Mobile Telephone Price Wars fueled by absence of friendships of convenience

By Mwangi Wanjumbi (For Newtimes Info & Articles Library – October 2010)

Many people must have recently watched in excitement, as David Rudisha broke the world record in the 800 meter race. Interestingly, the distance between him and the rest of the runners was awesome. The spectators were certainly entertained whereas the competitors were baffled by the clear defeat.

That is not much different from the race for market share in the mobile telephone industry. Here, the leader has been at 80% whereas the closest player follows at only 10%. It is no wonder then that one had to pull the rag under the feet of the other (s) sending some providers into a panic. Up-to now there seems to be no stop gap measures of controlling the free fall of the mobile charges, as the protagonists continue doing battle. Therefore we continue benefiting from the absence of friendships of convenience.

Elsewhere, they are in strategy terms referred to as strategic alliances. In reality, they are actually cartels or interest groups which unite to safeguard their common business interests. They are prominent in many industries in this country. They determine the rules of business conduct as well as the prices. They lobby for or against statutory requirements that affect their industry, one way or the other. That way, they become friends of convenience. The local oil industry has perfected this protection irrespective of their inter-company differences. But, that has not been the same with the players in the mobile telephone industry.

Apparently, they left the government regulator, Communications Communication of Kenya – CCK to rein on them. They furiously continued fighting one another as each sought increased market share. They even fought the regulator on the various rules continuously put in place. Key of the fights has been on 3G technology pricing. Some forgot the fact that they may have benefited from what is in business terms referred to as first mover advantages – benefits from a new market or customer influx. The benefits have requisite disadvantages as well which need not be overlooked.

In fact, the players conveniently forgot that every move in business attracts both opportunities and threats. They bent backwards to try and make it continually difficult for the weaker players to equally benefit from the inevitable technological advancements. But, some did not realize that the time of reckoning was nearing.

Currently, it is not about whether it is normal for prices to be reduced to lows of up-to 25% of the previous levels. Rather, it is about whether these low prices are sustainable into the future. Whether this new cutthroat pricing strategy is a short-term gimmick of either safeguarding existing market share or acquiring new subscribers, for the different protagonists is another consideration for us consumers. Whatever the case, the trends are not only beneficial but also exciting to consumers.

Meanwhile, we have come from far in this telecommunications revolution. The excitement of acquiring then expensive lines from Telkom Kenya Ltd, early in the millennium, is still fresh in our memories. Since then, there have been numerous developments in mobile telephony. Initially, it was simply about owning the then prestigious gadget plus seemingly overprized line and service. The quality issue was not a consideration at the time. With the advent of Kencel, the precursor of Zeltel which is currently Zain, issues of quality started becoming a reality.

The then new entrant caused a revolution with regard to the quality of service particularly. We no longer had to climb tall structures in search of network availability and clarity of our calls. In the last few years, we have gotten used to sending and receiving money as well as the very convenient internet technology using our phones. A recent addition is mobile banking technology which is still getting entrenched. These recent additions have far reaching implications to national economic development. Could these achievements now be threatened by price wars?

Maybe yes may be not. My bet however is that, there are no immediate threats whatsoever. Notably, the mobile service providers continued fortifying their investments, but took the issue of price a bit for granted. Business strategy based on Michael Porter's theories, prescribe some interesting development strategies. The mobile telephone companies have employed innovation and product diversification strategies substantially.

However, these players have shied away from matching the charges of their services with the corresponding costs. They have avoided the low cost strategy which calls for quantity sales as is common with supermarkets. The excuse has been that they have been recouping their investment on infrastructure as well as modern technology. This is despite the fact the Communications Commission of Kenya (CCK) has continued reducing the inter-connection rates which would have called for matching reduction on the call charges.

Inevitably, it will no longer be business as usual, especially if the current fights persist. Continued innovation and therefore value addition will be a clear determinant of who will win and maintain the customer. This stakeholder is for now ripping the full benefits of absence of friendship of convenience, in the mobile telephone industry. In fact, CCK should guard against achievement of this friendship which is largely attributable to consumer oppression in many other sectors.

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