant into the market will have a tough job achieving the growth experienced by the first two cellular network operators in the early establishing years. Is the South African market, therefore, big enough to support three players, or will someone fall by the wayside? Will Vodacom and MTN's head start prove too much for Cell C, who is playing catch-up? Will Cell C achieve its market share and profit margin targets? Does Cell C have something significantly different to offer the market in order to attract users? These are the questions Cell C faces as it enters a well-established, highly technical and capital-intensive market.

History of the South African market

In 1994 when Vodacom launched its business, the team worked round the clock to roll out the network nationally at a rate of more than 10 base stations per day, a rate unprecedented in the international GSM community. At this stage Vodacom was the fastest growing network in the world and one of the busiest in terms of call volumes. Vodacom's initial growth projections targeted 250 000 subscribers within 10 years. Two years short of their first decade in the market, however they purported to have more than five million subscribers. Network coverage in South Africa is one of the most expensive in the world, embracing almost 880 000 square kilometres (including sea) and providing telecommunication access to 92% of the population.

South Africa is unique in its motivations for embracing cellular technology. Although there is an obvious need for cellphones to cater to ever-changing needs of business, to many South Africans cellular simply means being connected. Prior to 1994, around 98% of the privileged had

cellphones, but the average penetration in disadvantaged communities was one line per hundred people. Moreover, with the high crime figures in the country, the safety that cellphones provide has become a major motivator in the purchase decision of a cellphone. From parents' concern over their children's safety, to motorists stranded on highways, the cellular industry has meant that an emergency number is a mere button click away. Many have described this connectivity as the most important reason influencing their decision to own a cellphone.

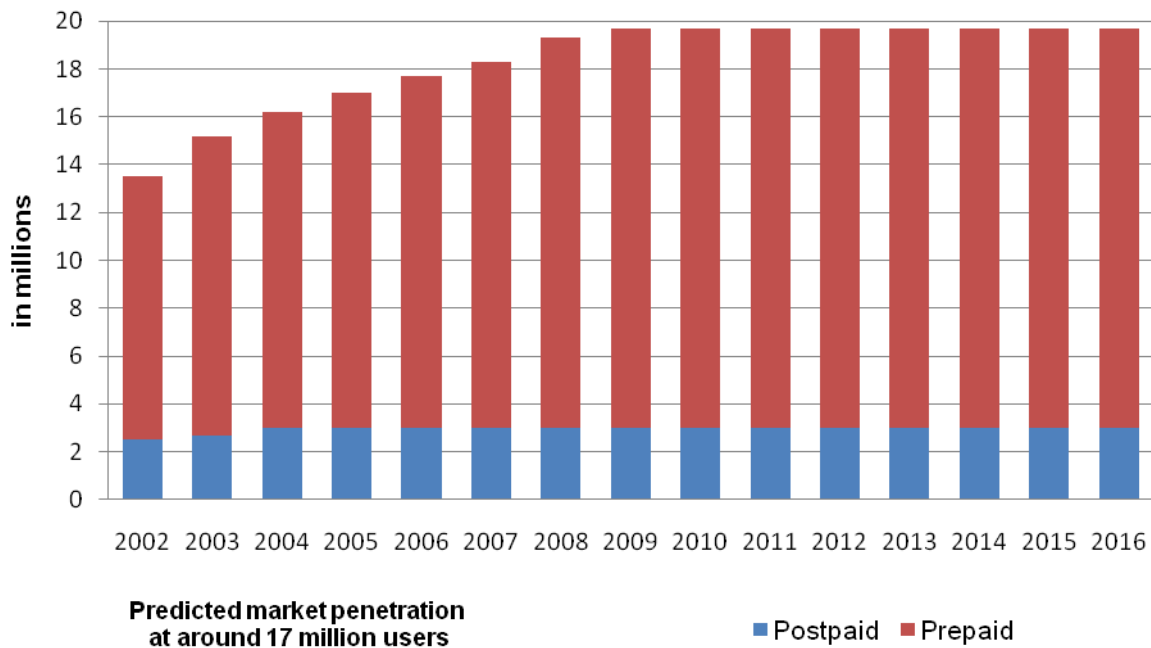


Figure 10.1 Forecast of South African cellular market penetration

Source: Cell C presentation to analysts, May 2002.

The players

Vodacom was granted its operator licence in September 1993, six months before the country's first democratic elections. About a month after the election, on 1 June 1994, the company rolled out its network to a cellular-starved country. Six months later, Mobile Telephone Network (MTN) rolled out its operations and, in fact, set a world record for the speed with which it established its infrastructure. In October 1993, Knott-Craig had convinced his shareholders to spend millions on an advertising campaign that promoted a product that would only be available in seven months' time. His belief was that the first network to establish its brand name would become the generic brand. In addition, Vodacom's six-month licence lead time, as well as the experience provided by European partner Vodafone, enabled it to cherry-pick the lucrative corporate customers and so gain valuable market share and revenues at the expense of rival MTN. Despite their respective advantages and handicaps, both operators did extremely well, exceeding their targets in a short space of time. By the end of its first month, Vodacom had cornered 50 000 subscribers and this

figure doubled by the end of October, providing a very happy Christmas to the fledging network. Likewise, by 1999, MTN had exceeded its original forecasts by 100%. In the early 1990's Vodacom launched its "YeboGogo" campaign and quickly realised it had created a "big advertising idea" with extensive leverage. Indeed, the "YeboGogo" characters have become South African icons, achieving celebrity status, and the phrase "YeboGogo" has even entrenched itself in South African lingo. MTN launched with its "Better Connection" campaign because technically they could claim they had a better quality network. But with convergence of network quality, MTN changed its pay-off line to mirror its current positioning: "Hello the future" – which is all about embracing new generation technology to facilitate sophisticated data transfer services.

Despite their unprecedented success, MTN and Vodacom were only cash flow positive after six years in the market. This is because the outlay for establishing an infrastructure from scratch is enormous. Today, the two companies are both blue-chip enterprises. Vodacom has an annual turnover of R16 billion, and MTN R12.4 billion. The two companies have been in the market for more than a decade now, and as such know the South African mobile telephone industry intimately. Vodacom and MTN are big brands today, and this makes it extremely difficult for a third licensee entering the market. Brands with a large market share have a huge benefit over smaller brands in stable markets. This comes from the double jeopardy effect, which simply highlights that big brands have more customers and hence more customers who buy more often, thus the double benefit. As of August 2002, market share was Vodacom 54% and MTN 40% with the remaining 6% belonging to Cell C.

The tripod

The South African cellular industry is organised in such a way that customers are often somewhat removed from the cellular network operators. While the network provider is responsible for establishing the physical network, providing technical support, devising products and innovating towards new ones, the service providers are responsible for the actual retailing of airtime contracts and monthly billing for post-paid contracts, and they generally have more day-to-day contact with customers. Each network provider owns a subsidiary service provider company, which exclusively sells its contracts and services. In addition, there are two main independent service providers, Autopage and Nashua Mobile, that sell all networks' contracts and services. With the introduction of the prepaid option, the distribution extended to numerous retail outlets. Interestingly, the above is very much a South African scenario. In Europe, service providers have all but disappeared as consumers mostly purchase airtime "virtually". In terms of the actual telephones (handsets), these are acquired either as part of one's postpaid contract or bought personally. Handsets are big business. Not only do they come in various shapes and sizes, but there is also an array of features to choose from. Handsets are also continuously being updated in order to allow for more

sophisticated functions...it is a bit like owning a PC – no sooner has one proudly purchased one's state-of-the-art machine, than it is already obsolete because it has been surpassed by yet another upgrade. Unlike the impact on the network providers, the maturity of the market has far less impact on the handset market because consumers will always want to upgrade their telephones – especially the young, trendy, image-conscious ones, or those requiring high-tech functions. Postpaid contracts are largely expensive because the cost of the phone is paid off over the 24-month contract period. Cell C has chosen not to go this route and instead subsidises a portion of the handsets, thereby passing on cheaper contract/service rates to the consumer. This does mean however, that Cell C is paying a higher acquisition cost for its customers.

All about networking

In the initial days of the cellular market, establishing base stations was all-important in terms of attracting new users; this enables the network to make claims about best coverage and avoiding dropped calls. But once both networks have achieved parity in terms of coverage it was no longer a competitive advantage, and the networks turned to distribution channels as a way of winning customers – especially the growing prepaid market. The easier it is to get a cellphone and contract into a customer's hand, the more likely he or she is to be yours. Initially, distribution was only through the service providers such as M-cell, Teljoy, Nashua Mobile, etc., but then to broaden the distribution base and allow for greater accessibility, larger retail stores such as Game, Dion, Clicks and Makro, which already housed telephony departments, also became outlets. Less likely retail groups then became distribution points (Foshini, Woolworths, Jet, Edgars, etc.), followed by the even less likely but highly innovative Mr. Delivery, and the Internet. Today, by far the biggest outlet for airtime purchases is Edgars.

Signing on the dotted line

Postpaid

There are two major types of contract in the South African market: postpaid and prepaid. For the first two-and-a-half years only the former existed. This requires a credit check on the prospective customer who then, if approved, selects his desired network provider and enters into a 24-month contract. The customer then receives a monthly invoice detailing the calls he made during the month. There are numerous options available to the customer, so ostensibly he can choose a contract suited to his needs and budget. The reality, however, is that much confusion is created in that the consumer is often not quite sure what his needs are until he is already locked into an expensive contract which he cannot get out of. To try to circumvent this problem, both service and network providers have devised an optimiser-type programme which aims to work out exactly which contract is suited to a particular customer. Nonetheless, postpaid contracts can work out very expensive, and many customers have been horribly shocked at the end of each month when

their statements arrive. Some customers were shocked right out of the cellular market altogether-never to return...or so they thought.

Prepaid

Then came the introduction of prepaid cards to South Africa by MTN. In fact, MTN was the second network in the world to introduce the prepaid concept. Rival Vodacom followed shortly thereafter. This revolutionised the cellular market, and brought accessibility to cellular telephony to millions of South Africans. Postpaid meant that cellular technology was still largely only accessible to the privileged – those who were creditworthy and could afford the costly monthly contracts and bills they were unaware they were running up. With the introduction of prepaid, however, no credit rating is required, the monthly contract is reduced significantly, and one can directly control how much one spends on calls by buying a fixed amount of airtime upfront. Today, one can get connected with no monthly subscription and an airtime voucher for as little as R49. Prepaid vouchers have broadened the target market substantially – everybody, from a businessperson to a street hawker, can own a cellphone. Vodacom's initial projections for the total number of prepaid customers was 50 000, but they achieved this within the first month! Today, prepaid is a principle reason why the cellular industry has grown to some 500 million phones around the world. By late 2002, prepaid constituted close to 90% of all new connections in South Africa, and 80% of the total market. The same still holds today in terms of new connections. But the introduction of prepaid also changed the nature of the consumer. In fact, the introduction of the prepaid cellular service propelled the industry into a utilities market. Consumers are attracted by the “no strings attached” service, and are therefore able to shop around for the best deal, making them more price sensitive. Initially, prepaid subscribers were mainly those that who were prohibited from the high cost of contracts, but today, prepaid competes head on with contracts. In Europe, prepaid is being purchased by subscribers who could well afford to enter into a contract, but choose not to because they like the flexibility and cost controls inherent in prepaid. The South African scenario is heading in the same direction. In fact, on satisfaction scales, “pricing” ranks lower than “quality of service” and “network coverage” in terms of what consumers are looking for. The market is taking prepaid consumers very seriously: in the early days MTN and Vodacom offered only one prepaid option, but now networks are offering a lot more flexibility with prepaid packages.

New kid on the block

Cell C launched its mobile network business in mid-November 2001. Initially, it was due to be granted its license in September 1999, but due to much controversy and an ensuing court case, it only received the license officially in June 2001. Twenty-one weeks later the network was fully operational, and with this time-frame set a new world record.

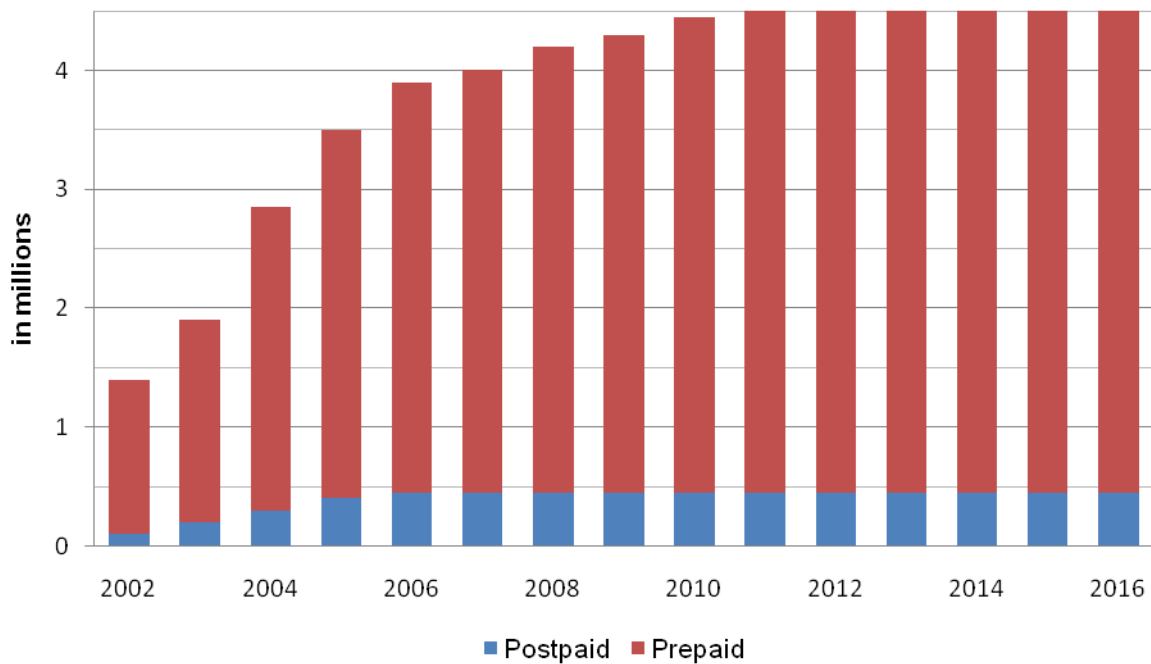


Figure 10.2 Cell C forecasted subscribers

source: Cell C presentation to analysts, May 2002.

Unlike Vodacom and MTN, which were able to build their networks over a realistic time period, Cell C needed to have nationwide coverage as soon as it was operational since this is what its competitors were offering, and consumers would be highly unlikely to defect to a network offering inferior coverage, no matter how good the tariffs. As such, Cell C has entered into a roaming agreement with Vodacom which allows it to piggyback on Vodacom's network while it establishes its infrastructure. The roaming agreement will last for the full license period, although the major metropolitan areas will be excluded after three years (end 2004). Cell C has fallen behind in its base station rollout programme, citing difficulties in obtaining construction permits from municipalities as the main problem. The cellular network had broken through the 500 000 subscriber mark and was on track to meet its revised target of one million-plus subscribers by end 2002. An upbeat Cell C chairman and CEO Talaat Laham told a media briefing in May 2002:

Originally we had based our business plan on achieving just over 800 000 subscribers in year one, but the uptake has been so positive that we have revised target for the year to more than one million subscribers, which bodes well for our aim of achieving 20% market share by 2007.⁵

By 1 September 2002, Cell C picked up its 800 000th subscriber. Revising targets seems commonplace in the South African cellular market. Pioneers Vodacom and MTN did it, and so too has Cell C.

Structure and ownership of company

Cell C is 60% owned by Saudi Oger Telecom (a large Saudi Arabian telecommunications company), and 40% by CellSAF, which is owned by multiple South African organisations, including several empowerment partnerships (see Figure 10.3 for details).

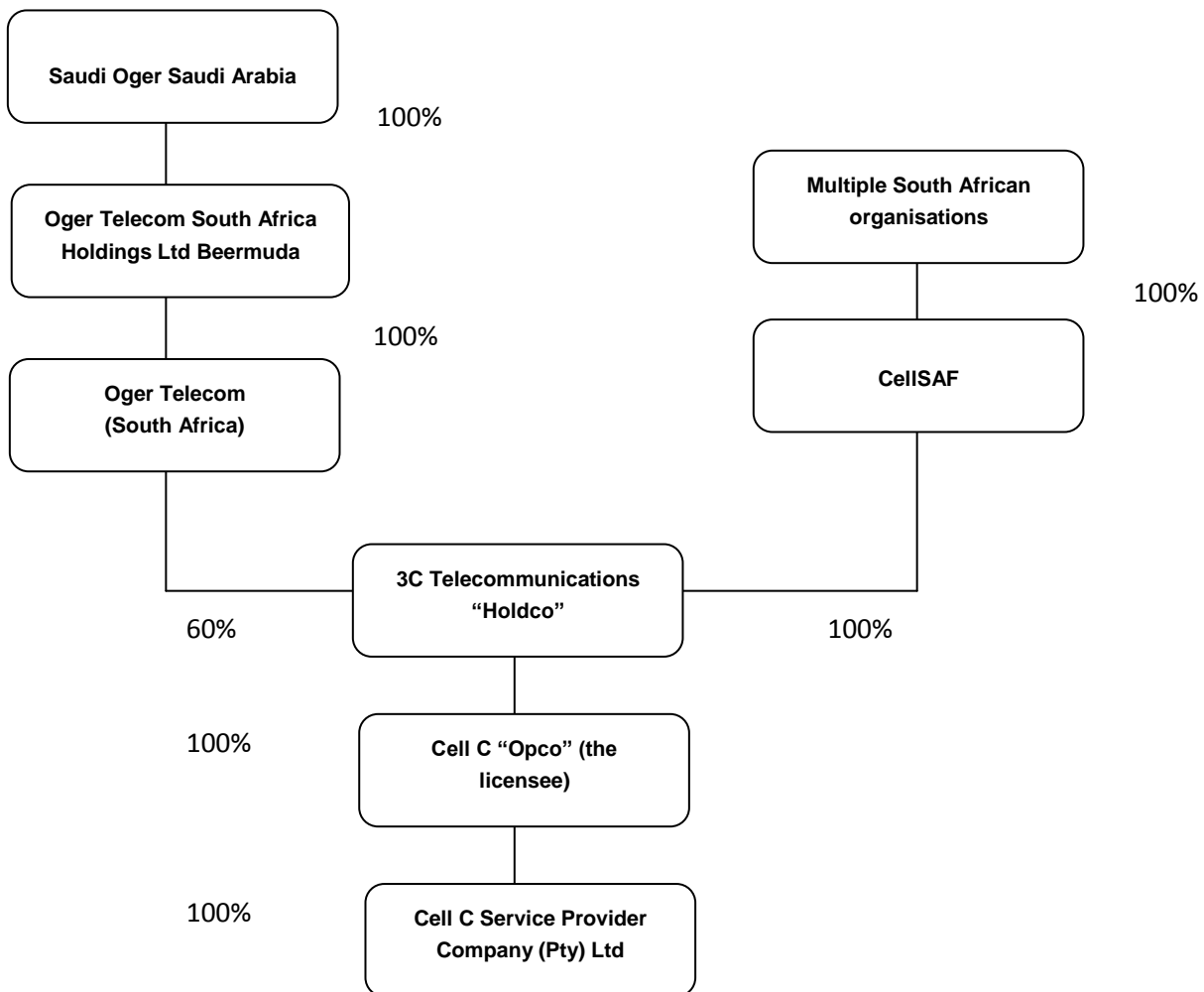


Figure 10.3 Cell C company structure

Cell growth

The current size of the South African cellular market is 10 million active users and it is worth R23 billion. Over 7000 users sign up each day, with close to 90% of them being prepaid users. The predictions are that by 2005, one in three South Africans will own a cellphone. The market is expected to reach maturity at around 17 million users by 2011 - heavily weighted in favour of prepaid services. The growth in the market seems to be coming predominantly from the youth aged 18-24. This population group has an inherent need to communicate with their peers and keep in touch with what is happening, but they are also always on the move - they see cell phones as an essential part of their lifestyle.

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 consumers' 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 aims 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 5000 new postpaid subscribers to the Cell C network. Adds Dos Santos, "This is a new and exciting channel for Cell C and we are confident that it will play a pivotal role in growing our market share in South Africa." Packages are simply ordered over the telephone and come with a standard I-I-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 800 licence, 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 applications (e.g. cell phone 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 (see Figure 10.5 for further details).

Flexibility

Cell C offers a unique degree of flexibility within its prepaid Easy Chat package by allowing the consumer to swap between the All Day and Standard tariff structures. They simply do this by making the selection on their handsets. Prior to Cell C's launch, the minimum postpaid contract period was 24 months. Cell C completely changed the rules of the game by offering the consumer the flexibility of 1-, 12- and 24-month contracts.

Chatting up the youth

Cell C has cleverly straddled the pre- and postpaid 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 postpaid 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-till-you're-grey kind of contract either. That sucks. 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.

When one Club Chat member calls another, he automatically gets a discounted rate. In addition to the 20 free SMS messages monthly, the club members also get a 10% discount on four predetermined numbers. The product takes advantage of both the youth's need to be in contact with their peers at all times, as well as their traditionally skint disposition. The more friends they have on the programme, the less they pay, and everyone stands to gain.

Churn: The double-edged sword

One of the hardest jobs any network has is to persuade users of a competing network to switch to theirs." Having to get a new telephone number is a major disincentive to changing brands.

In Europe (a mature market and where number portability? exists) postpaid churn rates run at 30-50% and prepaid at 16%. This is because prepaid users are generally more satisfied as consumers because they expect less from their network provider. By contrast, postpaid users are the higher end of the market and are a lot more demanding of service levels. In South

Africa, postpaid churn levels are 17% and prepaid 25-35%. Postpaid users are locked into 24-month contracts and a lot of these are business people, so churn rates are kept low. For prepaid, the assumption is that Cell C's entrance into the market has "agitated the waters", causing users to question the service levels, pricing and products they receive from their current network.

In terms of Cell C's growth, 80% of its volume comes from churn, and only 20% from new users. The reasoning is that new users tend to be attracted to the bigger, more established brands. Being first, and even second, in the market puts one at an immediate advantage in terms of perceptions of quality, reliability and credibility. Being third in the market effectively means one has to work three times as hard to capture new users. By contrast, the volume coming from churn is made up of experienced users who might have had a bad experience with their current network, or are just shopping around.

One of the ways Cell C endeavours to lure customers away from rival networks is to advertise that subscribers can "keep their same number"; they simply have to substitute the 084 prefix for the one they currently have. While this effectively means one still has to communicate the change to everyone, the consumer perceives this as less of a hassle or a risk than changing to a completely different number. It is mildly concerning that Cell C is acquiring most of its growth from churn. While churn remains high this is not too much of a problem, but in the medium to long term, once churn rates stabilise to European levels, will Cell C's growth rate also slow down?

Talk is cheap

Cell C appeals to where it hurts most: our pockets! To date, Cell C is offering the cheapest call rates all round, but it is even cheaper to make calls to fellow Cell C subscribers. Consequently, there is an advantage to having as many of your friends and family subscribing to Cell C along with you!

In addition, Cell C also offers its users discount call rates to regularly dialled numbers. The Easy Chat "Friends and Family" feature gives customers an additional 10% discount on all calls to two predetermined numbers, allowing users a lower rate for the calls they make most often. Cell C contracts offer this feature to four predetermined numbers.

On 1 September 2002 Vodacom and MTN announced a price increase. Cell C elected to hold its tariffs - presenting this as another good reason to stay with/switch to Cell C.

Every second counts ...

Especially when you're paying! A couple of years ago there was a public outcry in the media when consumers discovered they were paying for cellphone time that they were not using. Whilst one might have made a call lasting four minutes and two seconds, one was billed for five minutes,

because the billing system was calculated in one-minute intervals. For one call this might not seem very much, but over a month the additional seconds can add up to considerable cost. The consumer, however had little choice, since this is how the industry operated, and changing to the rival network would not have helped.

Cell C launched a different billing system - per second billing - and charges consumers only for the time they use. Unfortunately, though, this is not a competitive advantage for Cell C as Vodacom pre-empted Cell C's per second billing just prior to its launch, and MTN followed suit.

Capturing the corporates

Cell C is beginning to target the corporate market more aggressively with its Business Chat 400, 700 and 1000 contracts. Two product benefits aimed at the business user are firstly that Cell C offers a 20% discount on all international calls, and secondly that it has the cheapest call rates to Telkom numbers. While this market is by far the most profitable, it is the hardest to capture. For one, the market is mature, and secondly, the risk of changing one's business phone number is far greater and so presents a high barrier to entry. But should number portability become an industry feature in this country, it will not be surprising if corporate start shopping around for the best deal.

Hello Mr Mhize!

One of the biggest gripe areas amongst cellphone users is the indifferent, or even bad, service they receive from their network operator. Cell C believes this is a crucial area in which to build customer loyalty, and so has installed a world-class customer call centre. One of the small but highly impressive features of this centre is caller recognition. When one logs a call to the centre, the operator has all one's details at hand and answers with: "How may I help you, Mr Mhize?" Suddenly Mr Mhize does not feel like just another number.

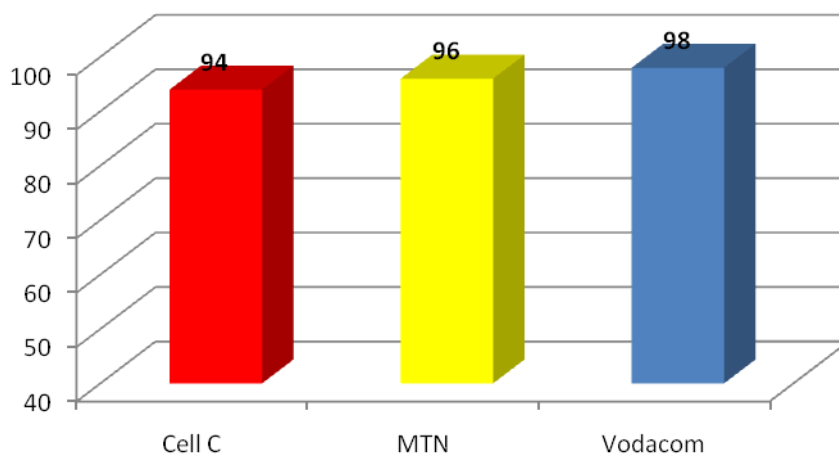


Figure 10.4 Brand Health: Network operator awareness

Source: C-Track (metropolitan), February 2002.

Advertising and marketing campaigns

Brand positioning

The South African population is a tapestry of individuals from different cultures, language and economic groups, life stages, etc. Cell C aims to address these differences by waking people feel as if their individual needs are being catered for and they are not just another number, hence the Cell C payoff line "for yourself". Cell C sees itself as a "lifestyle offering", i.e. a tool which enhances one's particular lifestyle, whether one is a student, businessperson, hawker or pensioner...

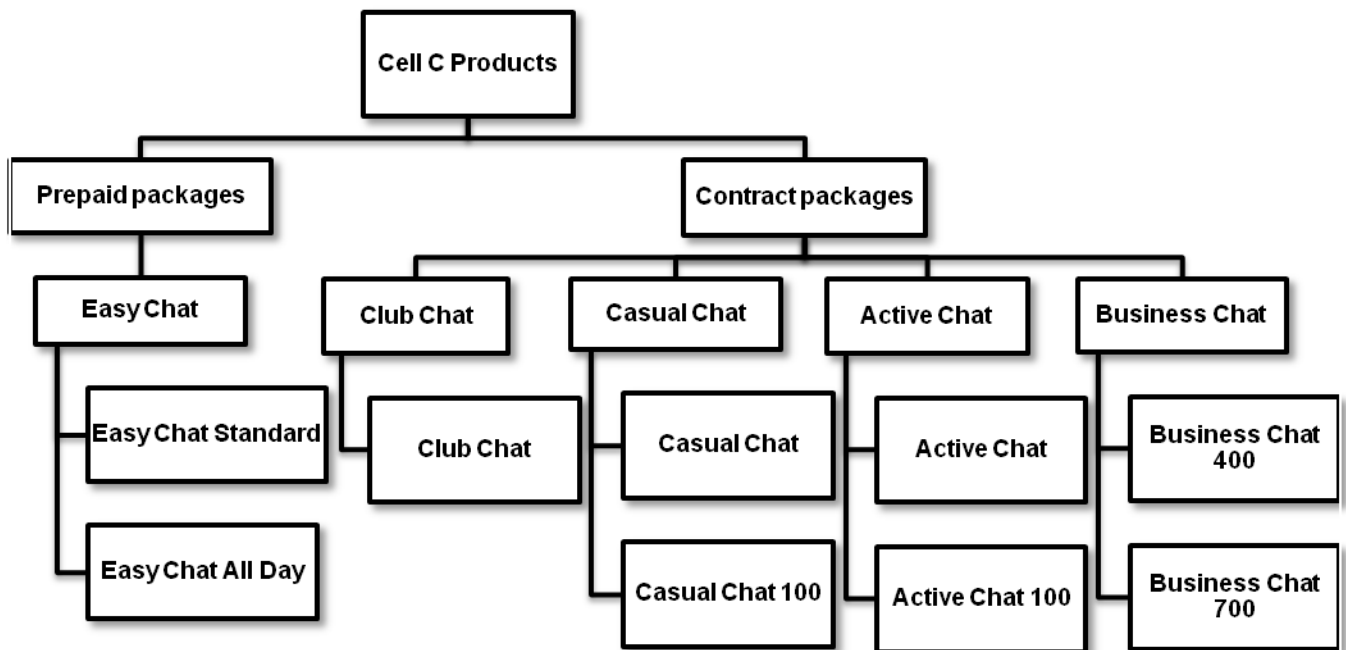


Figure 10.5 Cell C product overview

The brand's promise is "to champion the South African consumer through the provision of lifestyle-enhancing cellular services based on simplicity, choice and value". It aims to simplify the consumer's job of choosing a contract, but still provide a choice based on his individual lifestyle needs, and at the same time to offer value by structuring the packages in the most competitive way.

Advertising campaign

Like Vodacom, Cell C's advertising campaign commenced even before the brand had been launched. In June 2001 the world witnessed the rarity of a solar eclipse, and Cell C's creative team ingeniously spotted an opportunity. They flighted an advertisement showing the sun eclipsing to reveal a "C" shape, and the words "We thank Mother Nature for announcing our imminent arrival".

This idea of brand identification was picked up again in September 2001 with the rollout of another teaser campaign centred on recognition of the "C". With this campaign, Cell C also commenced its targeting of individual groups by appealing to the many different facets of South African life through the various executions – there were 25 in all.

Cell C was officially launched in November 2001, and at this point started communicating its specific products and their benefits. It commenced with the prepaid package Easy Chat, since this was where immediate volume was to be found in the market.

In early 2002 Cell C began flying the "Tell someone" campaign, which is all about getting to a moment that is unique and so special that one has to tell someone. This campaign appeals to humans' inherent need to communicate, and through the 14 different executions it appeals to different segments of the market. The "Tell someone" theme was essentially the "big advertising idea" and it was Cell C's intention to carry it through all advertising campaigns.

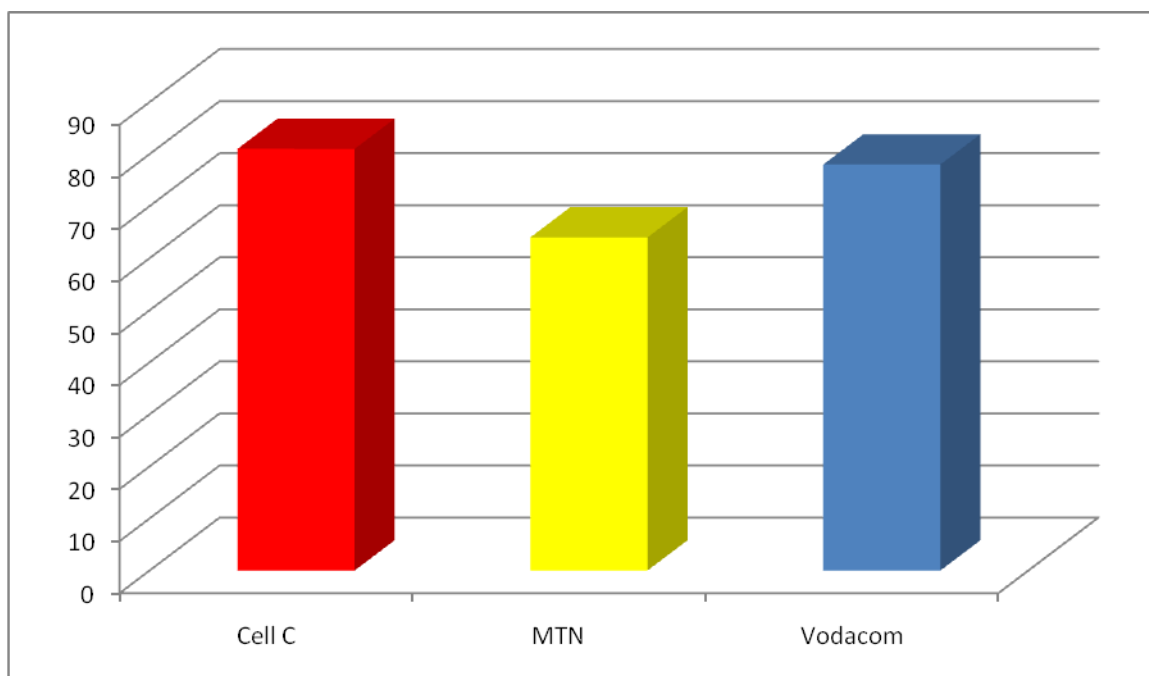


Figure 10.6 Brand health: Advertising awareness

Source: C-Track (metropolitan), February 2002.

Chatting up the media

Television

Television, being the most influential medium, carries most of Cell C's ad spend. In fact, since September 2001, Cell C has been almost permanent. This is because competitors MTN and Vodacom enjoy constant visibility either through their advertising or through their massive sponsorship spend. The cost of entering this highly competitive market is enormous.

In this industry, television needs to be a fairly fluid and flexible medium. Unlike FMCG brands, which can more or less plan their media strategies months in advance, cellular network operators

need to use television more tactically, based on sales, specials, product innovations, etc., much as the retail market needs to do.

Radio

The Cell C radio campaign was launched in November 2001 and complemented the television campaign by advertising the prepaid package, Easy Chat, as well as the generic brand benefits. The sexy, husky voice of the advertisement's narrator has now become a brand property, such that when consumers hear her voice the brand is automatically summoned to mind. Currently, however, radio is only used as a tactical tool to communicate product innovations.

Outdoor

Cell C has a big outdoor presence: from sites at Johannesburg International Airport, to townships, to branding on trains and taxis. Cell C sees this as an essential part of its mix in a market that needs constantly to be brought to top of mind. In addition, Cell C is up against two competitors that have the cash reserves to spend enormously on sponsorship.

Press

The press is an extremely important part of the media equation. This medium is the most immediate in terms of being able to advertise specials, and it is also an informational source for consumers who are shopping around. They have the time to sit and study and compare what is on offer. This medium is mainly the domain of the service provider whose responsibility it is to communicate promotional offers.

Brand health

According to research commissioned in February 2002 by Adtrack, there was a 94% awareness in metropolitan areas of the Cell C brand, versus a 96% awareness of MTN and 98% of Vodacom (see Figures 10.4 and 10.6). This is an extremely healthy gauge. In terms of the advertising, the indicators were even more promising: there was an 81% awareness of Cell C's advertisements in metropolitan areas, versus 64% for MTN and 78% for Vodacom. For a brand that had only been in the market for four months (November 2001 to February 2002), the result reflected a successful advertising campaign.

Hello the future

Globally, the mobile telephone market faces an uncertain future: in fact, investors are anticipating severe decreases in profitability. This is because cellular companies anticipated a trend away from voice communication to data transfer (e.g. "Always On" which is a constant connection to the Internet). As a result, they made massive investments in highly technical infrastructure to allow for

these sophisticated services. Revenue to offset these investments, however, has not been forthcoming: firstly because handset technology has lagged behind, hence not allowing consumers to utilise the services as promised, and secondly because data transfer services are difficult to charge for.

One needs to consider whether the South African market can, in fact, support three big players, or whether the scenario will be one of a dominant player followed by two smaller ones. There was even talk of a fourth mobile operator licence being granted by the end of 2003, despite the fact that it is highly questionable in a market nearing saturation.

In South Africa, the lucrative postpaid and business contract markets are mature ones. Winning contracts here will mean having to lure individual users and corporate rates away from competitors, which is a difficult task.

Competitive strategies

Vodacom and MTN have adopted quite different strategies in order to survive. Within South Africa MTN has adopted a quality strategy aimed at providing mainly the postpaid and corporate markets with sophisticated hi-tech data transfer products. It is seeking its volume growth elsewhere on the African continent. In contrast, Vodacom has adopted a quantity strategy. This network believes there is still plenty of growth in the South African market and its strategy is to place a cell phone (with a Vodacom connection) in every eligible South African's hand.

ARPU in decline

Average revenue per user (ARPU) is declining in the South African market. In fact MTN reported a 9% decline in ARPUs in its June 2002 company results. This was because, with the lucrative postpaid contract market having reached maturity, networks were attracting a lower revenue user. For example, 53% of the learner and student population spent less than R100 per month. This did not bode well for a new network operator in a market that needs to offset its substantial infrastructure investment with healthy revenues.

By late 2002 Cell C's ARPUs were above the industry norm for prepaid and below average for postpaid.

Cell C - looking ahead

Clearly, the South African cellular industry is experiencing a flurry of activity that has shaken up the market and created new peaks in interest and awareness among consumers. But once the dust has settled and the excitement dies down, what will the status quo be in the market?

Cell C has got off to a galloping start and certainly all the marketing variables seem to be in place, but there are still a number of hurdles out there which Cell C will have to manage skilfully.

And finally, in this market it is very difficult to hold onto any competitive advantage. What may start out as a brand differentiator soon becomes an industry norm once all players adopt a similar product, causing the industry to become more and more like a utility or commodity market. This levelling of the playing fields (e.g. per second billing) makes it extremely difficult for any brand to hold onto their "consumer hooks" for long, creating a need to constantly innovate and advertise, which, in this highly technical market, requires enormous revenues. It is Cell C's view that its competitive advantage will be in two areas: firstly it see itself as a service-orientated company, and with the respect and recognition it shows its customers it believes it will build customer loyalty. Secondly, from a corporate perspective, it believes it is nurturing employees who are committed to delivering on Cell C's strategy.

(Simpson, J. & Dore, B. 2005. Marketing in South Africa. 2nd Edition. Pretoria: Van Schaik Publishers, pp. 77-95.)