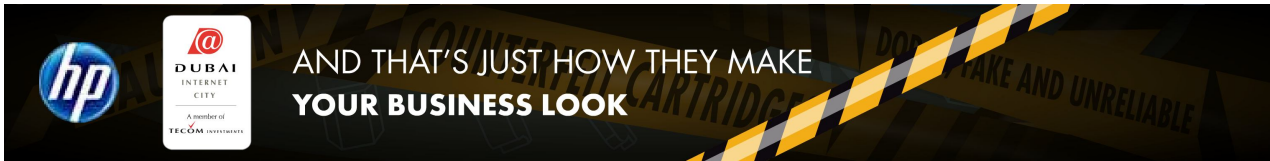




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CEO Challenges in North Africa Telecoms

Press Release

03 August 2010
 Key highlights

North African telecom operators are immersed in a fierce battle in which only the smartest players will survive, CEO's of telecom operators face continuous challenges in revenue augmentation while preserving profitability levels in an increased competitive environment. Only a correct diagnosis of the present situation and identification of winning trends will allow CEO's to succeed in this demanding region

Telecommunication markets in North Africa present diverse opportunities and challenges. These markets have been growing at a CAGR of 20% during 2007-2009 and are expected to continue growing at a CAGR of around 7% over the next five years. The blend of strong mobile voice together with mobile broadband explosion is expected to ensure the future growth. Furthermore, the favourable demographics and the presence of a large youth population will provide additional impetus to this growth potential. While mobile data is set to increase by ~35% annually in the coming five years, it will still represent less than 10% of the total telecom revenues by 2014.

Meanwhile, business profitability is expected to shrink due to the continuous addition of new and less valuable subscribers, which will in turn compel players to ensure a proper allocation of new capital investments. However, as a whole, these markets present some of the most unique growth opportunities in the region.

On the other hand, international players might intensify their footprint in the region, which would complicate local players' business models. In the recent past, players like MTN, Qtel, and Etisalat have expressed growing interest in the region. Additionally, several governments are laying the foundations for healthy competition in telecoms. They are helping putting in place the basics to establish strong local ICT businesses which will bring higher margin returns to the sector at large. Thus far, Morocco, Tunisia and Egypt are progressing towards becoming regional hubs for the ICT sector.

Given this context, North African telecom operator CEO's face a specific set of key challenges. The proper understanding of those and the appropriate means of addressing them will be critical in determining the winners and losers in this marketplace.

Defending Traditional Voice Revenues - Voice revenues constitute over 80% of the mobile operators revenues in the region and will continue at such levels until mobile broadband roll-out and take-up reach significant levels. In such high churn markets (with extreme cases like that of Morocco, where yearly churn levels are close to 45%), operators must defend voice revenues by understanding the customer base through 'Analytics Based Management' (ABM) and preventing the churn of high value clients.

ABM is a new way of looking at the industry putting rigorous customer behavior data analysis at the core of management decisions, being applied in both technical and commercial areas. ABM links business needs with financial requirements, making sure that all restrictions are properly framed. It has become an excellent tool to avoid non-properly quantitative based decisions, which could have led to unnecessary value destruction

Increase Non-Voice Revenue Share - The limited fixed infrastructures of North African countries open the opportunity for mobile to lead broadband growth (until FTTx deployments become a reality). We expect mobile broadband business to add up to US\$ 2.2 Bln in the region by 2014. In order to maximize share value, operators must not only offer capacity, but need to provide attractive devices and content that is relevant to the market. Vertical integration in the data value chain of both internet players and device manufacturers poses a risk for operators, as they may be cornered in the new ecosystem, minimizing their share of revenues captured.

As such, operators must first set a clear broadband strategy and define the role that they want to play in the rapidly shifting data services ecosystem. They need to define a strategy towards devices and content, understanding which elements they want to control, partner, or leave open to other players in the value chain. Operators in certain countries such as Tunisia have made inroads towards the development of broadband strategy. The entrance of Orange as a new player has significantly increased competition in the data front of the business.

Maintaining healthy EBITDA Margins - Most operators, especially incumbents, will see EBITDA margins erode as the markets mature and new competition enters. New subscriber additions to the Bottom-of-Pyramid will further bring down profitability levels per subscriber.

As a result, operators must embark on EBITDA optimization programmes to transform the business model into leaner operations. Optimising efficiencies including infrastructure sharing, standardisation of systems and process, rationalisation of suppliers, cost management and cash optimisation are some of the initiatives to be pursued by operators in North Africa in this regard.

Under a win-win scheme, Tier 1 and operators in more mature markets like Vodafone or Telefonica are offering strategic alliances to players in less mature environments. For those operators in North Africa lacking a significant scale, this type of deals represents an interesting opportunity towards operational efficiency. Currently, the EBITDA Margin levels reported by operators have ranged from highs of 50% in Algeria and Tunisia to mid 30% range in Morocco. The Algerian market has witnessed what is perhaps one of the highest margins in the region, i.e., ~57% by Djazzy, the Orascom subsidiary, in December 2009

CAPEX Optimisation - As revenue growth stagnates, but subscriber numbers continue to grow, the network quality will be compromised. Heavy traffic demand originated by explosion of data services will overload networks in North African markets. Operators will need to look for efficient allocation of new CAPEX, such as exploring opportunities in infrastructure sharing. This would be especially relevant in the event of depleting cash reserves.

Analytics Based Management' (ABM) techniques can also help North African operators identify customer behaviour per BTS. Identifying areas where valuable customers are, as well as quality issues per BTS, can help operators optimize the return on their investments.

Consolidation of the Regional Footprint - Most players in the region are trying to consolidate their local or regional footprint; however, the opportunities are scarce which will likely drive up asset prices. Those operator Groups who are cash strapped will face difficulty in securing funding. Many can raise capital by spinning off assets, such as the network.

The challenge is more for local players to compete with large regional or international players on voice provision. The local players can solidify their positioning by acquiring ISPs or ICT related companies in their local markets.

Relevant role in the Regulatory landscape - All operators need to proactively engage the Regulatory Bodies, given that regulators and governments continue to have a high influence on the competitive environment in North Africa.

In Summary

CEO's of Telecom operators in North Africa region are playing a fierce competitive battle in which winners will be only those that really understand their challenges. More importantly, success will be determined by the capacity of the CEO's to properly apply solutions to those challenges. The proper implementation of ABM techniques, cost efficiency programs, intelligent and adequate CAPEX investments, data strategies and even regional consolidation strategies will decide on the real winners in this battleground.

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