

## **Converge and Conquer**

### **Global telecom operators, immersed in a macroeconomic, complex market environment, can find a path to survival in commercial, organizational and operational convergence**

After years of steady growth, the telecommunications sector is going through some of its hardest times ever, with a significant reduction in revenue last year (10% in landlines and 5% in mobile phones in first quarter 2009, Spain, down from the same period in 2008)<sup>1</sup>. A variety of factors are to blame, most significantly a considerable reduction in traffic consumed, due to the economic crisis, and high price competition, compounded by the emergence of new low-cost players such as the mobile virtual network operators. This has generated increased pressure to reduce costs, step-up efficiency and seek new sources of revenue.

In addition, there are increasingly more customers demanding communications solutions that respond to their global needs, with the best value for money and easy-to-use products that don't force them to deal with the internal operational complexities that are the domain of the operators.

These market conditions invite us to think that convergence may be a key part of short and medium term strategies for landline and mobile services operators. However, the reality is that, in a large number of cases, approaches to convergence have been carried out from a primarily commercial perspective, with less focus on the internal efficiencies it produces.

### **Why convergence? New revenue, commercial simplicity and efficiency**

By betting on convergence, telecom operators will be able to develop a new value proposition, with combined products (landline + mobile) that will bring two direct benefits: on the one hand, an increase in revenue from bundling services. On the other, access to new market segments with broad communications needs.

Commercial convergence acts as a catalyst for operators to simplify their product portfolios, combining landline and mobile offerings and developing comprehensive solutions for customers. Such solutions should allow reductions in internal maintenance efforts and facilitate marketing, simplifying the customer purchase and consumption model.

From the perspective of operational efficiency, there seems to be no doubt that convergence is an excellent opportunity for operators to optimize costs through action on a variety of fronts. Achieving synergies across operational support areas will allow operations to be merged and resource use minimized. A convergent business strategy enables reuse of marketing channels and consolidation of areas responsible for product definition and sales. Finally, it facilitates leveraging economies of scale by concentrating purchasing, among many other aspects.

### **Keys in order to rise to the challenge**

The strategy of evolution in convergence is one of the key points on the agenda of the

<sup>1</sup> Source: CMT. Quarterly report QR-09. Comparison of QR-08 and QR-09.  
[http://www.cmt.es/es/publicaciones/anexos/I\\_Trimestral\\_09\\_OK.pdf](http://www.cmt.es/es/publicaciones/anexos/I_Trimestral_09_OK.pdf)

major carriers for the coming years. Given the scale and implications of this process of evolution, it is important to consider each and every one of the keys governing it, to ensure we embark on it successfully. These keys include defining the strategic foundations on which decisions throughout the convergence process will be based (organizational, operational, systems, etc.), as well as the provision of concrete information on customers and existing market potential, and the creation of a convergent organizational core.

Finally, developing a roadmap to organize the consolidation process, and not forgetting regulatory and antitrust issues throughout the entire process, will help us along this path towards convergence.

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