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booz&co.

The text 'Booz & Company' is written in a white, serif font. It is centered horizontally within the same dark blue rectangular area as the logo, positioned below a thin white horizontal line.

Booz & Company

*Annual  
Telecommunications  
Leaders' Summit 2009*

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## INTRODUCTION

*In early 2009, Booz & Company invited 13 leaders from the foremost telecommunications organizations operating in the Middle East and other emerging markets to a select gathering in Dubai to share their thoughts, perspectives, and concerns for the industry in the year ahead. These executives, responding to the intimacy of the setting and the summit's theme of "Growth Challenges," offered insights into the issues they face during this unique time, as the global economy contracts while the industry's growth in the region expands.*

*Booz & Company opened the summit with an address that examined how the current economic circumstances are affecting the telecom industry. Thanks to its status as an essential service, the industry has proven resilient in the face of the downturn, despite its high penetration levels in much of the Middle East—for instance, there are currently more than two mobile phones for each person in the United Arab Emirates. The group also discussed the importance of innovation to development and the outlook for mergers and acquisitions (M&A).*

*The discussion drew out several critical issues and threw contrasting problems into sharp relief:*

- How will the economy affect the telecom operator community?*
- How can telecom operators in emerging markets take advantage of the crisis?*
- How will the operator/vendor relationship be affected?*
- Is this the best or the worst time for M&A?*
- Is this the moment to cut costs and retrench, or set the agenda and expand?*

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# PRESENT AT THE SUMMIT



Middle East, Africa, Asia & Europe	Attendees	Position
Batelco	Andrew Hanna	Group General Manager, Strategic Transformation
Deutsche Telekom (formerly)	Kai-Uwe Ricke	Supervisory Board Member
du	Osman Sultan	Chief Executive Officer
Etisalat	Ali Alahmed	Group Chief Strategy Officer
Macquarie	Ted Pretty	Executive Director
MTN	Jamal Ramadan	Executive Director, Head of Middle East
Mubadala	Jassem Al Zaabi Eddy Skaff	Director, ICT Sector Senior Business Development Manager, ICT Sector
Omantel	Amer Al Rawas	Chief Operating Officer
Orange Jordan	Mickael Ghossein	Chief Executive Officer
Sistema Shyam Teleservices Limited	Vsevolod Rozanov	Chief Executive Officer
Telecom Egypt	Akil Beshir	Chairman
Vodafone	Hatem Dowidar	Chief Executive Officer, Partner Markets

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*“The crisis is positive  
for those who make use of it  
to execute rigorously.  
It’s a time for the captain  
to sit on the bridge  
and execute on the agenda.”*

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*Mr. Ted Pretty (center), Executive Director, Macquarie*

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## REVENUE AND RESILIENCE

The recession's devastating effects on many industry sectors are well known. However, telecom has thus far been spared the worst of the storm: In comparison to other industrial sectors, telecom has seen less of a reduction in value, as measured by the performance of large operators' stock prices. Operators in emerging markets, especially, have been protected, with the market value of the region's incumbent operators falling less steeply than that of their peers in other sectors (*see Exhibit 1*).

In the opening address, Booz & Company highlighted the two trends that underlie these findings. First, emerging markets have experienced consistent growth and still have capacity to grow further; second, consumer spending in the region has proved resilient, with consumers reluctant to cut their spending on telecommunications services. The audience agreed that the region's high penetration levels should not be considered an impediment to

growth, although some participants believed that it was not realistic to assume that every emerging market will match the United Arab Emirates' mobile penetration level of 200 percent (*see Exhibit 2*).

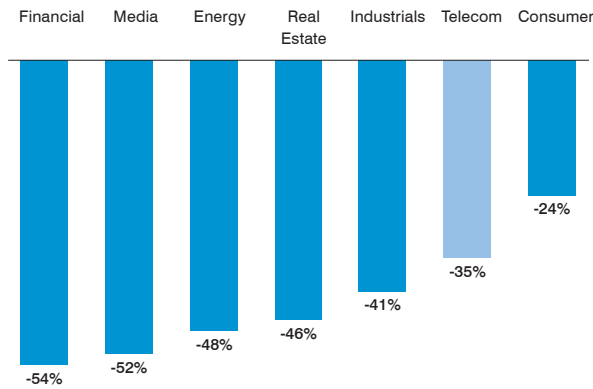
One source of this resilience has been flat-rate pricing. The CEO of a European operator offered a simple explanation for this fact: "An operator that has flat fees all over its consumer base doesn't see any kind of impact in the short to mid-term. If the consumer calls one minute less, it does not matter."

But even though domestic flat-rate pricing plans provide some protection from lower usage, the CEOs of several operators explained their concerns about whether roaming revenues would be equally resilient. In a region where international travel is cheap and frequent, operators have generated significant income from this high-margin revenue stream.

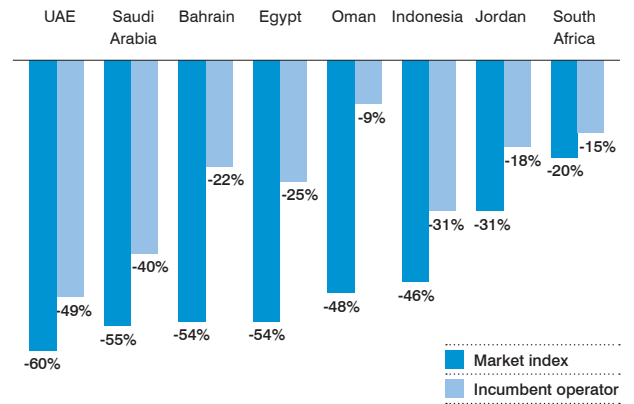
**Exhibit 1**

**Telecom Operators Have Fared Better in the Downturn Than Companies in Other Industries**

**STOCK INDEX PERFORMANCE OF VARIOUS U.S. INDUSTRY SECTORS**  
(January 2–December 31, 2008)



**STOCK INDEX VS. INCUMBENT OPERATORS' SHARES, SELECTED COUNTRIES**  
(January 2–December 31, 2008)

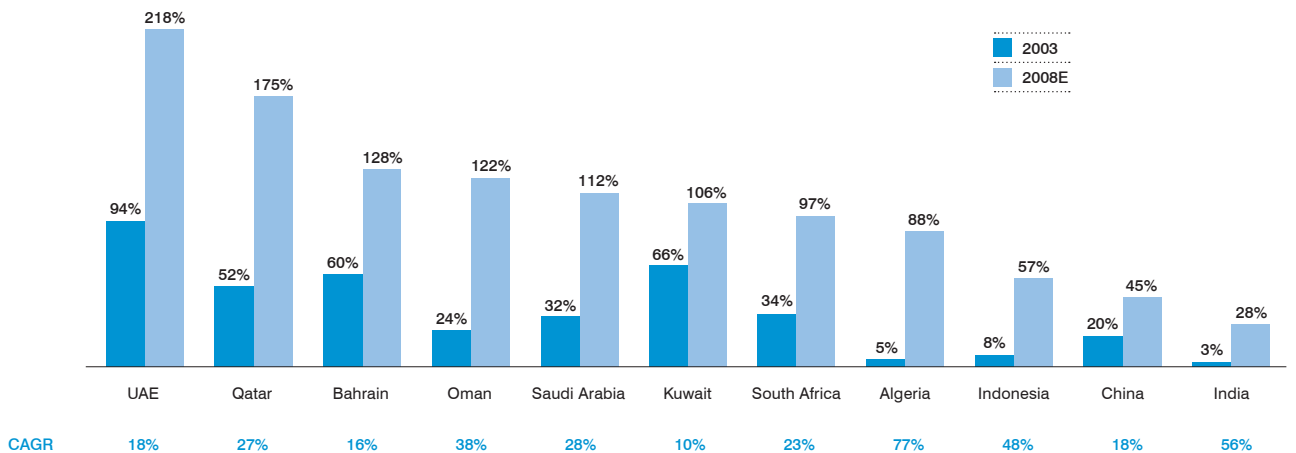


Note: Countries listed are representative of Middle East operators' international holdings.  
Source: Bloomberg

**Exhibit 2**

**Mobile Penetration in Selected Emerging Markets Is High, But There Is Room for Growth**

**MOBILE PENETRATION IN SELECTED MARKETS**  
(2003 vs. 2008E)



Note: Countries listed are representative of Middle East operators' international holdings.  
Source: Informa Telecoms & Media; IHS Global Insight; Booz & Company analysis

The downturn, however, may limit travel within the region—and thus the use of roaming services. As one CEO commented: “Roaming revenues will be very much affected—and this is the most profitable part of our business. With roaming surcharges ranging from 15 to 700 percent [in the region], those [operators] using higher charges will suffer margin falls.”

One positive sign is that few consumers are cutting their spending on services such as telecom (*see Exhibit 3*). They are paring back discretionary purchases, driving less, and spending more time at home, but spending on services appears to be holding steady.

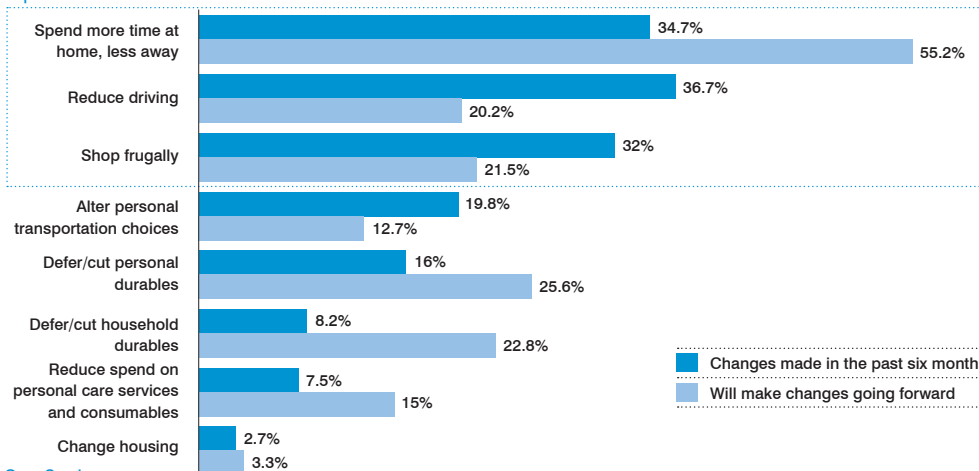
Another upside is that shifts in consumer behavior drive innovation. For

operators, changes such as decreased travel will mean refreshing propositions with new products tuned to new realities, as one participant noted: “Companies cutting back on travel look to other means of communication—video, teleworking, and so on. Changing behaviors open up the need for other services in product portfolios.”

**Exhibit 3**  
*Consumers' Spending Cuts Overlook Services*

**AREAS OF SIGNIFICANT CHANGE IN SPENDING HABITS**

**Top 3**



**Core Services**



Source: Booz & Company Consumer Spending Study, October 2008

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## NEW IMPERATIVES: TRANSFORM AND EXECUTE

As in past years, the summit welcomed senior-level participants from incumbent national carriers and their competitors. The intimacy of the surroundings allowed direct market competitors to challenge each other and respond in kind. The need for national carriers to change to meet new market imperatives—and the difficulties they face in doing so—surfaced quickly in the discussion.

As the CEO of one competitive carrier noted: “We see heavy transformation in the sector. Most of the incumbents are still at the first phase of this transformation—transforming their entire operations, transforming their mind-set, transforming their relation to their infrastructure. But their entire transformation must be accelerated.”

This revealing comment highlighted the challenge that new entrants face with their larger competitors. Because new entrants often rely

on the networks and facilities that incumbent operators have built, their market and product plans are often constrained by their competitors’ processes. Understandably, this can create tension between carriers as new operators seek to gain advantage in the market.

### *Excellence in Execution*

Although much of the group’s discussion focused on the need for change, one former CEO issued a stirring call for managers and leaders to focus on the fundamentals of execution, and to take advantage of the global crisis to drive change at more tactical levels.

“The crisis is positive for those who make use of it to execute rigorously. It’s a time for the captain to sit on the bridge and execute on the agenda,” he said. “I would take rigorous action and make use of the crisis to do what I always wanted to do. To me, it would become a matter of ruthless



*Mr. Mickael Ghossein (left), Chief Executive Officer, Orange Jordan;  
Dr. Amer Al Rawas (center), Chief Operating Officer, Omantel;  
Mr. Osman Sultan (right), Chief Executive Officer, du*

execution. In a deflationary scenario, I know that my customer wants value for money, and this would drive me to the necessary actions of cutting operational expenditures wherever I can do it, being ruthless in taking the right priorities on capital expenditures.”

This call was echoed by many participants during the conversation, with some offering fresh approaches to gaining efficiencies. One CEO noted, “One of the ways to achieve operational excellence and cost cutting is by exploiting economies of scale. For example, when you buy terminals, if you go and buy tens of millions, you get a better price than if you buy a few thousand.”

#### *Defending against Threats*

An execution challenge the participants discussed extensively was the need to develop tactical responses to real—and perceived—threats from outside the industry. Telecommunications operators have struggled for years to keep from ceding control of their customers to applications players such as Google and YouTube. As one participant stated: “We need to keep our eyes open to the threat coming from outside. We take this threat very seriously indeed.”

This issue was taken up around the table: “We, as telecom operators, are pushed to become just a pipeline,” stated one CEO. “[Consumers are not questioning whether they] have an Orange or an SFR line; they are going straight to Google or Facebook.”

Many operators are responding fiercely to this threat, building services that position them far downstream in the value chain. Aiming to extend their capabilities into content and applications, operators plan to use their longstanding customer relationships to add value to their traditional propositions. Cross-network content

delivery, content aggregation and distribution, and social and community network services were all raised as examples of ways carriers can drive new offerings. While many participants supported these initiatives, one noted an execution challenge: “Traditional operators should explore media and content opportunities, but they should do this outside their traditional operating structures. Establish a subsidiary, launch a new company, but don’t enter these businesses from inside a telco.”

There were also challenges to this view, calling for operators to use their core assets—their pipes—to generate as much value as possible. “If you look into your P&Ls as telecom operators, where do you earn the most money? As a pipe,” said one CEO. “A telecom operator today earns high profits being a pipe. We ought to be happy that iTunes and Facebook are successful, because this generates traffic on our pipe. The question is only, how do we get the most out of it?”

#### *The Benefits of Sharing*

Infrastructure sharing was an important theme in the discussion of new imperatives, as participants addressed the need for new market entrants to gain access to the infrastructure that incumbents have already built. Although there are regulatory and policy angles to this issue, several participants picked up the thread of sharing, examining it from several different perspectives.

One industry participant noted, “Logic suggests that in a down market, carriers should be talking about open access for broadband networks, shared infrastructure, and so on. But the reality is that when capital dries up, incumbents probably do not want to share because they know their competitors cannot participate [if they

don’t]. But I think the regulators are going to intervene.”

Other operators supported infrastructure sharing as a strategic and tactical shift, and highlighted the need to share infrastructure as a means to spread risk and ensure greater traffic load on the network. “Network sharing—for passive and active components—is something that needs to happen,” said one CEO. Others supported this theme: “Where I create difference is in the intangibles. I have a brand, I have spectrum, I have a product and service range, marketing, content, and segmentation analysis. These are the assets that face the customer. Why are we so scared of infrastructure sharing?”

#### *An Increasingly Fragile Manufacturer Community*

Several CEOs shared their thoughts about the fragile state of telecommunications equipment vendors, and the impact of that fragility on the relationship between operators and their vendor partners. These concerns focused in part on the dependence that operators have built on vendors’ R&D capacities, and the need to think carefully about this partnership in the the downturn: “The innovation we need from our suppliers is going to become more selective and focused,” said one CEO.

Others shared these concerns, and questioned the impact of another round of severe budget and cost reductions by operators. Looking back to the telecom crash of 2000–2002 and drawing comparisons with the economic situation of today evoked strong emotions. “We are looking at cutting costs and optimizing our capital expenditures,” said one participant. “This will have an impact on our suppliers, and the partnerships which we enjoy with them.”



*Mr. Andrew Hanna (left), Group General Manager, Strategic Transformation, Batelco;  
Mr. Kai-Uwe Ricke (center), Supervisory Board Member, formerly Deutsche Telekom*



*Mr. Jassem Al Zaabi (right), Director, ICT Sector, Mubadala*



*Mr. Eddy Skaff, Senior Business Development Manager, ICT Sector, Mubadala*



*Mr. Ali Alahmed (center), Group Chief Strategy Officer, Etisalat*

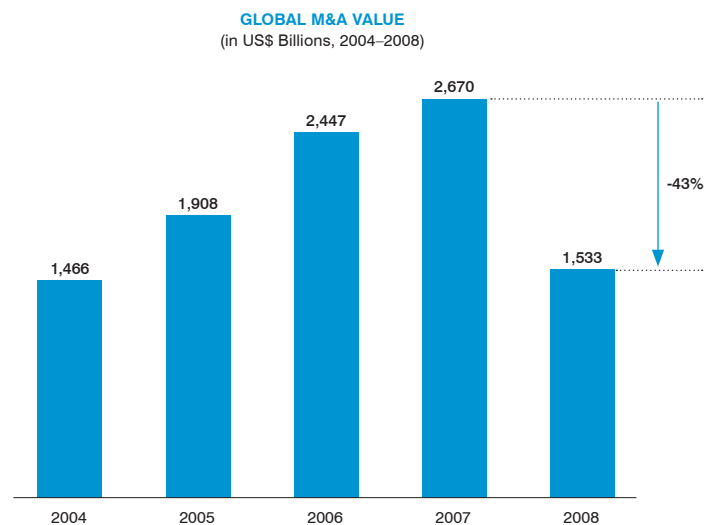
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## THE ROLE OF M&A

Thanks to strong cash positions, a number of telecom operators have made strategic acquisitions in recent months: In December 2008 and January 2009, Etisalat won its \$400 million bid to operate its mobile network in Iran for 15 years; STC won a mobile license including 3G in Bahrain; and Batelco announced the acquisition of a 49 percent stake in India's S Tel for \$225 million in

partnership with a private equity group. However, the discussion concerning the outlook for mergers and acquisitions, and the role of this key technique in driving change, was somewhat more subdued than the engaged dialogue on other topics. This reflects the diminished global prospects for M&A in the coming year (*see Exhibit 4*). Some CEOs still saw a role for M&A, but cautioned

*Exhibit 4*  
*M&A in General Saw a Substantial Slowdown in 2008*



Source: FactSet Mergerstat

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against embarking on major initiatives without financial or strategic preparation.

One CEO noted some key considerations for handling M&A: “I would look into non-core assets that could be sold to finance investments. If I had a fairly clean balance sheet, I would buy cheap assets or merge intelligently with competitors—which means driving out cross-country synergies and group synergies, as well as finding saving opportunities [in capital expenditures].” In fact, there are several sources of potential synergies to be found in mergers (*see Exhibit 5*).

Others warned of the high expectations of success that surround many

cross-border transactions, hinting that incumbent operators were often poorly equipped to deliver the change they promised: “When incumbents invest outside their home country, cross-border integration often involves simply institutionalizing the poor behavior and structures that [they] had in [their] incumbent environment, rather than running the investment like a low-cost challenger,” noted one participant. “So when you buy a mobile business in another country, it may be that the business has to be structured completely differently than your core business in your home country, and in fact you might learn more from running that business than the other way around.” Companies should look carefully at the best struc-

ture for their new operations, based on their international footprint and the strategic challenges facing them in all of their markets (*see Exhibit 6*).

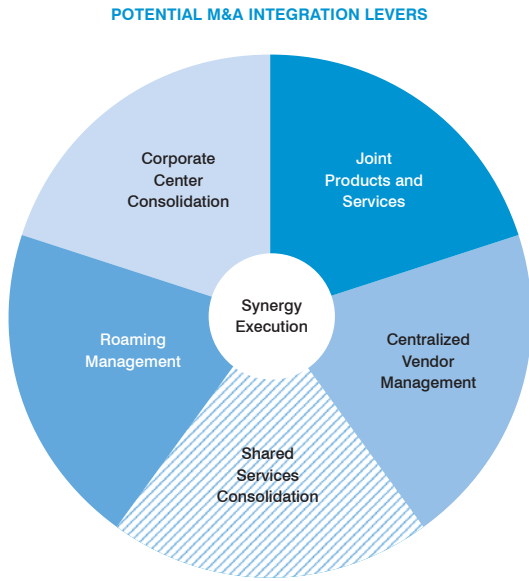
Some operators with substantial investment portfolios offered a different outlook. They highlighted the natural demographic synergies that exist within the region, as populations move freely across borders and as the flow of people through the region creates new patterns of demand to which operators must respond.

Finally, another participant with a broad investment portfolio neatly summed up the mood of the room on this issue: “Our investment position now? We just wait.”



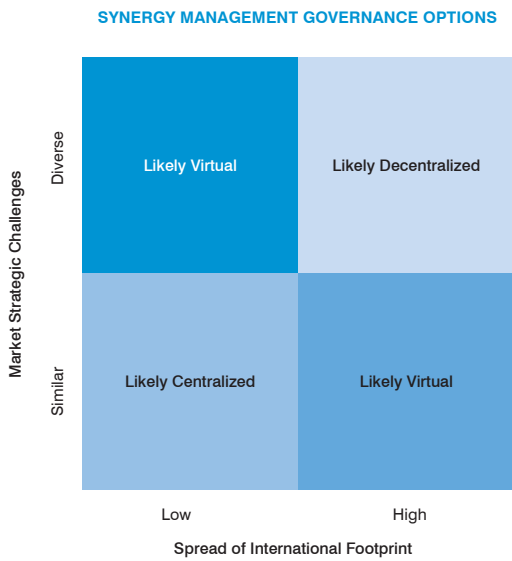
*Eng. Akil Beshir (center), Chairman, Telecom Egypt*

*Exhibit 5*  
*Opportunities for Synergies in Telecom Mergers*



Source: Booz & Company

*Exhibit 6*  
*Structural Options to Maximize Synergies*



Source: Booz & Company



*Mr. Vsevolod Rozanov, Chief Executive Officer, Sistema Shyam Teleservices Limited*



*Mr. Hatem Dowidar, Chief Executive Officer, Partner Markets, Vodafone*



*Mr. Jamal Ramadan, Executive Director, Head of Middle East, MTN*

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## THE YEAR AHEAD

As the industry's leaders wrapped up the summit and looked to the immediate future, the mood was cautiously optimistic. Certainly, the cost and availability of capital remain unpredictable, and debt continues to be a burden on operators' profits. But operators have the capacity to seek innovative solutions to reducing debt, including infrastructure sharing and even mergers.

Already, the trends that participants highlighted during the summit are coming to pass. In February 2009, Vodafone and Hutchison Telecommunications announced a merger of equals between their Australian operations, seeking to fill the gaps in each company's infrastructure. The companies intend

the merger to significantly expand network coverage, as well as deliver substantial operational synergies—including those derived from network sharing. It is likely that similar deals will take place globally, not least in the Middle East.

As the global economic crisis continues, the turmoil will create opportunities for operators that have the financial strength to maintain their long-term investments and the foresight to plot strategy for a post-crisis world. The prize is likely to be won by those operators that capitalize on their financial strength, balancing investments in innovation with opportunistic acquisitions, while all the time focusing ruthlessly on high-performance execution.

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