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GCC
Telecommunications
in 2011
Business Unusual

In 2011, the telecommunications industry in the GCC will face challenges, threats, and opportunities on a scale not previously seen. Although some issues have been around for a while, there are several new aspects to them that lead us to believe 2011 will—in many respects—be a year of business unusual for the GCC region's telecommunications operators.

KEY TRENDS FOR THE YEAR TO COME

The trends most likely to reshape the regional telecommunications landscape in 2011 break down into three broad categories: expansion, new revenue opportunities, and lean operations. To expand, operators will continue to push internationally, but the days of the land grab are gone. Only those operators with strong and proven capabilities that can be replicated from one market to another will return value to shareholders. As for new revenue streams, in the past few years new players have muscled their way into traditional telecommunications revenue. Operators now have to respond conclusively and with great energy to demonstrate that they can both discover and protect sources of new revenue using new and innovative capabilities. Finally, operators need to continue efforts to become leaner than they are now: They will need to take an innovative approach to reducing operating costs without sacrificing quality, finding ways to not merely cut costs but reshape their business to operate more efficiently. This time around, they can take advantage of new approaches to network technologies, mitigating the need for traditional, large-scale capital spending.

For consumers and businesses, these trends hold substantial promise; services will become available in

many more geographies and they will be more affordable and delivered by trusted, reliable brands. New applications will continue to emerge on innovative, attractive devices, connecting people in new and surprising ways. And lastly, the telecommunications network will continue to evolve beyond the traditional role of a phone company, weaving the fabric of a more connected, interactive society.

1. Expansion: For many operators, new markets will remain high priorities for securing growth—providing them with the opportunity to serve customers with more mobility, connectivity, speed, and increasingly more exciting applications. Frontier markets (such as those in African nations and in India) are particularly enticing. But expansion in these markets remains complex and challenging. Successful operators will possess refined capabilities and skills and a complete mastery of low-cost operating models; they also will have resilient operations and management as well as advanced training and skill-transfer programs to develop local talent.

Mergers and acquisitions will play a central role in 2011, a marked contrast to 2008 and 2009 when even those operators with the most resilient financial capacities adopted a wait-and-see attitude toward transactions: M&A activity among GCC operators declined from US\$10.6 billion in 2007 to \$6.7 billion in 2008 and just \$0.9 billion in 2009. Although activity is only at \$0.1 billion as of the third quarter of 2010, the \$12 billion potential deal between Zain and Etisalat, as announced in the media, could lead the industry into a strong 2011. Operators in 2011 will shift

gears, looking to enter new markets or augment their market share in existing markets, and regional M&A activity will accelerate rapidly. In addition, there is significant potential for consolidation among major group operators—so-called megadeals. These blockbuster transactions will remain attractive as individual entry points into new markets become scarcer, and operators recognize that large deals can enable them to secure entry into multiple markets through a single transaction, eliminating the complexity of pursuing many deals.

Nonetheless, operators likely will remain selective about which opportunities they pursue, using conservative projections to build cautious expectations, and exploring more innovative forms of financing—such as paper or stock deals, mergers of equals, or cash plus stock.

Another interesting sub-trend that will emerge in 2011 is divestment, as operators scrutinize their portfolios to determine whether to divest, consolidate, invest, hold, or fortify their holdings. Driving this trend is a new sensibility about competitive capabilities, as operators seek to improve their company-wide operations and equip operating companies to execute better in their respective markets—for example, by institutionalizing synergy programs.

2. New Revenue Streams: The second major trend for 2011 concerns the way operators will respond to falling revenue and the emergence of new competitors. They will seek both to discover and to protect revenue sources by using new and innovative capabilities.

Mobile voice services remain a lucrative business for today's telecom operators; however, traditional services no longer provide strong growth potential. Data revenues, by contrast, are showing strong growth, from 7 percent of total service revenues in 2007 to 10 percent in 2009. And there is potential for even further development; this 10 percent figure is quite low, as illustrated by the fact that data services contributed 17 percent of total services revenues in Latin America in 2009, 28 percent in North America, and 44 percent in the Asia Pacific region. Thus, in 2011 operators will renew efforts to drive new revenue streams through fixed and mobile broadband, and this movement will prove to be the key driver in the next wave of organic industry growth, both in widening access and enabling more content and services.

Despite the exponential gains in Internet and broadband usage in recent years, the growth potential remains significant as consumers demand ubiquitous access and high bandwidth to handle a growing array of services. Of course, increased consumer demand for innovative services is coupled with increased competition, which will only intensify in 2011. For now, operators will continue to own the relationship with the customers, and those with the right capabilities to maintain and build these relationships will gain incremental returns from them. For instance, operators may follow the lead of AT&T, O2 UK, and Vodafone, which have announced shifts away from unlimited data service toward a tiered pricing structure, in which customers pay more for greater data usage.

However, 2011 will be a pivotal year in the relationship between operator and consumer—a relationship that is threatened by the rise both of Internet companies such as Google, Yahoo, and Skype and social networking sites such as Facebook. As a result, pressures will mount on telecom companies' operating models, spawning the need for operators to find ways to offer innovative products and respond to customer demands that evolve continuously. Operators are certain to sustain investment in innovation and there likely will be interesting developments in partnerships between telecom operators and Internet companies aimed at bringing customers new services. Notions of value chain cooperation, rather than competition, will resurface in 2011 as next-generation broadband networks proliferate.

3. Lean Operations: The third key telecommunications trend for 2011 revolves around lean operating models. Pressure to expand and to compete with new services and capabilities will force operators to explore new ways to reduce operating costs without sacrificing quality.

As operators look to reshape their business models, operational efficiency will come into sharper focus, and operators will channel efforts in several areas in line with shifting positions on the value chain. Operators will find new ways to cooperate with partners, transferring the burden of massive investment in fiber from capital expenditures to operating expenditures. Among the concepts likely to be vigorously explored in 2011 are performance-linked vendor com-

pensation plans, partnerships with national governments, and protected franchises under Smart City models.

Operators also will seek to benefit from digitization—a way to increase efficiency. They likely will pursue digitization on their own and also with their suppliers and new partners, forging operating alliances and teams. Although complex and challenging, these partnerships will become a key capability for successful operators in 2011 and beyond.

Lastly, there is a clear need for cost “reshaping,” not simply reduction. This could include new operating models, lean management, sharing, and outsourcing. The most successful operators of 2011 will master these skills and present them to the market in the form of unique capabilities on which they will base their future development.

Without doubt, 2011 will be a fascinating year for regional telecommunications operators. Emerging from the recession, GCC operators stand at a critical juncture—a new era of delivery and opportunity. Although there is strong growth potential, not every operator is well positioned to take advantage of that growth. The successful operators of the year will be those able to expand successfully, protect their turf from competitors and carve out new revenue streams, and operate in an effective and lean manner. And they will provide consumers with more mobility, speed, products, and devices.

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