Perspective

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Cashing In on Business
The Enterprise Opportunity for MENA Telecom Operators

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EXECUTIVE SUMMARY

The enterprise, or business, segment presents MENA telecom operators with a large potential growth opportunity. In other parts of the world—such as Europe—enterprises account for an average of 17 percent of telecom operators' revenues. Although the business segment has yet to contribute that much for operators in the MENA region, the regional enterprise ICT market is sizable, and growing at such a rapid clip that it should come close to doubling within five years. The number of enterprises in the MENA region will increase, and so will their spending on ICT, until it approaches that of their peers in Europe and the U.S. The spending increase is driven by a sea change in mobility and cloud computing needs, as well as the desire for unified and collaborative services such as enterprise social media, as smart phones and tablet PCs have gained popularity.

Competition will be intense; business communication equipment vendors, ICT service providers and system integrators, and software and online companies all will seek to grab a share of the MENA region's fast-growing enterprise ICT opportunity. Telecom operators, however, have several distinct advantages. They already have established customer relationships, large-scale project management experience, multi-platform network infrastructure, and reach. Telecom operators also have strong brands and access to capital.

Despite those advantages, MENA operators will not automatically win enterprise customers. Operators will need to change their service delivery approach and create a new value proposition. They will need to refocus efforts to capture the opportunity presented by the creation of millions of new small and medium-sized enterprises (SMEs) over the next several years. They need to expand their offering to lock in key accounts among large enterprises and leverage their incumbent position with government agencies to capture large-scale digitization opportunities. Operators also should benefit from converging consumer and enterprise offerings, leveraging consumer relationships to win enterprise business, and gaining new customers from business clients. If successful, regional MENA operators will tap into a growth area, fueling substantial gains for years to come.

KEY HIGHLIGHTS

- The number of enterprises in the MENA region will grow at a 10 percent annual rate through 2014—creating almost 4 million new businesses.
- Enterprise revenue accounts for an average of 17 percent of revenue among major European telecom operators; for some, it is as high as 25 percent. This suggests upside potential for MENA operators.
- Enterprise customers are increasingly sophisticated in their needs, specific in their requirements, and quick in embracing new communication devices.
- Mobile and converged communications, as well social media and cloud computing, are driving enterprise ICT demand.
- Operators can leverage their strengths to grab share in the rapidly growing SME segment, lock in key large accounts and large-scale digitization projects, and benefit from converging consumer and enterprise offerings.

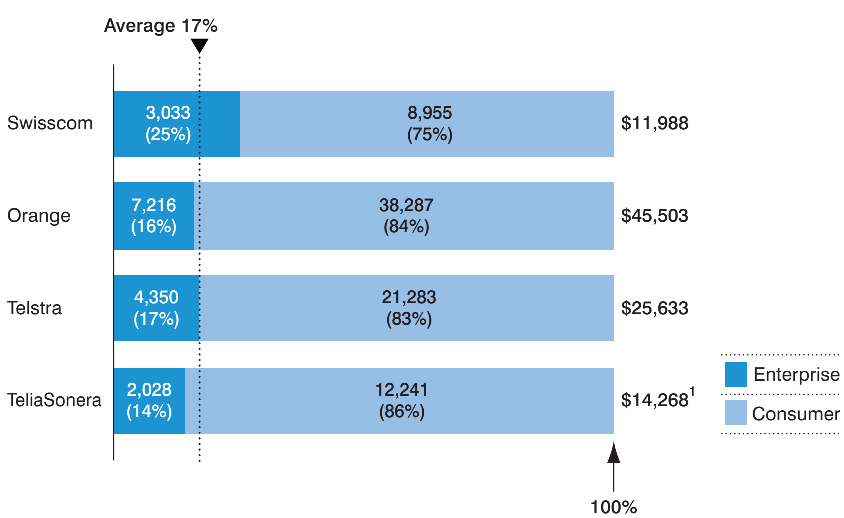
ENTERPRISE CUSTOMERS: A GROWING OPPORTUNITY

The enterprise segment encompasses a range of businesses, from those as small as one employee working at home to large enterprises or government agencies with more than 250 employees. Across the globe, telecom operators increasingly rely on this segment to provide new avenues of growth, especially in markets where consumer growth has reached or is approaching saturation. Major telecom operators in Europe, for example, are already reaping benefits from the enterprise segment, deriving as much as a quarter of total revenue from this business (*see Exhibit 1*).

As many MENA consumer telecom markets approach saturation, MENA operators hope to continue growing by putting new emphasis on their efforts in the enterprise segment. The ICT segment for enterprises in the MENA region is significantly underserved: Although enterprises account for as much as 6.5 percent of all mobile SIMs in some European countries, they have not even reached 1 percent in any country in the MENA region. Furthermore, the MENA enterprise ICT market is growing rapidly. It will almost double within five years, from an estimated $14.8 billion market in 2010 to $26.1 billion in 2015.

Exhibit 1
The Enterprise Segment Contributes Substantial Amounts of Revenue for Many European Operators

ENTERPRISE VS. CONSUMER REVENUES, 2010 (IN US$ MILLIONS)



[1] 2007 (TeliaSonera stopped reporting a separate integrated enterprise services division at the end of 2007).
Source: Reuters; Booz & Company analysis

Increases in both the number of enterprises and the expected ICT spend per enterprise will drive that rapid growth. Booz & Company estimates that the number of enterprises in the MENA region will grow at a 10 percent annual rate through 2014: this will add almost 4 million new businesses to the current base of 8.25 million. That growth substantially outpaces the growth rate of businesses in both Europe and North America. This robust increase in the number of enterprises presents MENA telecom operators with a prime growth opportunity. Nevertheless, ICT spending of enterprises in the MENA region is less than one-fifth the amount businesses in western Europe spend, and only one-tenth the amount those in the U.S. spend—another strong sign of growth potential in the MENA enterprise ICT market.

Four trends are converging to drive the enterprise ICT demand. Businesses increasingly are relying on both mobile communications devices and applications to enhance efficiency and productivity: Because senior management is now more involved in decision making about mobile technology, rather than leaving it all to IT departments, companies are increasingly adopting innovative mobile business applications. According to AT&T, 40 percent of sales of the iPhone, once considered a consumer device, are to businesses.[1] This is a marked difference from the not-too-distant-past when businesses tended to be much slower than consumers in adopting technologies. Second, communications are converging, as businesses more and more are seeking seamless integration of fixed and mobile devices to improve productivity and collaboration. Third, enterprises are rapidly deploying Web-based technologies—such as social media—that to date have mainly been used by consumers. Finally, cloud computing presents an opportunity for business to foster collaboration and mobility and curb costs (*see "What Businesses Need Now," page 4*).

The needs within businesses are not the only force driving the enterprise opportunity. Broadband penetration rates are rising across the region and so is consumer ICT sophistication. Governments are spending heavily on state-of-the-art mega-developments. Those factors combined have spawned increases in digitization across industries, such as smart metering for utilities, intelligent systems for transportation, and electronic records for health—transforming traditional economic sectors and thus increasing spend by enterprises on ICT services.

According to a survey by the Economist Intelligence Unit, almost 50 percent of all global enterprises expect to spend more on telecom services in 2011 and 2012 than they spent previously.[2] Telecom operators will likely face stiff competition to capture the expected enterprise ICT boom. Business communication equipment vendors, ICT service providers and system integrators, and software and online companies all are eager to compete in this untapped market.

The MENA enterprise ICT market will almost double within five years, driven by growth in the number of businesses and ICT spending per enterprise.

What Businesses Need Now

Enterprise ICT demand is driven by the need for increased mobility, converged communications, collaboration, and cloud computing.

Mobility

The need for enhanced productivity, coupled with the greater use of personal devices within enterprises, is fueling the integration of mobile services and applications with business requirements. Smartphones and tablets, such as Apple's iPad, are flooding the enterprise market. According to one survey, 12 percent of companies have deployed iPads or tablets, and an additional 36 percent are considering doing so.[3]

As a result, innovative ways of using devices for business are emerging. Some restaurants, for example, are replacing menus with interactive iPad devices and applications. Machine-to-machine (M2M) applications are likely to provide major growth opportunities, as vehicles, industrial machinery, and plants will more and more frequently be equipped with sensors and wireless chips needed to communicate. With 4G mobile networks, demand for bandwidth-intensive M2M applications such as in-car entertainment content and wireless updates for displays, billboards, and media titles will accelerate. For example, Sprint partners with MediaTile, which offers digital signage, to offer an end-to-end solution for customers with fast deployments and low infrastructure costs.

Converged Communications

Enterprises are increasingly seeking seamless integration of communication functionality and applications among various fixed and mobile devices to improve productivity and collaboration. To address this demand, operators are offering unified communications platforms that handle all messaging, voice, video, and data services. These platforms help companies decrease costs by reducing operational redundancies while providing an increase in productivity through streamlined processes. Etisalat in the UAE, for example, recently launched a Public TelePresence room that provides high-definition virtual conferencing capabilities, allowing business groups to meet and collaborate in multiple locations worldwide in real time across a global video network.

Unified communication services will grow to a $37.3 billion business by 2013, $1.6 billion alone in the MENA region.[4]

Collaboration
Enterprises are using Web-based technologies that have previously been used by consumers. For example, businesses are tapping into social media channels to inspire, educate, entertain, and connect with both their customers and employees. This lets the businesses gather a range of input and make better decisions. Of the Fortune 100 companies, 65 percent have active Twitter accounts, 54 percent have Facebook fan pages, 50 percent have YouTube video channels, and 33 percent have corporate blogs.[5] In a 2010 survey of MENA Twitter users, 90 percent said that Twitter has affected their perceptions of a brand or company, and 82 percent said they would be more willing to buy from a brand that has a relationship with them over the service. An estimated 400 brands are represented on Twitter in the MENA region, including companies, government departments, NGOs, and non-profit organizations.[6] In addition to social networks, businesses are tapping into wikis and blogs. Wikis are websites that allow the creation and editing of content from multiple users; businesses are using wikis both internally to share knowledge and externally to communicate with the public. Some companies, including Lego, turn to blogs to retrieve customer feedback and enable more-effective design and marketing. Enterprise customers are seeking end-to-end wikis and social media applications that they can use in-house; telecom operators can partner with social media players to offer enterprises end-to-end solutions that satisfy this need.

Cloud Computing
Cloud computing, by some estimates, is a $113 billion global business today.[7] Enterprises increasingly will turn to cloud computing as a way to facilitate collaboration and mobility as well as to help them control their capital spending. Cloud computing typically involves a pay-as-you-go model, allowing companies to defer costly up-front payments; it also enables corporations to better optimize servers deployed in different locations and different time zones, eliminating the need to purchase additional capacity in any single location. SMEs also typically lack the skills to manage their IT needs, making outsourcing to the cloud appealing.

The actual application of cloud computing takes three forms: Infrastructure-as-a-service (IaaS) mainly provides data storage and processing power through the operator’s data center to business customers. Software-as-a-service (SaaS) gives users access to business applications such as CRM, workforce management, and collaboration tools, which are hosted at the data center. Platform-as-a-service (PaaS) provides an online development environment by offering computing resources and development tools in the cloud. Amazon’s Web services and Google’s App Engine are successful examples. Today, operators are well positioned to leverage their infrastructure to create their own cloud solutions for enterprise customers.

TAKING ADVANTAGE OF OPERATORS' STRENGTHS

Telecom operators can capitalize on six core capabilities to secure a share of the enterprise opportunity.

1. Multi-platform network infrastructure. Telecom operators can use their multi-platform network infrastructure to deliver services on a variety of devices. Integrated operators—with carrier-grade fixed and mobile networks—can offer a converged experience for businesses to use their applications at the office or on the go. In addition, operators can enable delivery of third-party services over their platforms through open application programming interfaces, allowing users to expand their range of services.

2. Established customer relationships. Through usage, billing, and customer care interaction, telecom operators have access to an established enterprise customer base. This gives them a strong lead over any competitors that need to forge these relationships from scratch.

3. Wide reach. Telecom operators use a variety of sales channels and have a strong presence across the geography they serve. Operators can use sales outlets, call centers, and indirect channels such as resellers or partnerships with hardware providers to reach targeted customers much faster than other players.

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4. Large-scale program management experience. Many established telecom operators have broad experience in managing large-scale infrastructure deployment and service delivery programs with many stakeholders and interdependencies. These operators can deploy a similar approach when delivering enterprise ICT services to large customers.

5. Strong brands. Many telecom operators enjoy strong brand recognition, typically in the consumer market where they have ample experience. This strong consumer awareness can translate to the business segment, providing operators with an advantage over competitors.

6. Access to capital. Particularly in the MENA region, telecom operators are cash rich and have the means to invest in long-term, capital-intensive projects.

Each of these six core capabilities provides MENA telecom operators with an edge over competitors in approaching the enterprise business. A combination of some or all of these capabilities adds up to a potent competitive advantage with enterprise customers.

PREPARING TO COMPETE IN THE ENTERPRISE ICT MARKET

With stiff competition almost certain to emerge for the enterprise ICT market, MENA telecom operators need to consider the business market in a fundamentally new manner and adopt differentiated approaches to succeed in securing and maintaining clients—whether SMEs, large enterprises, or government agencies. Telecom operators will have the ability not only to gain a foothold in these emerging businesses, but also solidify ties with individuals who work in these organizations, bolstering their consumer business.

Focus on SMEs to Capture Emerging Opportunity

SMEs represent the largest segment, in number of businesses, of the enterprise market. The SME segment in the MENA region is gaining in sophistication with an increased need for mobile and data services. They want off-the-shelf services that are cost-effective; they typically do not have in-house IT capabilities and thus require services that are easy to install and use.

To serve the SME segment effectively, regional telecom operators first will need to group customers based on behavioral characteristics such as telecom expenditures and service sophistication. Then they need to design bundled or converged communications solutions that deliver a one-stop-shop experience for each customer group and cover the basic needs of voice and data connectivity, both at the office and on the move. For example, with its "office-in-a-box" bundle, Q-tel offers basic data connectivity coupled with a managed IP-telephony solution. Telecom operators should also adapt their mobile plans to meet the needs of this segment: Saudi Telecom's recently launched Business Flex plan, for example, is a post-paid plan that works with pre-paid recharge vouchers, allowing SMEs to control their budget by setting a fixed credit amount that employees can consume on a monthly basis. Telecom operators should also provide more-sophisticated SMEs with services that let them use the latest ICT applications with minimal up-front investment, such as software-as-a-service (SaaS) cloud computing services. To offer SaaS, telecom operators typically partner with application providers. One example is Vodafone, which collaborated with Decho to develop a suite of cloud-based backup services, allowing Vodafone SME customers to back up digital content to a remotely hosted secure site. Another example is Swisscom, which is offering the Google Search Appliance as part of a complete business e-enablement solution to SMEs.

Operators typically consider retail stores the best option for building their brand and reaching enterprises in a cost-effective manner. However, because SMEs are scattered throughout the region and not clustered in one city, they are hard to reach through retail outlets. As a result, operators might consider using resellers that have the widespread coverage necessary to reach SMEs. Operators could also target less-sophisticated SMEs through outbound telesales, transforming the call center from the passive role of taking incoming calls to a more interactive one.

Lock In Large Accounts with Turnkey Solutions

Large enterprises and key accounts typically have a large number of employees and will likely spend significantly on ICT. These customers increasingly demand turnkey solutions that address their specific business needs, such as increasing productivity, improving customer satisfaction, and cutting costs. They typically prioritize service levels over price. Because large enterprises in the same industry—such as healthcare or financial services—have similar ICT requirements, telecom operators would benefit from fine-tuning their segmentation to differentiate large enterprises and key accounts by industry. Large enterprises and key accounts also expect a differentiated sales and customer service experience that only dedicated account and service managers can deliver.

To service large enterprises effectively, regional telecom operators will need to migrate from being providers of basic voice and data services to providing full ICT solutions. That entails initially expanding their product portfolio and service offerings to include systems integration, managed services, and cloud services, and then customizing those offerings to deliver complete, targeted ICT solutions. The portfolio offerings need to be not only comprehensive but also specific—with solutions that address customers' business needs and leverage managed, hosted, and M2M services. In targeting large enterprises, telecom operators also need to shift from a typical account manager sales approach to a consulting relationship, acting as partners with the customers and designing turnkey solutions rather than offering off-the-shelf services.

Some global telecom operators have relied on acquisitions to solidify their position with large enterprises. BT Global Services, for example, has been active in the past few years making selected acquisitions of specialized ICT providers. Its acquisitions revolve around two main objectives. First, to expand its geographic footprint: BT Global Services bought Frontline, a provider of end-to-end IT services within the Asia-Pacific region, to bolster its presence there. Similarly, BT acquired Integrated Network Solutions in Belgium, strengthening its business in Belgium, the Netherlands, and Luxembourg. Second, BT Global Services is expanding its service portfolio. Its acquisition of Stemmer—a provider of unified communications, IP telephony, network integration, and data center services—positioned the company to offer networked IT services. BT Global Services's buyout of Net2S Group, a technology consultancy specializing in capital markets, enhanced its ability to provide ICT services to businesses in the financial services industry.

Leverage Government Relationships to Capture Digitization Opportunities

Beyond the traditional enterprise market opportunity, regional incumbent telecom operators should also seek to position themselves as enablers for digital economies by leveraging their privileged government relationships and becoming the provider of choice for government ICT requirements.

Applications such as smart metering for utilities, intelligent systems for transportation, and electronic records for health are driving transformation in traditional economic sectors. In addition, the economic zones that several governments are developing throughout the MENA region are an ideal platform for collaboration between telecom operators and government entities to enable smart cities and digital neighborhoods.

To capture large-scale projects, telecom operators need to build a deep knowledge of the economic sector they would be serving. Whether it is for utilities, education, transportation, or healthcare, telecom operators need to understand the challenges government entities and businesses in these sectors are facing and propose ICT solutions to address their specific needs. To deliver these services, operators will need to have strong solution design, systems integration capabilities, and large-scale operations.

Operators in other markets are already using partnerships and acquisitions to build these capabilities. For example, T-Systems acquired AirIT International GmbH, a provider of airport IT services, to serve the transportation sector. It also bought Metrolico, a provider of IT infrastructure management, to benefit from its leadership position in the Spanish financial sector. At the same time, T-Systems has developed an extensive network of alliances with prominent global vendors, including Microsoft, Cisco, Intel, and SAP, allowing it to develop software technology jointly and launch wireless LAN and SAP application management services.

Use Enterprise Relationships to Bolster Consumer Offerings

Telecom operators can ride the popularity of some end-user devices (such as iPads or BlackBerrys) and the adoption of services by key decision makers in the enterprise to promote their business applications. For instance, they can provide and promote mobile- or tablet-based applications to monitor sales performance. Similarly, operators have a prime opportunity to grow their consumer base through their enterprise business by offering and marketing products directly to the employees of these businesses. For example, operators can offer dedicated broadband or mobile services to employees of large companies or end-to-end services to all customers of gated communities and real-estate developments. A convergence of consumer and enterprise offerings can enable an operator to cross-market products and services, sparking growth throughout its operations.

Get the Service Right

Regardless of the targeted niche within the enterprise segment, operators need to differentiate their value proposition. One way to do so is to realign their service delivery approach. For medium-sized businesses, this might mean access to around-the-clock customer service and a help desk with knowledgeable technical support, proactive maintenance, and short resolution times. Telecom operators will have to transition from having a traditional customer support model to an always-reachable, fully equipped customer relationship center accessible in person, by phone, or online. Larger enterprise customers will require committed service-level agreements (SLAs) for a comprehensive range of mission-critical services. Such agreements would cover problem management, including fault response times and time to repair; they would also include service delivery, such as activation and installation times, as well as performance, including availability, packet loss, and jitter. For example, service-level agreements might specify that IP-VPN availability must range between 99.6 percent and 100 percent, whereas business DSL availability must range between 99 percent and 99.99 percent.

Telecom operators can ride the popularity of devices such as iPads and BlackBerrys to promote their business applications.

CONCLUSION

The number of enterprises in the MENA region is increasing at a rapid pace, and there is considerable opportunity in the amount these businesses will spend on ICT. The strong growth potential will likely bring in many competitors eager to grab a share of the large and expanding market.

Telecom operators are ahead of the curve and remain positioned to capture a large share of this market. They have, for example, network infrastructure, customer relationships, and trusted brands. To achieve further and sustainable growth from enterprises, operators need to act now and aim efforts at this market segment. They need to segment within each of the large enterprises, key accounts, and SMEs markets—and deliver a differentiated raft of services to each segment. They also need to extend their portfolio beyond core connectivity services to include tailor-made solutions that address the specific needs of their targeted customers. Strategic acquisitions of providers with geographic or industry expertise is an effective way for operators to gain ground in this business and further penetrate the ICT market. Forming partnerships and alliances with vendors and service providers also can be a way for operators to expand their services and capabilities. Whichever route they choose, MENA operators should move quickly to position themselves as a key player to capture the large, fast-growing, and still untapped MENA enterprise opportunity.

Endnotes

[1] AT&T press release, May 2010.

[2] "Beyond Connectivity," Ernst & Young, 2010. The findings presented in the report are based on an online survey conducted by the Economist Intelligence Unit in November 2009.

[3] CLSA Equity Broker, February 2011.

[4] *Trends in Unified Communications*, Business Insights, 2009.

[5] Pink Elephant, 2010.

[6] Spot On, 2010.

[7] "Technology 2011, the year ahead – It's the Year of the Cloud," Bank of America's Merrill Lynch "Year Ahead" predictions, 2011.

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