

Returning confidence amid sweeping change

Communications industry summary

Key industry findings
from the 14th Annual
Global CEO Survey



Communications industry summary

The global economy is still recovering from the worst economic crisis in 75 years, with many countries grappling with the aftermath of the recession. So we set out to uncover how CEOs are approaching growth during a time when sustainable economic growth is far from certain. We surveyed 1,201 business leaders in 69 countries around the globe, in the last quarter of 2010, and conducted further in-depth interviews with 31 CEOs.

The PwC *14th Annual Global CEO Survey* documents a surprising level of confidence in this environment; chief executives were nearly as confident of growth this coming year as in the boom years before the crisis. The survey also revealed where CEOs saw growth coming in 2011, and how they were going to achieve it. In ‘Growth reimagined: Prospects in emerging markets’, we show how CEO confidence is being driven by targeted investments in particular emerging markets—often far from home.

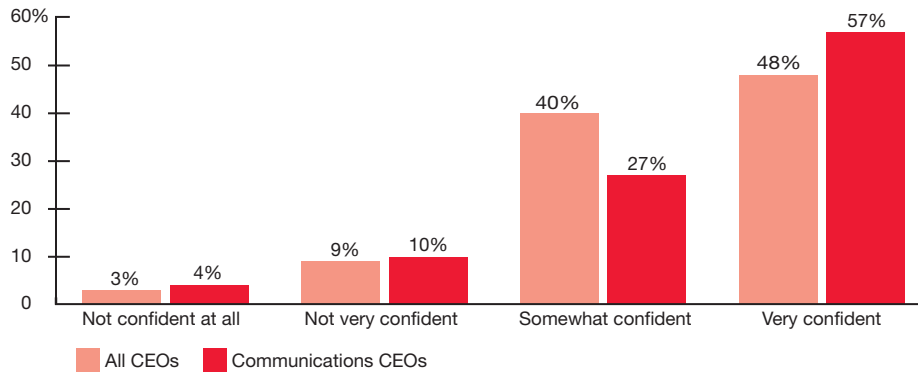
This is a summary of the findings in the communications industry sector. To explore the full results from the *14th Annual Global CEO Survey*, please visit www.pwc.com/ceosurvey

CEOs in the communications industry are taking a relatively optimistic view of their companies’ prospects for revenue growth. Well over half—57%—of the communications CEOs we interviewed around the world are ‘very confident’ that their business’ revenues will increase during the next 12 months, compared to only 48% of CEOs overall. This optimism may stem from the industry’s resilient performance during the downturn.

However, other findings confirm the fact that communications CEOs fully recognise the major strategic challenges confronting their businesses, amid profound and irreversible change. With technological innovation and shifts in consumer behaviour advancing apace, operators face an array of issues around customer retention, service and revenue models, operational excellence, regulation and innovation. These themes—which are all reflected in communications CEOs’ survey responses—can be broadly categorized under the four headings of strategy, operations, growth, and risk.

Figure 1: Confidence over 12-month revenue growth

Q: How confident are you about your company's prospects for revenue growth over the next 12 months?



Base: All respondents (1,201)
Source: PwC 14th Annual Global CEO Survey 2011

Strategy: Customer-focused innovation and collaboration

As Figure 1 shows, communications CEOs are more likely than their counterparts in other industries to be 'very confident' about revenue growth over the coming year. Yet fewer than the overall global average are 'somewhat confident'—suggesting that the communications industry is more polarized than most between fast-growing high performers and followers who are struggling to keep pace. This underlines the contrasting conditions facing different players in the global industry, be they fixed or mobile operators, and active in developing or mature markets.

However, whatever the conditions they face and whichever customer segments they are targeting, communications CEOs are more likely than others to regard ongoing innovation as vital for their future revenue growth. Some 88% 'agree' or 'agree strongly' that their company's

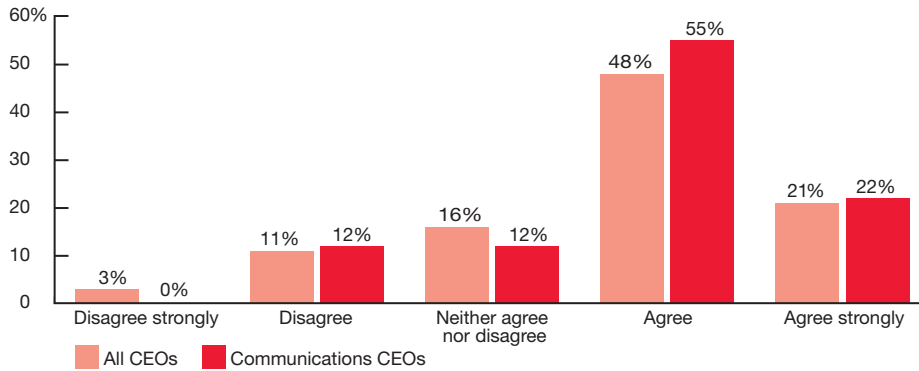
innovations will lead to significant new revenue opportunities, compared to 78% of the total survey population. And the majority of communications CEOs—55% versus 39% of the full sample—expect this pipeline of revenue-generating innovation to be co-developed collaboratively with external partners, rather than originating internally within their own operations.

Not surprisingly, communications companies are focussing their technology investments on reaching and serving customers through new platforms and networks. Eighty-two percent of communications CEOs say their IT investments are made primarily to support growth initiatives and leverage emerging innovations, such as mobile devices and social media—in marked contrast with the overall average of 54%. And 49% of communications CEOs see the development of new products or services as the main opportunity to grow their business in the next 12 months, compared to 29% of the total sample.

All these findings underline the radical transformation now under way in the sector, as the traditional telecoms model is replaced by a convergence of network-centric, digital services, providing anytime, anywhere access to digital content. This change requires operators to migrate from focusing on volumes of call minutes and customers to a rigorous focus on value on each side of the customer relationship: the value delivered to each customer via a differentiated and tailored experience, and the valued gleaned from each customer for the operator itself. Achieving this radical shift demands constant innovation, not just in products and services, but also in underlying operating models.

Figure 2: IT investments to reduce costs

Q: To what extent do you agree your IT investments are made primarily to reduce costs and become more efficient operationally?



Base: All respondents (1,201)
Source: PwC 14th Annual Global CEO Survey 2011

Operations: Pursuing excellence

As our survey shows, communications CEOs are fully aware of the absolute need to restructure and reinvent their operations for the new digital world. As well as using innovation to help drive customer revenues, they are actively leveraging technology to enhance their organisations' effectiveness. The majority of communications CEOs (77%) say that a major objective of their IT investments is to help their business reduce costs and become more efficient operationally, compared to 69% of CEOs across all industries (see Figure 2).

The drive for operational excellence has gathered pace in the past year. Asked about the restructuring activities they have initiated in the past 12 months,

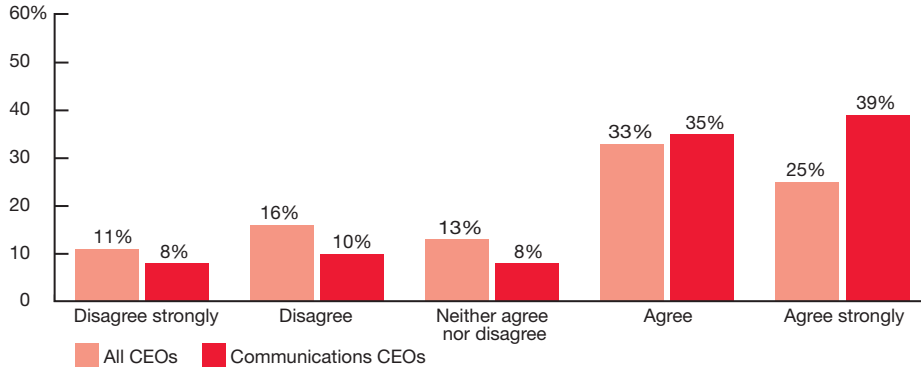
communications industry CEOs are more likely to have outsourced a business process or function (49% versus 37% of the total sample); implemented a cost-reduction initiative (92% versus 84%); and entered into a new strategic alliance or joint venture (57% versus 40%).

Going forward, communications companies aim to maintain the pace of operational transformation. During the coming year, 37% of communications CEOs plan to outsource a business process or function and 63% expect to form a new strategic alliance or joint venture (compared to 31% and 50%, respectively, of all CEOs). It seems that the most intense cost-cutting has now been completed, with 63% of communications CEOs planning a cost-reduction initiative, in line with the overall average.

These findings underline operators' commitment to tackling the complex, inefficient and product-focused legacy operating models that previously characterised much of the industry. Each of the key operational requirements facing communications companies today – customer centricity and responsiveness, ongoing cost control, integration and monetisation of new services, usage-based pricing, bundled offerings, collaboration, consolidation—demands that they simplify their operations and embed greater organisational agility to seize emerging opportunities.

Figure 3: Importance of emerging markets

Q: How strongly do you agree that emerging markets are more important to my company's future than developed markets?



Base: All respondents (1,201)
Source: PwC 14th Annual Global CEO Survey 2011

Growth: Targeting new markets

As we highlighted above, communications operators are seeing their traditional operating and revenue models replaced by networked digital ecosystems. As this happens, those based in mature economies are experiencing a 'squeeze' in their core markets, as near-saturation and intense competition drive down prices and margins, and stimulate further consolidation.

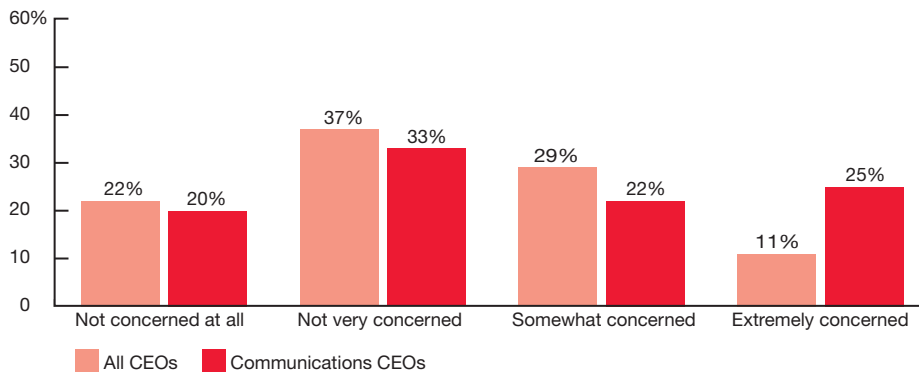
These dynamics are fully reflected in our research findings. Asked to cite the factors that have had the biggest impact on their need to change strategy, 20% of communications CEOs pointed to competitive threats, which is double the overall average of 10%. And on the customer side, communications CEOs are more likely than those in other sectors to expect the squeeze on pricing to continue. When asked about the extent to which businesses' focus on price will cause them to change their strategy in the next three years, 79% of communications CEOs said they expect 'some/significant change', against 55% overall.

These pressures, together with the higher levels of revenue growth available in emerging markets, are encouraging operators to look beyond their traditional geographies for new sources of growth. Asked to name the three foreign countries or regions they consider most important for their business' growth over the next three years, 25% of communications CEOs listed Africa, 22% China, and 18% Brazil. And some 74% 'agree' or 'agree strongly' that emerging markets are more important to their company's future than developed markets, well above the overall average of 58% (see Figure 3).

The extent to which communications CEOs are focusing on Africa is especially strong, reflecting that market's massive potential. Fifty-seven percent of those communications CEOs who plan to initiate a cross-border merger or acquisition in the coming year are targeting Africa, compared to an overall average of just 10%. More generally, 74% of communications CEOs expect to alter their strategies in the next three years in response to a change where emerging market businesses drive growth for their company. Again, this is higher than the overall average. And communications CEOs are also more likely than CEOs in other sectors to anticipate that their business in Africa and Asia will grow during the next 12 months.

Figure 4: Concern about new market entrants

Q: How concerned you are, if at all, about new market entrants?



Base: All respondents (1,201)

Source: PwC 14th Annual Global CEO Survey 2011

Risks: new entrants and regulatory change

In recent years, communications operators have seen a succession of new players – device manufacturers, application developers, content suppliers, retailers, and others – enter their core marketplace. The impact of these entrants has been increased by a shift in the focus of customers’ loyalty and brand trust, away from the network on which devices and services operate, and towards the device itself and the online applications accessed through it. This change has been partly engineered by device, content and service providers, who have proved adept at cementing their brands in the public consciousnesses.

Against this background, communications CEOs are extremely wary of the disruptive effect of new players breaking into their markets. When asked to point to the potential business threats that represent the most significant risks they plan to mitigate over the next 12 months, 35% of communications CEOs cited new market

entrants – which is well above the overall average of 24%. Equally significantly, 25% of communications CEOs admit they are ‘extremely concerned’ about new market entrants, compared to 11% of all CEOs globally (see Figure 4).

Increasingly, incumbent operators in mature markets face the risk that the new entrants will include not only non-communications players coming in from other sectors, but also emerging markets-based operators seeking exposure in developed countries. This reflects the likelihood that the previous dynamic of developed-market operators moving into emerging markets in search of growth may go into reverse. Emerging market operators from countries such as India are aggressively looking around for assets, and may well target developed markets. These companies have built proven low-cost operating models, and may be able to undercut the incumbents in the mature markets that they choose to target.

As well as scanning the horizon for new entrants, communications CEOs continue to focus on regulatory risks. Asked which economic and policy-related issues represent the most important risks they plan to mitigate over the coming 12 months, 39% of communications CEOs pointed to the threat of over-regulation, compared to 34% of the total survey population. And 44% of communications CEOs say regulation has significantly influenced their need to change their strategy—again, well above the survey average of 34%. Looking across their entire risk portfolio, communications CEOs are also more likely than those in other businesses to be taking steps to improve the management of risks around their new strategy, by increasing the authority of the risk management executive.

Conclusion: reshaping for the new era

PwC's *14th Annual Global CEO Survey* finds communications CEOs battling for positioning and revenues in a fragmenting and increasingly competitive value chain. In doing so, they are facing up to the challenges posed by developments such as consumers' rapid take-up of smartphones and the resulting exponential rise in data traffic, in an environment where the business model to deliver adequate financial returns on network investments is still elusive.

However, operators can yet turn digital transformation to their advantage. In our view, they have the capacity and capability to re-establish the value of connectivity, build deeper and more lucrative relationships with customers and other participants in the value chain, and open up new revenue streams from innovative services and business models. The strong focus on innovation to drive revenue growth, highlighted by our findings, underlines their commitment to achieving these goals.

In this new environment, three prerequisites will be critical to operators' success: true customer centricity and understanding; an ability to collaborate effectively to seize new opportunities; and heightened operational efficiency and agility brought by operational simplification. The findings from this survey confirm that communications CEOs are striving to develop all three attributes.

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