Telecommunication Sector Price Wars:

Beware of the Flip Side of the Profit Motive

By Mwangi Wanjumbi – For Newtimes E-info Library, Jan 2011

The occurrences in the telecommunications sector may not be strange or unexpected, as some people may perceive. They are seemly following documented business patterns especially with regard to competitive forces. Alternatively, they are aptly responding to a saying of yore which states that, 'he who dances becomes a spectator, at one time.'

In that realization, one may not help but only empathize with some of the players, who are hard hit by the new realities. Notably, earlier pronouncements of massive profits must have been sending signals to potential new entrants. It is not surprising then that, Investor Bharti Airtel responded by entering, the seemingly lucrative local sector, which appeared to have inequitably been benefiting one player.

Indeed, it must have been appetizing for an investor, only used to low pricing and therefore low profit levels, back home in India. But, was the first report ever on supernormal profits not published in 2006, though attributable to results of 2005? Strikingly, the company involved was just about 5 years in operation. Subsequently, the supernormal profits turned out to be an annual ritual for the young company.

Ordinarily, a company that is 5 years old is just about breaking even, and therefore preparing to start recovery of the initial investment. On the other hand, such a company is deemed successful, if able to attract a return of 20% of the capital invested. But, was this the prevailing situation?

Forget the intricate details of the operations of technological oriented companies. It may be hard stuff for ordinary consumers to comprehend. Further, it is hard for wananchi to appreciate that these companies operate in a very fluid industry that is constantly affected by technological advancements. Therefore, continued reinvesting in technology and equipment is part of the business. In that case, the investors are expected to be permanently on their toes. But, should that justify constant raking of supernormal profits anyway?

Certainly, consumers do not have the same interests as shareholders. The latter derive pleasure from high returns. The former are driven by best services, at competitive prices if not the lowest possible. Further, consumers are driven by their interests rather than those of service providers. So, when an alternative is found, these consumers are naturally attracted by better deals. Why?

Doing business anywhere is motivated by 3 philosophies or principles as prescribed by the discipline of business values and ethics. Ordinarily, most people will only care to observe the legal motive. Nobody especially the corporate world wants to be caught off guard by the state machinery. The main idea here is probably to avoid the impact of penalties or even bad image. Never mind that these big guys often outsource irregularities to small suppliers and agents.

Meanwhile, the other major business driver is the profit motive. Business as some believe is the business of making as much profit, as is practically possible. That is as long as the process is legal. It is no wonder then that many companies are never shy of announcing supernormal profits. More appropriately, their interest is to please shareholders or investors, some of whom are even foreign based. Sadly, the profits are sometimes made at the cost of the consumers. Their stake is not always considered, alongside that of other interested parties to the business. The tendency is to forget that without this stakeholder, there will be no profits and therefore no business.

This brings us to the moral principle of doing business. The principle prescribes justice and fairness. Ideally, good ethical standards prevail in perfect markets where stiff competition is prevalent. The profits are low meaning that, the benefits of competition are shared amongst all the stakeholders. The sellers or providers of services are naturally controlled by the market forces of supply and demand. They are precluded from making huge or supernormal profits. Moral standards are in this case naturally enforced.

In the meantime, businesses that observe expected moral standards enjoy low profits, but continue existing and reaping long term benefits. Those driven by the profit and legal motives only, are generally associated with short term perspectives. At times, they encounter turbulence or eventual collapse, whenever customers get better alternatives. The banking industry experienced this scenario in recent years, as is already in the public domain.

The telecommunications industry could for now be experiencing its fair share of turbulence. Some may point at business rivalry gone overboard, which could be true. But, it seems that most of the known competitive forces are currently in play. But are the price wars immoral in any way? The products and services are similar only differentiated by the branding process. And, as long as the players are meeting their statutory obligations, then the whole process meets the necessary moral standards.

However, it seems that earlier profit motive had sadly blocked many from seeing the whole business picture. In fact, the interest of the consumer as a stakeholder seems to have consistently been downplayed. Could these customers have been inwardly infuriated by the supernormal profits and therefore delaying action?

For now, it is seemingly pay back time for the consumer who also happens to be a key player in the competitive forces. It follows that; business strategy needs to put the stake of the customer into perspective all the time. It is only then that business can attract sustainable royalty both in the short and long terms. Naturally, the royalty could dilute part of the competition.

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