Over-the-top (OTT) services have become very popular in South Africa, thanks to both the increased availability of affordable smartphones and improved 3G and 4G coverage. OTT communications services have in turn supported the adoption of mobile data plans, but operators are increasingly wary of their potential to replace traditional voice and messaging services and cannibalise legacy revenue.

Operators’ reactions to OTT services have been mixed. Cell C has embraced OTT services and capitalised on this usage shift by offering zero-rated WhatsApp access for 1 year at no cost, but MTN and Vodacom have been vocal proponents of OTT regulations. This comment presents the outlook for demand for OTT services in South Africa. It discusses the positions of operators and the regulator and potential approaches for capitalising on OTT service usage.

The popularity of OTT messaging services in South Africa has raised concerns about potential mobile voice substitution

WhatsApp is the most popular OTT messaging and voice app in South Africa. It was used by 81% of smartphone users surveyed by Analysys Mason in South Africa in July and August 2015, and was followed by Facebook Messenger and BBM in popularity. Social usage was evenly spread across all age groups. We estimate that there were around 15 million active WhatsApp users in the country in June 2016.

Operators have employed contrasting strategies in response to the growth of WhatsApp.

- Cell C has embraced the service as a tool for customer acquisition and monetisation. It initially ran a promotion offering zero-rated WhatsApp for a year at no cost, then began charging SAR5 (USD0.33) per month for its WhatsApp bundle in September 2015. It eventually increased the price to SAR7.50 (USD0.5) for 30 days unlimited usage (excluding voice usage and with a 1GB fair usage policy).
- Both MTN and Vodacom do not offer a dedicated OTT tariff and have retained conventional pricing schemes for mobile data.

All operators are seeing substitution of SMS by OTT messaging and we expect this to increase as the user base for OTT services continues to grow. The SMS market has never been particularly strong in South Africa and will play only a residual role in the medium term. OTT messaging will represent 89% of total messaging traffic by 2021, up from 58% in 2014 (Figure 1).

1 See Analysys Mason’s Connected Consumer Survey 2016: South Africa. Available at www.analysysmason.com/connected-consumer-south-africa

OTT messaging services dominate in South Africa, but mobile voice will be more resistant to substitution.

There is a risk that usage substitution will spread to voice from messaging services as WhatsApp gains scale. WhatsApp started to support voice calling in 2015 and there are indications that consumers are starting to adopt this feature in other countries. WhatsApp announced that its users made 100 million voice calls worldwide on a single day in June 2016. This is a large number of calls, but it actually equates to only 3 calls per user per month on average (assuming that the reported number of calls is representative of a typical day), as WhatsApp has over 1 billion users.

We believe that the South African voice market is unlikely to see substitution of voice services on the scale already seen in messaging, at least in the short to medium term.

- Smartphone penetration is relatively low (an estimated 28% of handsets at the end of 2015), which limits the network effect.
- VoIP apps provide only a minimal price advantage compared to traditional voice, at least for local calls.
- Mobile networks may be unable to provide a good user experience for mobile VoIP – only 4% of handset connections were LTE at the end of 2015.
- Mobile voice traffic is still growing, which has contributed to a slowdown of the decline in mobile ARPU – from –10% in 2014 to –3% in 2015.

Operators should capitalise on the popularity of OTT services and lobby the regulator to support them in tackling data growth

South African operators’ regulatory positions on OTT services reflect their commercial positions. Cell C, which targets the youth segment, has been in favour of embracing OTT services. MTN and Vodacom, in contrast, have been vocal about the need to regulate OTT players, on the basis that they have not invested in infrastructure.
Both operators argue that not regulating the OTT market will have negative ramifications for security, taxation and customer protection.

The regulatory position is currently under parliamentary review, but it seems likely that the regulator will wait to see how the market evolves before enforcing any specific laws. Any regulatory moves would require an assessment of the current and future impact of OTT services on competitiveness, investment and innovation in the telecoms sector.

Other African operators will closely follow the debate in South Africa and the resulting final decision. Operators in the region are experiencing similar challenges to differing degrees, but regulators have yet to reach a consensus. For example, the regulator in Morocco has restricted access to VoIP services since January 2016 on licensing grounds. However, the Zimbabwean regulator, POTRAZ, and the Ministry of ICT are not in favour of regulation, despite evidence of the effect of OTT services on operators’ revenues.

There is an argument that regulatory efforts may prove more fruitful if they focus on stimulating market growth and investment. For example, freeing more spectrum (especially in the sub-1Ghz band) will help to improve network capacity and coverage. Mobile voice still represents the bulk of revenue for operators and recent data shows that its decline has been greatly exaggerated. At the same time, data traffic is doubling year-on-year. Operators could look to improve users’ experiences of their own voice services by rolling out VoLTE as LTE coverage increases. This could also support network and spectral efficiency. Partnerships with OTT players could also help extend broadband access to those who currently find traditional services unaffordable, as well as providing a better user experience to existing customers.