Watch out for buy-outs

Consumers should be wary of contract buy-outs, check the small print and be sceptical about the 'sweeteners' attached to any offer, says Aki Kalliatakis, Managing Partner of The Leadership LaunchPad, a developer of service-led strategies for companies active in the retail and service sectors.

He asks: "Would you trust the ethics and record for fair dealing of someone who offers you a bribe? The pay-off might look good, but the transaction has to be suspect. Similar considerations apply when consumers are offered inducements to change their allegiance from this company to that."

He says the 'incentive' might be offered by a rewards or loyalty programme, or via a contract buy-out.

Kalliatakis adds: "Buy-out promotions are relatively new to South Africa, but are quite common in some international markets. Experience indicates consumer caution is in order."

Locally, the buy-out concept is being pioneered by cellphone company, Cell C.

Consumer frustration

High charges in this market may lead to consumer frustration and prompt concept trial, says Kalliatakis.

He points out: "When looking at our cellphone market, a remark comes to mind made by Henry Kissinger when Iran and Iraq went to war - 'too bad they can't both lose'.

"Though our operators enjoy earnings that easily top international averages, they still hike prices, even on existing contracts.

"No local player can claim to offer the world's best service, but no matter how frustrated you feel, remember that switching contracts before time can cause complications."

He says any buy-out offer with a R10,000 'sweetener' attached seems tempting, but warrants a closer look.

Consumers should remember:

- The R10,000 gift card credit on offer with this promotion does not apply in all cases;
- The consumer pays the upfront cost of cancellation with the current provider with no guarantee that switch incentives will be as high as the consumer hopes;
- The company's website carries a caveat that any value offered under the buy out scheme is "at their sole discretion"; and
- This is a SIM-only promotion and could mean that a consumer who takes a new phone with the package might have to pay the full amount for the phone over 24 months.

Says Kalliatakis: "Contract-switching tactics are rarely sustainable. However, in tough economic times we may well see other companies adopting the buy out technique to reclaim lost business and attack competitors.

"In all cases, consumers should look at the underlying value of the product or service. Are they getting quality? Has the company got a long-term reputation for good service?

"Even if they put a tick in these boxes, read the terms and conditions carefully. Jumping from the frying pan into the fire makes no sense - especially if a new contract creates expensive, long-term obligations."