

Leading telecoms operators outperform broader economy 2011

LONDON, UK: The 40 leading telecoms operating groups out-performed the global economy by 5.0 ppt (percentage points), according to the latest research from Informa Telecoms & Media. Based on data taken from the recently published World Telecoms Financial Benchmarks (WTFB) service, the largest operators, as measured by consolidated total revenues, increased revenues for the second quarter of 2011 by 6.8% year-on-year to reach US\$327.6 billion*.



This compares to 1.8% growth in the broader economy, indicating global resilience to the amount consumers and enterprises spend on telecoms services as well as the effectiveness of operators' financial and operational discipline.

"This broadly impressive performance has taken place against the back-drop not just of weak growth in the global economy, but bruising competition from new entrants and MVNO players in conjunction with regulatory-led reductions in the amounts operators can charge each other for terminating traffic on their networks (MTRs), each of which has put considerable pressure on revenues, especially those generated by voice services," says, Milena Konecna, CFA, financial data analyst at Informa Telecoms & Media.

Operators succeed in the face of headwinds

"Given the headwinds created by the global economy, plus often intense competition from non-telecoms players on core services, the operators have, looked at as a whole, successfully implemented strategies that have enabled them to significantly out-perform the global economy," says Konecna. "However in doing so, the operators' EBITDA margin, a key measure of profitability, suffered this year, falling from 36.6% in 2Q10 to 35.7% in 2Q11," she says. "Despite increasing revenues, operator margins are being squeezed due to a combination of higher OPEX, initiatives such as subsidising smartphones, falling MTRs and greater adoption of bundled products."

Operators are trying to offset these adverse economic and competitive forces through a number of measures. Many of the 40 operators, such as China Mobile, India's Bharti Airtel and South Africa's MTN, are present in emerging markets, which are fuelling growth through the addition of new subscribers, or, like Spain's Telefonica and the UK's Vodafone, they have bought into developing markets to take advantage of growth opportunities.

Operators across the board are no longer preoccupied with growth but are focussed on retaining and acquiring valuable customers, and are encouraging them to increase the amount of money they spend on telecoms services and also the range and type of services operators sell directly to them. Operators are also benefiting from a societal shift underway that is seeing more and more people in developed and developing markets alike accessing the Internet while on the go, combined with the increasing availability of low-cost smartphones. In addition, the growing range of M2M technologies provides operators with a clear opportunity to sell specific solutions to enterprises, which some, such as Norway's Telenor are already capitalising on.

Operators are also aggressively pursuing network sharing deals, such as O2 and T-Mobile in the Czech Republic, to reduce the costs of rolling out and maintaining networks. Meanwhile, Deutsche Telekom and France Telecom have actually combined their procurement activities for customer equipment, network equipment and service platforms in a 50/50 joint venture to reduce costs.

Selling off non-core assets

To respond to the effects of increasing competition and decreasing margins, some operators are selling non-core assets as

well as aggressively cutting costs. Vodafone, for instance, has sold out of Poland and France this year, following its exit from China last year, while Telefonica is publicly mulling divesting underperforming assets.

How successfully have operators tackled market trends and implemented new strategies in the last 12 months can be seen in WTFB Scorecard that benchmarks 36 mobile and mobile/ fixed operators based on a series of key financial and operational metrics that gives insight into how they performed relative to each other over the past twelve months.

"Looking forward, operators face even more pressure on revenues and profitability, as they need to make considerable investments to upgrade and build out fixed and mobile networks, including large-scale LTE and fibre deployments to cope with the increasing demand for services," says Konecna. "Operators must also counter the perpetual threat from companies in adjacent sectors trying to sell telecoms services to consumers." Connected devices, M2M and enterprise verticals are three areas that operators are looking to grow revenues from, but it is still too early to understand precisely how profitable these businesses will become and whether telcos can occupy a lucrative place in emerging value chains.



About World Telecoms Financial Benchmark

[World Telecoms Financial Benchmark](#) (WTFB) is a new service that tracks detailed financial and operational Key Performance Indicators for 40 of the largest global operators, of which four are fixed, four are mobile and 32 are mobile & fixed. The scorecard is one of the three core components of WTFB. It ranks only mobile and mobile & fixed operators, which means there are 36 operators in the scorecard. WTFB is available to subscribers through WCIS and Informa research website.

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