

Telco KPIs: 2Q09 analysis

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Abstracts

Revenue growth is slowing, even for emerging market operators

Revenue growth is slowing for the majority of operators in our sample, with acquisitions and exchange-rate effects artificially inflating actual growth. A number of factors have caused this slowdown, including:

- saturating markets, which are impacting subscriber growth. Fixed voice subscriber decline is advancing, and broadband and mobile growth is slowing – even for emerging market operators
- the economic downturn, which has impacted consumer and business spending
- regulatory intervention, which has impacted European operators' revenues in particular.

Opex cuts need to be made, particularly by mature market operators

These factors are forcing those mature market operators most severely impacted by revenue decline (for example Telecom Italia and KPN) to focus on reducing their operational expenditure in order to maintain or improve their profit margins. However, a minority of mature market operators grew opex at a faster rate than revenues during 2Q09 compared to 2Q08 (including AT&T and BT), and will have to reverse this trend in the coming quarters.

While some emerging market players continue to grow opex at a faster rate than revenues, once subscriber growth begins to slow dramatically, their shareholders will demand cost-cutting measures to hold up profit margins.

A change of focus from revenues and profit to cash generation

The economic downturn and credit crunch has also led to a change in focus for telcos' finance departments, with greater emphasis now being placed on cash generation rather than revenues and margins, and as a result telcos are spending less.

Opex reductions have been targeted, particularly with reductions in headcount.

Capital spending has also been reduced, with capital intensity during 2Q09 down five percentage points on average compared to 2Q08 to reach 16%.

As both these costs are reduced, operating cash-flow margins have increased markedly, with a resultant increase in cash balances.

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