

What will telco look like in 2030?

The role of telecom operators in the Middle East looks set to undergo a fundamental change. Providing excellent connectivity and high data speed (fast data speed) will no longer be their primary focus. Operators are now ideally positioned to make substantial gains by enabling the digital transformation of the public and private sectors. To reorient their business successfully, however, they will need to bolster their capabilities through acquisitions, partnerships, and investment, and overcome various challenges.

By offering enhanced connectivity and ever-increasing data speeds over the last decade, telecom operators have facilitated a technological explosion, with a huge impact on businesses and consumers alike.

During the next decade, operators in the Middle East will need to play a similarly vital role, this time in enabling public- and private-sector digital transformation. The relevant services they can provide include new enhancements of cloud and new-age technologies, such as blockchain and artificial intelligence (AI). The potential rewards are substantial, including the sustainable growth that operators crave as the market for their traditional activities becomes saturated. According to IDC, the regional public-sector cloud market alone is expected to grow to US\$2.35 billion by 2024, more than double its current size.

Operators in the region have several natural advantages that equip them well for this transition. First, they already have a large customer base resulting from high mobile penetration. For example, the United Arab Emirates is ranked number two globally for its proportion of mobile subscribers.

Second, they have the available cash to make the necessary investments. Operators in the Middle East have always been able to generate a high level of free cash flow by global standards, and the COVID-19 pandemic is unlikely to alter this reality significantly.

Third, most regional operators are heavily supported by the state. For example, the Emirates Investment Authority has a 60 percent stake in Etisalat, and the Public Investment Fund in Saudi Arabia owns 70 percent of stc. Moreover, regional regulatory authorities have implemented timely reforms, which provide an impetus for digital transformation.

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However, in order to reposition themselves as enablers of digital transformation, operators will need to augment their existing capabilities through inorganic activity. Regional operators have been active in mergers and acquisitions despite the pandemic. For example, Etisalat completed its acquisition of German cybersecurity firm Help AG in 2020, while Ooredoo and Hong Kong conglomerate CK Hutchison Holdings are exploring a deal to merge their Indonesian wireless phone businesses.

Operators should not restrict themselves to mergers and acquisitions however. Another route to inorganic growth is corporate venturing. Operators can consider making strategic investments in the growing number of technology startups in the region and throughout the world. In March 2020, Riyadh-based online grocery app Nana raised \$18 million in an investment round co-led by Saudi Technology Ventures (STV), which is backed by stc, and Middle East Venture Partners (MEVP).

Joint ventures are another option. Telecom operators in the Middle East can co-invest in emerging technologies, or combine forces to establish regional infrastructure platforms. In 2019, UAE's du and Bahrain's Batelco entered into a joint venture named Arc, in order to set up a technology platform capable of providing connectivity and data center services throughout the region.

Partnerships and alliances can be equally important in developing operators' strategy and laying the platform for future success. One such example is the recent multi-year partnership between Etisalat and Microsoft. The tech giant will help Etisalat to develop a public cloud-first strategy, which will involve building a digital platform equipped with automation and AI capabilities. Another recent strategic partnership, this time between Comviva and Ooredoo Kuwait, will use machine learning to improve customer retention and maximize individual customer value.

As well as needing to improve capabilities, telecom operators in the Middle East will face other challenges as they seek to become enablers of digital transformation. Given the scale of the current downturn evident in other sectors, and the healthy history of returns recorded by regional operators, shareholders will surely push for further short-term gains, possibly mitigating the scale of long-term investment required for strategic change.

Such change requires continuity at the top. The constant turnover in leadership positions witnessed at regional operators therefore represents another obstacle that needs to be addressed. The right talent must be brought in, not just by means of inorganic growth, but also through recruiting expertise from companies that specialize in emerging digital focus areas. Operators will certainly need to undergo a cultural shift and become more comfortable with risk. They should have the courage to appoint specialist leaders from outside their ranks to run these new companies, and eliminate the prevailing fear of failure within their organizations.

If telecom operators in the Middle East confront these challenges in a robust way, then they are likely to look very different in 2030. The major rewards promised by this change lie within their grasp.