Critical Evaluation of the Management of Pricing Policies in Telkom SA Ltd

A research report presented to the
Graduate School of Business Leadership
University of South Africa

In partial fulfilment of the
requirements for the

MASTERS DEGREE IN BUSINESS LEADERSHIP,
UNIVERSITY OF SOUTH AFRICA

by

PK Dube
Student no.: 7082 979 9

2007
Acknowledgements

I would like to thank the following people who have supported me in the process of completing this project:

- The group members of PTA0505A for the encouragement they have provided.
- My research leader Pierre Jourbert for the guidance and patience he has shown throughout the process
- My mother for all the encouragement and support
- The SBL librarian Ms Lindiwe Ncongo for providing me with the research articles.
Abstract

The market environment of telecommunications in South Africa is such that currently there is only one provider of fixed-line services. This has contributed to much claims of prices of incumbent being too high. The government has licensed operators and service providers to compete with Telkom in an attempt to lower the costs of telecommunications in South Africa.

The purpose of this research is to understand the relevance and nature of pricing policies, critically evaluate the management of pricing policies, research literature, theory and also the impact that these pricing policies have had on the business of Telkom. The research was conducted by analysing Telkom pricing related documents, financial statements and conducting interviews. The research found that the price-cap regulation has restricted flexibility in the pricing policies and that Telkom has adopted a short-term based approach to management of the pricing policies.
TABLE OF CONTENTS

Title.................................................................................................................i
Acknowledgements.......................................................................................ii
Abstract.........................................................................................................iii
Table of contents..........................................................................................iv
List of tables..................................................................................................vii
List of figures................................................................................................vii

CHAPTER 1: ORIENTATION...........................................................................1
1.1 Introduction..............................................................................................1
1.2 About Telkom..........................................................................................2
1.3 Research objectives...............................................................................3
1.4 Definitions and clarification of terms.....................................................5
1.5 Abbreviations.........................................................................................5
1.6 Delimitation of the study.......................................................................6
1.7 Importance of the study.........................................................................6
1.8 Outline of the research report...............................................................7

CHAPTER 2: THEORETICAL FOUNDATION OF THE STUDY.................8
2.1 Overview...............................................................................................8
2.2 Introduction.............................................................................................8
2.3 Pricing objectives...................................................................................9
2.4 Pricing strategies..................................................................................12
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5</td>
<td>Price-cap regulation</td>
<td>18</td>
</tr>
<tr>
<td>2.6</td>
<td>Cross-subsidisation</td>
<td>20</td>
</tr>
<tr>
<td>2.7</td>
<td>Summary</td>
<td>21</td>
</tr>
<tr>
<td>3.1</td>
<td>Overview</td>
<td>23</td>
</tr>
<tr>
<td>3.2</td>
<td>Introduction</td>
<td>23</td>
</tr>
<tr>
<td>3.3</td>
<td>Previous findings by other researchers</td>
<td>23</td>
</tr>
<tr>
<td>3.3.1</td>
<td>Pricing policy in European telecommunications markets</td>
<td>23</td>
</tr>
<tr>
<td>3.3.2</td>
<td>Price-cap regulation impact on pricing policies</td>
<td>25</td>
</tr>
<tr>
<td>3.3.3</td>
<td>The impact of exclusivity periods</td>
<td>26</td>
</tr>
<tr>
<td>3.3cg</td>
<td>Cross-subsidisation in telecommunications</td>
<td>27</td>
</tr>
<tr>
<td>3.3.5</td>
<td>Summary</td>
<td>27</td>
</tr>
<tr>
<td>3.4</td>
<td>The factors influencing ICT sector in South Africa</td>
<td>28</td>
</tr>
<tr>
<td>4.1</td>
<td>Introduction</td>
<td>33</td>
</tr>
<tr>
<td>4.2</td>
<td>Problem statement</td>
<td>33</td>
</tr>
<tr>
<td>4.3</td>
<td>Research approach</td>
<td>34</td>
</tr>
<tr>
<td>4.4</td>
<td>Sampling procedures and methods</td>
<td>35</td>
</tr>
<tr>
<td>4.5</td>
<td>Method of data collection</td>
<td>37</td>
</tr>
<tr>
<td>4.6</td>
<td>Method of data analysis</td>
<td>40</td>
</tr>
<tr>
<td>4.7</td>
<td>Limitations</td>
<td>42</td>
</tr>
</tbody>
</table>
CHAPTER 5: RESEARCH RESULTS

5.1 Introduction

5.2 Sources of information used

5.3 Results presentation

  5.3.1 Access deficit
  5.3.2 Tariff rebalancing
  5.3.3 Broadband (ADSL) prices
  5.3.4 Calling plans/packages
  5.3.5 Financial results over the period
  5.3.6 Positioning for competition
  5.3.7 Costs
  5.3.8 Regulator influence
  5.3.9 Interview findings

5.4 Findings with regards to research objectives

  5.4.1 Relevance and nature of pricing policies
  5.4.2 Management of pricing policies
  5.4.3 Impact of pricing policies

CHAPTER 6: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

6.2 Discussion of results

6.3 Conclusion

6.4 Recommendations
LIST OF TABLES

Table 8.1: Trend of local tariffs from 2000 to 2007.
Table 8.2: Trend of long distance tariffs from 2000 to 2007.
Table 8.3: Trend of ADSL tariffs from 2003 to 2007.
Table 8.4: Trend of EBIT margin from 2000 to 2007.
Table 8.5: CPI at the end of March from 2000 to 2007.
Table 8.6: Trend of line rental tariffs at nominal and real rate increases from 2000 to 2007.
Table 8.7: Trend of voice lines and penetration percentages from 2000 to 2007.

LIST OF FIGURES

Figure 5.3.1 Access line rental per month.
Figure 5.3.2 Voice lines and penetration rates.
Figure 5.3.3 Local tariffs.
Figure 5.3.4 Long distance tariffs.
Figure 5.3.5 Broadband (ADSL) prices.
Figure 5.3.6 Broadband (ADSL) subscribers.
Figure 5.3.7 Trend analysis of EBIT.
Figure 5.3.8 Revenue analysis.