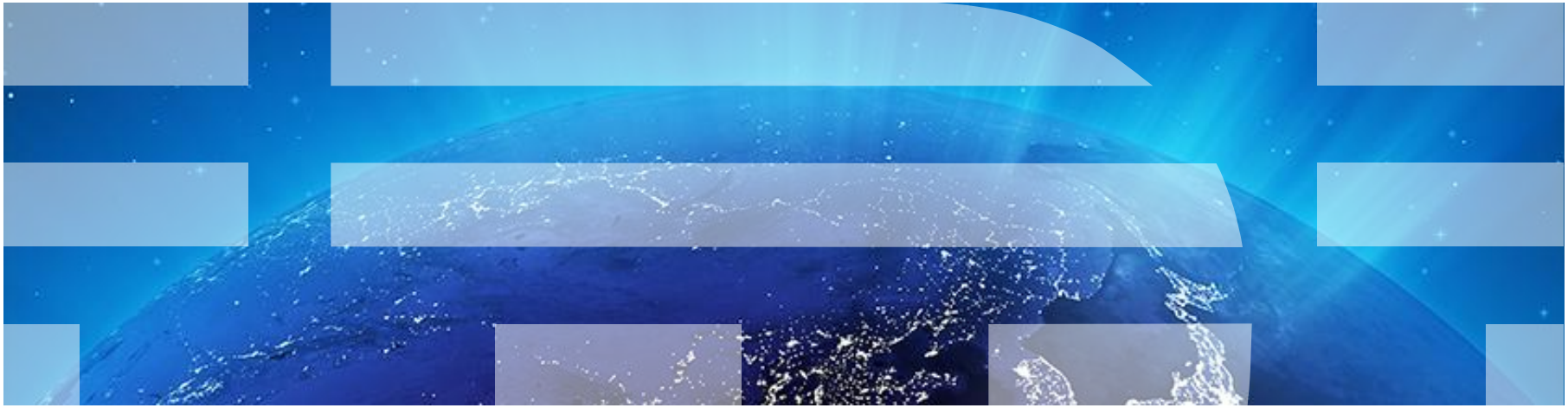
IBM Institute for Business Value

What being Global really means

Why global integration is crucial for international communications service providers



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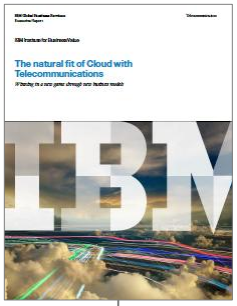
The Telecom GIE PoV is part of a set of Executive Reports, identifying the challenges of CxOs in the telecommunications industry

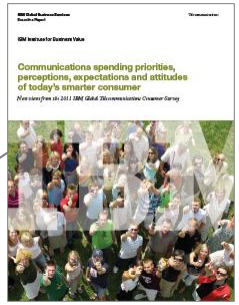
Telco2015

2010



Cloud

2012

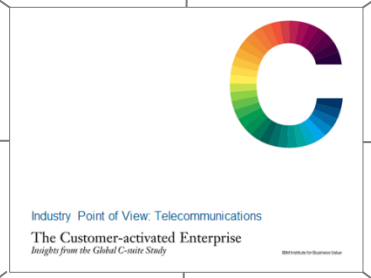


Advocacy

2011

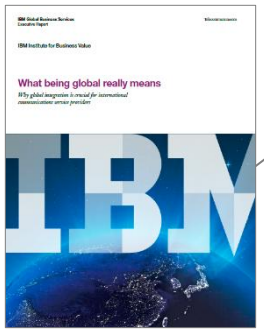
Social

2013



Analytics/ Big data

2013



GIE

2013/14

Mobile

2013

Digital

Q2 2014

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Agenda

Global Expansion

Soaring customer expectations

Digital Customer Experience

In a changing world

Invention and innovation

Needs a stronger core

Global integration and simplification

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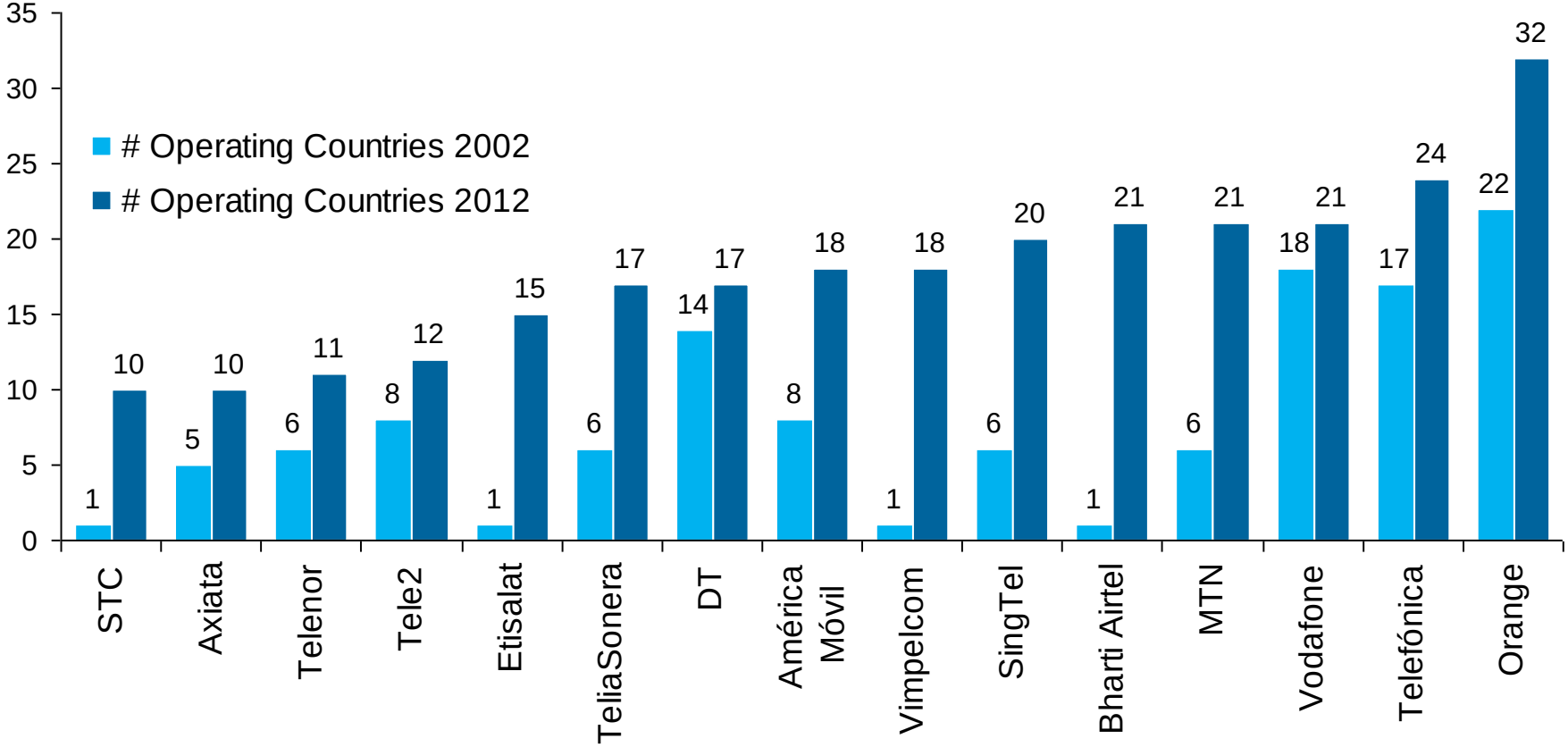
The top 15 global CSPs have gone from a collective penetration of 120 countries in 2002 to 277 in 2012

Operating countries In 2002 and 2012



* Numbers are based on 2002/03 and 2012/13 annual reports

* Not included countries in which CSPs operate with associated companies or in joint ventures

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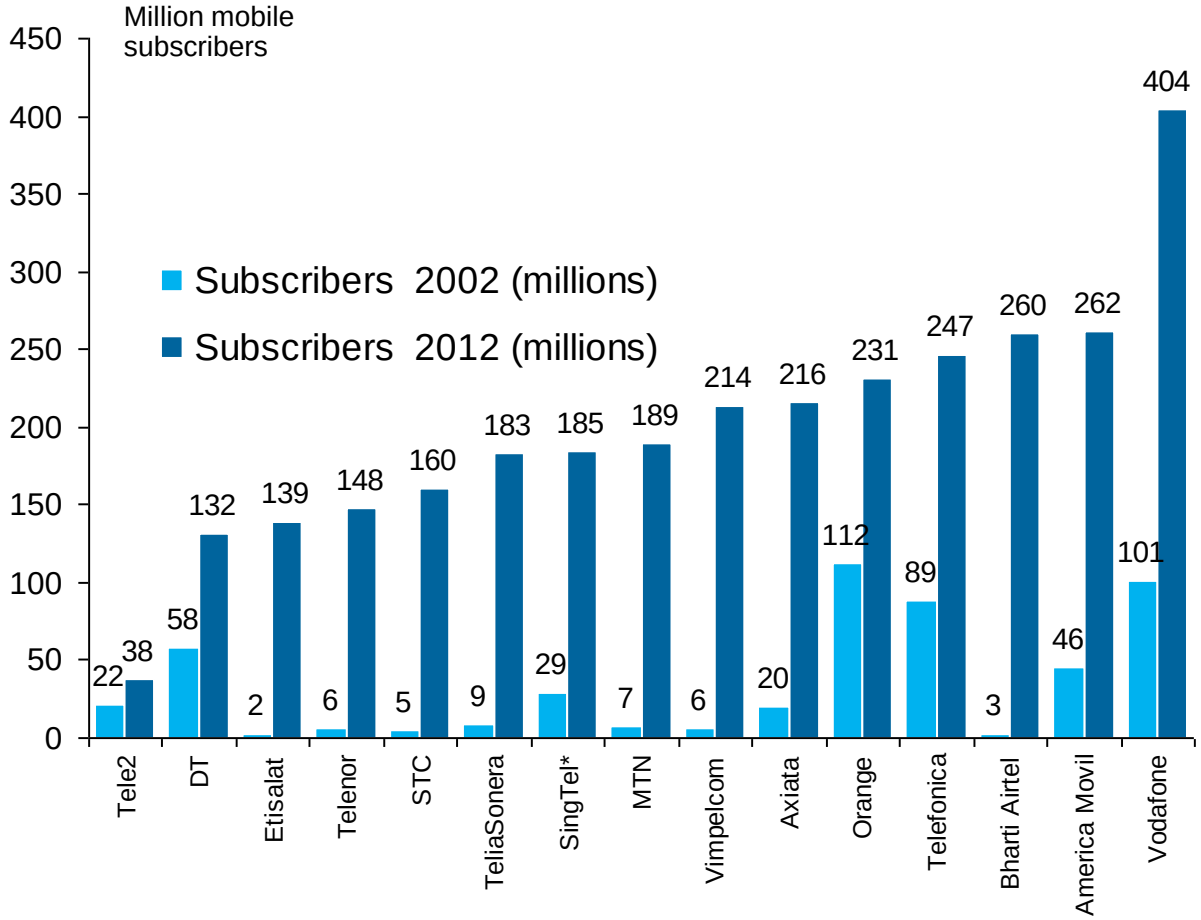
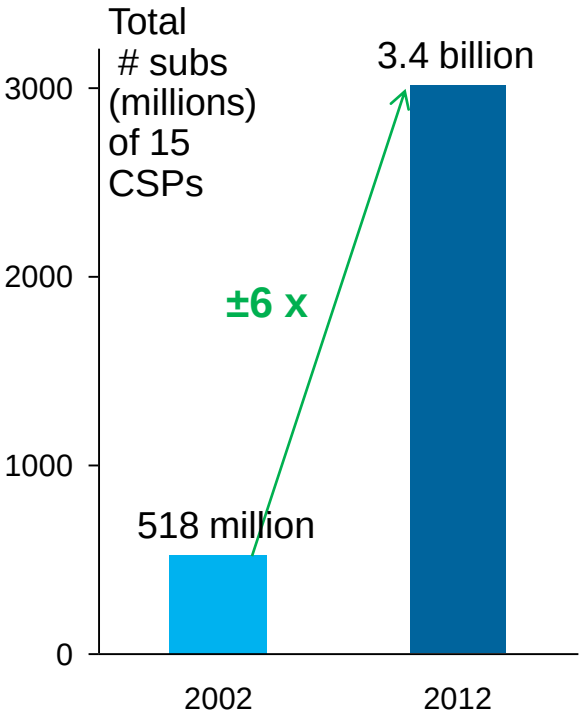
They have delivered growth in terms of global share/customers served, ….

Global share/customers served (In 2002 and 2012)





* In SingTel, Airtel subscribers not included; Numbers are based on 2012/2013 annual reports

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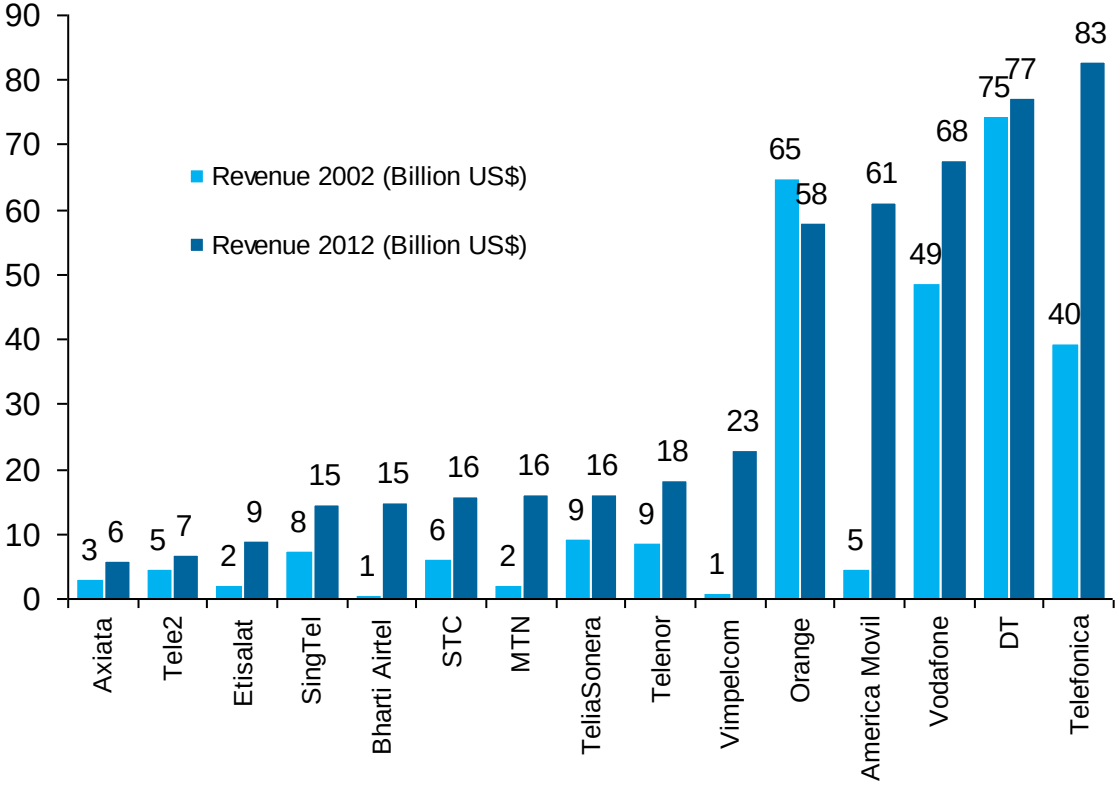
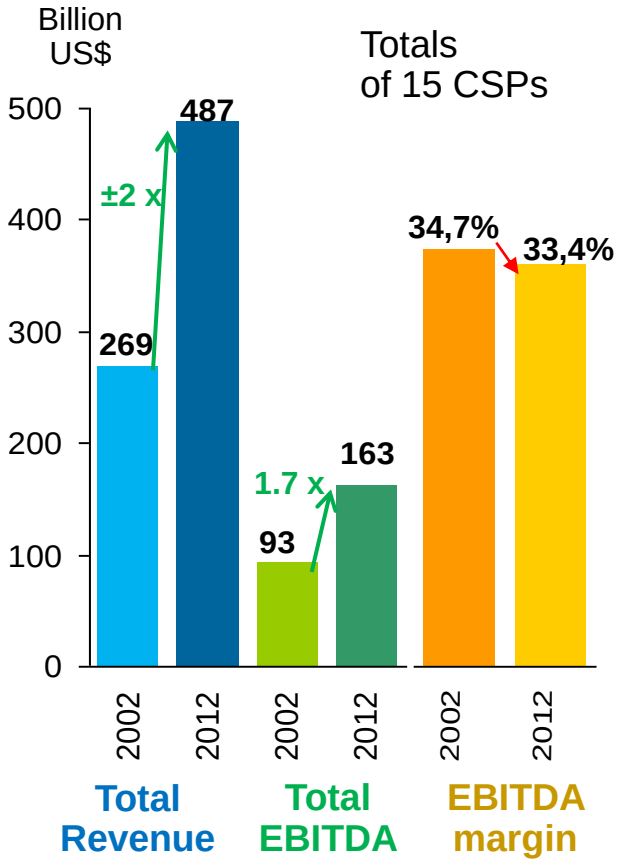
…however growth in revenue and profit have significantly lagged subscriber growth, reflecting the push into lower value markets

Annual revenue in US$ (billions) (In 2002 and 2012*)





Numbers are based on 2012/2013 annual reports

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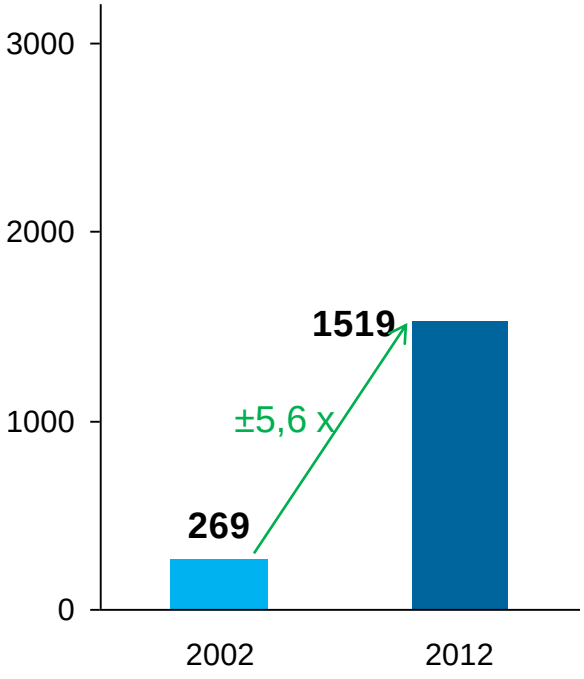
15 of the largest (predominantly) single-market CSPs also grew approximately six fold, revenue growth is consistent with global CSPs

Telecom Group Revenue
US$ 2012-2013*

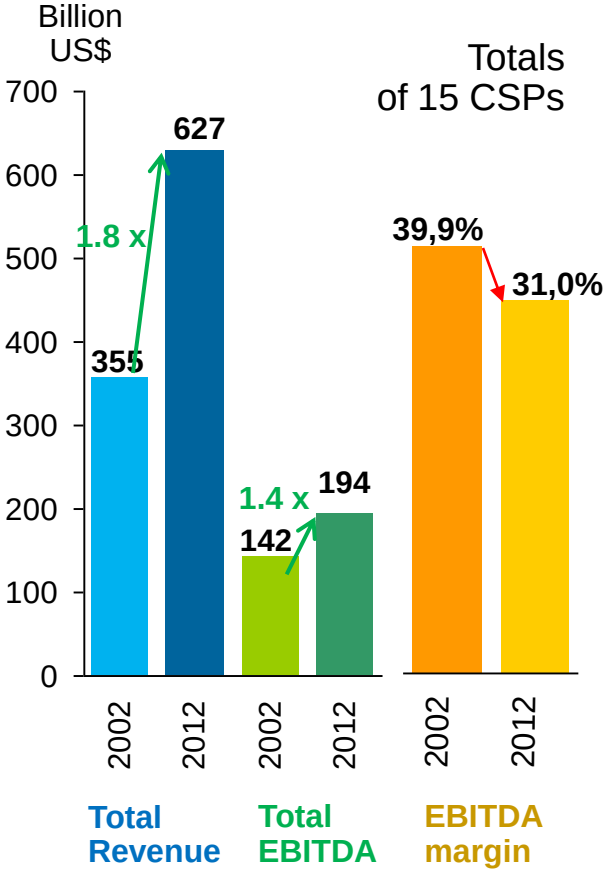
AT&T	127.4
Verizon	115.8
NTT	109.5
China Mobile	90.1
China Telecom	45.5
KDDI	37.5
Telstra	23.8
KT	23.0
Swisscom	12.4
Rogers	11.1
Belgacom	8.6
Turk Telekom	7.1
Bouygues	7.0
Idea Cellular	4.1
Reliance	4.0

Operating with mobile operations mainly in home country

Total subscribers (millions)
of 15 CSPs 2002 – 2012*



Annual revenue in US$ (billions)
(In 2002 and 2012*)



*Numbers are based on 2012 or 2013 annual reports

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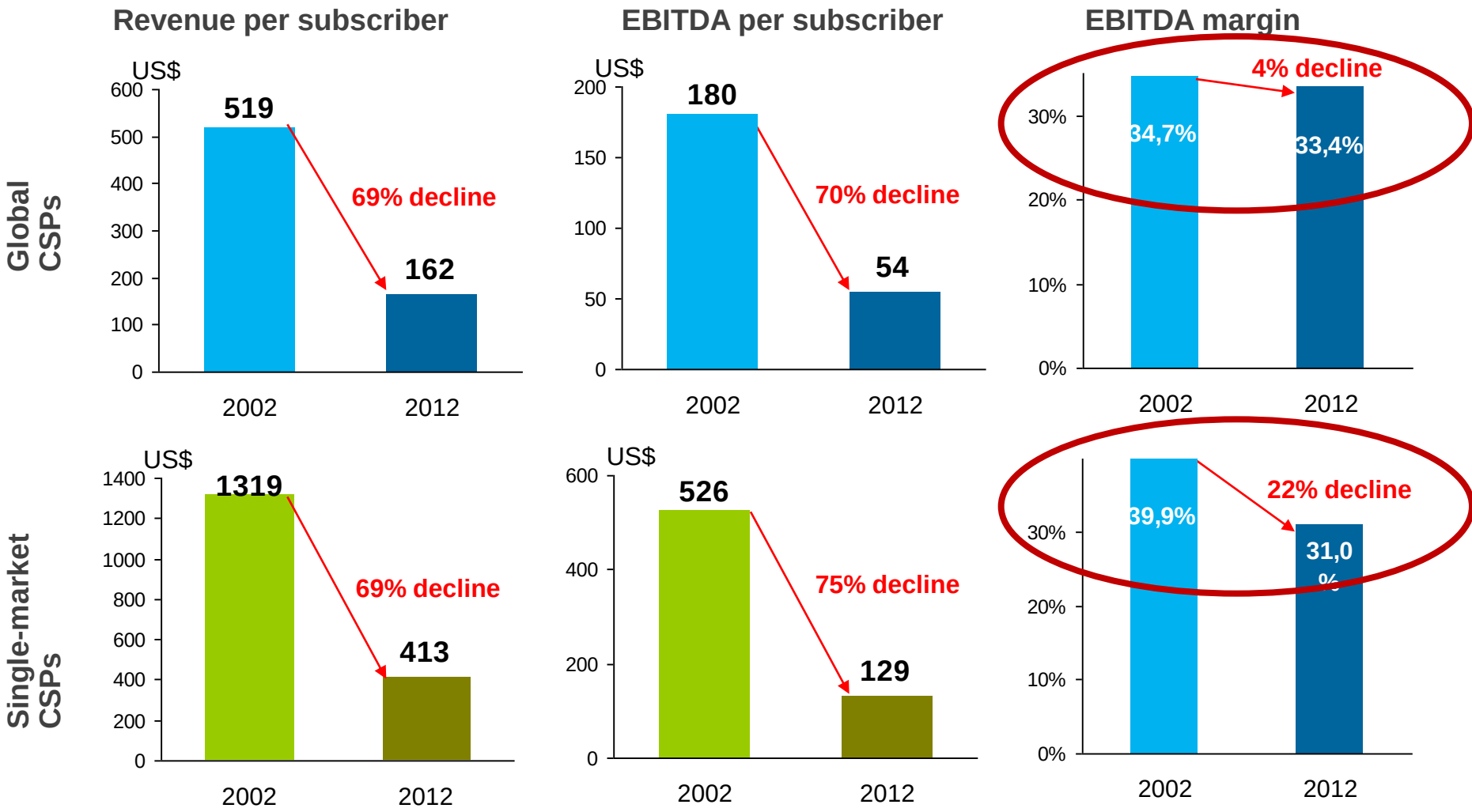
And though the decline in EBITDA margin in this period was lower for global CSPs than for single-market CSPs, the EBITDA margin gap has narrowed



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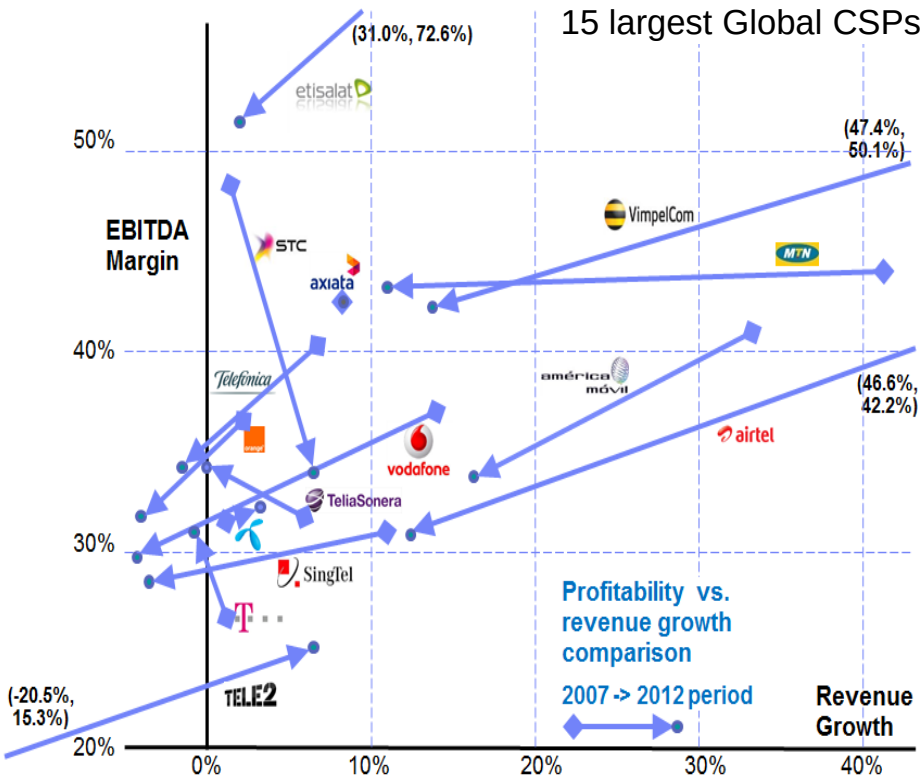
With the decline in EBITDA, we are also seeing a decline in market value...

Company	2013 MV $B	2012 MV $B	YtY MY Change
Vodafone	149	144	3%
América Móvil	75	104	-28%
Telefónica	63	63	0%
Deutsche Telecom	41	48	-15%
SingTel	40	40	0%
MTN	37	33	12%
Telenor	34	29	17%
Telia Sonera	30	29	3%
Orange	28	36	-22%
Etisalat	25	17	47%
STC	22	22	0%
Bharti Airtel	21	22	-5%
Axiata	20	15	33%
Liberty Global	19	13	46%
Vimpelcom	18	16	13%
Oredoo	10	10	0%
Millicom	8	10	-20%
Tele2	6	8	-25%
TOTAL	**646**	**659**	**-2%**



Source: 2014 IBM report: What being global really means

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...and growth is shifting away from the traditional CSP revenue stream

Telcos are unlikely to return to top line growth above GDP +1-2%...

…as value migrates to other players in the ecosystem.

Telco Traditional Revenues ($B)

	2011	2020	CAGR
Fixed and mobile voice	986	906	-0.9%
SMS	100	129	2.9%
Fixed broadband	226	389	6.2%
Mobile broadband	138	464	14.4%
Value added services (VAS)	61	125	8.3%
Total	**1,511**	**2,013**	**3.2%**

Source: Bank Of America – European Telecoms – Ignore at your Own Risk, 03/27/12, data from Delta Partners

Global Telco Addressable Opportunity in the Digital Value Chain ($B)

	2011	2020
Traditional revenues	1,511	2,013
New revenue sources		
Mobile to Mobile *	**44**	**279**
Content & Apps**	**215**	**362**
Advertising	**29**	**54**
ICT (cloud and other ICT)	**255**	**482**
Total new revenue sources	**543**	**1,177**
Total addressable market	**2,054**	**3,190**

9%

CAGR 2011-2020	
Telco traditional revenues	3.2%
Telco new revenue sources	**9.0%**
Total telco addressable market	5.0%

*Mobile to mobile: machine-machine, cars, metering
**Content & Apps: PayTV, apps, finance, health

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The battle for that growth will be fought with new players

50 Million Users

100 Million Users (Int)
300 Million Users (China)

200 Million Users

Google fiber

40 Million Subscribers

50 Million *concurrent* *Users*

255 Million Users

1.2 Billion Users

230 Mio Active Buyers

2nd Largest Retailer Globally

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The global OTT players are cashed up

The market value of the Top 15 equals that of the **Top 100 publicly-traded CSPs**

The top 5 have more than **$115B of cash** on their balance sheets

OTT and Internet category players

2012/13				2004			
Rank	Company	2013 Market Value ($B)	2012 Revenue ($MM)	Rank	Company	2004 Market Value ($B)	2004 Revenue ($MM)
1	Apple	$491	$169.400	1	eBay	$62	$ 3.271
2	Google	363	57.390	2	Yahoo!	45	3.575
3	Amazon	181	66.850	3	IAC Interactive	37	4.186
4	Facebook	133	6.120	4	Yahoo!Japan	36	1.101
5	Tencent	111	8.240	5	Google	30	3.189
6	eBay	68	15.510	6	Apple	17	6.921
7	Priceline	61	5.880	7	Amazon.com	14	8.279
8	Baidu	59	4.170	8	Rakuten	8	445
9	Naspers	44	5.870	9	Monster	3	846
10	Yahoo!	41	4.760	10	WebMD	2	134
11	Salesforce	32	3.470	11	Index	2	357
12	Yahoo!Japan	32	4.550	12	Shands	2	157
13	Twitter	30	534	13	NCSoft	2	280
14	LinkedIn	26	1.240	14	NHN	1	253
15	Netflix	22	3.940	15	For-side.com	1	85

2004 data as of 9/17/2004. 2013 Market value as of 12/19/2013. 2012 Revenue is TTM.

List excludes Alibaba ($75B), whose private market value would put it in the Top 10.

List also excludes Skype (bought by MSFT in 2011 for $8.5B), YouTube (reported as part of Google) and Paypal (reported as part of eBay)

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Telecom CxOs foresee major changes in their offerings driven by major changes in the competitive landscape

Shifting ground: business landscape changes

"Data monetization will be very important in the future as telcos reinvent themselves, as competition in the Business As Usual markets increases with Over The Top offerings."

CIO, Telecommunications, Canada

Source: Question E9–How do you see the landscape changing over the next 3 to 5 years?; Telecommunications n=218

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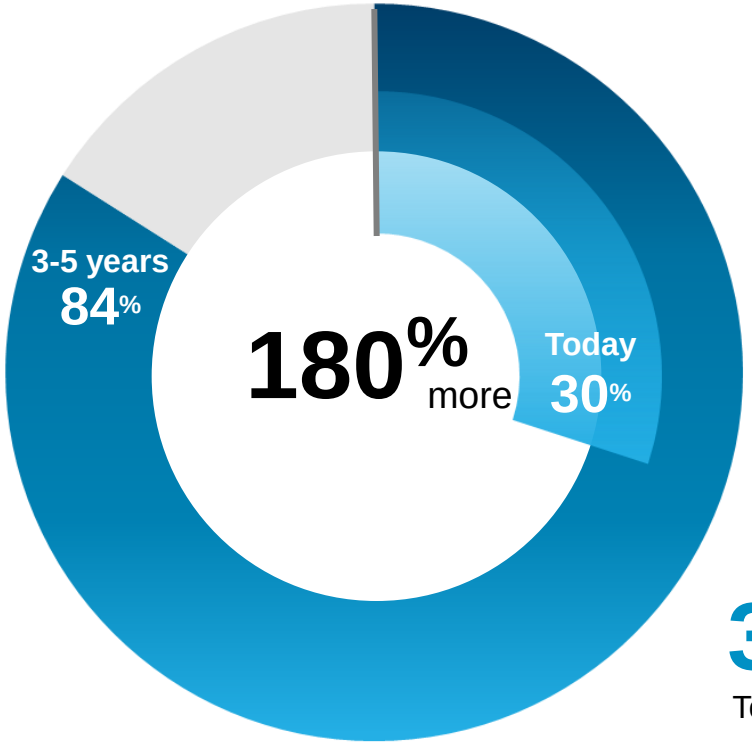
Most telecom CxOs recognize they don't understand their customers well today, but they expect to get much better

Level of customer understanding today and in 3-5 years



"It is key to lift the insight to customer behavior and upgrade the capability of quick responsiveness to customers' demand."

CEO, Telecommunications, China

30% Today | **84%** 3–5 Years

Source: Question C1–How well do you understand your customers today?; Telecommunications n=208
Question C8–How well do you think you will understand your customers in 3 to 5 years?; Telecommunications n=205

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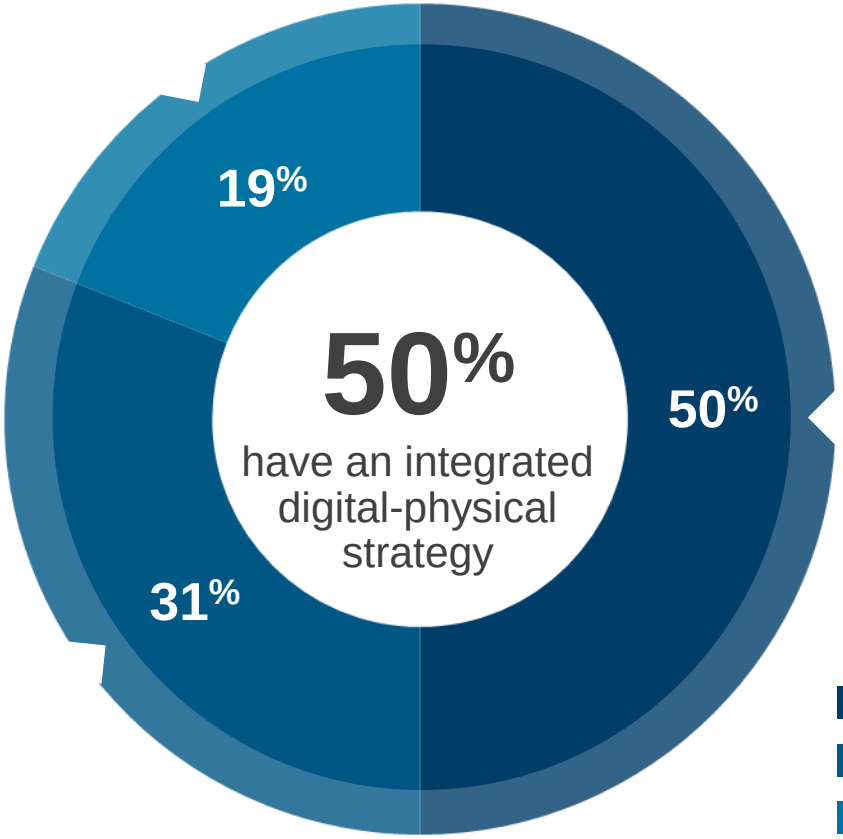
Yet half of the telecommunications companies in our sample have a weak digital-physical strategy – or none at all

Types of digital strategy



"We plan to ensure the customer is well understood, recognized and served from any channel and via any product: the 360 degree view of the customer (web, shop, call center, social network, etc.)."

CIO, Telecommunications, Russia

- Integrated digital-physical strategy
- Limited digital strategy
- No digital strategy

Source: Question B4–What kind of digital strategy does your enterprise have?; Telecommunications n=204

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The implications for CSPs

Soaring customer expectations

Digital Customer Experience

In a changing world

Invention and innovation

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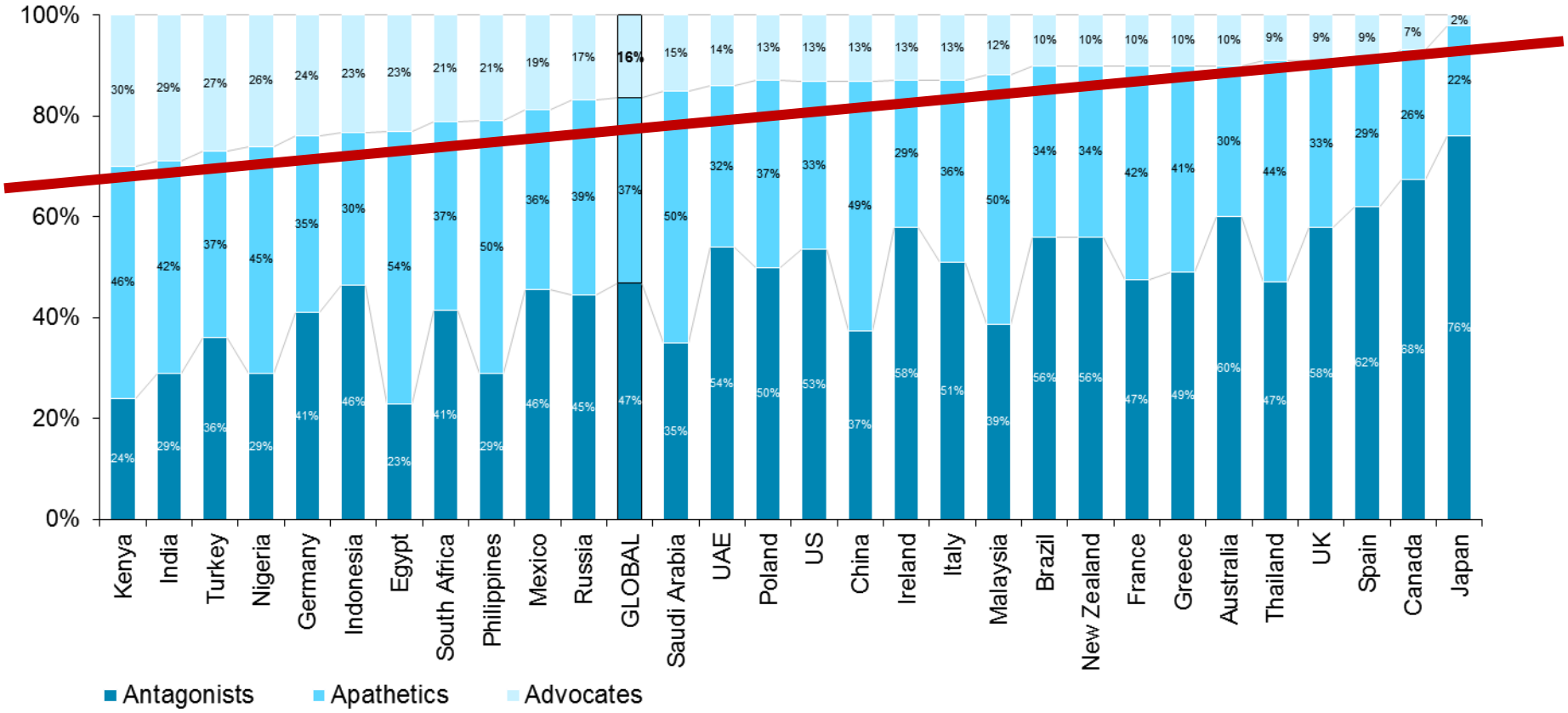
Globally, 16% of customers are Advocates of their telecom provider. This is down 2% since 2012.



46.9%	36.8%	16.4%

Source: 2014 IBM Global Telecom Consumer Survey,
Which of the following Loyalty statements Recommendation, buying, staying intent about your provider do you agree/disagree with?

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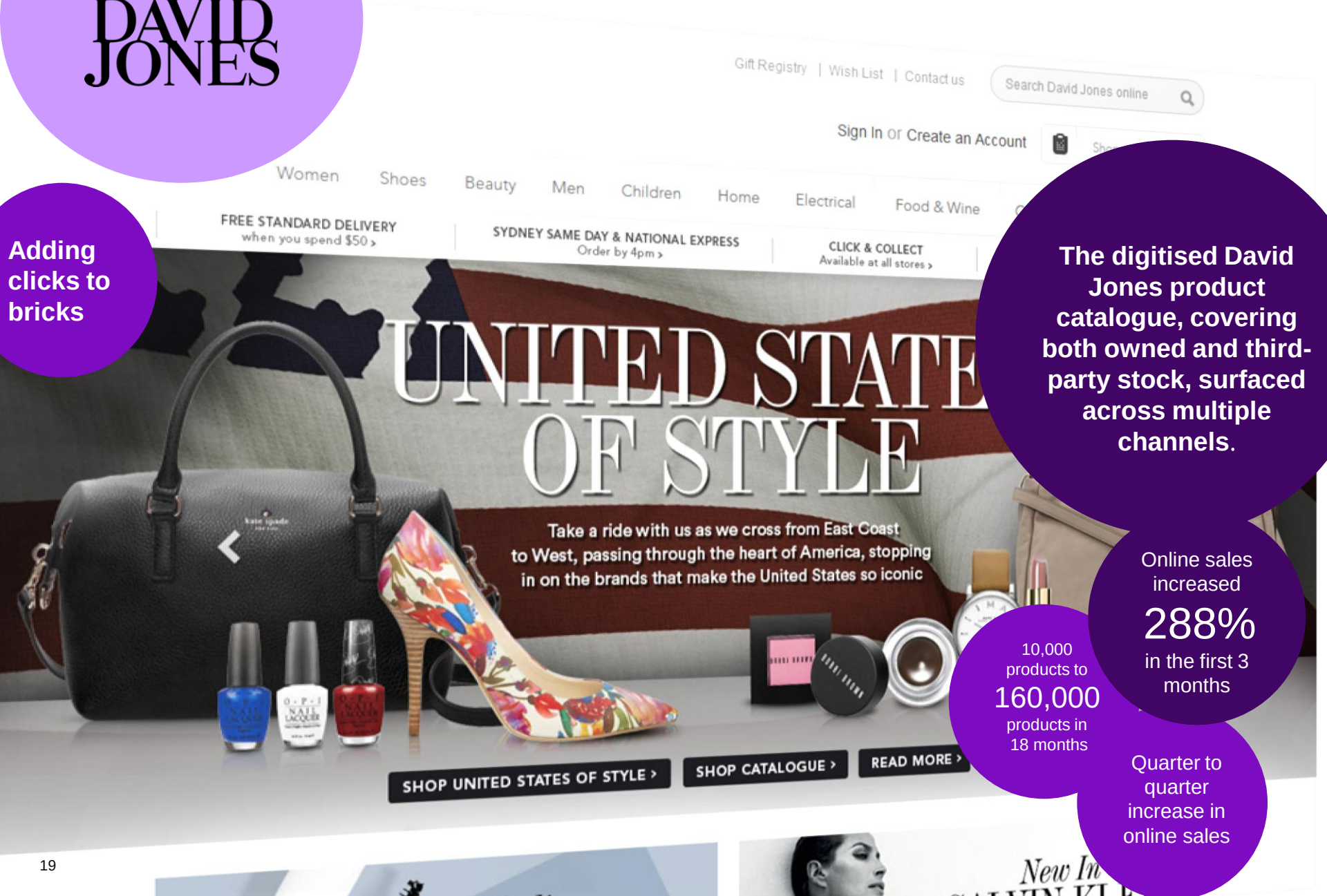
Doubled throughput in the departure concourse, drastically reducing queues

Set the global standard for customer experience in airports

Qantas and IBM® partnered to create a first-in-the-world RFID-tag based check-in and bag drop process, speeding passengers through the pre-departure process.

DAVID JONES

Adding clicks to bricks



The digitised David Jones product catalogue, covering both owned and third-party stock, surfaced across multiple channels.

Online sales increased
288%
in the first 3 months

10,000 products to
160,000
products in 18 months

Quarter to quarter increase in online sales

Innovation...

Exploit remaining pockets of growth

Enter higher growth adjacent spaces

Leverage on differential insight

Cannibalize before being cannibalized

Partner with OTTs

COMCAST

at&t

T-Mobile

swisscom

kpn

...vs Invention...

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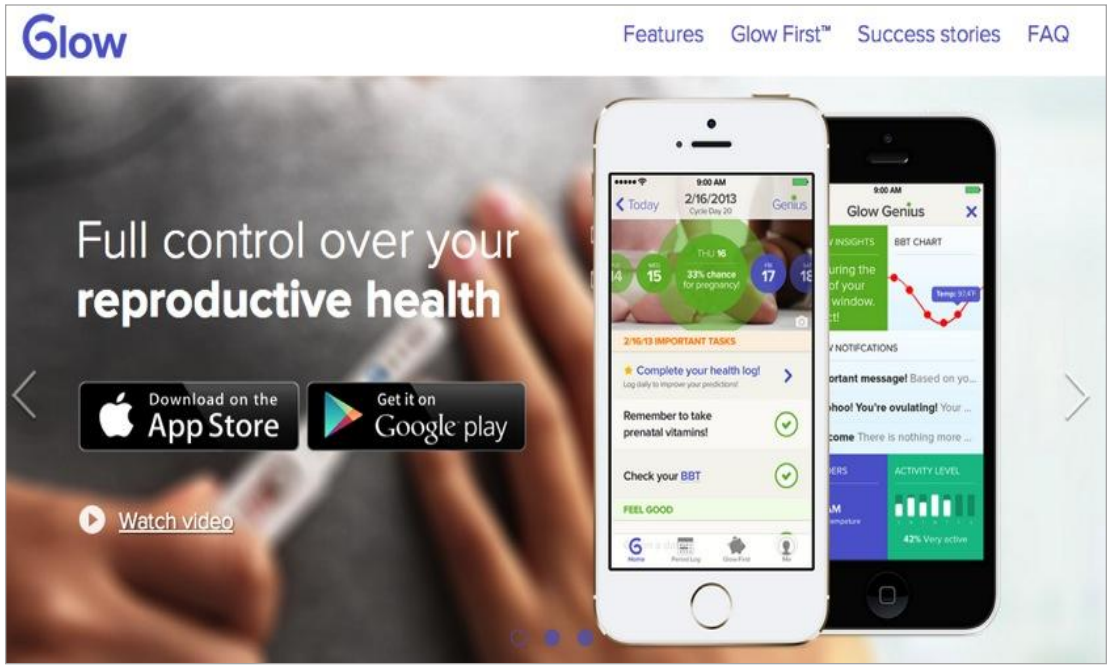
How we see the world changing

The instrumented life



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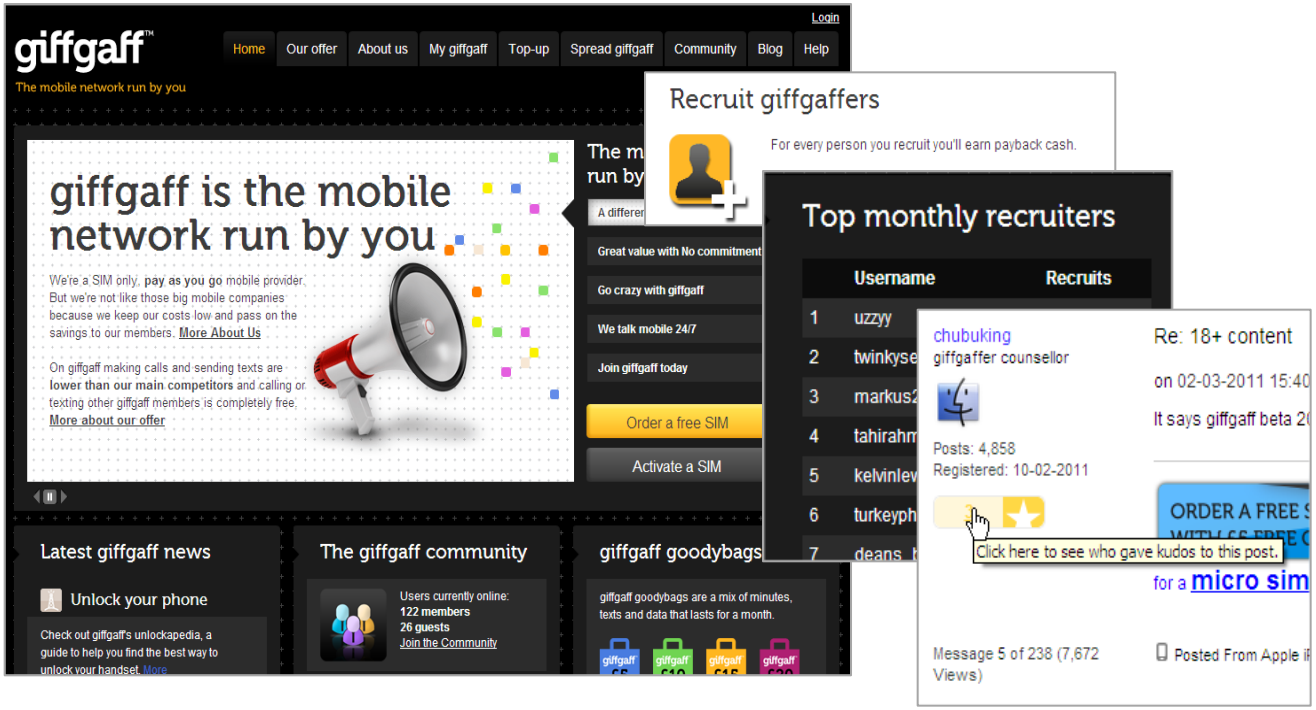
How we see the world changing

True peer-to-peer



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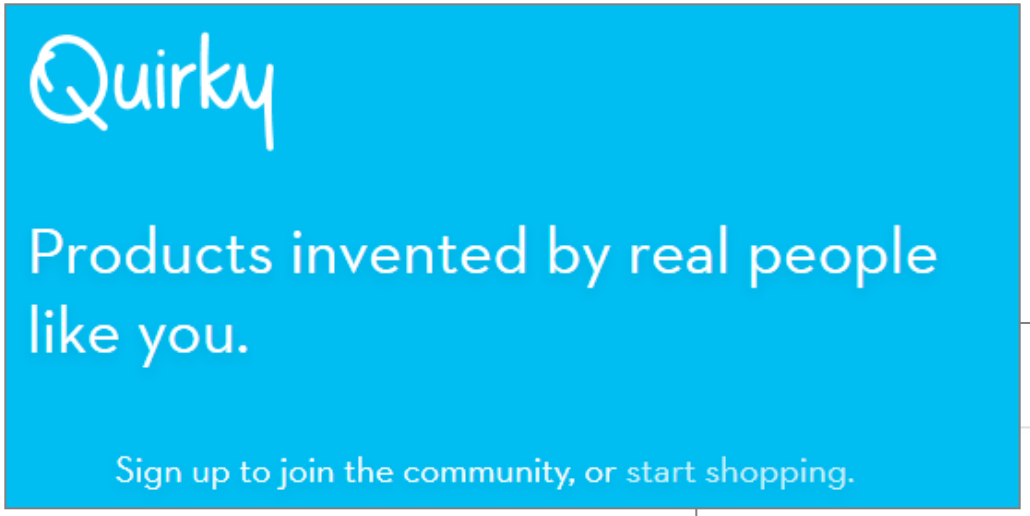
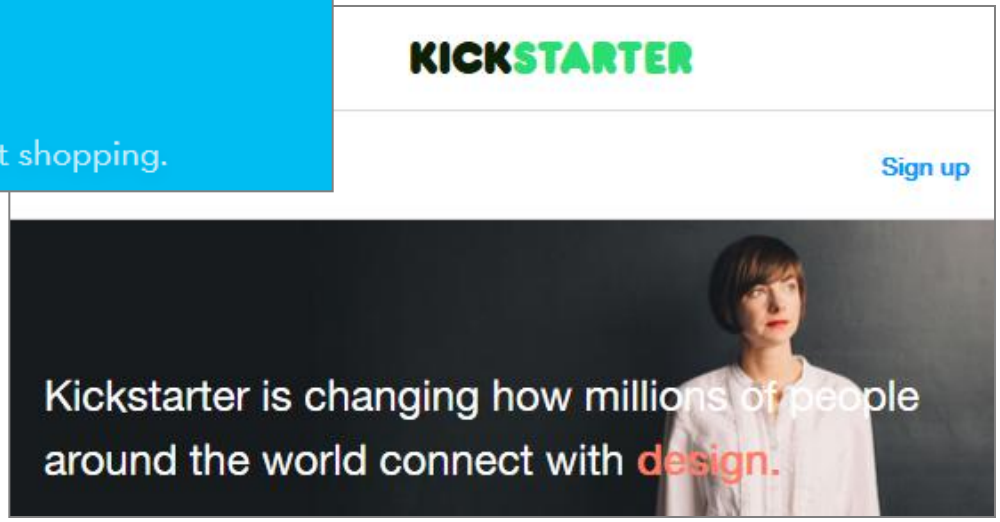
How we see the world changing

Peer-to-peer innovation





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How we see the world changing

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Global economies of scale and simplification are key imperatives

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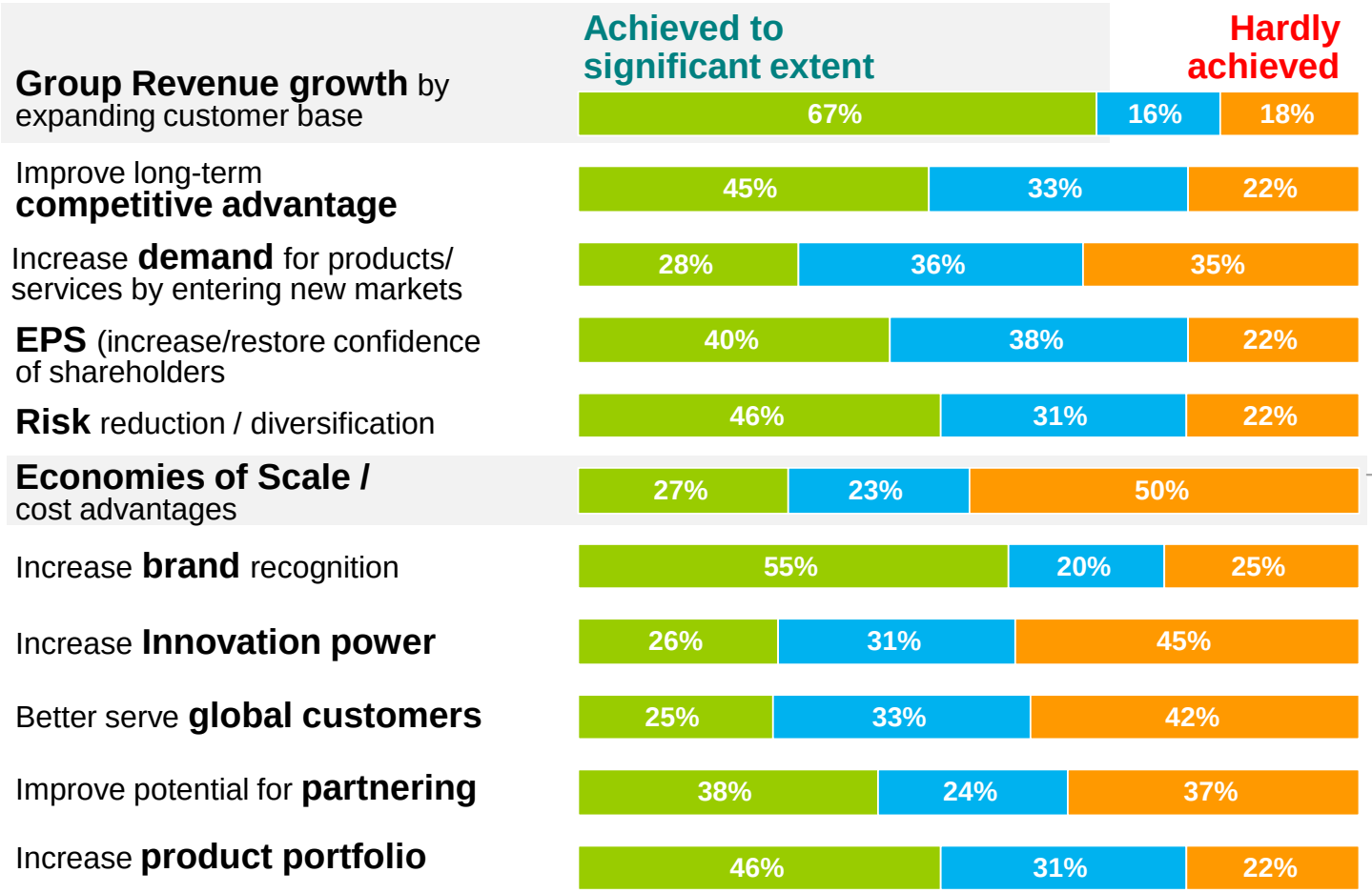
Group revenue growth has been the number one objective, however, the focus must shift

To what extent do you believe is your organization ACHIEVING the M&A OBJECTIVES?



Only 27% stated that economies of scale has been realized to significant extent

Source: IBM Institute for Business Value GIE survey N- 49

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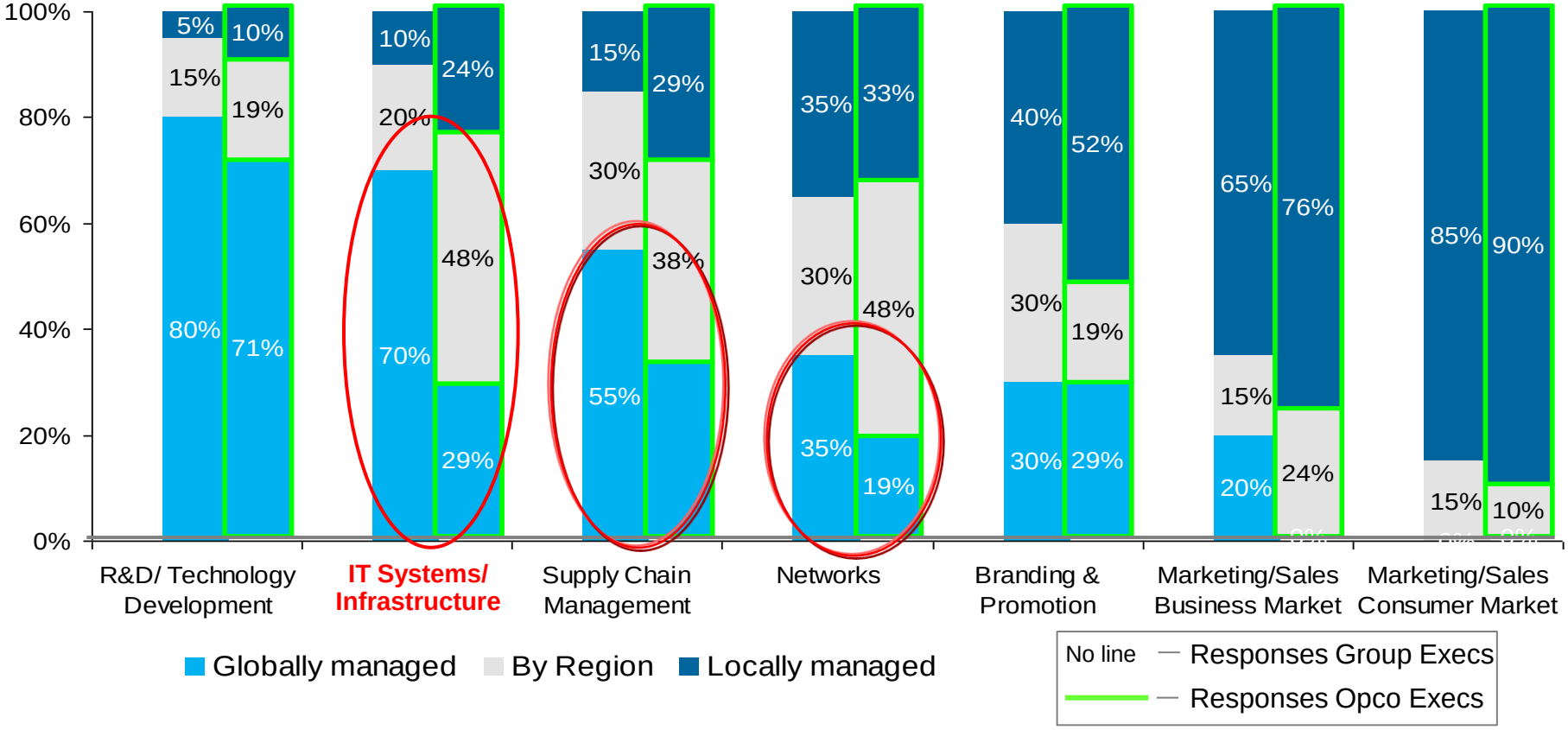
There seems to be a clear discrepancy between Group and Opco executives about how 3 key functions should be managed

GLOBAL vs LOCAL: How do you believe the functional areas should be managed: 1) CENTRALLY managed, 2) managed BY REGION, 3) LOCALLY managed?



Source: IBM Institute for Business Value GIE survey N- 49

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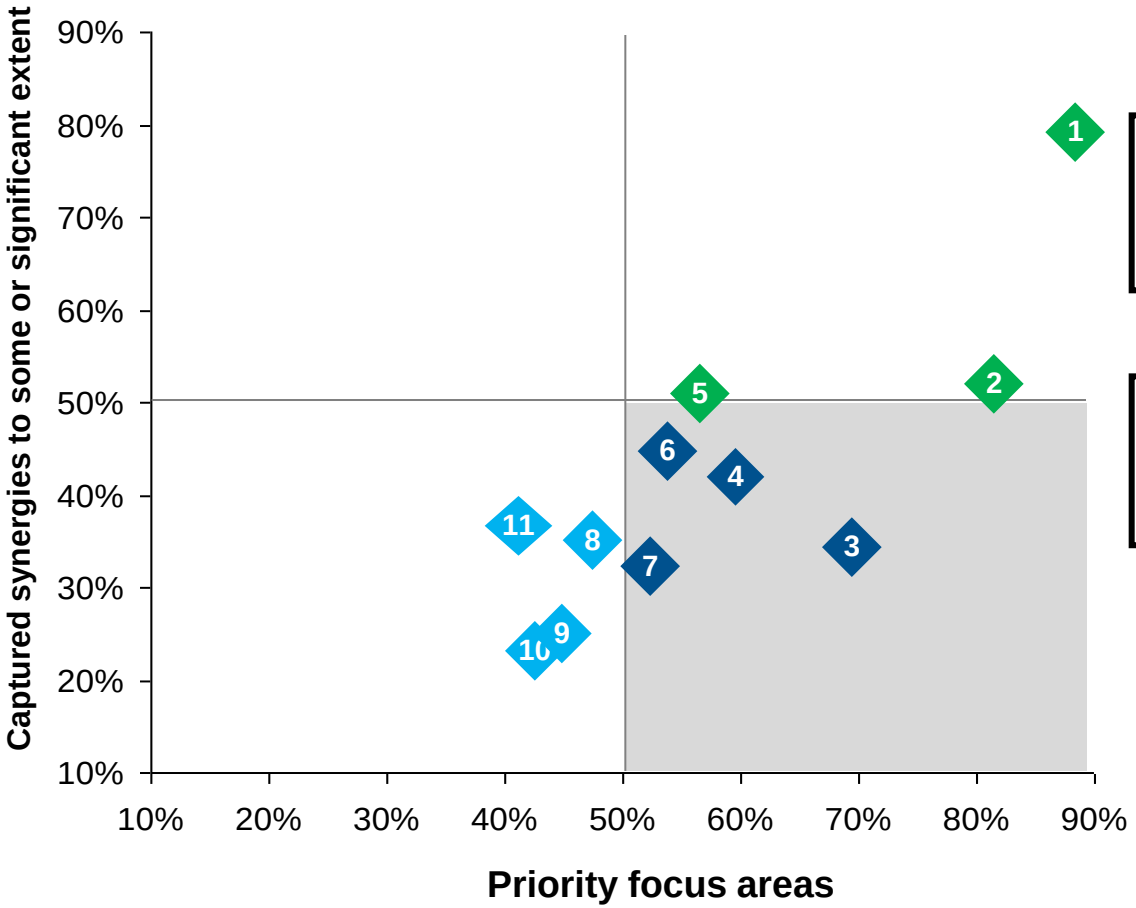
Realising the value from synergy, more to be found!

In which AREAS was your organization able to CAPTURE SYNERGIES?



1 **Procurement** (procurement consolidation)

2 **Network** (design, components, operation, mgt)

3 **IT Systems/Infrastructure** (homogeneity/virtualization/consolidation)

4 **Operations** (operating efficiency, alignment of processes)

5 **Branding** & promotion

6 **Shared Services** (HR, Finance, etc)

7 **Resource** (optimized resource allocation)

8 **Partner Selection**

9 **Data Centers** Consolidation

10 **Product/Service offering** (homo-geneous group products & services)

11 **R&D/Innovation/Knowledge** (Centers of Excellence)

Source: IBM Institute for Business Value GIE survey N- 49

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The way forward

Soaring customer expectations

Digital Customer Experience

In a changing world

Invention and innovation

Needs a stronger core

Global integration and simplification

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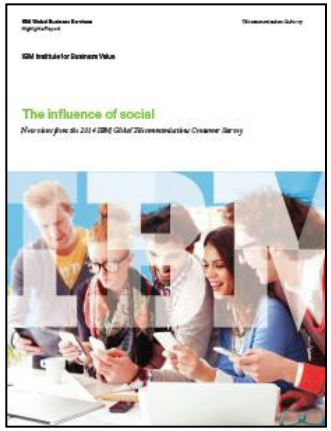
Thank you



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