

# Operators are exploring a diverse set of areas for new revenue growth

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A common complaint about telecoms operators is that they are failing to innovate.<sup>1</sup> Operators are often compared, in unflattering terms, with global tech firms such as Amazon or Google. As our [new research](#) on operator growth strategies shows, this binary opposition is overly simplistic. Operators may not be investing in ‘moon shots’ but neither are they simply accepting a fate of falling revenue and squeezed margins. Instead, they are investing in a diverse set of new areas to try to capture revenue growth.

This article looks at the growth strategies of a range of interesting operators (including China Mobile, Comcast and ten others<sup>2</sup>), based on our report *Telecoms operator growth strategies: case studies and analysis (volume II)*. (Volume I of this report looked at global operators such as AT&T, Deutsche Telekom and Vodafone. Volume II examines the strategies of single country and regional operators.)

## KDDI, TELUS and Reliance Jio are all investing heavily in new areas

A number of the operators in this report (the ‘Digital service pioneers’ in Figure 1) are carrying out bold experiments to generate more revenue. Reliance Jio is trying to gain and retain subscribers, not just by offering low prices, but also by providing an ecosystem of apps offering messaging, music, video and money services.

Less commonly cited, but no less interesting, are the Japanese operator KDDI and Canada’s TELUS, both of which are moving well beyond the traditional connectivity model. KDDI’s ‘Life Design’ strategy extends to many vertical markets (energy, finance, health, education and commerce/retail) and is generating significant revenue for the operator (USD4.7 billion, or over 10% of the total revenue in 2017). TELUS’s investment in IT consulting and business process outsourcing is also unusual for an operator. These activities now employ more people than TELUS’s core telecoms operations.

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<sup>1</sup> For example, in April 2018 Ofcom Chief Executive said “History is strewn with once-successful companies that failed to anticipate and act on shifts in customer demands and to innovate. Think Kodak, Polaroid, Palm and Blockbuster. The UK cannot afford for BT to be added to that list.”

<sup>2</sup> The operators in this report are: Axiata, China Mobile, Comcast, Elisa, KDDI, KPN, MTN, Reliance Jio, Swisscom, Telia, TELUS and VEON.

**Figure 1: Categorisation of operators into three main groups**

	Digital service pioneers	Enterprise Innovators	Consumer opportunists
Description	<ul style="list-style-type: none"> <li>Strong focus on service innovation and new segments for growth</li> <li>Can be consumer- or enterprise-driven</li> <li>Often (but not always) supported by acquisition strategy</li> </ul>	<ul style="list-style-type: none"> <li>Growth prospects focused on extending and complementing core connectivity business</li> <li>Stronger emphasis on enterprise opportunities</li> <li>Generally domestic focus</li> </ul>	<ul style="list-style-type: none"> <li>Growth prospects focused on extending core business</li> <li>Stronger emphasis on consumer opportunities</li> <li>Replication of model in multiple countries</li> </ul>
Comments	<ul style="list-style-type: none"> <li>Ambitious operators in relatively advanced markets such as Japan and Canada, or markets that are rapidly transforming</li> <li>Mainly in Asia (TELUS is a notable exception)</li> </ul>	<ul style="list-style-type: none"> <li>Reaching the limits of (albeit strong) core operator propositions</li> <li>Relatively ambitious in their investments in adjacent markets</li> <li>Mainly European</li> </ul>	<ul style="list-style-type: none"> <li>Generally still have growth opportunities for core connectivity</li> <li>Focused extension into complementary services (for example, MTN and mobile money; Comcast and smart home)</li> </ul>
Examples	Axiata, KDDI, Reliance Jio and TELUS	China Mobile, Elisa, KPN, Swisscom and Telia	Comcast, MTN and VEON

Source: Analysys Mason, 2018

## A standard model for growing the enterprise division is emerging

Other operators are less radical in their approach, and elect to explore more incremental additions to either their enterprise or consumer businesses. In high-income countries, a standard model for building the enterprise business is emerging: acquisitions of cloud service providers give operators people and processes that existing teams lack. Elisa, KPN, Swisscom and Telia, all of which are profiled in our report, have followed this model, as have Orange, Telstra and others.

Judged by revenue, the approach appears to be working: in 2Q 2018, [KPN reversed its long-term enterprise revenue decline](#) thanks to increased income from IT and professional services. Telia Finland increased its business solution revenue by 11% in 2017 on the back of multiple acquisitions.

The challenge for these enterprise divisions will be to turn these short-term increases in revenue to sustainable longer-term growth that justifies large acquisitions. Integrating sales teams and products will be one challenge, but persuading customers to buy multiple services is another, especially as [satisfaction with the basic connectivity product is often low](#).

## Entertainment is the key area for consumer investment, but is not the only focus

In the consumer market, there is less consensus about an approach, largely due to the differences in local opportunities. Many operators, including some in saturated high-income markets, remain optimistic about connectivity revenue growth from mobile data (for example, Elisa and MTN), fibre (for example, Reliance Jio) and the combination of fixed and mobile services (for example, Axiata and VEON).

Entertainment, and especially video, is the most common complementary product, and almost all operators are making at least small investments in TV. Others, including Comcast and Telia, are making major multi-billion-dollar investments in content.

Comcast's thinking about video is interesting. TV advertising, pay TV and video production combined make up over half of Comcast's revenue, leaving it exposed to disruption from Netflix and other streaming services. This partly explains Comcast's investment in the smart home. Comcast is the most successful operator in the smart home market, with over 1 million subscribers, and it views smart home technology, integrated with the set-top box and remote control, as an important differentiator beyond broadband and TV.

The other key consumer service is finance, which is being explored by some operators (Axiata, KDDI and MTN).

## The diversity of approaches is striking

Operators are not building self-driving cars or pioneering new augmented reality platforms, but to characterise all operators as unwilling to experiment and to invest in these experiments would be a mistake. Both the number of operators attempting new things and the diversity of these efforts are striking. Almost all efforts owe something to the core connectivity business, but operators of different sizes are moving beyond this starting point, from KDDI trying to sell mortgages, TELUS selling international BPO projects and Elisa expanding its digital signage business into Asia. Any operator thinking about how to grow its business has plenty of examples to consider.