

# Operators are relying on connectivity for steady revenue growth, but this may not be enough in the long term

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Alfred P. Sloan said that “growth, or striving for it, is essential to the good health of an enterprise.”<sup>1</sup> Most telecoms operators would agree. Almost all operators have a strategy for increasing revenue, even during difficult years.

Many operators, especially those in Europe and North America, have regained confidence that connectivity services can boost revenue. However, any uplift is likely to be limited to 1–2% per year (that is, less than inflation); saturated markets and successful low-cost challengers will restrict the opportunity from growing any further.

Operators must consider some important questions: should they accept this predictable but low growth in the traditional business, or should they use the profits from the core business to fund ambitious new projects? Perhaps more importantly: what happens if connectivity fails to deliver even low revenue growth?

## Only a few operators have ambitious plans for new areas such as AI

The latest iteration of our [operator growth strategies](#) report profiles the strategies of a diverse mix of telecoms operators, including mobile-only start-ups (such as **SIMBA** in Singapore and **Vodafone Oman**), interesting challengers (for example, **Aussie Broadband**) and some of the largest operators in the world (such as **AT&T**, **KT**, **NTT** and **Orange**).<sup>2</sup> Our analysis shows that growth strategies vary considerably from operator to operator (Figure 1).

**Figure 1: Areas where profiled operators are expecting growth (dark green=strong growth, light green=weak growth, pink=little growth/no emphasis as a growth driver)**

Operator	Consumer services	Business services	New areas such as AI
Airtel			
AT&T			
Aussie Broadband			
eir			
KT			
NTT			
Orange			

<sup>1</sup> Sloan, Alfred P., *My Years with General Motors*, Doubleday and Company (New York 1963). Sloan was the President and CEO of GM during the 1920s and 1930s.

<sup>2</sup> Operators in **bold** are profiled in the report on which this article was based. See Analysys Mason’s [Telecoms operator growth strategies: case studies and analysis \(volume VII\)](#).

Operator	Consumer services	Business services	New areas such as AI
Rogers			
SIMBA			
VEON			
Vodafone Oman			
Wao			

Source: Analysys Mason

Indeed, **NTT** and **KT** are committing large sums to new areas such as AI to counter weak prospects for connectivity revenue, despite the inherent risks of these ventures. This is in contrast to the strategies of most large operators in Europe and North America.

## The expected increase in connectivity revenue is promising but will rarely be sufficient to generate real growth

Generating more revenue from connectivity has never ceased to be an aspiration for operators, but they have often de-emphasised it in favour of new topics, especially as connectivity revenue increases have proved to be challenging to deliver.

A variety of factors are now helping to boost connectivity revenue, including reduced competition and consumers' acceptance of moderate price rises. Legacy services, long a drag on revenue, are also having less of a negative impact. Nonetheless, operators are often only targeting a moderate improvement in connectivity revenue (1–2% annually), which is typically lower than inflation.

The biggest remaining threat to connectivity revenue growth comes from the mix of low-cost competitors. New entrants such as [Digi](#), [Iliad](#), MVNOs (including [challenger banks](#)) and new [local fibre players](#) are present in almost every country and some, such as **Aussie Broadband**, are seeing success.

Established players can take a variety of approaches to dealing with these competitors. **Airtel** in India is concentrating on the premium end of the market. Conversely, **Orange** in France competes directly with these low-cost players, while also offering customers a path to upgrade their plans. **eir** tries to outcompete the challengers (at least for mobile).

Operators need a deliberate strategy for dealing with the low-cost threat if they are to achieve even moderate improvements in connectivity revenue. It may not be sufficient to have a sub-brand that offers services priced between those of the premium brand and a low-cost challenger; this feels unsustainable when challengers are offering service quality that is on a par with that from premium players.

## Interest in new experiments has largely disappeared

In past years, we have [noted](#) nine different service categories that operators have cited as areas for potential growth, including advertising, consumer IoT, financial services and media. [In 2021](#), we wrote, “Operators have not lost their appetite for experimentation in new areas.” They have now. AT&T is perhaps the most extreme example; it has spun off its media assets, sold its security business and closed other initiatives, such as its Foundries.

Business services is one of the more popular areas for expansion; investing heavily is the default strategy for large operators, and M&A is often used to bolster capabilities (for example, **NTT** took full control of NTT Data). Even some challenger operators are targeting business services revenue growth (such as **Aussie Broadband**).

Heavy funding for AI is less common and may actually be a sign that an operator has limited alternatives. Only a few operators, such as **KDDI**, **KT** and **SK Telecom**, have a well-defined approach to making AI a large (that is, over USD1 billion per year) revenue stream. Investment in AI needs a long-term strategy and carries substantial risk, given the level of competition and uncertain demand. These factors explain why most operators are more cautious than **KT**.

**KT**'s approach highlights the central ongoing issues with operator revenue growth strategies. Operators can realistically target some improvement in connectivity revenue, but growth is likely to be low in a saturated market. This may be sufficient for some operators (and their investors), but if faster growth is needed, then large commitments to new areas, such as AI, will be required. But these are, by their nature, high risk. **NTT** and **KT** are taking the biggest risks, but this also reflects a greater level of honesty about the conundrum they face.

*For more on this topic, see Analysys Mason's [Telecoms operator growth strategies: case studies and analysis \(volume VII\)](#). Our subscription clients can also arrange a presentation to talk through this report and its implications. Please contact your account manager if you would like to set this up.*