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The Globalization of  
GCC Telecom Operators  
*How to Address  
the Next Challenge*



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## EXECUTIVE SUMMARY

*The rapid expansion of the Gulf Cooperation Council's (GCC) telecom operators from regional to international has created an opportunity for far greater cross-border integration and value creation.*

*These newly international operators are now positioned to take their multiple acquisitions and regroup them into cohesive, tightly integrated operations, and thus evolve into high-performing international companies. To do so, they must revisit how they manage their international operations. Operators must focus specifically on integrating their businesses and realizing the synergies that they envisioned during the acquisition stage. And they must continuously monitor their investments and evaluate their performance vis-à-vis financial and strategic objectives.*

# BECOMING INTERNATIONAL

Since 2000, rapid change has been the primary characteristic of the telecom sector in the GCC. A region-wide liberalization wave, coupled with an aggressive international expansion drive by growth-seeking regional players, resulted in the emergence of a new breed of international telecom operators.

These operators, their footprints rapidly expanding across the entire Gulf region and beyond, are now poised to reap the rewards from their flag-planting battles. Of these operators, those that can successfully transition from mere collections of independent multimarket companies to truly integrated international companies will sustain competitive advantage in the region for years to come (*see Exhibit 1*).

To transition in such a manner, GCC telecom leaders will need to ask and answer four fundamental questions:

- How can we create the synergies that we envisioned during the acquisition stage?
- What type of international operating structure do we need to put into place?
- How can we best govern international subsidiaries?
- How can we effectively manage the international investment portfolio?

**Exhibit 1**  
*International Footprint of Select GCC Telecom Operators, January 2009*

#### ZAIN INTERNATIONAL FOOTPRINT

- |                                 |                  |
|---------------------------------|------------------|
| 1. Bahrain                      | 12. Lebanon      |
| 2. Burkina Faso                 | 13. Malawi       |
| 3. Chad                         | 14. Madagascar   |
| 4. Gabon                        | 15. Niger        |
| 5. Congo                        | 16. Nigeria      |
| 6. Democratic Republic of Congo | 17. Saudi Arabia |
| 7. Ghana                        | 18. Sierra Leone |
| 8. Iraq                         | 19. Sudan        |
| 9. Jordan                       | 20. Tanzania     |
| 10. Kenya                       | 21. Uganda       |
| 11. Kuwait                      | 22. Zambia       |

#### ETISALAT INTERNATIONAL FOOTPRINT

- |                             |                          |
|-----------------------------|--------------------------|
| 1. Afghanistan              | 10. Iran                 |
| 2. Benin                    | 11. Niger                |
| 3. Burkina Faso             | 12. Nigeria              |
| 4. Central African Republic | 13. Pakistan             |
| 5. Cote D'Ivoire            | 14. Saudi Arabia         |
| 6. Egypt                    | 15. Sudan                |
| 7. Gabon                    | 16. Tanzania             |
| 8. India                    | 17. Togo                 |
| 9. Indonesia                | 18. United Arab Emirates |

#### QTEL INTERNATIONAL FOOTPRINT

- |              |                  |
|--------------|------------------|
| 1. Algeria   | 8. Oman          |
| 2. Cambodia  | 9. Pakistan      |
| 3. Indonesia | 10. Palestine    |
| 4. Iraq      | 11. Qatar        |
| 5. Kuwait    | 12. Saudi Arabia |
| 6. Laos      | 13. Singapore    |
| 7. Maldives  | 14. Tunisia      |

#### STC INTERNATIONAL FOOTPRINT

1. Bahrain
2. India
3. Indonesia
4. Jordan
5. Lebanon
6. Kuwait
7. Malaysia
8. Saudi Arabia
9. South Africa
10. Turkey

#### BATELCO INTERNATIONAL FOOTPRINT

1. Bahrain
2. Egypt
3. India
4. Jordan
5. Kuwait
6. Saudi Arabia
7. Yemen

#### OMANTEL INTERNATIONAL FOOTPRINT

1. Oman
2. Pakistan

Source: Booz & Company

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## CREATING LASTING SYNERGIES

Synergies are at the center of any M&A transaction and were at the heart of GCC telecom deals of the last few years. Synergies justified the strategic relevance of a merger or acquisition and consequently justified high acquisition premiums.

While strikingly few GCC telecom operators have thus far integrated their companies and derive economies of scale, the opportunity is tremendous. There are natural points of integration that stretch across the entire footprint of these companies such as use of technology, call centers, data centers, procurement processing, accounting, marketing, and advertising. Cross-border synergies can increase revenues and generate savings in areas from reduced roaming charges to operating expenses and capital expenses.

### *Increasing Revenues*

For telecom operators in the GCC region, international voice traffic constitutes a relatively sizable percentage of overall revenues. This is driven not only by the relatively high disposable income in the region, but also by the considerable number of expatriates who work there. In the United Arab Emirates, for instance, close to 90 percent of the population is comprised of expatriates. In Saudi

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### Highlights

- Operators can now realize value from their acquisitions and capture cross-border synergies. To do so, they will need to look for ways to enhance revenues and create cost savings.
- While transitioning from regional to truly international operators, GCC operators will need to select organizational structures and subsidiary governance models suited to their specific needs.
- Operators must proactively manage their international investment portfolios in a rigorous and holistic manner. Such portfolio management practices, while not traditionally customary to telecom operators, are essential to maximize shareholder value.

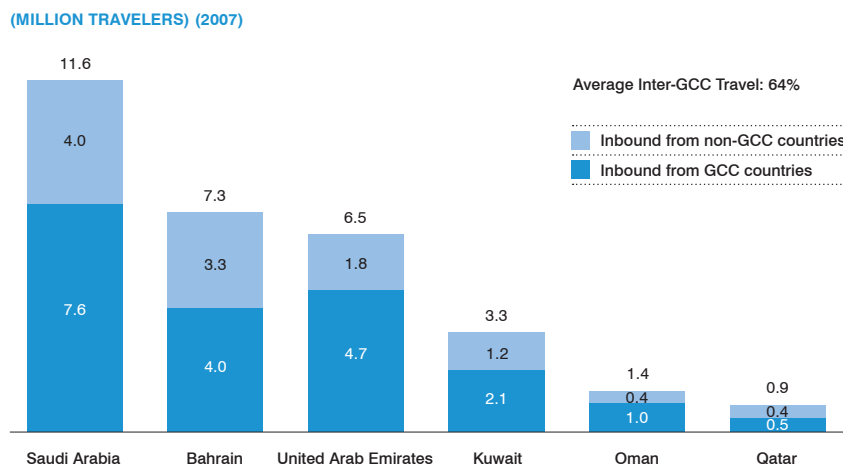
Arabia, there are more than 7 million expatriates and more than 1 million pilgrims visiting the country every year. These expatriates typically are the main sources of family income. They come to work in the region, and they keep in touch with their families by phone. This dynamic allows telecom operators to create a strong cross-border presence and enables them to save on international interconnection costs. Some of these savings can then be passed on to subscribers by way of tariff reductions and promotions in order to gain and retain customers.

Operators can also generate higher roaming revenues when subscribers travel within their footprint by offering lower roaming charges. For example, Vodafone offers attractive roaming packages through its “Vodafone Passport” service, which allows subscribers to move around the region, yet

only pay local rates. Zain’s subsidiary, formerly known as Celtel and recently rebranded under the Zain name, introduced its “One Network” offering across its Africa operations. Zain also launched a one-network initiative in the Middle East region. Such services are becoming more relevant and appealing as economic integration within the GCC region continues to rise.

Rolling out truly innovative products across the entire Gulf and potentially a global footprint can also generate revenue. The common Arabic language creates a great opportunity to do so seamlessly and quickly. A mobile Arabic television program, for instance, or Arabic songs, could be sold by a telecom operator across the entire Middle East region.

*Exhibit 2  
Inbound Travelers Activity in GCC Countries*



Source: World Tourism Organization, National tourism organizations, Euromonitor

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## Building Global Brand Awareness

Branding is a strategic and crucial way to build a loyal subscriber base. There are a number of branding options that international operators can use, depending on how their organization is constructed and the strength of existing brands.

Many operators use a regional/global monolithic brand such as Vodafone and Orange. This means that one global brand is used across all operations. This option allows for economies of scale and creates a uniform global image. However, having a uniform global brand is a complex strategy to implement and may not be locally effective in the short term. This is particularly true in the telecom sector as it is common to have fragmented ownership structures across operations, with more than one operator owning a strategic stake in a single entity. Examples include Saudi Telecom-Maxis in Malaysia and Orascom-France Telecom in Egypt. This is one reason why companies often use market-specific brands such as Mobinil (Orascom) and Mobily (Etisalat). Another reason is to allow the flexibility to develop market-relevant brands.

Another option, when operators are present in more than one natural regional cluster, is to adopt one brand and visual identity for each one.

Other operators such as Telenor use dedicated local brands. Telenor uses a common visual identity with a localized brand name. This type of branding is easy to implement, especially in the case of brownfield acquisitions, in which an existing company has been acquired. Saudi Telecom has adopted this approach in Indonesia (Axis) and Kuwait (Viva) while maintaining the corporate visual identity.

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## Generating Savings

If roamers are steered to an operator's international network, the roaming charges that are paid to other operators can be automatically saved. These charges can be considerable, especially in the GCC due to the extensive intra-region trade activities and travel traffic (see Exhibit 2).

Telecom operators can realize capital expenditures savings through economies of scale by centralizing procurement and vendor relationships. Larger operators will have stronger negotiating power vis-à-vis vendors, and may be able to increase the rate of discount. The magnitude of such discounts varies considerably, but could reach as much as 50 percent, especially in network equipment costs.

Operators can also achieve operational expenditure savings via the creation of common shared services across the whole multimarket organization. Shared services include all transactional, non-strategic activities that can be processed independent of market facing activities. Such activities include payroll, information technology, call center operations, data centers, procurement processing, and accounting, among others.

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## CREATING INTERNATIONAL ORGANIZATIONAL EFFECTIVENESS

As regional telecom operators continue to expand their international footprint, adopting a strong operating model is critical. The primary objective in developing an organizational structure is to attain sufficient control at the group level, while allowing autonomy of local operations; a secondary objective is the creation of synergies across the group, which can include the very important aspect of effectively managing the talent pipeline.

There are at least four operating structure alternatives for an international telecom operator: geography-based, segment-based, function-based, and product-based. Some operators also create hybrids of two or more of these structures. Each has its advantages and disadvantages, and none promises a silver bullet. Operators will choose their structure based on a number of factors such as level of internationalization, size of domestic market, proximity and clustering of subsidiaries, variety of service offerings/technologies, and positions in various markets (*see Exhibit 3*).

*Geography-based structure:* Telecom companies can organize around geographic clusters. Each subsidiary has its dedicated functional departments and has full profit and loss (P&L) responsibility. This model allows for high levels of focus on local markets and regions. It can, however, result in the duplication of resources and may inhibit collaboration and integration.

Telenor, for instance, structures its organization along three geographical clusters: Nordics, Asia, and Central/Eastern Europe. Similarly, Telefónica's operating units are also organized by region: Spain, Europe, and Latin America. Geography-based structures are more common when the operator's footprint is widely spread, as in the cases of Telenor and Telefónica. The level of international reach also drives the form of the geography-based structure. It can be country-based, cluster-based, or merely local vs. international, as is the case with Telecom Malaysia.

*Segment-based structure:* Segment-based structures are becoming common given the increasing focus

*The right organizational structure offers sufficient control at the group level, while allowing autonomy of local operations.*

on customer centricity. At the local level, many integrated operators have shifted from product-based structures toward segment-based organizations. The most common structure adopted covers four key market segments: individual users, home users, enterprise users, and wholesale customers.

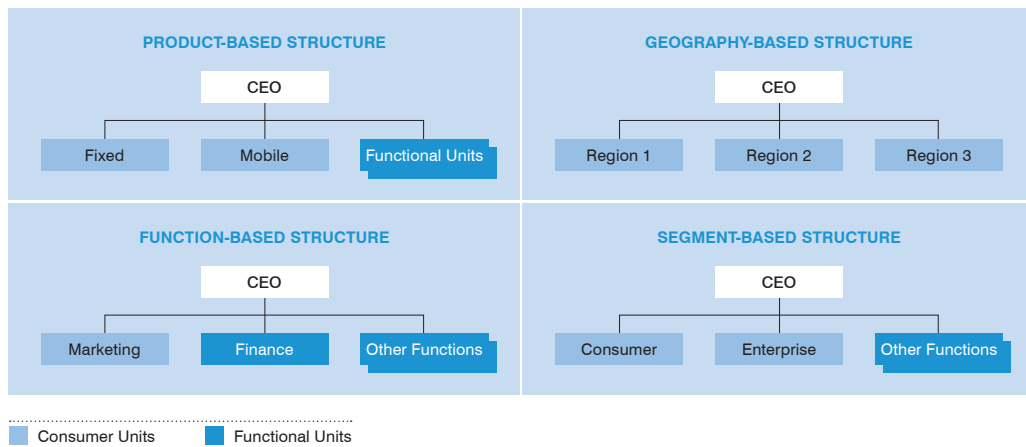
At the international level, customer-centric organizations have yet to gain the same momentum as they have at the local level. However, some global operators have successfully adopted this model, such as France Telecom and Deutsche Telekom.

This model is most effective when customer segments are homogeneous across international operations, either in terms of geographical proximity or other factors such as level of market

development, income level, and user preferences. This structure is complex to manage, particularly for geographically diverse operators. It can often result in an insufficient focus on international operations when an existing domestic business generates a significant portion of the operator's overall revenues.

*Function-based structure:* Function-based structures pool all function-specific resources together. Each head of function has a group-wide responsibility and reports directly to the group CEO. There is a common corporate core and a shared-services structure to help create synergies. This model allows for high specialization and creates strong people development and career planning. It also helps to create economies of scale and

**Exhibit 3**  
*Options for Group Structures*



Source: Booz & Company

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standardization within the functional departments.

The main limitation of this structure is its lack of focus on customers and markets. The complexity and high volume of operational details across geographic regions can hinder sufficient focus on emerging markets or customer segments. As a result, function-based structures are more common among local players than among regional or international players.

*Product-based structure:* Product-based structures in telecom largely boil down to the two main technology-centric service offerings: fixed line or mobile services. Operators center

their operations on these two service offerings irrespective of geography.

The emergence of fixed mobile convergence and the increasing focus of telecom operators on the front end of the value chain through customer centricity make this model increasingly uncommon among players, especially in the international context. However, many players will continue to adopt a product-based structure in their local operations. Examples include Portugal Telecom, which structures its domestic operations along two independent units: Wireline and Mobile.

*Hybrid structure:* As each of the above organizational structures

presents its respective advantages and challenges, operators may need to create and adopt hybrid structures.

These hybrid structures are variations and/or combinations of the different structures and are ideally tailored to the unique requirements of an operator. For example, Orascom Telecom adopted a hybrid geographical-functional structure to create group-level synergies while maintaining market focus. Similarly, TeliaSonera adopted a three-way hybrid model combining geography-, product-, and customer segment-based options. Its business units are Mobility Services (product), Broadband Services (product), Integrated Enterprise Services (segment), and Euroasia (geography).

*The main limitation of a function-based structure is its lack of focus on customers and markets.*

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### **Managing Employee Secondment**

By definition, secondment is the placement of employees with refined and specific skills into different parts or subsidiaries of the organization for limited times. Telecom operators can use this effective tool by transferring key employees from one operation to another to achieve one of at least five objectives:

1. Ensure the success of international operations by allocating the right talent to the right position beyond the barriers of national borders. (Secondment allows for fast resource deployment in newly acquired operations or greenfield licenses by avoiding the long lead time of external recruiting.)
2. Promote knowledge sharing and collaboration among various subsidiaries, as secondees typically become catalysts for effective cross-border communication.
3. Drive synergies by effectively transferring the organization's best processes and practices, as well as new service offerings, among subsidiaries.
4. Motivate top-performing employees and executives by providing international exposure and career progression opportunities.
5. Ensure sufficient control of the subsidiaries' operations by having eyes and ears within international subsidiaries. This is of greatest necessity in the cases of subsidiaries with minority interest.

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## GOVERNING INTERNATIONAL SUBSIDIARIES

As telecom operators maximize the return on their investments, they will need to pay particular attention to the interface between the group and its various subsidiaries. They must take a leadership role and create a governance structure that makes subsidiaries operate as part of the whole company rather than as fully independent entities.

There are a number of steps that facilitate working toward a common goal. The operator needs to ensure that all information rights are received in a systematic manner and are in line with the shareholders' agreements and legal rights. All of this received information should be channeled to respective stakeholders, mainly to board representatives in subsidiaries

through a clearly appointed point of contact at the group organization. All investment documentations should be kept and maintained, including term sheets, shareholder agreements, share purchase agreements, regulatory filings, and financial and operational performance reports. The adherence to investment shareholders' agreements must be proactively managed by the telecom operator at the group level.

The group can facilitate the decision making of the subsidiary's board of directors by having preparatory pre-board meetings with each subsidiary's board on a planned basis, and by having appropriate analysis and materials ready for discussion and alignment prior to board meeting attendance.

*Telecom operators need to pay particular attention to the interface between the group and its various subsidiaries.*

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## MANAGING THE INVESTMENT PORTFOLIO

GCC telecom operators need to constantly evaluate their investments from a holistic perspective and carefully examine how well, or how poorly, investments are performing. Investment portfolio management is a strategic process that evaluates existing investments from financial and strategic standpoints across the group. It focuses on the intrinsic business value of an asset, rather than just pure accounting metrics. It measures the state of the current portfolio against the overall investment strategy and it determines the respective actions.

Portfolio management improves the return on investments by allowing operators to focus on high-performing investments and to divest underperforming or non-critical ones. Portfolio management increases decision-making transparency by offering a consistent way to evaluate all investments. It also makes the most of internal resources, such as capital and manpower, and determines where future investments should be made based on the existing portfolio.

These portfolio reviews need to be done as a matter of course, and as a result companies will always have a sense if they should fix or grow a business, sell it, abandon it, or simply sit tight. It will also dictate the level of senior management involvement with these investments. This rigorous approach enhances long-term value.

To have a full view of investments, operators need to perform a strategic assessment and a financial assessment and then aggregate these analyses to understand where investments stand against each other and against the target objectives for value creation.

### *Strategic Assessment*

Operators should consider market attractiveness and internal capabilities to evaluate the strategic importance of each investment and determine whether an investment has what is needed to succeed in the market in the long term.

This assessment looks at the market size, the market growth rate, the competitive intensity, the entry barriers, and the market risk. The operator must conduct a careful analysis of the subsidiary's ability to succeed in the market and the synergies that can be realized. This assessment will include the company's marketing strategy, sales and distribution, technology, customer service, management strength, and product portfolio.

### *Financial Assessment*

The financial assessment determines whether or not an investment is maximizing its returns. Essentially, a comparison must be made between the value of the investment to the operator, based on the latest business plan, and the current market value of the asset. If the market value is higher than is assumed in the internal business plan, then the investment may be a candidate for divestiture. On the contrary, if the market value is lower than the internal value, then this signifies an opportunity for value creation.

To effectively perform a financial assessment, telecom operators must continuously update the business forecasts for each investment. Such updates are based on recent performance, and also include an estimation of the benefits of synergies to determine the overall financial impact. In practice, the group management team

works closely with the subsidiary's management, often through the board representatives, to ensure that each subsidiary's business plans are aligned with the group objectives.

#### *The Full Picture of the Portfolio*

By combining the strategic and financial assessments, the operator can determine the best way to maximize shareholder value and allocate capital effectively. Operators need to take an approach similar to that taken by private equity groups in terms of adding new assets and being ready to divest existing assets when the time is right, and restructure their portfolio.

By mapping all investments along both the strategic and financial dimensions, investments are allocated to various categories, each prompting a distinct action. For instance, investments that have low strategic value but still remain worthwhile would be those with strong financial returns. Typically these are investments that have strong market positioning,

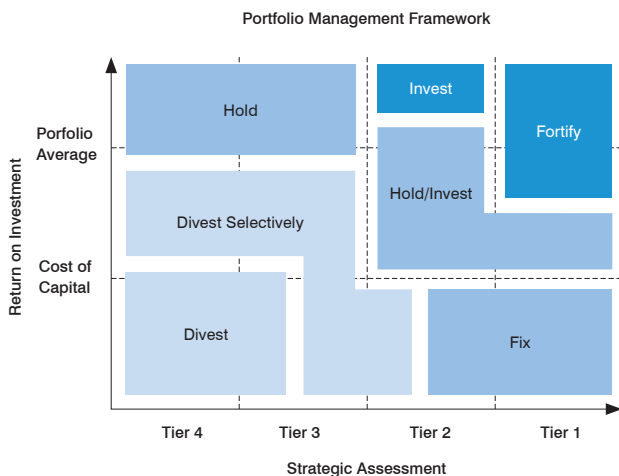
but are in markets that are not very attractive. Investments that have low strategic value and weak financial returns would be those in unattractive markets that do not have the right capabilities to succeed. These investments would require active involvement on the part of management or would potentially be considered for divestment.

Investments that are strategically important and have strong financial returns are the star investments in a portfolio and candidates for further investment. These investments would typically not require the active involvement of group management and their focus would be limited to strategic direction setting. Investments that are strategically important but have weak financial returns would require group management intervention to realize the full value of the investment. Often, the underlying factors driving underperformance are inadequate funding and weak local management teams (*see Exhibit 4*).

## CONCLUSION

The time to reap the rewards is here. By creating integrated international companies, GCC telecom operators have the opportunity to create ongoing and superior value from their investments. Just how well, and how quickly, they can transition from acquisition mode to execution mode will determine the winners in the region for years to come.

**Exhibit 4**  
*Making Decisions About the Portfolio*



Source: Booz & Company

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### ***About the Authors***

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