IBM Institute for Business Value

What being global really means

Why global integration is crucial for international communications service providers

Overview

Seeking growth and long-term competitive advantage, many communications service providers have aggressively expanded their global reach. Now, as the hyper growth phase in mobile draws to an end and competition intensifies, many of these global players are experiencing decreases in revenue and profit growth. Despite their worldwide presence, they have been unable to achieve a meaningful financial advantage over their single-market peers. How can these CSPs better exploit their global breadth? We suggest they focus on improving their global integration to drive the synergies necessary for cost savings and innovative growth.
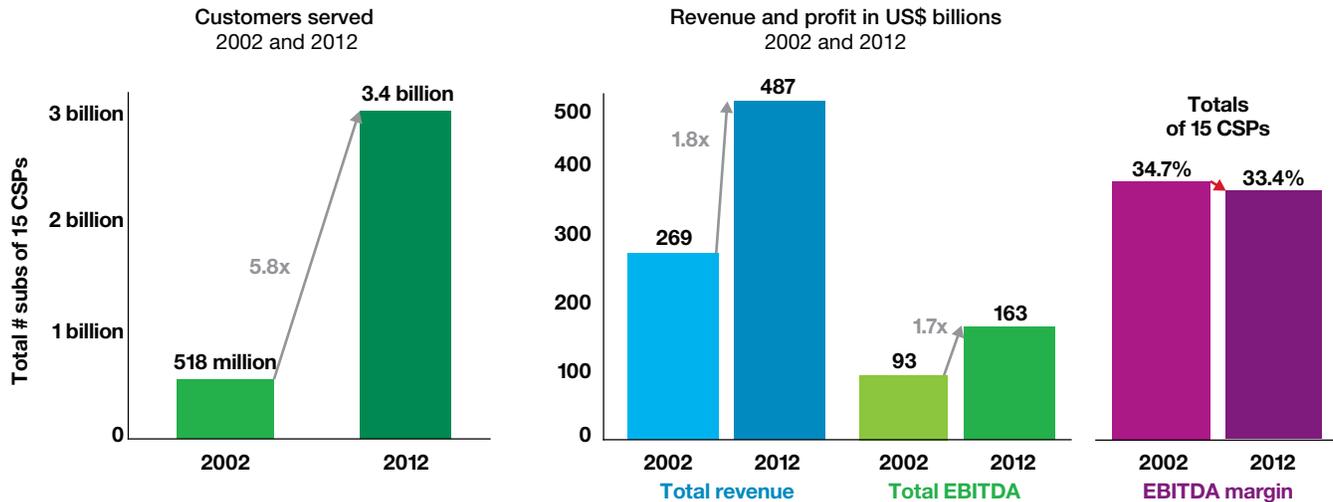
Over the past 10 to 15 years, many communications service providers (CSPs) developed operations outside their home countries, taking advantage of the growing mobile market. From 2002 through 2012, the subscriber base of the 15 largest global CSPs grew sixfold, although revenue and profit grew less than twofold (see Figure 1). The market today, however, is virtually saturated, making it difficult to find new subscribers. Competition has become fierce, with over-the-top (OTT) providers attacking core service revenues and driving up CSP network costs.

According to our research, both global and single-market CSPs have experienced declines in earnings before interest, taxes, depreciation and amortization (EBITDA) during the 2002 to 2012 timeframe.[1] And from a market appreciation point of view, global CSPs no longer trade at a meaningful premium compared to their peers.[2] This raises the question of what strategies and tactics global CSPs should adopt to improve their performance and restore shareholder trust.

We believe the answer can be found through true globalization. Most of the international CSPs operate as multinational enterprises, which conduct business in numerous countries, understand local customer requirements and cultivate local talent. However, such enterprises often suffer from redundancy and duplication of functions within their various countries. A globally integrated enterprise (GIE), on the other hand, gains business benefits from economies of scale and drives synergies for cost savings and innovative growth. In a GIE, operations are integrated, with work flowing to where it's done best.

Customers served
2002 and 2012

Total # subs of 15 CSPs

- 3 billion
- 2 billion
- 1 billion
- 0

3.4 billion

5.8x

518 million

2002   2012

Revenue and profit in US$ billions
2002 and 2012

- 500
- 400
- 300
- 200
- 100
- 0

487

1.8x

269

163

1.7x

93

2002   2012

Total revenue

2002   2012

Total EBITDA

Totals of 15 CSPs

34.7%

33.4%

2002   2012

EBITDA margin

Source: IBM Institute for Business Value analysis of publicly available financial reports (2002 - 2012/2013) of top 15 global CSP providers. 2013.

Figure 1: Global share and number of customers grew at a much higher rate than revenue and profit.

The reality is that CSPs are not nearly as globally integrated as they might be. To determine where global CSPs are in their progression toward becoming GIEs, we conducted financial analyses on 15 of the largest companies, as well as interviews with executives. We discovered that global CSPs have made great progress in achieving economies of scale in the areas of procurement, network and branding. However, the research highlighted areas for further improvement relating to front- and back-end integration.

A game plan for integration

Negative growth trends are creating pressures for CSPs to better manage costs and reap benefits from economies of scale. The critical question and call to action for the industry is how to arrest this decline and turn the curve back to margin growth. The good news is that CSPs with a global footprint have numerous opportunities to leverage scale to capture additional value from their multi-country presence.

Our executive interviews revealed that the global players are missing opportunities to leverage synergies in IT, operations, shared services and optimization of resource allocation. We believe they should focus on front- and back-office integration to further their global integration and reap the associated cost savings and revenue opportunities.

Back-end integration

Standardizing and consolidating IT platforms: For many CSPs, already complex systems have been further complicated through acquisitions and other activities that resulted in disparate systems and outdated applications. CSPs can focus on consolidation to achieve common platforms and standards worldwide.

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Simplifying and streamlining processes and operations: Standardized global processes can help reduce operating costs through economies of scale and also enable consistent customer experiences.

Improving shared services capabilities: Creating globally integrated support functions for services that are not strategic to local operations (such as HR, finance, payroll, etc.) enables breakthrough cost savings.

Front-end integration

Enterprise-wide digital front office (DFO) transformation: Alignment of front-office automation (e.g., digital channels, online store and self care) across the organization enables a uniform global brand experience, while still allowing for rapid response to local conditions to meet customers' needs.

Globally coordinated product/service strategy: The potential benefits from developing an integrated global plan to develop and market products and services are substantial. By thinking globally and acting locally, a global CSP can explore and develop unique features for each country, while also benefiting from its strength as a global enterprise.

Conclusion

To achieve meaningful financial advantage over their single-market peers, global CSPs need to evolve from multinational companies into globally integrated enterprises. As they continue leveraging synergies in procurement, networks and branding, global CSPs need to better integrate back- and front-end processes, systems and infrastructure. In doing, they can become true global entities, agile and able to respond to this new era of global economics.

How can IBM help?

- **IBM's transformation experience** – Using its extensive expertise, IBM can help CSPs apply lessons learned from IBM's own GIE journey, as well as its experiences assisting clients in their integration transformations.
- **IBM's leading-edge industry and market research** – This insight enables CSPs to respond quickly to shifting market dynamics.
- **Globally integrated enterprise strategies** – These strategies help CSPs achieve end-to-end transformation, from strategy to implementation.

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References

1   IBM Institute for Business Value analysis of publicly available financial reports (2002 to 2012) of top 15 global CSP providers. 2013; IBM Institute for Business Value analysis of publicly available financial reports (2002-2012) of top single-country CSP providers. 2013.

2   "A Global Perspective on Telecoms." Bernstein Research. Infiniti Research Limited. February 2013.