State of the Industry

Executive Summary: In search of new value growth

In 2009 the Communications, Media, and Technology (CMT) sector recovered almost half the market value lost in 2008, but the recovery was uneven. Technology and Media rebounded strongly; in Communications, traditional sources of value growth showed signs of drying up. And some parts of the CMT universe look increasingly like 'zero-sum' games—with intensifying competition to steal value share rather than grow value. The difficult search for new sources of value growth is the key theme that we explore in this year's report (our third).

Telecoms pinched as value migration shifts. The five-year shift in value toward telecom operators, especially those in emerging markets, slowed in 2008 and reversed sharply in 2009. It is still possible to add new wireless subscribers in many emerging markets (we list the top 10 markets by growth potential) but only at increasingly challenging ARPU levels. Selling new services to existing customers is also possible, but traditional network-centric business models are coming under pressure. We believe operators need to 'double bet' by exploring new business models with revenue-capture mechanisms that have more in common with software and online markets than traditional telecom services.

Beyond this, squeezing the core business for profit will remain a critical lever. On the revenue side, rigorously applying customer value-management principles—aligning cost-to-serve with the customer value proposition—can help slow down 'bleeding' voice and data revenues. On the cost side, despite a spate of recent cost-cutting, the industry can—and must—cut closer to the bone.

Video-viewing shift poses threats, creates opportunities. Video has been less impacted by the internet than, say, news or music. But, as broadband reaches mass-market penetration levels, a growing proportion of video consumption is moving to 'over-the-top' services delivered across the open internet rather than over traditional TV platforms.

A recent Oliver Wyman survey of 2,500 video viewers in the U.S., U.K., Spain, France, and Germany provides rich data with which to analyze this trend. For example, our analysis shows that time spent watching video online in the U.S. grew by 50% in 2009, with more than half of that time spent on long-form content—TV shows and movies. For key advertising demographics, the growth is even higher. But much of this viewing is not monetized, due to piracy or ad-based models that deliver less revenue per viewer-hour than traditional TV, despite higher online CPMs. The good news is that the nascent field of internet video is still wide open, with no player(s) having erected insurmountable barriers to entry.

Some CMT firms created significant value in 2009, as our Shareholder Performance Index℠ indicates. For others the search for new value growth has never been tougher. 2010 promises to be another eventful year for the industry.