

# Operators in middle-income countries should develop ICT services to prepare for enterprise market saturation

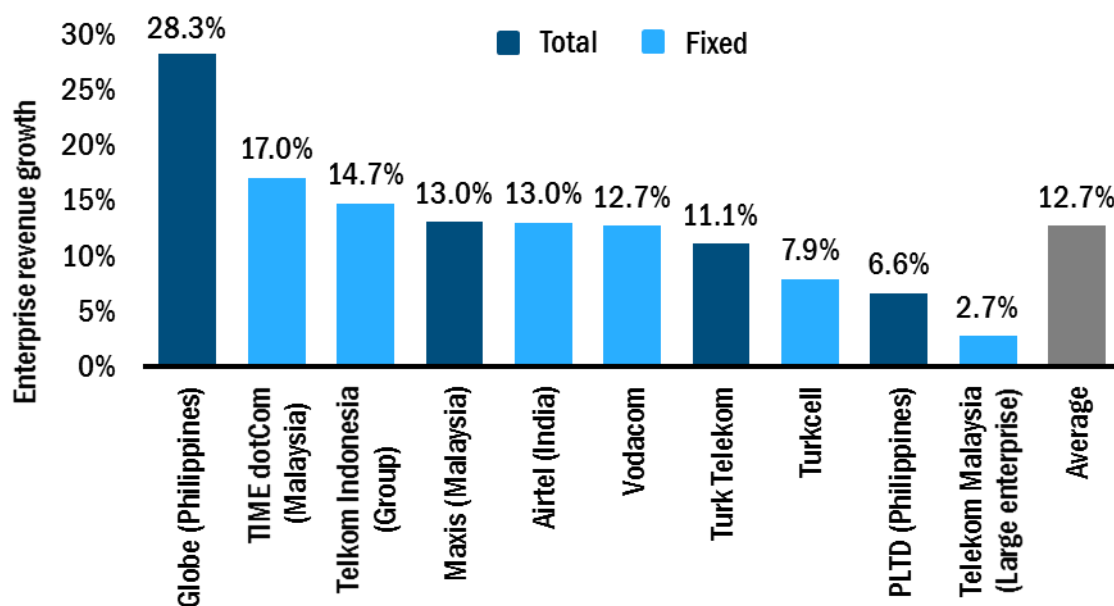
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The enterprise revenue of most large telecoms operators in middle-income countries<sup>1</sup> is growing as penetration of enterprise services continues to increase (Figure 1). However, growth rates may decline as the market becomes saturated, and operators should prepare for stronger price competition in the future. This article explores the financial performance of operators' enterprise divisions in middle-income countries and discusses the best strategies for operators to adopt in response to approaching market saturation and increased price competition.<sup>2</sup>

## Operators in middle-income countries are experiencing strong growth in enterprise revenue

Figure 1: Growth of telecoms operators' enterprise revenue, 2015–2016



Source: Analysys Mason

The data in Figure 1 should be treated with some caution. It only covers a small sample of operators, as most do not report enterprise revenue and those that do often exclude mobile services or smaller enterprises from their results. However, most operators in middle-income countries reported strong growth in enterprise revenue

<sup>1</sup> We consider middle-income countries to be those with a gross national income per capita between USD1006 and USD12 235, based on the World Bank definitions of upper and lower middle-income economies. For further details, see <https://blogs.worldbank.org/opendata/new-country-classifications-2016>.

<sup>2</sup> We explored the financial performance of operators in developed countries in our previous article: [Singtel outperforms a declining telecoms enterprise market](#).

during 2015–2016, with an average growth rate of almost 13%. The importance of connectivity for enterprises and its usage is increasing worldwide, and operators in middle-income countries are reporting significant gains as penetration increases in these countries.

However, operators should not assume that this growth will continue. Evidence from more saturated (and therefore more competitive) markets indicate that price competition will have a considerable impact on operators' revenue – enterprise revenue declined by an average of 2.1% for operators in high-income countries between 2015 and 2016.<sup>2</sup>

## Operators should develop their ICT portfolios to prepare for market saturation before it occurs

Operators' typical response to market saturation is to lower prices to attract customers and prevent churn. This can be effective in the short term, but operators will need a more effective long-term strategy unless they have a sustainable cost advantage (which most do not). Focusing on improving customer satisfaction alone may limit price competition and reduce churn, but it is unlikely to lead to an increase in revenue. Operators must also develop revenue streams that go beyond traditional voice and data connectivity. The most likely source of this growth is ICT services, such as security and cloud.

The market for ICT services is still at an early stage, but it is maturing rapidly. This limits operators' ability to enter the market organically and leaves them with two choices in building an ICT portfolio: partner or acquire.

**Figure 2: Advantages and disadvantages of partnering and acquiring**

	Advantages	Disadvantages
<b>Partner</b>	<ul style="list-style-type: none"> <li>• Simplest means of acquiring products.</li> <li>• Little risk and investment required.</li> <li>• Ability to bundle with core connectivity products.</li> </ul>	<ul style="list-style-type: none"> <li>• Low margins.</li> <li>• Little control over products and roadmap.</li> <li>• Limits differentiation.</li> </ul>
<b>Acquire</b>	<ul style="list-style-type: none"> <li>• Higher margins and greater control over products.</li> <li>• Direct route into market.</li> <li>• Gains specialist sales and support teams.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires considerable investment.</li> <li>• Integration can be challenging.</li> <li>• Can disrupt current operations.</li> <li>• Greater risk.</li> </ul>

*Source: Analysys Mason*

Ultimately, operators must build an ecosystem through a combination of acquisitions and partnerships. Partnerships are the simplest means of acquiring the necessary products, while acquisitions provide both a direct route into the market and gain operators specialised sales and support teams, which they often lack for new product categories.

It may be easier to justify acquisitions when revenue growth is strong than once price competition has taken effect. Operators in middle-income countries should consider making acquisitions before their revenue from connectivity services comes under pressure.

## Operators will only succeed in ICT services if their customers are satisfied with their core connectivity products

Low levels of satisfaction with traditional services can limit an operator's potential in ICT services. Operators must ensure that enterprises are satisfied with their basic services before exploring opportunities in the ICT market.<sup>3</sup> Our survey results show that enterprises are far more likely to purchase ICT services (such as security) from their operators if they are satisfied with their core services. Enterprises that are satisfied with their traditional services (when asked how likely they are to recommend their provider) are generally twice as likely to purchase additional services from their operators as those that are dissatisfied.<sup>4</sup>

## Developing an ICT portfolio has multiple benefits

Operators have a compelling case for developing their ICT portfolios. Selling ICT products to enterprises alongside traditional connectivity services can be a strong differentiator in competitive markets. Doing so will not only enhance an operator's enterprise offerings, but also reduce churn and increase the number of high ARPU customers. Many operators in high-income countries (such as CenturyLink, KPN, TDC and Telia) are trying to reverse the decline in their revenue by buying ICT capabilities. This strategy has met with some success – ICT revenue increased by an average of almost 6% between 2015 and 2016 for those operators that report it.<sup>2</sup> Operators in middle-income countries should consider doing the same, particularly while their revenue growth remains strong.

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<sup>3</sup> For further information, please see Analysys Mason's Article [Operators struggle in enterprise ICT services – acquisitions may provide a route into this market](#).

<sup>4</sup> For further information, please see Analysys Mason's Reports [Enterprise survey 2017: ICT services for small and medium-sized enterprises](#) and [Enterprise survey 2017: ICT services for large enterprises](#).