



# The Future of Telecom Operators in the SAMENA Region

As the telecommunications industry faces a mixed financial outlook and rapid change, telecom operators in South Asia, the Middle East, and North Africa are undergoing a transformative journey.

The boom years are over. Telecom operators in South Asia, the Middle East, and North Africa (SAMENA) now face a significant slowdown in revenue and profitability growth. In fact, in our recent study of C-level executives from the region's leading telecom companies, 80 percent say their success, and even survival, depends on making fundamental changes to their business and operating models.

Executives are responding to an industry that is changing at a rapid pace. On the consumer side, people now predominantly use smartphones to send and receive data, with voice calls being secondary. Will telecoms need to accept the new normal that they are mere connectivity providers, while over-the-top (OTT) companies such as Facebook, Apple, and Google hold sway over digital communication services? Or will telecoms be able to compete head on? At the same time, we have yet to see if operators can build competitive connectivity-related businesses and open up new growth areas.

On the enterprise side, opportunities are emerging as companies across sectors and governments require more than simple connectivity and hosting services. Will telecoms be able to compete with specialized IT providers, despite their lack of a number of required capabilities in this arena? Will the Ciscos and IBMs of the world continue to dominate the business-to-business (B2B) information and communications technology (ICT) domain?

## Telecom operators in South Asia, the Middle East, and North Africa (SAMENA) now face a significant slowdown in revenue and profitability growth.

What is clear in our analysis of the industry's future in the SAMENA region is that telecoms cannot afford to focus only on short-term steps in their transformation journey. A focus on the long term is essential, including the following:

- Redefining strategic direction and priorities that enhance the customer experience and revamp telecoms' commercial approach to manage new offerings in areas such as digital and ICT
- Significantly shifting the operating model that drives improved efficiency by simplifying the operation's core while establishing sound partnerships and pursuing select acquisitions to quickly achieve the additional capabilities that new offerings will require
- Embracing digital to realize benefits across the business, including new services, enhanced customer experience, greater process agility, and improved cost efficiency
- Upscaling the skills and competency levels of the employee base, and revisiting company culture and governance

What follows is a deeper exploration of the perspectives that regional telecom leaders shared with us, which—in combination with our own research—led us to the above conclusions. We also put the regional outlook into perspective by comparing it with the results of another A.T. Kearney study conducted with European telecom executives.

## A Mixed Market Outlook Harbors Three Big Challenges

Globally, mobile data consumption is expected to grow 30 percent, and fixed-line data is forecast to grow 8 percent annually between 2016 and 2020.<sup>1</sup> Yet, telecom operators face challenges to turn this increase in data consumption into additional revenue and profit and expect only minor growth of 1 percent during the same period (see figure 1).

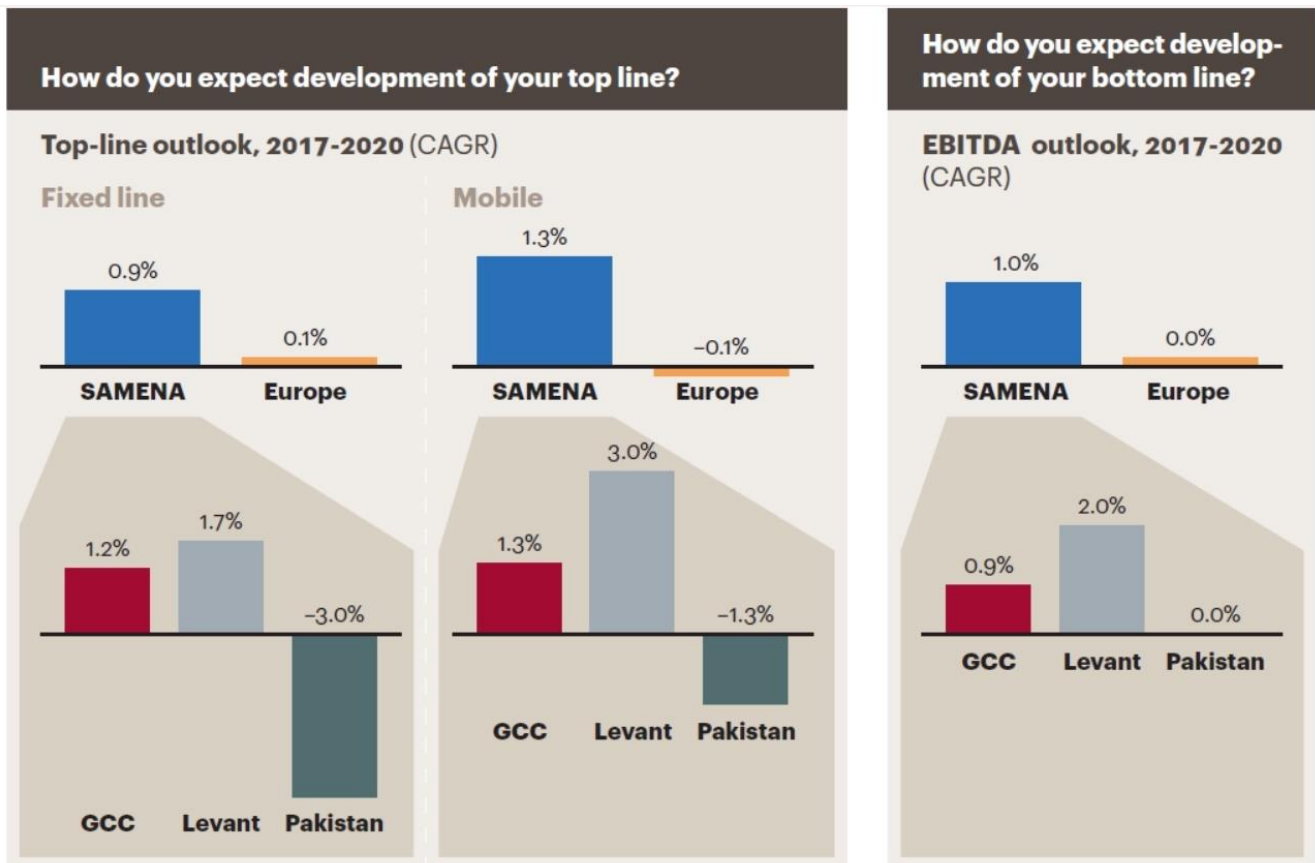
While only marginally positive, that outlook is quite optimistic compared with Europe. The SAMENA region is at a different stage of development, with less mature digital products and services, less regulation, and milder competitive dynamics. (It has fewer established operators per country and few mobile virtual network operators.)

But the region's telecom executives are cautious as they eye three of their market's biggest looming challenges:

**Maximizing current market share.** Most SAMENA countries have seen the entrance of their second or third telecom operator into their market during the past 10 years (for example, Zain in Saudi Arabia, Vodafone in Qatar, and VIVA in Kuwait and Bahrain). A focus on growing market

Figure  
Revenue and earnings are predicted to grow at modest rates

### Top- and bottom-line outlook, 2017–2020



Note: SAMENA is South Asia, Middle East, and North Africa.  
Source: A.T. Kearney analysis

<sup>1</sup> Cisco Global IP Traffic Forecast, 2016–2020

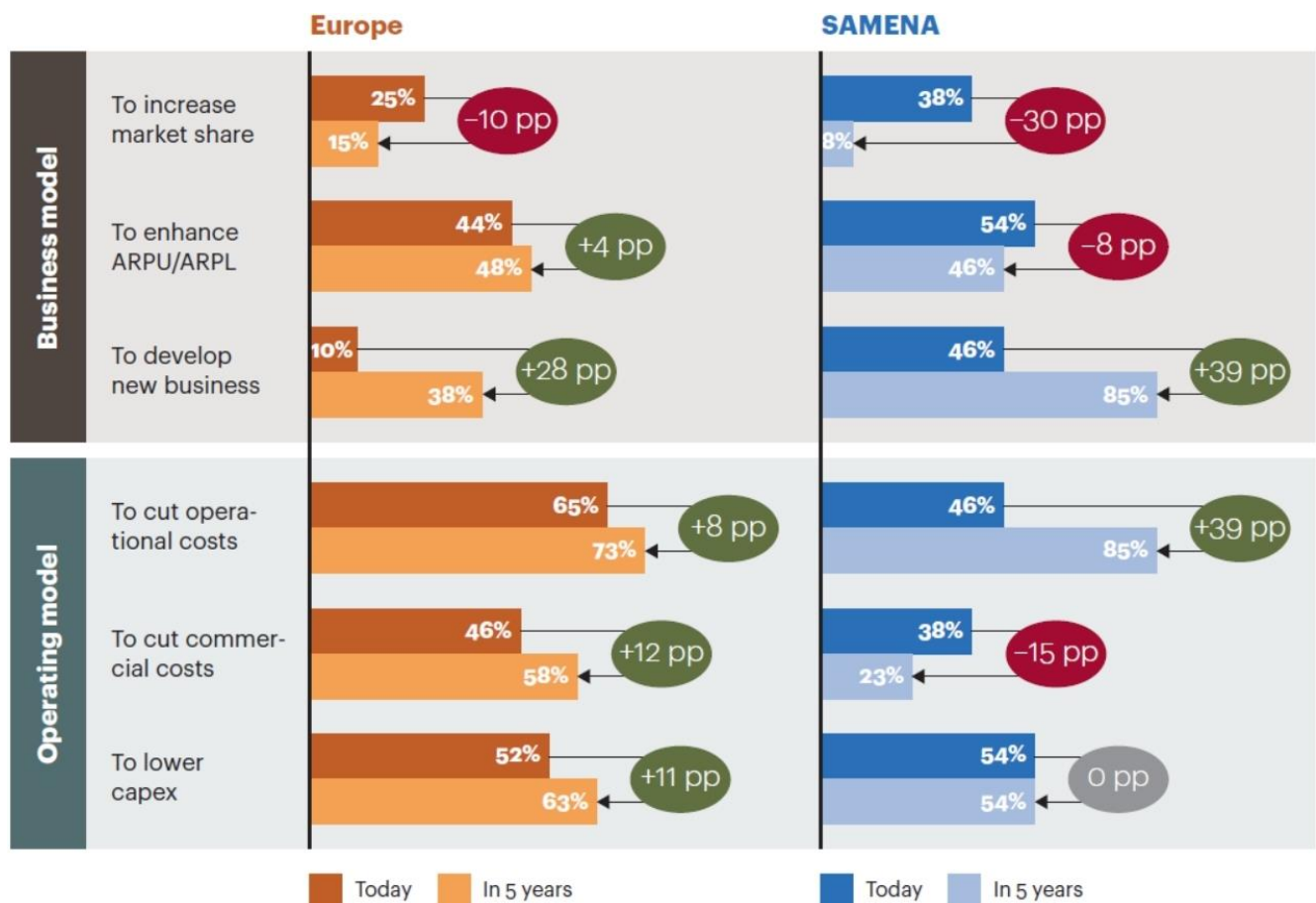
share was a natural objective for the new challengers as they sought to gain the minimum scale required while incumbents fought to preserve their share.

The focus on market share is shifting, with only 8 percent of our study’s respondents considering increases in market share to be a key way to capture growth (see figure 2). Operators have learned that trying to boost market share by slashing prices or offering special deals can be expensive in terms of customer lifetime value and may result in overall erosion of market value. Instead, mastering customer retention and better managing the existing customer base will become essential.

Figure 2

**More operators will seek to develop new businesses rather than chase market share**

Levers for change (% respondents)



Notes: SAMENA is South Asia, Middle East, and North Africa; pp is percentage points; ARPU is average revenue per unit; ARPL is average revenue per line. Operational costs include network, IT, and support and overhead. Commercial costs include marketing, sales, customer services, and commissions.

Source: A.T. Kearney analysis

**Careful development of new businesses.** Trying to diversify and develop new businesses is not new to operators in the region, but it will take center stage by 2020, as our study finds. Developing new business is seen by 85 percent of executives as crucial to their success. Interestingly, in Europe, only 40 percent of executives share this belief. The reason for the difference in outlook is, in our view, that European operators have already diversified their portfolios with new business models as much as is sensible, but with mixed success. Moreover, the industry is still uncertain about whether current efforts—such as the entry of Orange and O2 Germany into banking in

late 2016—will result in commercial success. SAMENA region operators can learn from the experiences of their European counterparts (among others) and pick their battles accordingly.

**Continued cost cutting.** During the next five years, SAMENA region executives plan to further cut operational costs significantly, including network, IT, support, and overhead expenses. They also plan to continue making capex optimization a priority. Among their targeted cost-cutting initiatives are automation, outsourcing, and process simplification. Interestingly, and much unlike Europe, SAMENA region operators have not been scrutinizing commercial cost and will pay even less attention to it going forward. In fact, we believe it is important for them to invest heavily in bringing their commercial operations into the digital age with upgrades to the customer experience such as enhancements to support online sales and enabling self-service via apps.

## Mastering customer retention and better managing the existing customer base will become essential.

### Retooling the Telecom Business Model

Study participants say they are considering a wide range of changes to the consumer and enterprise segments of their business model.

**Prepaid expected to remain dominant with hybrid models to grow significantly.** Most executives expect their company's prepaid model to continue as it is but anticipate launching a hybrid model that incorporates credit cards and upfront billing (see figure 3 on page 5). Some companies believe consumers' growing demand for data will change how they pay for telecom services, with pre- and postpaid concepts starting to blur over the next five years.

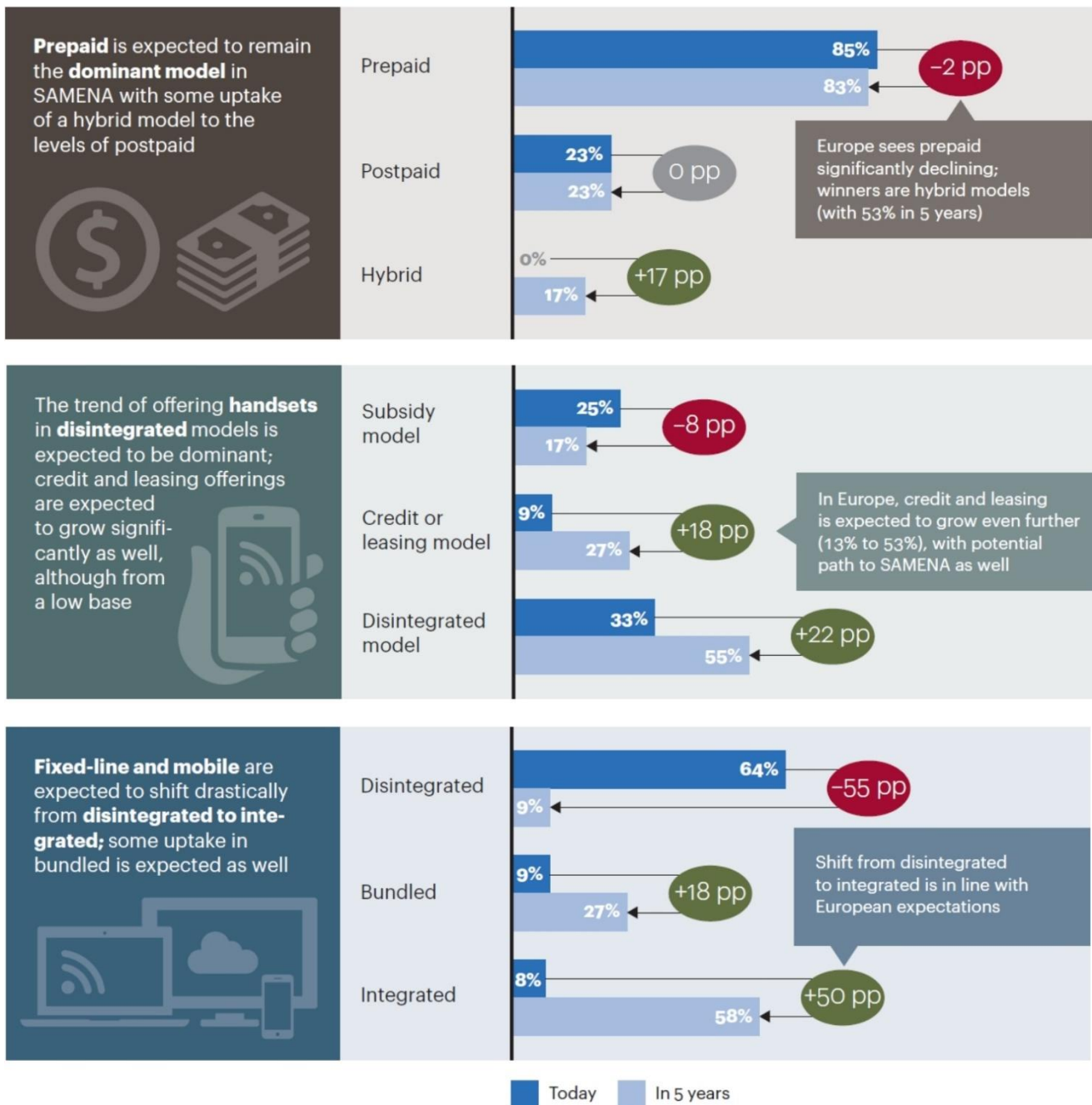
**Core product offerings to change.** While executives expect the demand for stand-alone handsets to remain dominant, they foresee handset credit and leasing offerings growing significantly in the SAMENA region. Done well, this play has the potential to expand their handset business and strengthen customer relationships, especially with higher-value segments. This finding is reinforced by another recent A.T. Kearney study, *The GCC Telecom Consumer of the Future*, where 41 percent of consumers prefer obtaining both their SIM card and handset from the telecom operator, compared with 28 percent who prefer obtaining it from a third party.

**Dual play to lead the way.** The most significant change that SAMENA region executives expect is in how the core product will shift gradually from a stand-alone fixed and mobile offering to an integrated (or dual-play) offering. This change depends on different operators' fixed-line assets and the evolution of the regulatory landscape (see sidebar: *The Need for Revamped Regulations* on page 7). We already see movement in this area, with Saudi Arabia's Communications and Information Technology Commission announcement of a regulatory framework for unified licensing.

**More revenues to come from new sources.** Data is now the biggest business for telecom operators. About half of GCC consumers use phones for Internet access and apps, as A.T. Kearney's

Figure 3  
**Integrated and fixed mobile offerings are increasingly taking hold**

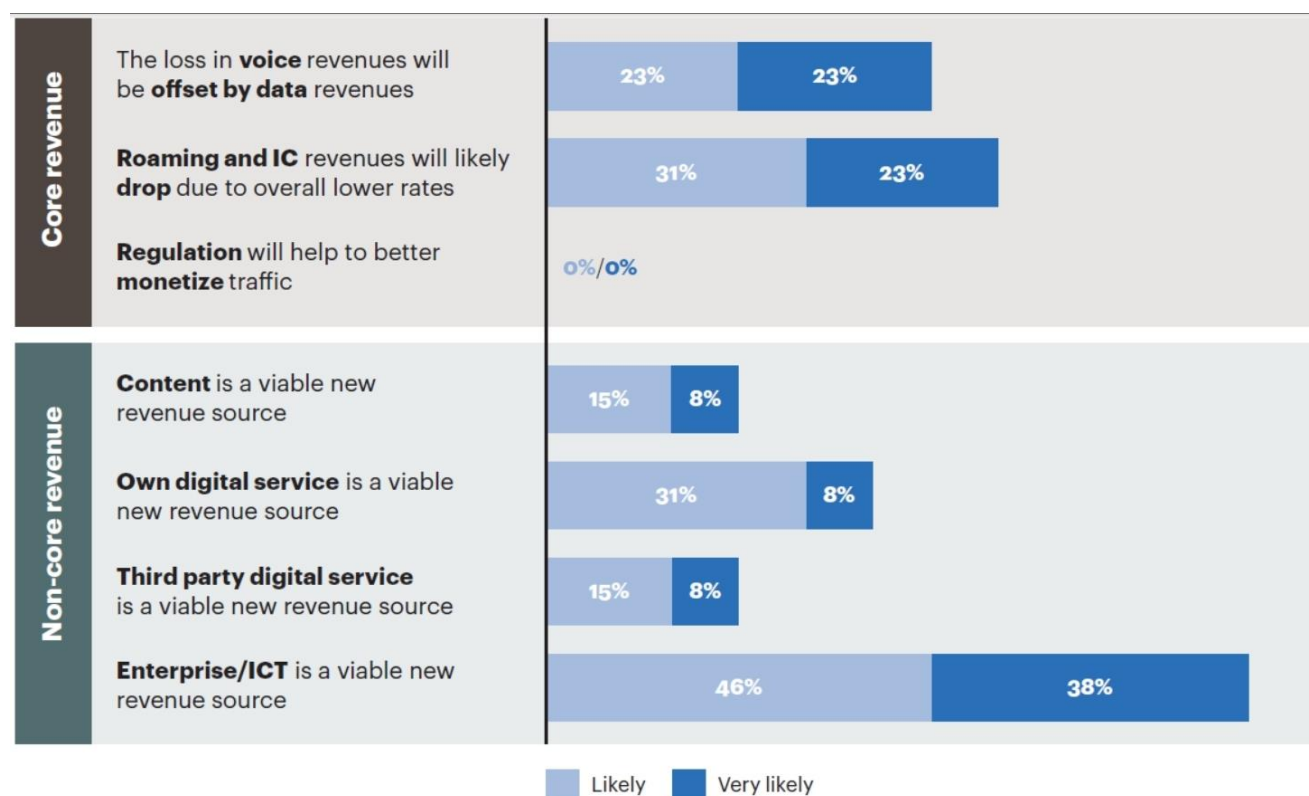
**Core product offering changes (% respondents)**



study of GCC telecom consumers found. Yet, in the SAMENA region, just as in Europe, only half of executives believe data revenues can fully compensate for a decline in voice revenues (see figure 4 on page 6). Added to this challenging outlook, revenues from roaming and interconnection are expected to decline or, at best, remain stable. Many regional executives expect revenues to shift from consumer to enterprise and increasingly come from new sources outside their traditional connectivity business.

Figure 4  
Data revenues are only a limited substitute for voice revenues

Revenue trends (% respondents)



Source: A.T. Kearney analysis

In terms of new consumer revenue sources, less than one-quarter of executives believe content or digital services will become meaningful revenue sources.<sup>2</sup> Smart home, media, and banking and payments platforms are the top three potential new revenue streams noted by executives.

In the banking and payment space, for example, Etisalat's mobile wallet in the United Arab Emirates, Ooredoo Mobile Money in Qatar, and Ufone's Upaisa in Pakistan are interesting and increasingly successful concepts to watch. Whether they will make a meaningful contribution to overall revenue or are able to reduce churn of the traditional customer base (as M-Pesa achieved in Kenya) remains to be seen.

While only a few believe that opportunities await in the consumer segment, there is a silver lining for business: four out of five regional CXOs believe telecom-related IT services will drive their revenue growth. The largest potential of ICT revenue is expected in mobility, cloud, and data center services, such as telecom-related IT fields.<sup>3</sup> We already see regional operators positioning themselves in the ICT space—often with strong core IT partners to bridge the skill gap (especially in delivery) and leverage their government relations. STC Solutions positioning itself with Saudi Arabia's Vision 2030 and ICT efforts from Etisalat Digital, Ooredoo, and Omantel are prime examples.

<sup>2</sup> Digital offerings are consumer-targeted and are made by telecom operators or third parties in typical digital verticals such as smart home, media (music and movies), e-learning and e-government, banking, and payments.

<sup>3</sup> ICT offerings are enterprise-targeted and are made by telecom operators or third parties along the ICT value chain (core IT and telecom-related IT). They include mobility services for enterprise, cloud services, data center services, managed networks, and security services.

### The Need for Revamped Regulations

With the new market dynamics, telecom executives believe industry regulations require a significant overhaul to support the sector’s growth (see figure). More than two-thirds expect regulators to drive affordability of services, with the majority foreseeing profound changes in roaming regulations for voice and data, as seen in other parts of the world. However, after years marked by increasing market liberalization across the SAMENA region, including thro-

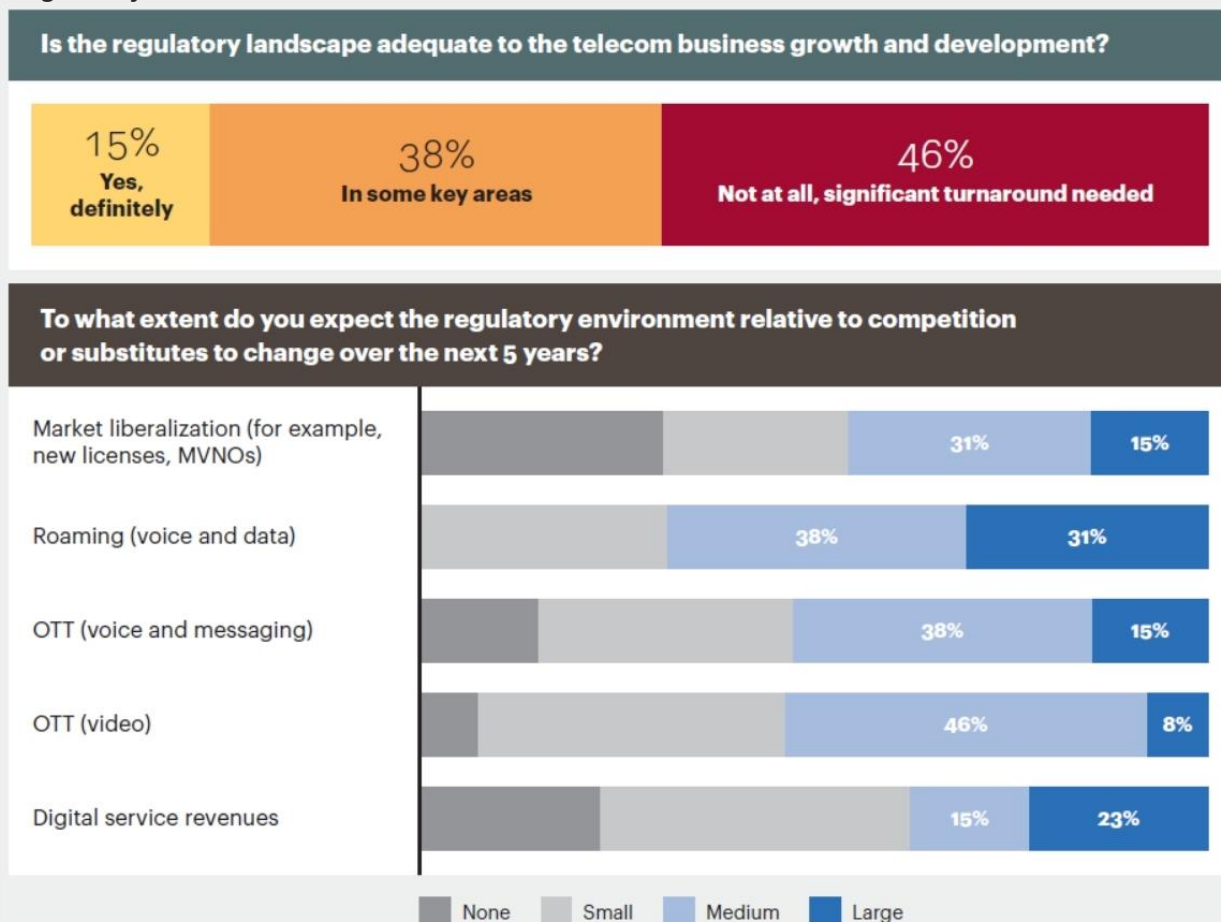
ugh mobile virtual network operators and new licenses, executives are now polarized, with 50 percent anticipating the end of the liberalization era.

In the new domains such as OTT and digital services, the way forward is less clear, either because regulators are still assessing the best courses of action or because telecom operators face challenges in conveying the extent of change required. Executives agree it is

important to manage regulations at the operator and industry levels. Telecoms can help jump-start progress toward a more supportive regulatory landscape through a more proactive action to influence regulators’ agendas for areas including OTTs and VoIP calls (leveling the playing field between telecoms and OTT companies), spectrum, data roaming, interconnection, and data privacy, as well as taxation and industry fees.

Figure  
**Most CxOs feel that the regulatory environment is not adequate and expect changes in roaming and OTT**

#### Regulatory outlook



Notes: Numbers may not resolve due to rounding. MVNO is mobile virtual network operator. OTT is over the top.

Source: A.T. Kearney analysis



## A Customer-Focused Operating Model

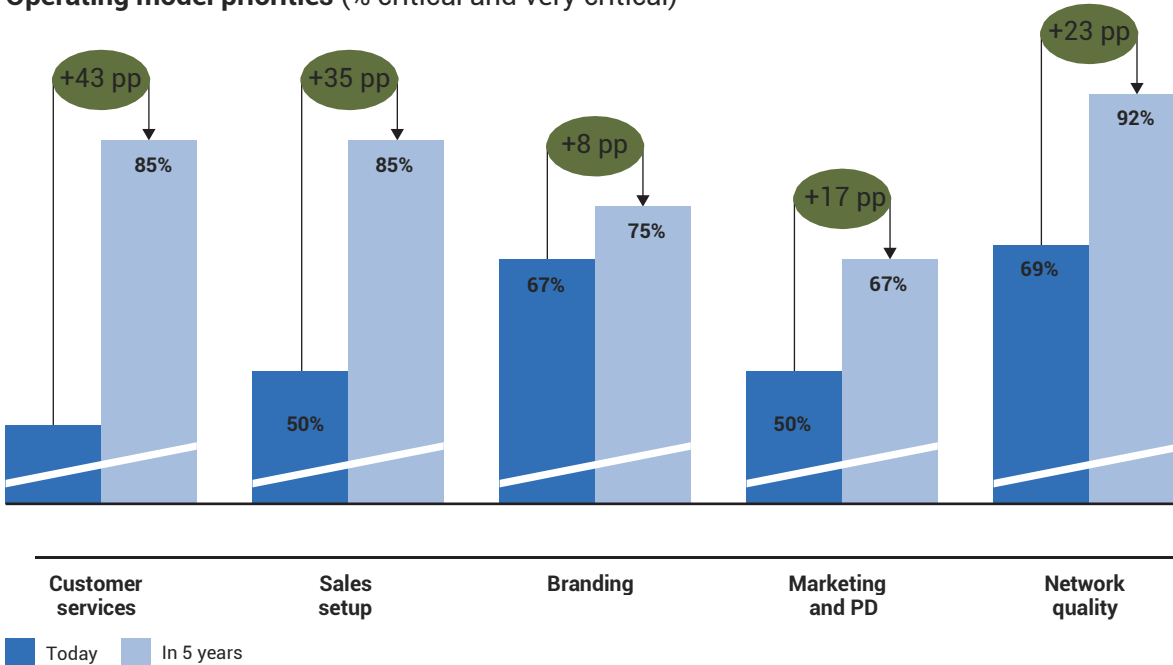
Changes to the operating model will go hand in hand with changes to the business model. We see changes across all areas:

**Connectivity core.** A focus on superior customer experience is driving operators to address every element of their operating model (see figure 5):

Figure 5

**As network quality remains top of mind, customer service and sales have become focus areas**

Operating model priorities (% critical and very critical)



Notes: pp is percentage points; PD is product development.  
Source: A.T. Kearney analysis

**Superior customer service** is the phrase of the moment. A differentiated and superior customer experience is a top priority across operators, and most executives expect it to change significantly from today, namely toward more digital channels such as smartphone apps, chat, online self-help, and email. Providing a seamless customer experience across interfaces has become essential. Executives in the region do not have a clear view, however, on whether “no service” (that is, removing the root causes to call in the first place) is the best service, unlike 70 percent of executives in Western Europe who believe this radical shift is likely to take place. In our view, such an OTT-like setup is cost-effective and may be the future model for SAMENA region telecoms as well.

In terms of **sales infrastructure**, almost all executives believe the number of physical stores will shrink by 30 percent, while operators will have the remaining branded stores play a stronger role as service points. One key factor is the expectation that 30 to 40 percent of sales will be made online. Executives also say the service and sales setup will be essential for defining brand elements, which are vital for attracting customers.

To facilitate digitalization and superior customer experience, companies see a **radical simplification of their product portfolio**, such as the pruning of legacy products and services to a smaller and more standardized number of offerings. Simplification will be complemented with a focus on data analytics to better understand customers' needs and steer marketing toward new digital-services development. "Make it simple, make it digital" seems to be the slogan for several telecom operators.

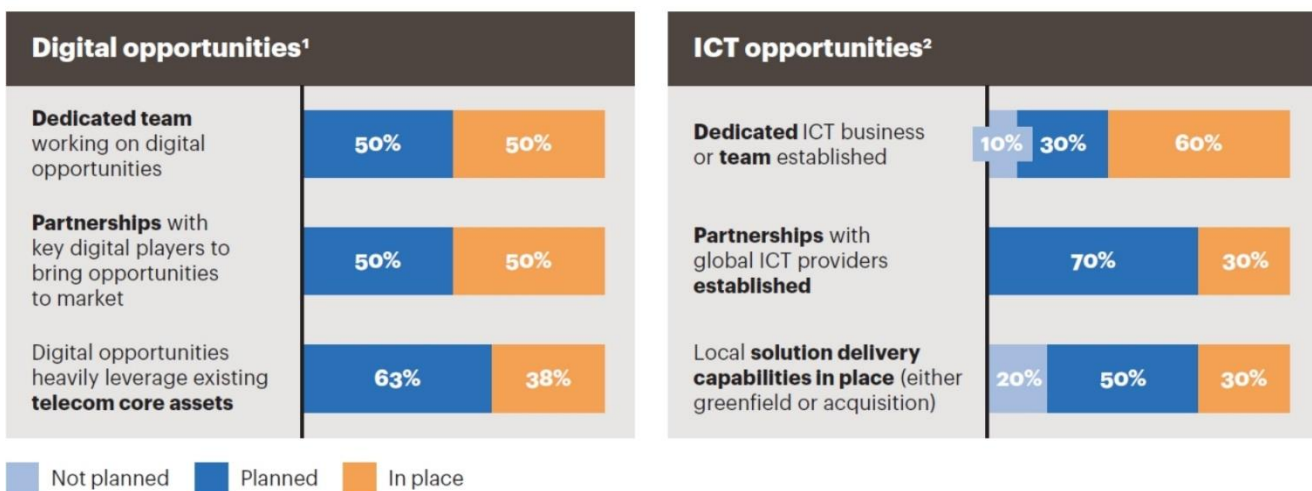
While SAMENA region executives see operational cost cutting as a top priority, they also believe **network quality will become even more important**, which might explain why operators are risk averse when addressing the backbone of their business. On one hand, they are keen to achieve best-in-class quality and want to protect it at all costs. (Network quality is the number one reason GCC consumers select a telecom provider.) On the other hand, executives expect significant changes from how networks are set up and run. An increase in managed-services outsourcing and network sharing is seen as key.

**New growth sources from digital services and ICT.** More than 80 percent of executives believe ICT-related revenue will increase, and 25 percent anticipate digital-services revenue will increase, both of which will contribute to sector growth. Consequently, these operators are adapting their operating models to tackle the requirements of the new businesses (figure 6).

Those SAMENA region telecoms that believe in the potential of **new digital services** already have a dedicated digital team in place or are planning to pursue digital opportunities. Most, but not all, are organizing those teams as independent entities apart from the core. To make their teams successful, executives point out that partnerships are essential, especially to gain access to the different skills required and to ensure fast time-to-market while maintaining a lean organization. All executives believe in leveraging telecom core assets, from network infrastructure and connectivity to the customer base, but only 40 percent do so already. We believe this is mainly

Figure 6  
Digital and ICT opportunities are being captured

Operating models



<sup>1</sup> Answered if digital revenues are expected to increase significantly

<sup>2</sup> Answered if ICT revenues are expected to increase significantly

Note: Numbers may not resolve due to rounding.

Source: A.T. Kearney analysis

because companies have yet to establish the right organizational framework and governance before moving forward.

Likewise, establishing local capabilities for **ICT solutions** is still a work in progress. Only 30 per- cent acknowledge they have them in place, while most are in the planning phase. Given that acquisitions are a faster way to achieve capabilities, we foresee M&A activities in the ICT space increasing in the coming months. Similar to digital, partnerships are a key success factor for ICT. However, only 30 percent of telecoms say they have established partnerships. It may be the case that companies have just completed their strategies, or that it is difficult to find partners with local market understanding, as one executive commented.

**Given that acquisitions are a faster way to achieve capabilities, we foresee M&A activities in the ICT space increasing.**

## The Implications for SAMENA Region Telecoms

In the context of rapid industry change and the ongoing transformation of telecom operators, those in the SAMENA region are challenged with overhauling their core business, leaving no stone unturned. We see four priorities:

### 1. Embrace a customer-centric strategy

**Get the strategy right.** Redefining strategic direction and priorities will be key. That can be accomplished in part by telecoms considering to what extent they want to focus on traditional connectivity or expand into new digital and ICT services. Operators also need to examine the balance between the consumer and enterprise segments (regarding areas such as m-payments, m-health, e-education, and cloud) and therefore define a position in the evolving ICT value chain. What follows then is to identify gaps in competencies, implement new strategies to close them, and execute based on an all-encompassing roadmap.

**Wow the customer.** Consumers have come to expect superior customer service from companies in other industries that please them with personalized, real-time, engaging, seamless, and consistent experiences. Meeting customers' expectations is no longer enough. New customer journeys now must include "positive surprises" at all touch points, delivering a superior and seamless experience across traditional channels, such as retail stores and through call centers, and nontraditional channels. Digital is, without a doubt, a main enabler in the enhancement of that experience.

**Revamp the commercial approach.** Marketing capabilities also have to keep pace by bringing a broader yet simpler portfolio of propositions to customers. Successful marketing departments focus both on effectively introducing new services to broaden the revenue mix and bundling to protect the base. As companies transform their service offerings, they also will transform today's sales and distribution channels to serve customers effectively across both existing and new digital channels.

## 2. Significantly shift the operating model

**Drive efficiency.** Do so particularly in network, IT, and support functions. Continually reduce the costs of operating, as European operators have done for a decade. It is not enough to implement a few quick wins. Structural initiatives that fundamentally change the way a telecom operates, cost-performance targets embedded into management key performance indicators, and a cost- performance culture are a few of the requirements to become leaner and, as important, to sustain improved productivity.

**Simplify and simplify again.** By reducing the complexity of the product portfolio, business processes, and networks and IT systems, operators can impact profitability, speed of execution (such as time to market), and customer experience. While reducing complexity might be a difficult task, the key challenge to sustained performance is to keep operations simple—technology is massively updated every five years, and new business models are introduced alongside the traditional core. A strong governance jointly with a clear focus on long-term solutions is part of the answer.

Meeting customers' expectations is no longer enough. New customer journeys now must include "positive surprises" at all touch points.

**Partner for expertise.** In the consumer space, work with partners to fill capability gaps (such as in m-payment services) fast. In the business space, partner to fill core IT services skills. Understand that the evolution from "vendorships" to partnerships will not come naturally for many telecom operators that hope to forge solid partnerships with regional and global IT firms to bridge this expertise gap.

**Acquire local companies to rapidly scale up.** Some will want to pursue select acquisitions of local or regional players to quickly strengthen delivery power and scale up capabilities. We may see acquisitions in the B2B and ICT areas in the coming months.

## 3. Embrace digital

The companies most prepared to address digitalization have combined their digital and corporate strategies into one business strategy. Telecom operators need to embrace digital opportunities across their business to realize their full potential. Digital impact is spread across a variety of dimensions:

**Create new services.** First, digital becomes the source for new services beyond traditional connectivity, including m-payments, m-health, and e-education.

**Enhance customer experience.** Second, digital is one of the most powerful enablers to enhance customer experience, allowing more personalized and real-time customer interaction.

**Improve agility.** Third, accelerating the digitalization of internal processes will improve internal agility, allowing greater flexibility and a faster time to market.

**Protect margins.** Finally, digitalizing operations will also bring cost efficiencies, allowing operators to protect their margins. Frontrunners are exploring and executing on the opportunities that digital represents, both on the business and operating model dimensions.

#### 4. Improve skills and revisit culture and governance

**Build a strong culture.** All these upcoming changes will require operators to expand the skills and competencies of their employee base, both by bringing on board professionals with strong know-how in these new areas as well as by implementing training programs to upscale the skills of the existing employees. These changes will only be possible if a strong culture is in place— change usually faces resistance, and operators cannot afford to be slowed down in this transformation journey.

**Revamp processes and governance.** Internal processes and governance will also need to be revisited to enable a more diverse business that at the same time requires simplicity and agility. Finding the right balance between the necessary control and the required agility is essential.

In sum, focusing on these priorities protects the value of the core business of telecom operators in the SAMENA region while preparing them to capture added value from the evolving value chain.

---

#### Authors



**Marc Biosca**, partner, Middle East  
marc.biosca@atkearney.com



**Isabel Neiva**, principal, Middle East  
isabel.neiva@atkearney.com



**Sebastian Sager**, consultant, Middle East  
sebastian.sager@atkearney.com

This report was prepared with executive insights provided by telecom operator members of SAMENA Telecommunications Council.

The authors wish to thank Laurent Viviez, Adel Belcaid, and Rob Van Dale for their valuable contributions to this paper.

---

## About A.T. Kearney

A.T. Kearney is a leading global management consulting firm with offices in more than 40 countries. Since 1926, we have been trusted advisors to the world's foremost organizations. A.T. Kearney is a partner-owned firm, committed to helping clients achieve immediate impact and growing advantage on their most mission-critical issues. For more information, visit [www.atkearney.com](http://www.atkearney.com).

---

## About SAMENA Council

The SAMENA Telecommunications Council is the South Asia–Middle East–North Africa (SAMENA) region's premier industry association of telecom operators. The SAMENA Council communicates operators' issues and needs to regulators, policymakers, and international institutions and serves as a sector development partner to the private and public sectors. The Council enables all industry stakeholders to come together to create a sustainable business environment for the industry and accelerate digital development in regional economies.

For more information, permission to reprint or translate this work, and all other correspondence, please email: [insight@atkearney.com](mailto:insight@atkearney.com).

© 2017, A.T. Kearney, Inc. All rights reserved.

---