



# News & Views

## Saudi Telecom gears up for deregulated market

**Saudi Telecom** has put the company's priorities in order to maintain revenues as its telecoms market liberalises.

The incumbent's strategy is defined by seven points: fulfilling mobile potential, offering wholesale services, re-inventing home communications, winning enterprises customers, external growth, rationalising its internal structure and creating operational efficiencies. The strategy will be implemented over the next three to four years.

Saud Bin Majed al-Daweesh, president of Saudi Telecom, said: "Saudi Telecom always considers three main factors in setting its strategic direction: customer needs, industry and technology trends, and competition development. Saudi Telecom has anticipated well in advance the challenges raised by market liberalisation and increasing competition and has been focusing on strengthening its competitive posture." The first five priorities aim to sustain its revenue growth, while the last two aim to further improve the company's cost efficiency.

Alexander Brown, senior associate, communications outsourcing and technology group at law firm Simmons & Simmons, said: "The strategy will strive to drive down sales and administrative costs relative to the total number of customers. The overall aim will be to change from an

incumbent, post-monopoly organisation to a more competitive, leaner enterprise, with far less government protection. It's a three to four-year plan, however, and it will be interesting to see whether that sort of transformation can take place in that time. In other countries, former incumbents find it fairly hard to shake off their governmental approach.

That is not that surprising given the retention of the former government employees and management."

Saudi Telecom's administrative and marketing costs in the three months to September 30 2006 almost quadrupled to SAR715.5 million (\$190.8 million), compared with SAR188.9 million in the year-earlier period.

Brown said: "It is essential that Saudi Telecom becomes more competitive. It has had plenty of bad press, particularly relating to the speed and cost of its internet service, poor customer service and other gripes, such as

long delays in installation. With the introduction of a third mobile licence and a second landline licence imminent, Saudi Arabian consumers will have a wider choice of provider and will most likely vote with their feet should Saudi Telecom be unsuccessful in turning around its image." Saudi Telecom is already feeling the pressure of competition and posted its second consecutive decline in quarterly profit in January 2007. ■

*An analysis of the Saudi market will appear in the April issue*



**Alex Brown**, senior associate  
Simmons & Simmons

## THE CABLE GUYS

**David Ballarini** looks at which companies will emerge among the leaders in the rapidly consolidating video networking market

**On January 15**, Arris Group announced its \$1.2 billion cash and stock offer to acquire Tandberg Television, a move that would vault the combined company into the top tier of video networking vendors, alongside Motorola and Cisco. But just when it must seemed all over, Ericsson stepped in with a rival \$1.4 billion cash bid. Arris has said its offer remains and it is assessing its options.

This interest is typical of the continuing telecom vendor consolidation trend, and as technologies mature into viable business opportunities, larger vendors make strategic acquisitions to establish themselves as market leaders. With the pool of large service providers shrinking, suppliers must scale up as well, and two or three vendors will emerge as dominant and in the best position to serve the biggest buyers. Arris has long been a leader in selling voice and data technologies to cablecos, and with Tandberg, it would be able to expand into video, with the ability to serve both the cable TV and IPTV markets. Arris continues to be a leader in the cable market, especially with cable modems and cable modem termination systems.

The move by Arris was largely predicated by the competitive environment. Motorola and Cisco/Scientific Atlanta are its strongest rivals, especially in the traditional cable modem market. To keep pace with them, Arris needed to combine with a company like Tandberg. With IPTV being slow to develop, there is still a window for it to become a player. Motorola has been on an acquisition binge, buying video targets Tut Systems, Broadbus and Vertasent. Cisco's video acquisitions, from Scientific-Atlanta, have included Arroyo and Widevine. The Tandberg transaction would bring Arris up to par with Cisco and Motorola in several key categories, at least for now. However, it's hard to see how Arris can compete with Ericsson's offer for Tandberg and it will likely be exposed in the market with a limited portfolio of products and no obvious strategic options that will allow it to remain independent in the long run.

Two other companies to watch are Terayon and Harmonic. One scenario would see them merge, especially since they have an existing reseller arrangement in place. Another scenario could have Harmonic acquiring Terayon, which would enable Harmonic to become a fourth video player, albeit a distant competitor to the top three. ■

## Analyst's Eye

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