



## Press Release

Düsseldorf, 10<sup>th</sup> February 2010

### **Convergence: a Source of Hope for the Telecom Industry?**

*According to a new study of the European telecom market by top management consultants A.T. Kearney, providers need to take concerted action. Because of changes in basic conditions, existing structures are breaking up, forcing telecom providers to modify their business models. "The good times are over for the telecom industry—things are getting tougher. Companies need to respond to avoid going into the red in the period from 2012," believes the study's author, Hagen Götz Hastenteufel of A.T. Kearney.*

The European telecom market is currently undergoing major changes: aggressive competition is leading to falling prices and decreasing revenues. Increased regulation at the European level has exacerbated the situation for many providers: the lowering of roaming charges in mobile communications, for example, has caused a high-margin revenue source to dry up. The industry is currently looking for solutions, on the revenue side as well as the cost side. "We're seeing European providers respond to the changed basic conditions in numerous ways. Companies are constantly in search of innovation and new revenue sources, and at the same time they're also continuing to focus on 'classic' cost reduction. In some European markets, for example the UK and Switzerland, the current trend is towards consolidation," says Hastenteufel.

#### **Not much potential on the demand side or cost side**

The study's co-author Robert Kremlicka believes aggressive competition will continue: "There's not much scope left for people to increase the amount of phoning they do. And even if data transfer volume does increase, it will be a zero-sum game, because of the price war. Revenue per call minute is falling so rapidly that in mobile communications, for example, by 2013 they may only be able to cover their costs. And the economic crisis is making the situation worse." As a result of their successful cost-reduction programs of recent years, it has become much more difficult for European

telecom providers to achieve further cost reductions. "That's why structural changes to business models will now be necessary," says Kremlicka.

### **Fight for growth markets**

Under present conditions in the industry, the providers suffering most are those only involved in classic telecom business, i.e. operators of pure fixed networks or mobile communications networks. According to the study, there will be a very perceptible revenue shift towards broadband applications and online services. "By 2013, we expect that segment to account for 22% of revenues (current level: 5%), thanks to strong growth figures," says Hastenteufel. However, it is precisely in that segment that competition is heating up: leading examples are Google and Apple, who have entered the market having previously focused on other areas.

### **Positive leverage effect of convergence**

The study's authors believe convergence will exert a powerful leverage effect. This essentially involves the integration of mobile communications and fixed network business, initially in sales and customer service, then subsequently in marketing and network operation. "In Europe, virtually all former state-owned providers are positioning themselves as convergent and in that way trying to generate competitive advantages", says Hastenteufel. This is palpable in concrete products. Successful convergent products bundle existing telecom services with new services such as TV. The resulting positive impact on sales is also visible in existing services, e.g. an increase in DSL connections, and fewer customers migrating away from the fixed network. Thus for example just under 70% of Virgin Media customers are now purchasing convergent products of this kind, and over 50% of customers are already monthly users of its video-on-demand. When product bundles of this kind are further combined with the corresponding hardware, as has been the case for years in mobile communications and DSL, they are particularly successful. France Telecom, for example, has enjoyed a significant increase in revenue and revenue per customer thanks to its convergent products/services including Livebox.

### **Convergence in line with what customers want**

Integrating mobile communications with the fixed network opens up ways to ensure stronger customer loyalty and win new customers more successfully. "Examples have shown that convergent products can bring down customers' desire to switch by more than half", notes Hastenteufel. Potential for up- and cross-selling increases, which creates competitive advantages over pure mobile communications and fixed network providers. The authors also see potential for considerable added value. "Convergence fulfils customers' desires for technically high-end yet easy-to-use telecommunications. Integrating the two technologies opens up further scope for product innovation," says Hastenteufel.

## **Consistency in implementation the key to success**

But the A.T. Kearney consultants agree that convergence is not a panacea, and will only be successful if implemented in a thoroughgoing, comprehensive manner. Half-heartedness will be punished by the market and would lead to increased costs. "We advise against weak, unsatisfactory compromises. Only those who manage to combine the best of both worlds to create something new will ultimately be successful", concludes Kremlicka.

### **About A.T. Kearney**

*A.T. Kearney is a global management consulting firm that uses strategic insight, tailored solutions and a collaborative working style to help clients achieve sustainable results. Since 1926, we have been trusted advisors on CEO-agenda issues to the world's leading corporations across all major industries. A.T. Kearney's offices are located in major business centers in 36 countries. Further information can be found at [www.atkearney.com](http://www.atkearney.com)*

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