Telecommunication Industry Price Wars

Need to Tame the Rivalry at Some Stage
By Mwangi Wanjumbi - for Newtimes E-info Library, Jan 2011

Rene Meza has done it once more. This gentleman who transitioned from Zain to Airtel is seemingly bent on proving his worth. Alternatively, he may have a long term game plan. He could probably be long necked like a giraffe especially in matters business, as former President Moi may perhaps assess him.

In fact, Rene Mesa seems to be more interested in less money today hoping for more tomorrow. More still, he is today valuing increased number of callers more than the money he is getting from them. This sounds funny especially in a country where money seems to override everything else. But, one may tend to agree with Rene Meza.

A business is supposed to last into the foreseeable future all things being equal, as economists would say. It is supposed to outlast the shareholders, directors and even the employees. But, what happens in our situation? We set up businesses only with the idea of making money. If we don't make the money, we just struggle to stay afloat. And when this does not happen, you know what next. Don't you?

Meanwhile, it may probably be surprising to know what some wajuaji are saying about Rene Meza. Wacha tu, anasikia wivu lakini hatafaulu (he is just jealous and won't succeed after all). This is in reference to the persistent pressure exerted on the market leader through the continued price reduction. But, far from it; Rene Meza has evaluated the chances of acquiring bigger market share and come to one conclusion. It is only the low prizing strategy that can work.

Earlier, the competition was based on innovation, which has involved continued introduction of new technology such as data, E-banking, 3 G and so on. Even the common diversification strategy of offering wide ranging but related products such as Zap, data, and voice have still not endeared the customers as would have been desired. The competition has still been calling the shots. But that is not the case any more, as may have been noticed by now. Indeed, there are some gains on Airtel's market share.

Meanwhile, a certain renowned professor has theorized 5 factors, which drive competition in business. He calls them the competitive forces of business. Consumers are certainly one of the forces. They decide to walk away from a business without caring about its continuity. Currently, some have changed their royalty to take advantage of Rene Meza's pricing. Can those customers be accused of wivu (jealousy)? Certainly not; they are simply taking advantage of the situation. Irrespective of their attitudes about him, they are contributing to the increase of Rene Meza's numbers. In fact, they are helping him to achieve his goals.

Apparently, these customers have one particular attribute to be thankful about. Despite few players in the telecommunication industry, they have never at any time ganged up to form strategic alliances. The same end up evolving into impregnable cartels. Do not go far to appreciate this scenario. The oil marketing industry players have just been roped by the government, after having had their way far too long. Therefore, their alliances may now exist for anything else other than pricing purposes.

On the other hand, the different telecommunication industry players are in the thick of business rivalry, which is one of the other forces of competition in business. These players are continually roping themselves through the price wars. To what extent are they likely to succeed amidst the continued wars?

Perhaps we can seek guidance from the Charles Darwinian theory of survival of the fittest. Obviously, not all players can cope with continually reducing prices, which certainly depend on the war chest. Further, besides Rene Meza and his team, nobody else had prepared for long term rivalry pegged on prize wars. So, some rivals may just give in or involuntarily cede their market share over time.

That brings us to a business strategy baptized ‘tidal wave strategy,’ which is more common in ‘me too’ brands. This is a highly prevalent form of doing business in this part of the world. The strategy prevails where the services or products are almost similar and only differentiated by name. The strategy operates like the sea waves. Just try and perceive the sea shore as the market share. The same is continually knocked by the sea waves (the aggressor or more resilient competitor), until the land mass gives in.

Perhaps that is how Rene Meza intends to continue operating. He will continually weaken the market leader until he gets the desired market share. Will they at that time halt the wars and start strategizing on how to increase the prices once more? Only time will tell.

But, most probably, it may be necessary to tame the rivalry at some stage. Indeed, there will be need to save jobs, tax revenue and even telecommunications infrastructure, in the interest of the national economy. It is now over to you CCK – Communications Communication of Kenya. Luckily, interventions may only involve fixing the lowest possible charge as and when it becomes appropriate. And when the rivals start talking, we hope you will still be there to control any upward price spirals. Nonetheless, Rene Meza scores highly for demonstrating sense on long range business planning.

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