

Constraint or catalyst?

The case for reducing cellphone interconnection fees as a stimulus to small business activity in South Africa



Presentation to the Portfolio Committee on Communication,
Parliament of South Africa, 14 October 2009



We are a unique public/private partnership that provides a blend of advice, training and business support to SMMEs. We believe we have a good understanding of the needs, challenges and aspirations of this critical sector.

ABOUT THE BUSINESS PLACE

9 walk-in support centres seeing 6,000+ clients/month
10-year track record of early-stage SMME support
Daily up-close engagement with SMME owners
Presence in urban and non-urban areas

Founder CEO, Proudly South African campaign

Managing Director, The Business Place Network

Board Member, Small Enterprise Development Agency

Trustee, Enablis Khula SMME Fund

Special Adviser, Youth Entrepreneurship Campaign 2010

Project Director, FNB Enablis National Business LaunchPad

Consultant, Sol Plaatje SMME Village

There is a clear link between mobile telephony and enabling small enterprises

“Mobile phones unlock entrepreneurship ... micro-entrepreneurs account for more than 60% of all businesses.” -- The Economist

“The cellphone is the single most transformative tool for development.” -- Jeffrey Sachs, Columbia University's Earth Institute

“Mobile phones can make micro-entrepreneurs vastly more productive.” -- The Economist

“Many entrepreneurs are “leap-frogging” PCs and laptops and going straight to cellphones as their primary business device.” -- ICT consultant.

2008 GLOBAL ENTREPRENEURSHIP MONITOR (GEM) STUDY CONFIRMS CRITICAL ROLE OF CELLPHONES FOR SMMES

- > Over 94% of all respondents use a cell-phone for business purposes, with more rural than urban small businesses doing so
- > 81.8% of respondents with a tertiary degree use the internet as their primary business tool; only 8% of respondents with no formal education use the internet as their primary tool
- > only 41,7% of small businesses have and use email, while 100% have and use cellphones
- > Example: method of placing of orders -- 59.5% of urban and 67.2% of rural small business owners use cellphones, with the rest using other means such as email

THE BUSINESS PLACE NETWORK
CLIENT SURVEY ON USE OF MOBILE PHONES FOR BUSINESS

BRANCH: _____ YOUR CELL SERVICE PROVIDER: _____

Your name: _____

THIS FORM TO BE COMPLETED ONLY BY CLIENTS WHO CURRENTLY ARE INVOLVED IN RUNNING THEIR OWN SMALL BUSINESS (FULL TIME OR PART TIME) ALONE OR AS A GROUP.

Please indicate what percentage of your cellphone cost is business or personal?

About _____ % of my monthly cost is personal, and _____ % is for business.

Which of the following best describes how important your cellphone is:

- ☐ My business really depends very much on my cellphone, I cannot operate without it
- ☐ My cellphone is quite important to my business
- ☐ I can operate comfortably in my business without my cell, it is more for personal use

Which of the following do you use your cellphone for (you can tick more than one):

- ☐ Chasing overdue payments
- ☐ Calling customers to make sales
- ☐ Staying in touch with clients
- ☐ Managing the business with my partners
- ☐ Calling suppliers
- ☐ Dealing with SARS, government

Which of the following are your business tools that you use currently:

- ☐ Desktop computer
- ☐ Internet
- ☐ Cellphone
- ☐ () fax machine
- ☐ () scanner
- ☐ () printer

Describe your cellphone contract:

- ☐ contract
- ☐ pay as you go
- ☐ both

In a typical month, which of the following best describes your situation:

- ☐ I can afford as much airtime as I need for the month
- ☐ I have to watch my calls otherwise I run out of airtime
- ☐ I often run out of airtime at some stage and this negatively affects my business

How much do you spend on your cellphone every month, on average: R _____

How would you describe your service provider in terms of call quality?

- ☐ Fine, calls seldom dropped or cut off, voice quality is fine
- ☐ Calls frequently fail or frequently dropped, calls often break up
- ☐ Call reliability and voice quality is terrible and causes me real problems

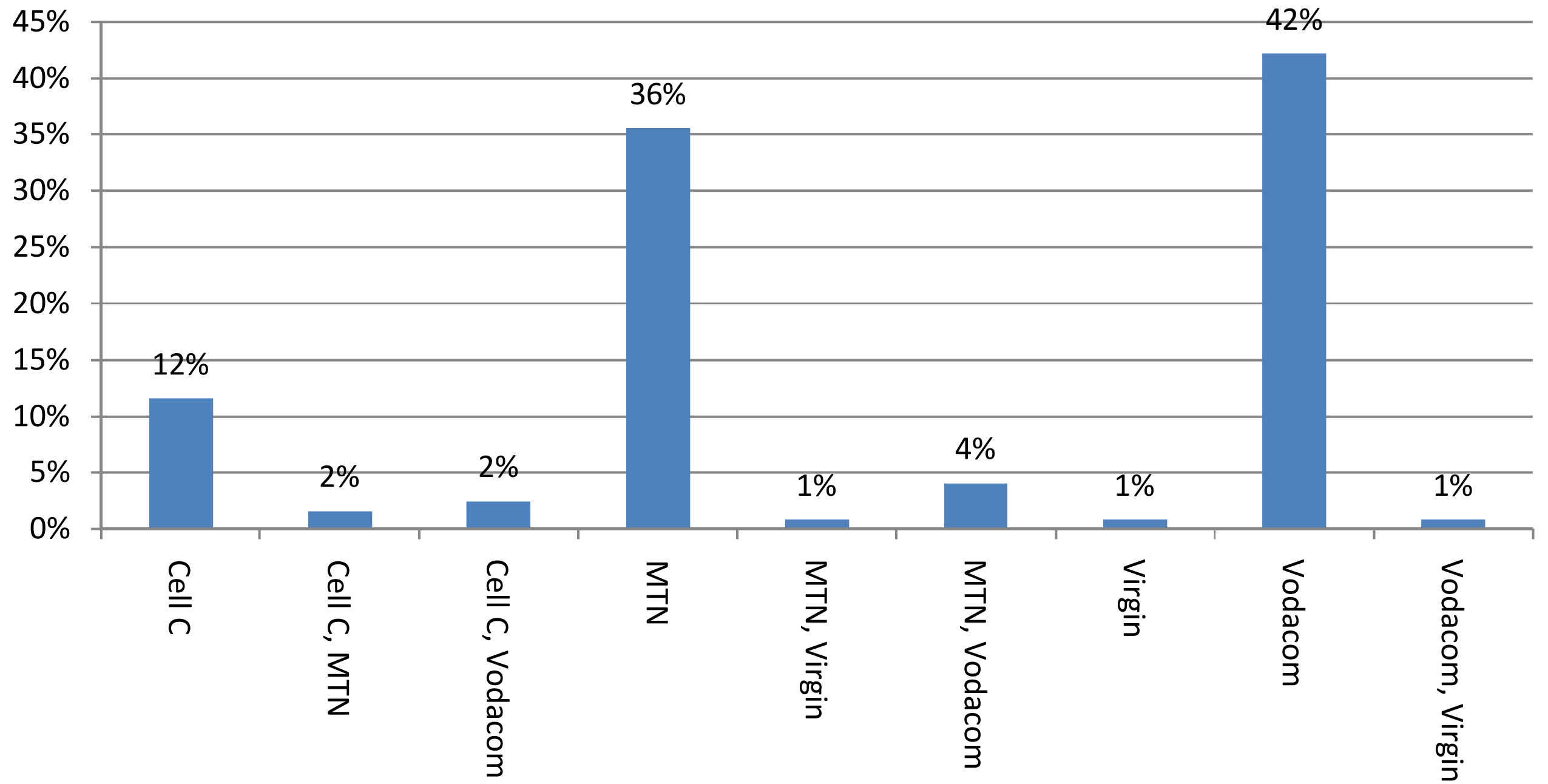
Describe the effect on your business if cellphone charges were cut by 50% tomorrow:

- ☐ Would only make a slight difference, it is not that important to me
- ☐ Would make a big difference to me because I could communicate more with customers

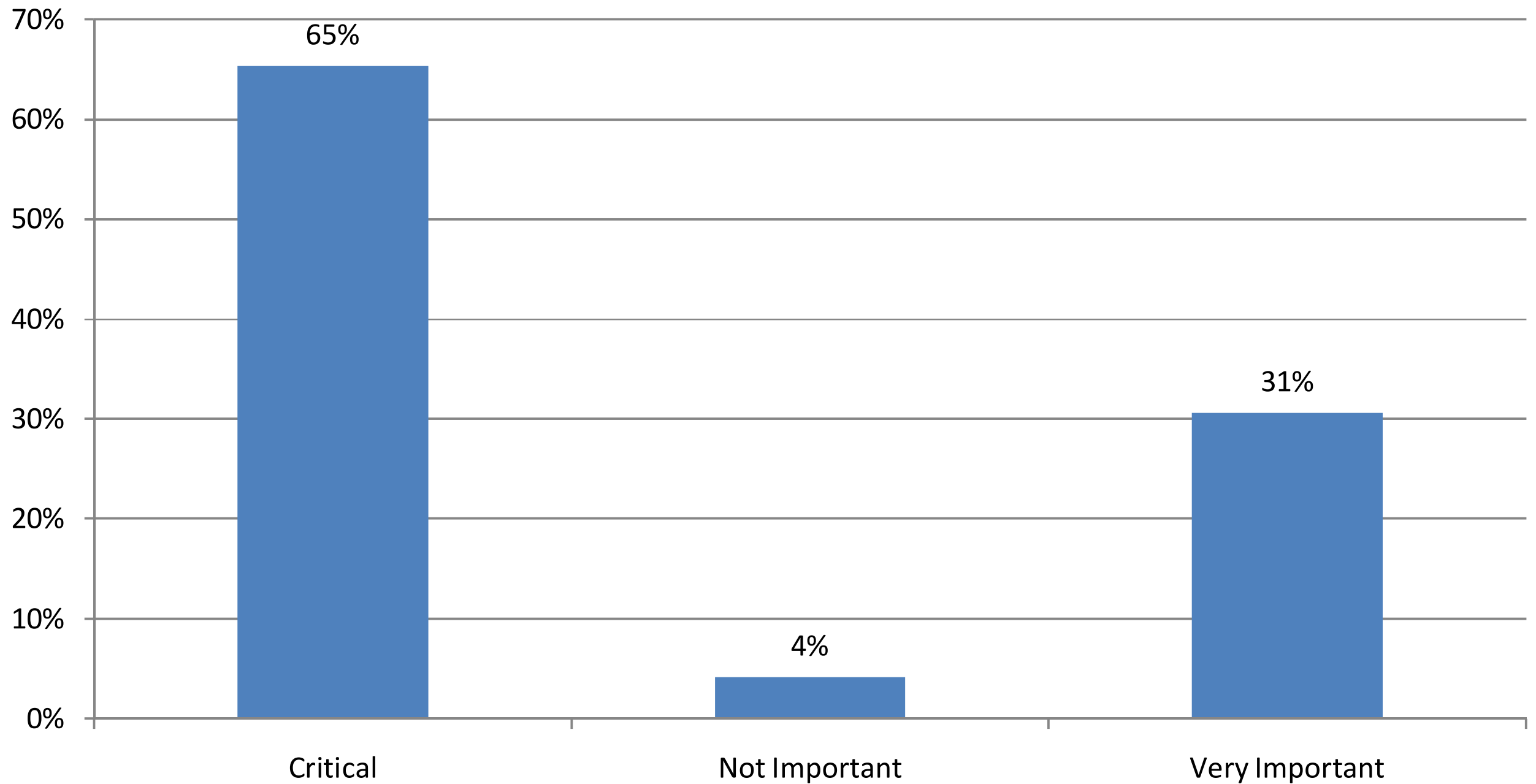
THANK YOU FOR PARTICIPATING IN THIS SURVEY.

SURVEY

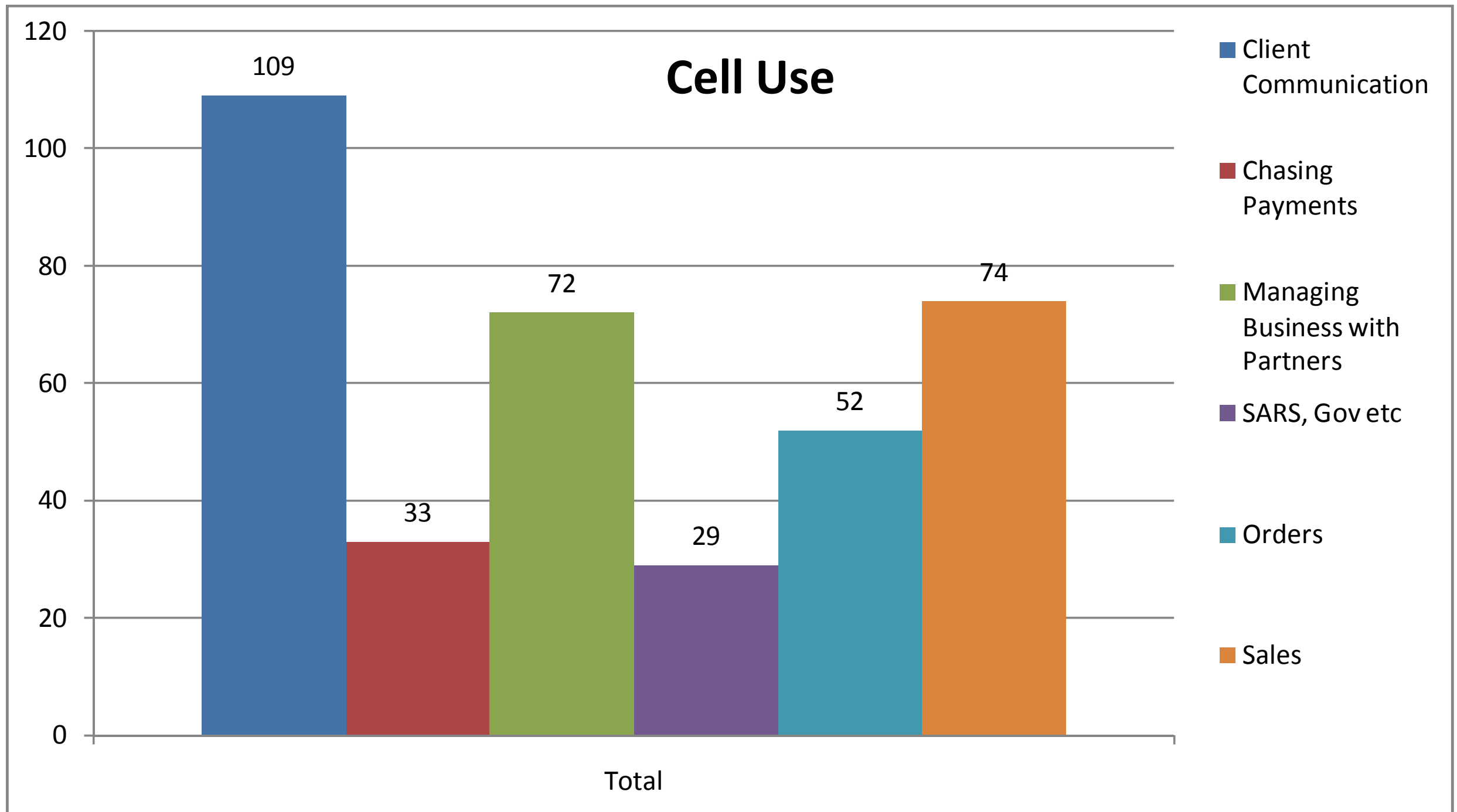
Service Providers



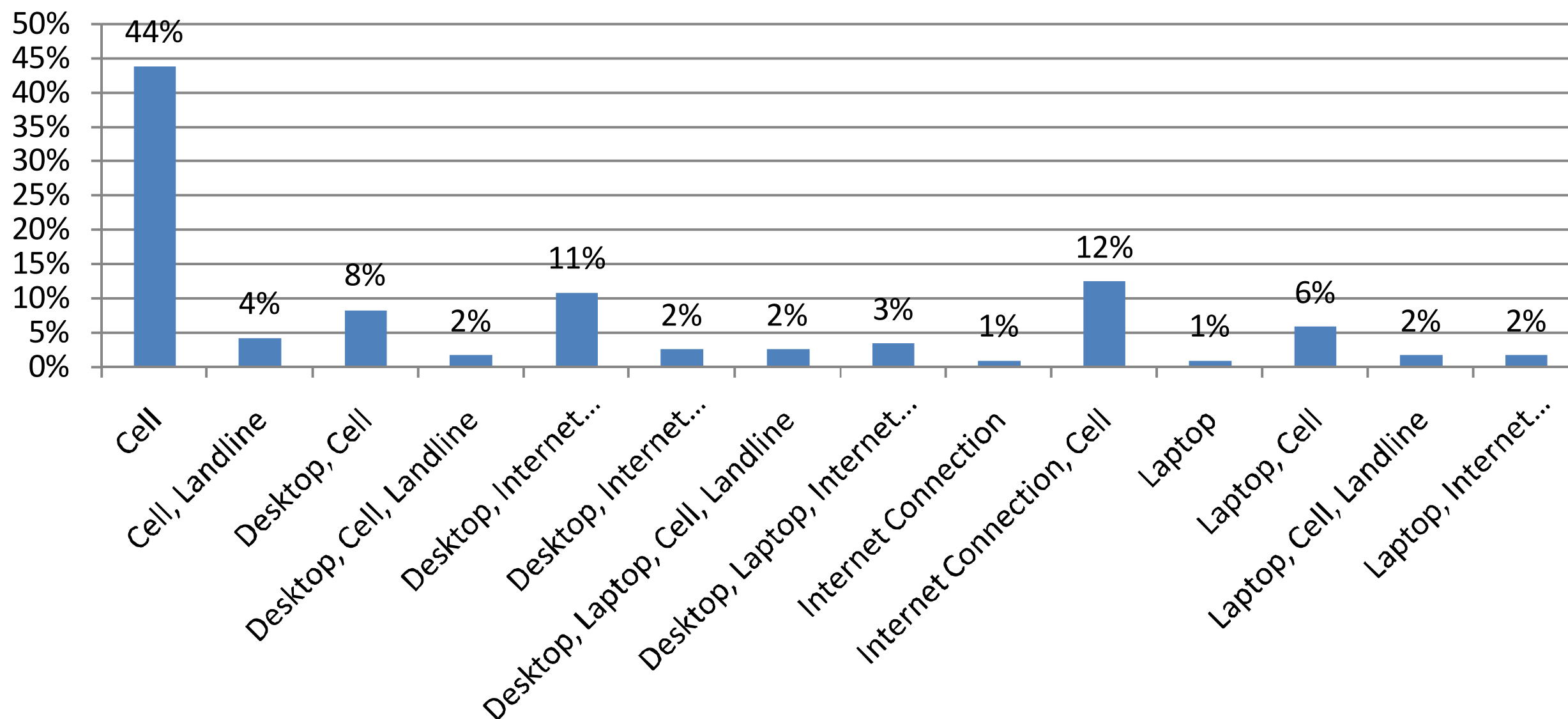
Importance to Business



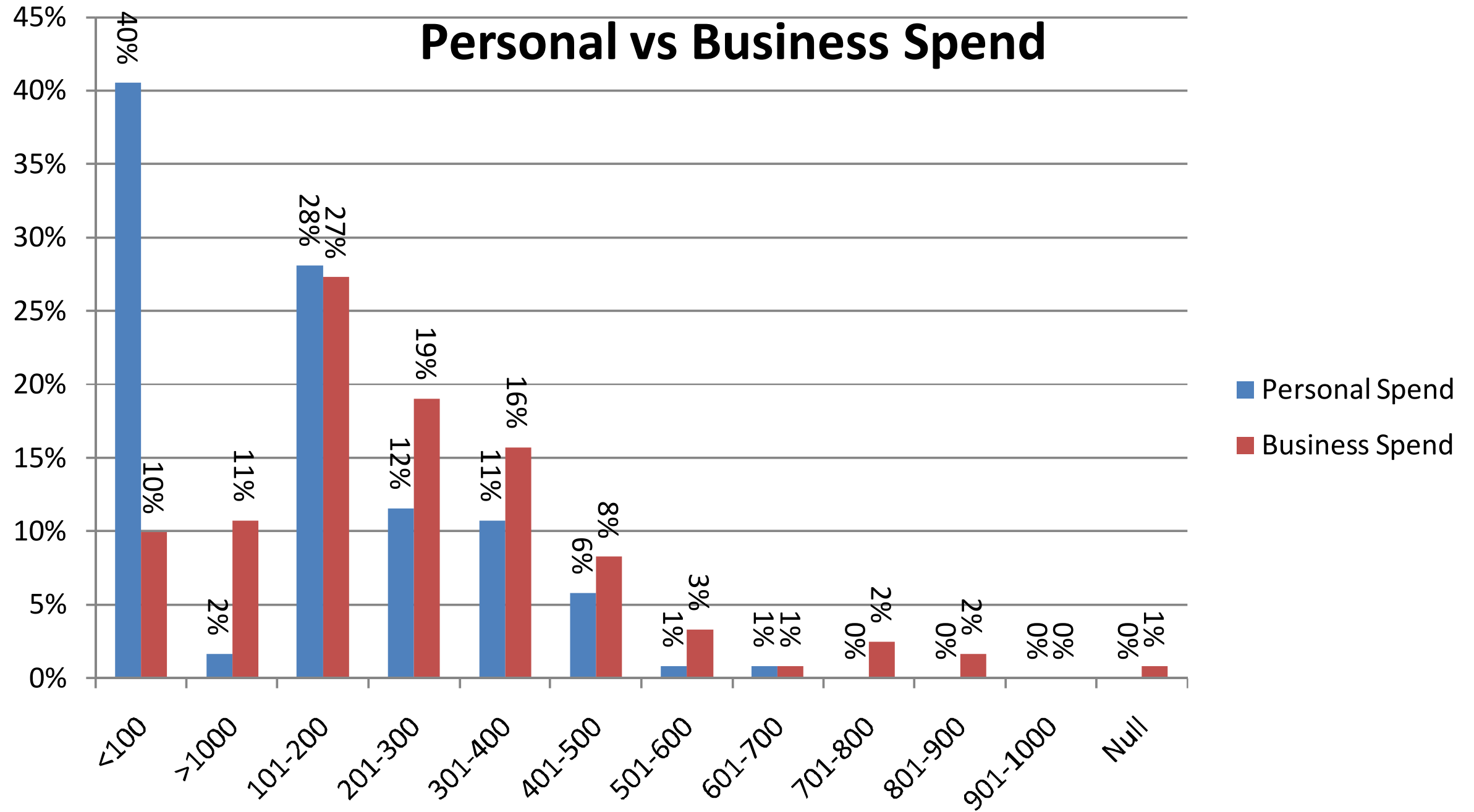
Cell Use



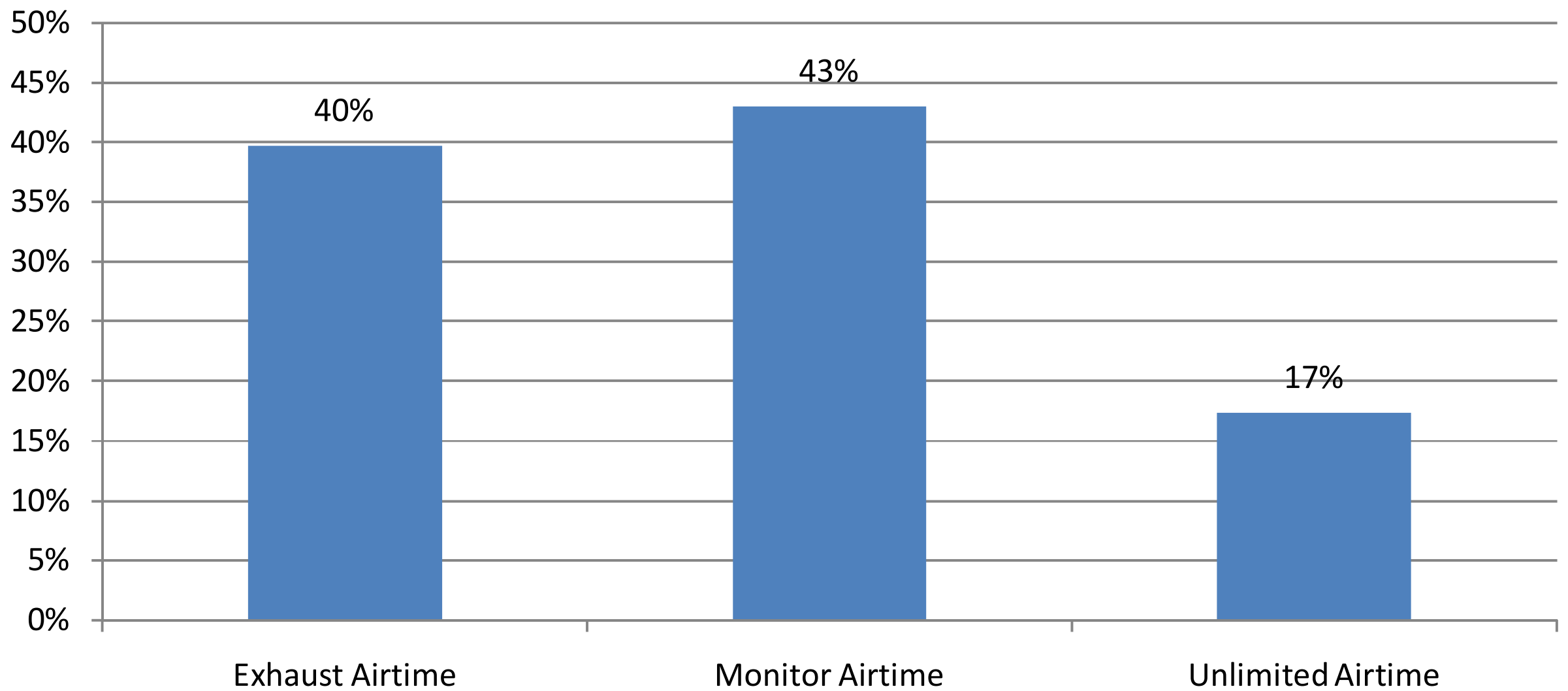
Communication Tools Available



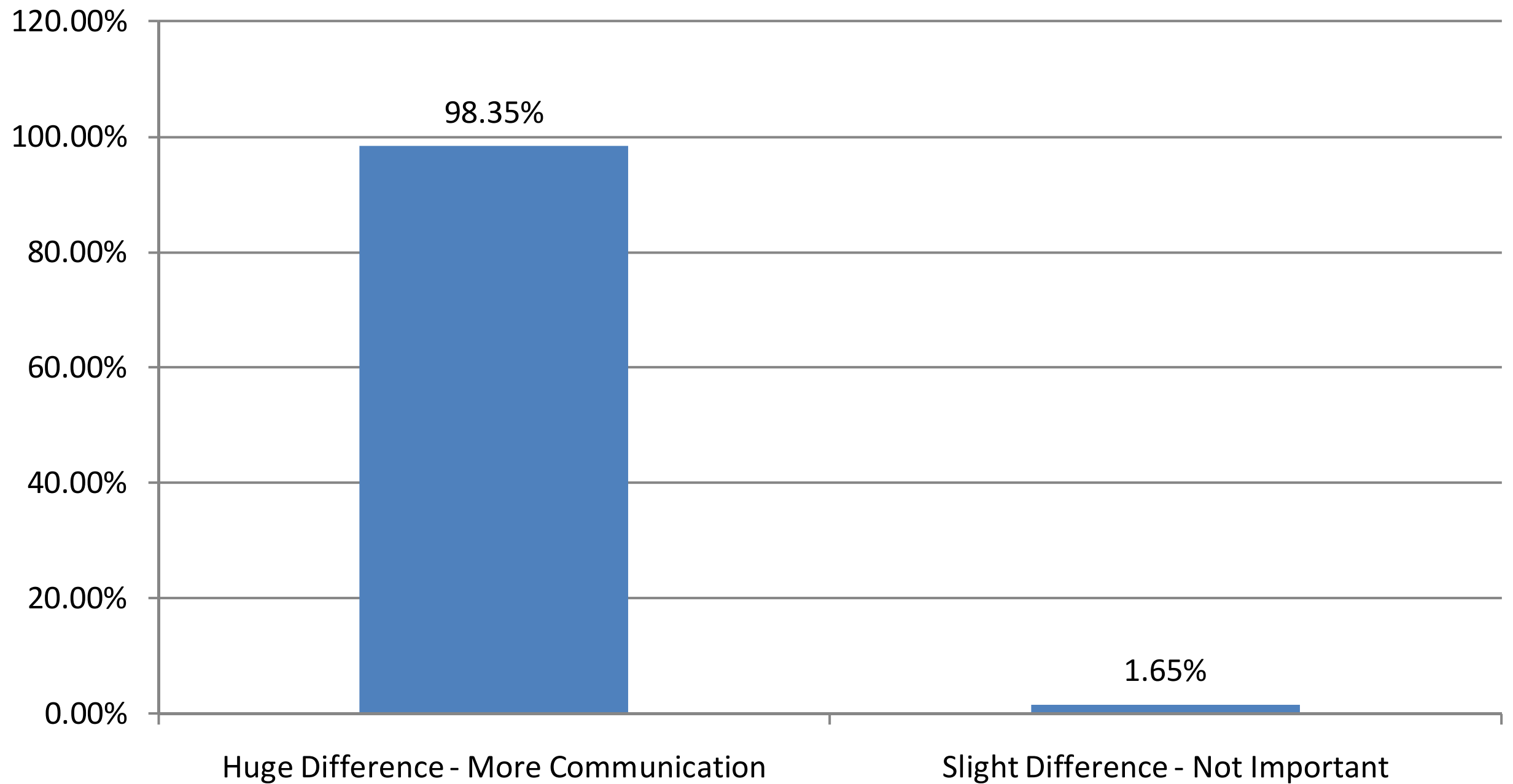
Personal vs Business Spend



Airtime Usage



Implication of Reduction in Cell Charges



A PERSONAL VIEW

“South Africa’s giant cellphone companies have the small business owner (SBO) locked into a vice-like grip of unintelligibly complex contracts, generally indifferent customer service and unacceptably high and confusing fees and tariffs.”

“Freeing the SBO from this tight grip is an essential requirement of building a truly entrepreneurial nation and lowering the barriers to micro- and small startups.”

It is our contention, as SMME development practitioners, that the current inter-connection rate, as a substantial component of call costs, is not only excessive when compared to similar rates elsewhere, but also contributes to the overall high cost of calls and is therefore *a significant dis-incentive for the use of mobile phones as a business management and communication tool by small business owners.*

We therefore urge Parliament and the regulator to take urgent and decisive action to dramatically reduce inter-connection fees and thus reduce small business owners' operating costs.

Thank you.

MARTIN FEINSTEIN
MD, The Business Place Network

082 465 2300
martin.feinstein@telkomsa.net