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# Leaping Tigers, Roaring Dragons: Emerging market companies take the lead in Oliver Wyman study of communications, media, and technology industries

## *India's Bharti Airtel and China Mobile among the winners in the new Shareholder Performance Index*

NEW YORK, February 22, 2008 – While developed nations lay claim to roughly two-thirds of the top 60 performing communications, media, and technology (CMT) companies over the past five years, emerging markets have produced both the best-performing and the largest firm – **Bharti Airtel** of India and **China Mobile**, respectively.

Oliver Wyman's first annual *State of the Industry Report* analyzes the performance of CMT companies as measured by the Shareholder Performance Index (SPI). The calculation of the SPI enables consistent comparison of shareholder returns by adjusting for the volatility of returns, differences in local interest rates, and mergers and acquisitions. Bharti Airtel took top honors in SPI performance, outperforming the average CMT firm fivefold. China Mobile, which also ranked among the leading performers, reached a market capitalization of $346 billion by year-end 2007, outstripping Microsoft's market cap of $337 billion.

"Overall, the CMT industry expanded by an impressive 20% in 2007," said Robert C. Fox, head of Oliver Wyman's Communications, Media, and Technology practice. "Patterns of growth differ markedly across sub-sectors and geographies, yet there are some common attributes that distinguish all of the top performers from merely ordinary players."

Both customer demand and business innovation have flourished in emerging markets over the past five years, particularly for pure mobile communications, driving the lion's share of growth in the CMT industries. That is one of the primary geographic, sector-specific, and operational patterns uncovered by Oliver Wyman's study.

Additionally, China has the third-largest number of top 60 SPI performers, with six, and added $211 billion in market value over the past year alone. CMT companies headquartered in China grew at 34% annually between 2002 and 2007 and have almost reached the total value of Japanese firms. Overall, the value of emerging market firms grew at more than twice the rate of developed economy firms – at 38% and 15%, respectively.

Other top SPI performers include **América Móvil**, based in Mexico; U.S-based **Apple** and **American Tower**; **Nintendo** of Japan; **EVS Broadcast** of Belgium, and **Tencent Holdings** of China.

### Leaving Home

Even companies experiencing slow growth in their mature home markets can rely on emerging markets as a source of revenue and earnings growth. **Telefónica**, based in Spain, has done so in Latin America. Indeed, many U.S., European, and Japanese communications companies lost a large share of value because of underinvestment in new growth regions or regulation protecting the emerging market carriers.

It's not just traditional network operators or consumer device players that have benefited from emerging markets. Winners include players all along the supply chain, such as American Tower, which supplies wireless and broadcast tower capacity in Mexico and Brazil.

It is the pure mobile communications sector that became the epicenter of growth in emerging markets. Pure mobile companies headquartered in emerging markets, such as SPI top performers **Orascom Telecom** (Egypt) and **Mobile Telesystems** (Russia) now constitute nearly 60% of the world's share of pure mobile communications market value, which totaled $1.1 trillion in 2007.

A case in point: Astute moves into emerging markets drove the ascent of **Telenor**, based in Norway. To offset the commoditization of mobile voice services in Europe, Telenor has strategically cherry-picked its early investments in Asia and Eastern Europe. These markets now constitute 61% of its mobile revenues and drive the majority of the growth (45% and 51% revenue growth in 2006 for Bangladesh and Ukraine vs. 7% and 8% in Norway and Denmark, respectively). Telenor enjoys higher return on average assets, investments, and equity than the industry average (6.9%, 9.8%, and 14.3% vs. 1.4%, 2.0%, and 7.7% from 2002-2006, respectively).

**Leaner and More Agile**

A number of the top 60 firms also made operational improvements to help drive growth, both traditional moves such as off-shoring and restructuring major IT/network operations, and newer moves such as network outsourcing.

**Bharti Airtel**, for instance, built a successful organization on a lean foundation, outsourcing its network deployment, IT services, and customer contact centers to Ericsson and Nokia, IBM, and Nortel, respectively. Creative outsourcing techniques have allowed Bharti Airtel to save on capital expenditures; the firm's operating expenses as a share of revenue declined 8% annually since 2003.

Outsourcing has allowed Bharti Airtel and other operators such as **Hutchison Telecommunications** to reap the benefits of lower operational expense sooner, lowering overall costs and increasing flexibility to handle changes in customer demand – making these kinds of firms formidable competitors.

**Advertising 2.0**

Another pattern uncovered by Oliver Wyman's *State of the Industry* report is the emergence of new forms of advertising, which take advantage of consumers' increasing time spent online and on mobile devices. Online advertising is already a $40 billion industry and is expected to grow at well over 20% annually over the next few years.

To date, there has been much smoke and little fire when it comes to profiting from advertising on mobile devices or social networking sites. This may be about to change. Consider the case of China's **Tencent**, which has found a way to profit from both, simultaneously.

Tencent took disparate mobile applications and offered a seamless user experience that led it to lock in strategic control of a large user base with significant network effects. It integrated content, communications, and commerce, developing an almost all-inclusive set of applications and features to reinforce a "one-stop online living" strategy including multimedia IM, email, a community portal, and a diversified virtual store with its own currency. Tencent's sticky virtual community now numbers 715 million registered users for its QQ IM service, and its QQ cash has become the predominant payment method in China. Selling mobile and Internet value-added services and advertising to its user base has allowed Tencent to more than triple its revenues in the past three years.

**Overall Industry and Sector Performance**

In 2007, the industry's global market value continued its upward trajectory to reach $8.2 trillion, which represents about 14% of the world's total equity valuation. Over the past five years, CMT experienced a 20% compound annual growth rate in market value. Fundamentals remain strong: Earnings grew 21% from the second half of 2006 to the second half of 2007. Revenues grew an average 14% while operating margins rose 5%.

When viewed through the sector lens, pure-play mobile operators had the strongest value creation track record, with an average annual growth rate of 31% over the past five years. The once high-flying software and services sector had a more modest growth rate of 12% over the same period as this industry matured and consolidated. The hardware equipment and semiconductors sector, often considered a commoditizing no-profit zone, enjoyed strong growth at 18%. The U.S., Canada, Western Europe, Japan, and South Korea dominate the technology sectors.

The media sector, at $1.1 trillion in market value globally, remains comparatively small. It has the lowest average SPI and one of the lowest market-value growth of the six sectors studied, as well as flat earnings growth. However, it included nine of the top 60 performers, including **Google**, Tencent, and **Naspers**, South Africa's leading pay-TV and Internet subscriber platform service. This sector is bifurcating, with strong upside for companies that have developed new business models, most of which are relying on the explosive growth of the Internet and mobile.

**About the Shareholder Performance Index**

Developed in 1997 to track the performance of the financial services industry, Oliver Wyman's Shareholder Performance Index is now being used to assess the performance of CMT firms annually. Each edition of the SPI is based on a five-year moving "window" of performance data for the largest 450 publicly traded CMT companies worldwide in terms of their market valuation at the end of the period. The present edition of the SPI for the CMT industry is calculated over the period January 2003 through December 2007.

The SPI differs from other performance-based indices for CMT companies in several respects:

- Unlike other indices, the SPI is a measure of risk-adjusted performance. If two firms have produced the same absolute return to shareholders, the one whose returns are less volatile is ranked higher.
- The SPI covers companies in all six sectors of the global CMT industry and includes 11 geographic regions: United States/Canada, Western Europe, Japan, China, South Korea, Latin American (including Mexico), India, the rest of Asia, the Middle East and Africa, Central and Eastern Europe, and Australia/New Zealand.
- Takeovers, mergers, spin-offs, and currency effects are explicitly captured in the SPI and are used to adjust raw performance data. A firm cannot move up in the SPI rankings simply by getting bigger in a local currency.

**About Oliver Wyman**

With more than 2,500 professionals in over 40 cities around the globe, Oliver Wyman is the leading management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm helps clients optimize their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is part of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit www.oliverwyman.com.

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