

# Middle East Telecom Braving The Wind of Change



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In a challenging business environment, customer service, network quality and cost price will be the key drivers which operators will have to focus on to reduce subscriber turnover and increase market share in an already highly-penetrated market. On the other hand, cost reduction, value-added services and innovative tariff plans will help operators meet their targets.

The Wind of Change has been blowing through the telecom sector in the Middle East in recent years, especially in the Gulf, a region characterised by some of the highest rates of penetration in mobile telephony in the world (10.58 million subscribers in the UAE alone).

### **The need to keep spending**

Telecom companies in the Middle East continue to increase Capital Expenditure, investing heavily in infrastructure to improve network quality and offer more value-added services to customers – witness the partnership with India's Tata Communications and five GCC telecoms companies in Bahrain, Oman, Qatar, the UAE and Saudi Arabia to construct a new cable system into the Gulf that will connect the region directly to other cities and business hubs via Tata's Global Network.

But the sector has not been immune to the current global credit crisis, which may impact growth in subscriber numbers, profitability and the working capital of the operators. Operators continue to focus on cost optimisation and driving efficiencies to manage their growth and profitability expectations. In order to achieve growth, large regional operators are seeking to expand beyond their domestic markets by acquiring smaller companies across their borders. Countries such as Iraq and Iran, represent growth markets, in contrast to the already mature markets in the Gulf.

Telecom regulators are also opening up and controlling new avenues for operators such as live TV broadcasting through an advanced network to mobile users.

### **Challenges**

Number portability and Voice Over Internet Protocol (VOIP) are key areas that will affect telecom operators in the near future. In the first instance, number portability will require further significant investment from operators and will facilitate users switching from one operator to another. As regards to VOIP, a significant portion of operators' revenue depends on international calls. The introduction of VOIP will have an impact on revenues and profitability.

### **The smartphone effect**

The smartphone will continue to reset what customers want from their mobile phones: voice quality and battery life will matter less as customers increasingly choose their phone according to the suite of applications it offers.

The business model for smartphones is likely to diversify significantly in 2010. Sales of smartphones around the world are projected to continue rising in 2010,

accounting for 27% of total phone sales worldwide. Smartphone sales in UAE are also expected to significantly increase over the coming years.

### **Outlook**

Despite key challenges imposed by heavy state regulation, the sector continues to be extremely competitive. Customers will eventually benefit from lower tariffs and bundled offers are likely to continue increasing in the near future. Revenue from data services and the Internet will continue to rise for local operators with a drop in the share of fixed line revenues to total revenues.

If the demand for the mobile broadband remains strong, and it is expected to be particularly strong in the Middle East and Africa, mobile operators will have to invest heavily in increasing their capacity, raking up a bill in the tens of billions of dollars. In countries with already high levels of mobile broadband penetration operators may have to invest in additional spectrum.

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