Mobile companies outsource services to reduce costs

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Competition within the mobile phone sector is forcing new entrants to change strategy by reducing their employees and turning to outsourcing in a bid to cut costs in a market that is proving difficult to penetrate.

Essar Telecom Kenya Ltd, which operates under the brand name Yu has become the latest company to turn to outsourcing by letting go its customer care department to its a sister company Aegis following in the footsteps of rivals Telkom Kenya and Zain.

Under the deal, Aegis, which is a top BPO firm in India, will take full control of Yu's customer care operations in a move that will see Essar reduce its staff numbers and cut its wage bill.

The mobile telephony companies are delegating the running of their customer care and network management facilities in order to cut costs in a market where operators are sliding deeper into losses.

"The initial focus for the firms was to grow their top lines, but now the executives are looking both at the top line and costs," says Robert Bunyi, an analysts with Mavuno Capital.

This comes at a time when heightened competition, which has seen mobile tariffs reduce by more than half over the past two years, coupled with the enlisting of subscribers with low disposable income has seen the average revenue per user (ARPU) drop to record lows.

The fall in the ARPU has impacted negatively on the companies bottom lines making them to look for ways of bringing down the costs.

For instance, Safaricom's ARPU dropped to Sh467 in 2009 from Sh503 the previous year and Sh665 in 2007.
Analysts with African Alliance and Renaissance Capital, are forecasting that the ARPU will continue to fall in coming years before stabilizing in 2012 as operators continue to penetrate into areas with low spending power coupled with expected lower tariffs triggered by rising competition.

"Falling ARPU will put downward pressure on earnings growth," the analysts said in an earlier report on the status of Kenya's mobile telephony market.

Already, the players are feeling the pinch of lower ARPU with Zain having announced a loss of Sh7.1 billion in 2008 while Telkom Kenya posted a loss of Sh10 billion in 2009.
India's Essar, which entered the market in 2009, has been struggling to grow its subscriber base in a market that Safaricom has maintained a near stranglehold.

Safaricom profits for the six months to September 2009 grew 1.7 per cent to Sh9.1 billion from Sh8.9 billion.

Last year, Safaricom controlled 78 per cent of the total market share while Zain had 17 per cent.

Telkom Kenya's Orange and Essar's Yu had four and one per cent respectively.

The huge market share has helped Safaricom generate outsized profits, a move that partly explains the deeper cost-cutting measures by its rivals--Zain, Telkom Kenya and Essar Kenya.

The firms have found it difficult to penetrate the market despite offering lower tariffs compared to Safaricom.
Apart from outsourcing its Network management to Nokia Siemens, Zain Kenya has also outsourced the operation of its customer care outlets and customer care services.

More competitive

Outsourcing the services, Michael Okwiri, Zain Kenya corporate communications director says helps the organizations to concentrate on their core functions.

"As a company we don't have to think about technology issues or the kind of technical staff to recruit," said Mr Okwiri.

Telkom Kenya, on the hand, has outsourced its customer care operations to local BPOs Horizon and Kencall in an effort to keep its employee costs low.

Kencall in an effort to keep its employee costs low. The Kenyan mobile market became dramatically more competitive in 2008, when two new operators, Orange Kenya (formerly Telkom Kenya) and Econet Wireless, joined incumbents Safaricom and Zain.

This has led to a price war, with operators slashing tariffs

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and offering various airtime promotions.

“But rather than fighting over a dwindling pool of increasingly poor mobile subscribers, Kenyan operators are looking toward convergence to increase their market shares and protect their ARPUs,” indicates a report by Pyramid Research released last year.

Safaricom, for example, will launch new services for corporate clients, including broadband, video conferencing and voice, in order to boost its ARPU’s and its market share among high- value subscribers.

The company expects to see the share of its revenue that comes from Internet services to increase from 13 per cent to 20 per cent as a result of its converged- services strategy.

Weak talent keeps BPO - I can't find this article but will search more over the weekend.

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