

# Operator growth strategies: digital services beyond connectivity remain of interest for many operators

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Tom Rebbeck

Operators continue to aim to increase their revenue amid new pressures of high inflation and interest rates. Connectivity revenue growth remains important and operators are hoping that their 5G and fibre investments will start to pay off in 2023. The emphasis on connectivity may prove to be a success for some, as it has for T-Mobile USA in recent years. Still, revenue growth from connectivity alone is unlikely to outpace inflation for most operators.

This helps to explain operators' continued interest in digital services, from complementary IT services for businesses (Telefónica) to a broad range of services for consumers (Orange). TELUS (Canada) and KT (Korea) are even more ambitious and are aiming to grow revenue from new product ranges that focus on specific verticals such as health and agriculture. KT is even investing in real estate.

The examples in this article are taken from the [fifth edition of our \*Telecoms operator growth strategies\* report](#), which is consistently one of our most popular reports.

## Connectivity revenue growth is, if anything, more important than it was 5 years ago, especially in the USA

Connectivity revenue growth has always been an essential part of any operators' strategy, even in mature markets.

This focus on connectivity is especially true for the major US operators. Verizon sees an opportunity to expand its presence in the prepaid mobile segment and grow its postpaid ARPU by upselling customers to unlimited, premium 5G plans. T-Mobile USA wants to increase its mobile market share while also targeting the fixed broadband sector with 5G fixed-wireless access (FWA). AT&T aims to gain fixed broadband market share by concentrating primarily on high-performance FTTP. Cable operators are targeting revenue growth from mobile services.

This renewed emphasis on connectivity is partly driven by investors who have lost patience with operators' significant spending in new areas, especially media, when lower-risk growth can be captured in the core business.

However, not all operators will be able to realise their growth ambitions from connectivity alone. Fixed providers in the USA, especially cable operators, may already be feeling the pressure to reduce their prices due to 5G FWA offers. The intense competition in the US mobile market may finally cause ARPU to fall to levels closer to those in other countries. If US operators cannot increase their revenue from connectivity, they may find that they have not invested sufficiently in other areas to generate new growth.

## Investment in adjacent business services remains a priority for European operators

Operators in other countries are also targeting connectivity revenue growth. Indeed, Deutsche Telekom, Telefónica and other major European operators are still optimistic about growing their revenue from this core product.

Nonetheless, these European operators are also investing heavily in other areas. For example, Telefónica Tech has spent over USD1 billion on acquisitions relating to IT services since the start of 2021. It now has almost 6000 employees, which is more than some of its opcos.

Orange has spent a similar sum; it added two more security firms, SCRT and Telsys, to its portfolio in November 2022. These operators have primarily used acquisitions to add product expertise and expand their channel reach, rather than for product development.

Conversely, Comcast in the USA has used acquisitions to develop new products. For example, it has bought Blueface (unified communications), Deep Blue (managed Wi-Fi) and Masergy (SD-WAN and other services).

Orange is also aiming to sell adjacent products to its consumer base. It is building on its premium broadband and pay-TV provider brand to upsell other equipment and services. For example, it offers a range of consumer IoT hardware, such as smart cameras and smart lightbulbs, and access to third-party cloud gaming, music and video streaming services. It has also introduced various IT services for households, such as parental controls, smart home systems and home surveillance.

## TELUS illustrates the bold moves that can be taken

TELUS is perhaps the most ambitious of the operators in [our latest report](#); it has created healthcare, agriculture and customer experience divisions to generate revenue growth. It competes in these areas using its strong brand identity, the multiple assets it has acquired and (in TELUS Health's case) its local advantages as a trusted Canadian infrastructure player.

Other operators could explore opportunities in these areas, but doing so is expensive and risky. TELUS has made heavy use of M&A to enter new verticals. It bought a healthcare business, LifeWorks, for USD2.2 billion in 2022 and has invested more than USD4 billion in healthcare in total. TELUS Agriculture is built on 13 acquisitions. Few operators are willing to put such a large amount of capital into new areas that have limited synergies with the existing core business.

## KT is one of the few operators to be active in many domains

Most European and North American operators have clear limits to their ambitions. They are either investing in only a small number of focus areas alongside connectivity (such as TELUS) or have only a limited investment across more areas (such as Orange).

However, KT is active in many domains. It is developing its own TV shows and is expanding its business services offering with the aim of becoming the leading B2B platform operator in South Korea. It is diversifying its activities in financial services to include retail and corporate banking. It even has a real estate division. Consumer services, other than connectivity, is one of the areas where it has few activities.

KT is hoping that its diversification strategy can help it to balance out the business cycle. The relevance of KT's model to other operators is probably limited; KT benefits from a unique set of local conditions that help to protect it from international rivals and reduce competition. Investors in other countries are unlikely to tolerate such a wide-reaching set of plans.

## Digital services continue to be of interest, despite some high-profile divestments

Some high-profile operators have recently left digital services areas (in particular, AT&T and Verizon sold their advertising divisions), and others are rumoured to be divesting assets (for example, Orange is reported to be selling Orange Bank). However, these decisions should not be taken as signals that all operators in high-income countries are rethinking their involvement in digital economy services. Many operators still believe that there is a need to look beyond connectivity for long-term revenue growth.