

Navigating the road to 2020

Opportunities and challenges for telecom operators in the Middle East





Executive summary

The telecommunications industry is continuing to change at breakneck speed. Faced with ongoing disruption from every side, operators have recognized – and are taking advantage of – their pivotal enabling role in a digital society. Mounting pressure on the bottom line means the emphasis is still on driving efficiencies into the business, yet many operators are also exploring new opportunities in a rapidly widening digital ecosystem as they look to meet a new wave of customer demands. Operators are well placed to act as catalysts of transformation in a fast-changing digital society. But before they can take advantage of changing customer and industry stakeholder expectations, they must decide where they want to play – and then focus rigorously on developing the strategies, technologies and talent that will be prerequisites for success in that area. The alternative is to be sidelined as a “jack of all trades, but master of none” at a time when strategic vision and the ability to execute have never been more important.

Key findings:

1. Telecommunications in the midst of transformation
2. Most significant challenges
3. Top strategic priorities
4. Trends in the Middle East

Telecom industry in the midst of transformation

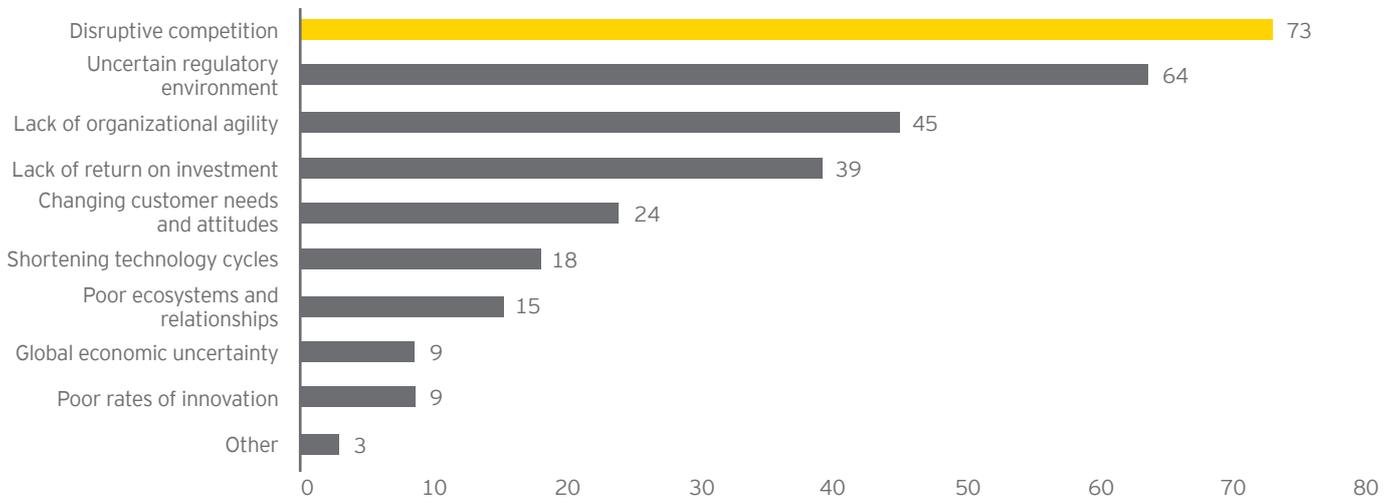
EY's survey of global and Middle Eastern telecommunications leaders shows that the industry is experiencing change at a faster rate than ever before. Data-hungry customers with smart devices consume ever more bandwidth. Over the past 10 years, operators have expanded their service portfolios and overhauled their price plans to meet explosive demand, while rising capital expenditures underline the ongoing imperatives to upgrade network capabilities.

Almost three-quarters of global C-Suite participants believe disruptive competition is a leading risk facing the sector. This is no surprise given that over-the-top (OTT) players are growing their share of value chain revenues while at the same time redefining customer expectations. While operators still enjoy a majority of ecosystem revenues, competition in retail and distribution is becoming more intense.

Telecom operator views on the challenges they face

As operators seek to compete with these nimble disruptors amid substantial network investments, their ROI is coming under pressure, explaining why this is identified as another leading challenge, along with a lack of organizational agility.

Most significant challenges facing the industry (please select three) % global respondents (fig. 1)

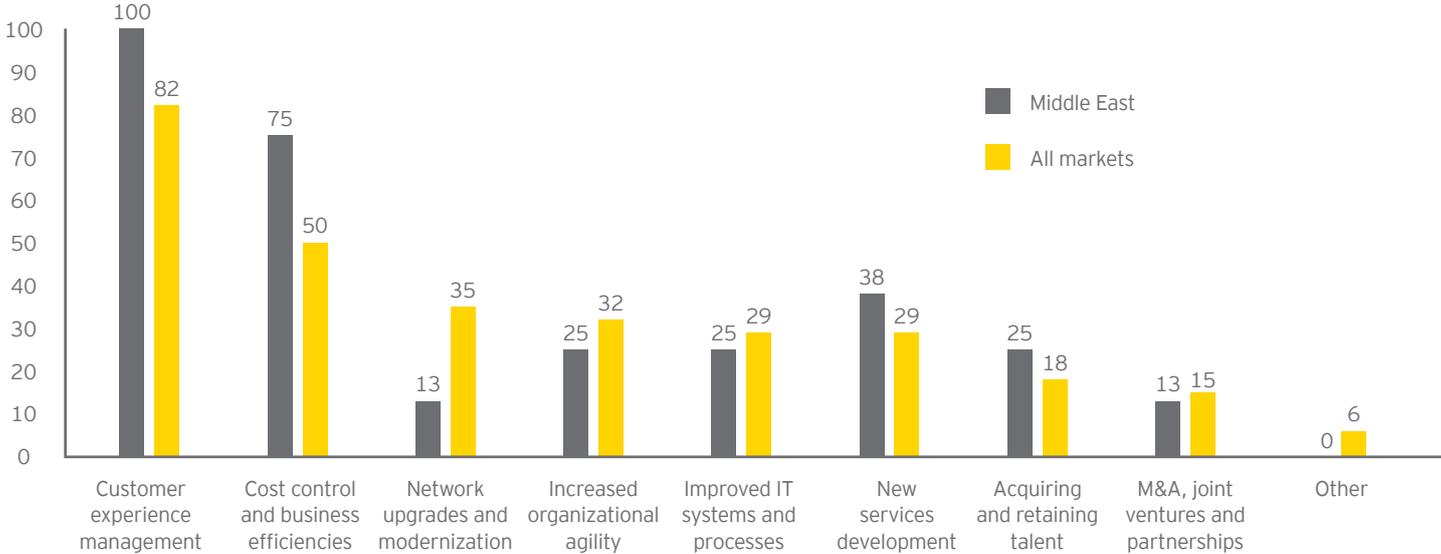


In addition, regulatory environments remain unpredictable and return on investment remains a key area of concern for C-suite executives. As operators look forward to the opportunities for growth in a converging market landscape, a supportive policy environment has never been more important.

Global and Middle Eastern telco strategic priorities

Customer experience management is emphatically the top priority for operators. In this light, many of the other leading answers can be seen as supporting elements on the journey toward more intuitive, convenient and trusted relationships with customers.

Most significant challenges facing the industry (please select three) % global respondents (fig. 2)



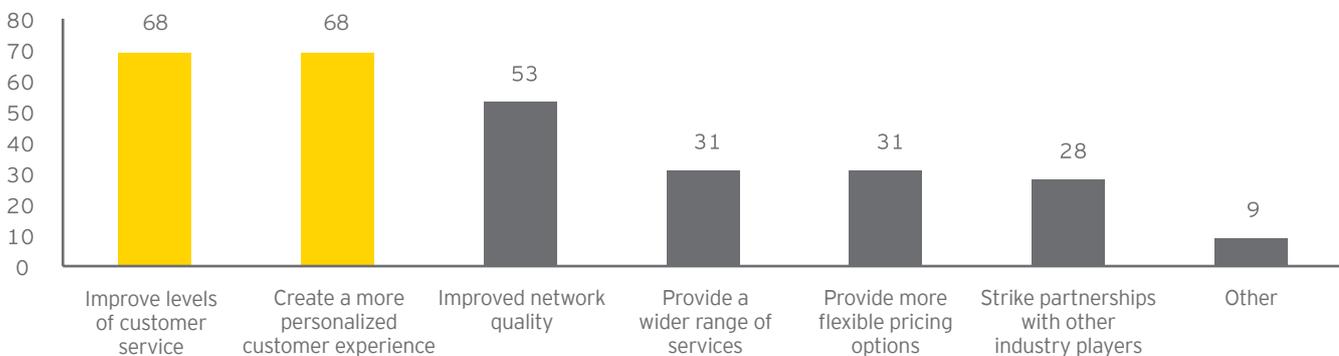
Trends in the Middle East

1. A better customer experience can help telcos remain relevant

While many operators are diversifying into new growth segments and overhauling their organizational structures, better customer relationships are seen as the surest route to thriving in the digital era:

- ▶ Sixty-eight percent of telecommunications C-suite respondents cite customer experience management as their top strategic priority over the next three years.
- ▶ Improving levels of customer support and personalizing the customer experience are seen as the most important routes to improving customer relationships.

Leading operator initiatives to improve the customer experience (fig. 3)



Greater levels of organizational agility are also critical in a world where start-ups and web giants are reshaping demand scenarios. Fifty-five percent of operators worldwide see new talent as a leading action to improve their operating model, while shorter time-to-market and big data analytics are also viewed as key competencies going forward.

2. Middle Eastern telcos stress customer experience, cost control and smart services more than their global peers

- ▶ Regional players are even more emphatic in their focus on customer experience and cost efficiencies. Every telecommunications player in the region sees customer experience as a top-three agenda item while three in four also cite cost control compared with one in two participants globally.
- ▶ Smart services are firmly in focus. Thirty-eight percent of Middle East respondents cite developing new services as a top three strategic priority, compared with 29% of total respondents. Thirty-eight percent of Middle Eastern C-suite telco executives see smart home services as a leading driver of digital revenues, compared with 17% globally. There is proportionately greater confidence in the revenue-generating potential of TV and cloud services too.
- ▶ Mixed messages surrounding network quality: Although Middle East respondents are less likely to nominate network upgrades as a strategic priority compared with their global peer group, this does not mean that capex is levelling off. On the contrary, 63% of regional players see capex trending up in the next 12 months compared with 50% of respondents overall.

3. Regulatory uncertainty persists in the Middle East

- ▶ Although Middle Eastern telcos demonstrate greater confidence in digital growth opportunities than their peers, supply-side challenges remain pressing. Seventy-five percent of regional respondents cite spectrum release and net neutrality as leading regulatory concerns in the next three years and Middle Eastern respondents are more concerned with mobile termination rate reductions than their global peers.

A shift in organizational mindset is vital for players in the region

While external factors are on top of the minds of executives in the Middle East, transformation within the organization is an area that operators are prioritizing. 43% of local operators see internal collaboration as a leading route towards operating model improvements, while one in four believe that talent attraction and retention is a strategic priority. As boundaries blur between traditional industries, telcos' ability to widen their talent pool and collaborate across business units may be as important to their long-term health as new forms of customer engagement and smart services.

Conclusion

The telecommunications industry will continue to evolve in a number of new directions. Operators will continue to seek differentiation through network quality and breadth of service portfolio, underpinned by further industry consolidation and the appearance of new technologies to support data needs in the gigabit era. In an increasingly diverse market landscape, EY expects operator strategies to diverge on the basis of differences in geographic scale, level of digital ambition, and contrasting prioritizations of growth and efficiency within their strategic agenda. Yet higher levels of agility, more collaborative mindsets and a recasting of customer relationships will be vital to all.



About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

The MENA practice of EY has been operating in the region since 1923. For over 90 years, we have grown to over 6,000 people united across 20 offices and 15 countries, sharing the same values and an unwavering commitment to quality. As an organization, we continue to develop outstanding leaders who deliver exceptional services to our clients and who contribute to our communities. We are proud of our accomplishments over the years, reaffirming our position as the largest and most established professional services organization in the region.

© 2016 EYGM Limited.
All Rights Reserved.

EYG no. 00810-164GBL
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com/mena

Contact



Tim Peters

Advisory Partner, EY MENA Region
tim.peters@ae.ey.com
+971 56 188 4321