

# OLIVER WYMAN

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## Telecom growth sputters even as broader technology sector recovers \$1.1 trillion in value

- Communications sector recaptures less than 15% of value it lost in 2008.
- Traditional sources of value like consolidation, globalization, customer growth, and new services dry up for operators.
- América Móvil, China Mobile, Bezeq, KPN, and Empresa among growth leaders for 2009.

**New York, NY, January 29, 2010** – In 2009, while the broad Communications, Media, and Technology (CMT) sector recovered almost half the market value lost in 2008, the communications sector's recovery sputtered; even traditional sources of growth like consolidation, customer demand, and globalization showed signs of drying up. The five-year-long growth enjoyed by mobile telecom operators, especially those operating in emerging markets, slowed in 2008 and reversed in 2009. For many telecom companies, the search for new sources of value growth has never been tougher.

These are the key findings of Oliver Wyman's 2010 *Communications, Media, and Technology State of the Industry Report*. The report analyzes the top 450 publicly quoted companies worldwide in CMT. "While our research found that there still remained some mileage in raw subscriber growth, it was only true for those that have or can get exposure to the right markets," said Robert C. Fox, a Partner in Oliver Wyman's Communications, Media, and Technology practice. "There are still opportunities to generate profit from new services; but operators need to be more flexible, 'double-betting' to increase the chances of success. Beyond this, intensively managing individual customer value to slow down the pace of revenue decline, and aggressively restructuring the cost base will remain critical levers for many operators," he added.

The report identifies 10 emerging markets where there is still a high level of raw subscriber growth potential. One of its conclusions: While India and China offer the biggest opportunities, Mexico, Ethiopia, and Brazil also make the list of countries that offer growth. "Firms with exposure to these markets stand to gain, but in many markets the downward pressure on pricing limits the upside," said Mr. Fox. "Only operators with a truly low-cost operating model will generate value from this remaining subscriber growth" he added.

The report found that capturing value from new services is a challenge for telecoms operators. Mobile data services, for example, are still growing strongly, but operators' network-centric business models are coming under increasing pressure as flat-rate tariffs disconnect usage from revenue capture. "Given the potential downside to each opportunity, we believe operators need to 'double-bet' by exploring new business models with revenue-capture mechanisms that have more in common with the software and online markets than traditional telecom services," said Mr. Fox.

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Despite market difficulties, a small group of companies were able to post outstanding performance in Oliver Wyman's Shareholder Performance Index (SPI). These include América Móvil, China Mobile, and Telefonica among the super large caps; Bezeq, Shaw, and KPN among the large caps; and Empresa and Starhub among the medium caps.

The calculation of the SPI, which is based on a five-year moving "window" of data, enables consistent comparison of shareholder returns by adjusting for the volatility of returns, differences in local interest rates, and mergers and acquisitions.

**To receive a copy of** Oliver Wyman's 2010 *Communications, Media, and Technology State of the Industry Report*, or to speak with an Oliver Wyman partner on this topic, please contact Liz Egan at 617-424-3721 or [elisabeth.egan@oliverwyman.com](mailto:elisabeth.egan@oliverwyman.com).

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