# Africa bundling up: bundles moving towards flat pricing on the prepaid market

African mobile operators are competing less head-on on price alone but rather on the value of their prepaid bundles offering, combining voice, SMS and data for a once off payment. This is also a defensive strategy by some operators against Over The Top (OTT) services. OTT are services such as Whatsapp, Facebook and Skype that allow users to communicate without using traditional voice and SMS services of an operator, which continue to command a significant though diminishing portion of revenues.

Bundling is a strategy to defend the Average Revenue per User (ARPU), by giving customers more minutes and SMS for a constant amount, with international trends leading eventually to flat rate pricing. T In a data environment which underlies all services in a broadband environment the fee for the flat rate model is the amount that guarantees returns on the significant sunk costs required for broadband network extension. How users get that or what they do with it makes no difference to the operator.

The RIA African Mobile Pricing (RAMP) Bundled Value for Money Index (BVMI) was devised to capture the value of combined data, SMS and voice products on offer. Given the complexity as well as increased number of products on the markets, only bundles offering data combined with voice and SMS; data and voice; or data and SMS were captured.

The BVMI measures the value a customer gets for bundled minutes or SMSs and data. The Organisation for Economic Co-operation and Development (OECD) usage baskets that RIA uses for prepaid products are based on minutes, SMSs and data (per mb) tariff capturing, the monthly basket cost. The BVMI compliments this as it calculates the value obtained instead of just the monthly basket cost, given the varying validity of bundles.

The BVMI adds the value of bundled minutes, SMSs and data and divides it by the price. The value of bundled minutes is derived by multiplying the number of minutes with the USD value inclusive of tax. One minute is valued at 10 US cents, 1 SMS at 1 US cent, and 1 MB data at 10 US cents. An offering with 25 minutes, 50 SMSs and 100MB data bundled, with a price of 10 US$ will then have the following BVMI:

**BVMI =(25*0.1+50*0.01+100*0.1)/10 =1.3**

This means that the consumer gets 1.3 times the value of the bundle offering. The higher the score in the index the higher the value. We used the same USD values across all operators and countries for comparative purposes. On-net minutes and on-net sms are weighted by market share to avoid distortion of value from a small operator offering a large number of on-net minutes. Unlimited calls, SMSs or data contracts were made comparable to capped packages by applying the following rules:

- Unlimited minutes = 240 minutes per day or 7200 minutes per month
- Uncapped SMS = 240 SMSs a day or 7200 per month.
- Uncapped data = the smaller value out of the fair terms of use policy limit and 30 GB.

Where unlimited minutes and SMS came with a set value from operator, that value was used.

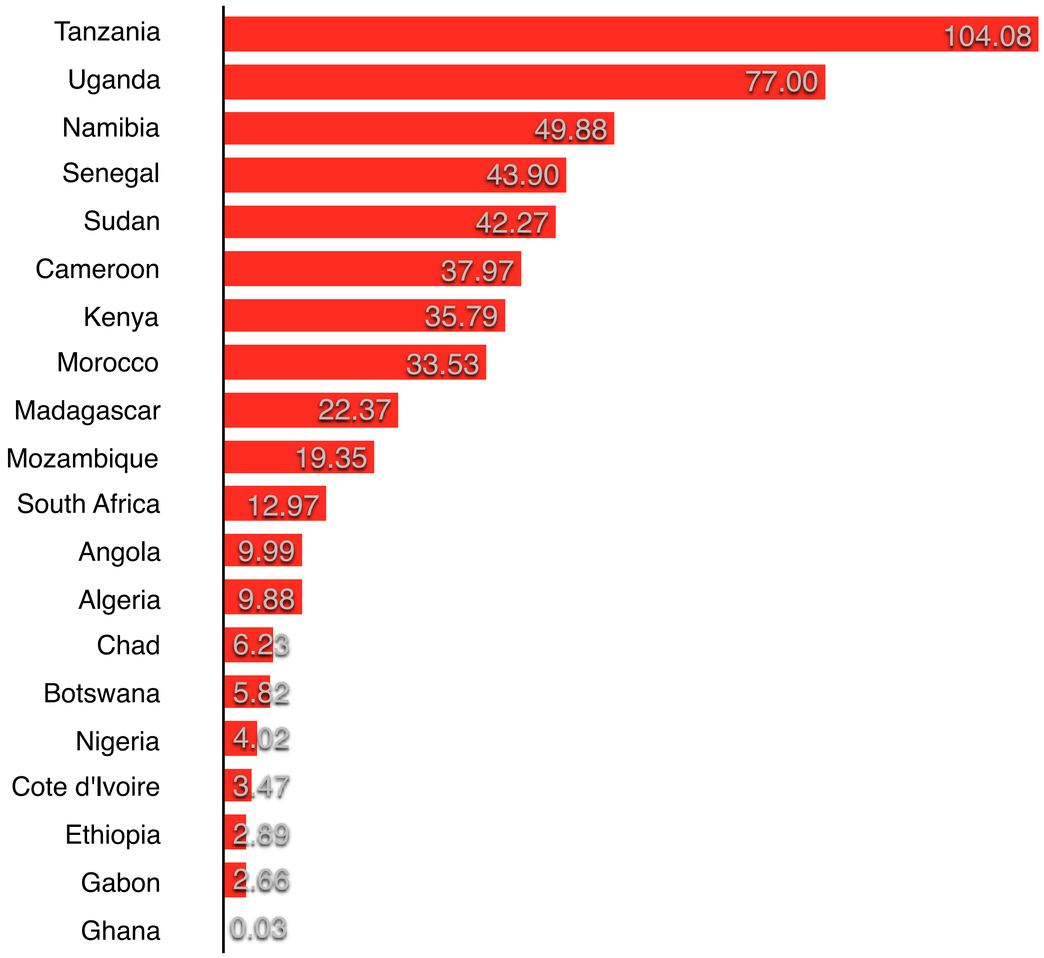


***Figure 1: Q2 Bundled Value for Money Index country ranking***

By way of example Figure 1 shows country ranking by highest scoring product on the BVMI for Q2 2015. Tanzania and Uganda show a multi-player market where all operators have introduced bundles. These markets are highly competitive with operators jostling to increase their subscribers as well as defend against OTT services. Tigo Tanzania's product, daily packs consisted of 50 on-net minutes, 5000 SMSs and 8MB at 999 TZsh. Smart mobile, a new entrant in Uganda and Tanzania, launched bundles also, in line with other operators on the market. Smart mobile's, daily pack+data which offers 50 on-net minutes, 3 off net, 240 SMSs across networks and 100MB for 499UGX, was the highest value offering in Uganda.

A new entrant in such a market has little choice but to adopt similar pricing strategies in order to compete effectively, if at all. In an increasingly dynamic market conventional voice, data and sms pricing strategies may not be sufficient to entice consumers to switch providers. Namibia's MTC offers the highest valued product. MTC's Aweh Aweh Gig offers 100 any time minutes, 700SMS, 1GB and 500MB social media data. MTC, the dominant operator in the market has adopted this strategy in response to OTT and maintain constant ARPUs.

Blended bundles present a new pricing strategy by operators that caters for the evolving needs of consumers for traditional voice and sms services through to new data needs. Instead of variable tariffs, all services are flat-priced in one package. With growing concern against OTT services by dominant operators, the blended bundle pricing strategy may be seen as a defensive strategy by bigger players to protect their market. While for smaller operators this may be their competitive strategy to gain market share or adopting strategies already set by dominant players. RIA will continue to track these bundled products and assess the regulatory and policy concerns arising from these new pricing strategies.

*See more recent policy briefs for an update on the BVM Index.*

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