



The high cost of connectivity: it's not just you who's paying

The mobile telecom industry is about much more than telephone calls today. A huge and increasingly sophisticated user base wants the world at their fingertips. But who's going to pay for it all?

Mobile telephony has allowed millions of people without fixed lines to connect with the world. Now the advent of affordable smart phones is enabling them to connect with the internet. But as usage of these hand-held devices skyrockets, it's the costs that are getting out of hand. "The (higher) use of mobile data is not necessarily translating into more revenue and it puts pressure on mobile operators because it doesn't generate the kind of returns you would need to invest into your capacity," Vinod Nair, senior partner and regional head of Asia Delta Partners told Knowledge in Singapore recently, where he co-presented the INSEAD-Delta Partners white paper, D-20: Rising Stars in the Telecom Space.

Shift in the ballgame

By early 2012 the total number of mobile phone subscribers across the globe had risen to nearly 6 billion (that's 87 percent of the world's population). Penetration has been rapid, and near total in the developed world, with saturation at a stunning 130 percent. Operators are now looking to the emerging markets to propel growth forward and, until recently, just being there was enough. Limited competition and infrastructure in these regions gave companies with better coverage an edge over their rivals, while significant latent demand and high

customer tolerance for low quality, meant operators were able to provide investors with robust returns.

But conditions have changed and the industry, accustomed to easy double-digit growth, is faced with a whole new ballgame, as demonstrated in the recent INSEAD and Delta Partners white paper. The paper identifies 20 new rapid-growth markets for the mobile telecommunications industry, noting that operators are now dealing with open markets, high competition, strong penetration rates, and customers with more sophisticated expectations.

Usage in these D-20 markets has soared with mobile penetration rising from 26 percent in 2005 to 86 percent in 2011. While many subscribers in some markets are still on prepaid phones that don't necessarily use a lot of data, a significant (and growing) percentage of youth are very heavy users of mobile data services.

"A lot of people in many emerging markets don't have a cable or fibre connection at home and their only form of access to the internet is through mobile," says Nair. Companies in these regions are more likely to use mobile channels to connect with their customers, and consumers are more open to making mobile banking and sales transactions through their handheld device. This trend is

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spreading to the West with a Boston Consulting Group study released earlier this year estimating that within four years 80 percent of all internet users will access the web through their mobiles.

To compete in this new environment operators are having to upgrade and increase network range and capacity; an expensive investment and one which neither investors nor customers are willing to subsidise.

Exhibit 1: The world and D-20 countries in 2016⁴

Country	GDP (US\$ Billions)	Mobile subscribers (Millions)	GDP Growth (US\$ billions 2011-2016)
Argentina	550	65	115
Bangladesh	174	134	59
Brazil	3,373	357	855
China	11,780	1,406	4,792
Egypt	342	117	110
India	3,027	1,394	1,184
Indonesia	1,382	351	547
Iran	630	111	155
Mexico	1,505	130	320
Nigeria	359	138	112
Pakistan	303	153	99
Philippines	307	122	91
Poland	694	55	162
Russia	3,088	266	1,203
Saudi Arabia	737	74	177
South Africa	536	79	114
South Korea	1,686	62	522
Thailand	538	92	199
Turkey	1,133	76	370
Vietnam	210	187	89
D-20	32,354	5,369	11,272
World	85,162	8,249	15,137
D-20 as % of World	38.0%	65.1%	74.5%

⁴ GDP data - IMF; Euromonitor & Delta Partners analysis. Mobile subscriber data - Wireless Intelligence.

Innovation

To remain profitable operators are having to review their business models, focussing on efficiencies, improving margins and developing new streams of revenue. By using their networks as a platform for innovation they are reinventing themselves as enablers or utility players, with some seeking to move into the sphere of over-the-top players, like Facebook, Google or Skype, which reach out to the end consumer and benefit from revenue streams like advertising. Others are seeking to bolster earnings through mobile advertising and mobile money services.

Mobile channels are being seen as an increasingly significant part of a company's advertising budget, says Nair. "If somebody else provides the platform and the mobile operator simply provides what we call the "pipe" then you are more limited in terms of revenue you can generate. The trend we are seeing in many markets is mobile operators saying 'We don't have to just be the pipe: we can provide the entire platform; we know our consumers, we can provide information about them, we can even help an advertiser define who are the right segments to target and how to target them.' That's the sort of role in which the mobile operator can make money on the advertising spend. And that's something we think mobile operators are uniquely positioned to do."

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Reviewing business models

The shift in focus from downstream customer subscribers to upstream advertisers and agencies requires operators to revise their strategic perspective. Successful mobile operators, says Nair, will be looking at consolidation and reviewing assets, assessing what they need and what networks can be shared or services outsourced. "That's the sort of thinking that finally leads to a focus on what we call "return on investor capital". It's certainly happening in developed markets and we're seeing it in emerging markets as well."

The biggest challenge

Delta's management advisory business spends a large proportion of its time helping clients figure out the best way to monetise their data services in both emerging and developed markets. "The answer is not an easy one because if you price it as an expensive service people are not going to use the data access service you provide. On the other hand if you give it away for free you're left with having to make the investments but not necessarily getting the kind of returns you want. This is the biggest challenge mobile operators are facing ... generating enough returns from their business so they can continue to invest in the business."

D-20: Rising Stars in the Telecom Space was written by Delta Partners principals Andreas von Matzahn, and Mar Pages, Delta Partners managing partner Alberto Pamiás and INSEAD Affiliate Professor of Economics, Loïc Sadoulet.

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