Weighing Telecom Opportunities & Challenges in New Growth Markets South of the Border

As digital becomes the business rule rather than the exception in Latin America, demand for exceptional mobile networking and consistent Internet access is growing exponentially across the region, creating tremendous opportunity for CSPs looking to expand their footprints through thoughtful M&As and post-merger integration strategies.
EXECUTIVE SUMMARY

Mobile devices and broadband connectivity are entrenched in the fabric of modern society; in many ways, they are the impetus for technological change, supporting the rise and growth of the world’s most recognized companies.

Until recently, Latin America’s (LATAM) old-fashioned telecom industry was under the control of “monopolies” such as Telcel (owned by America Movil), which has limited the region’s ability to improve its cost-competitiveness locally and on the global stage.

Companies across the region are clamoring for a more modern mobile network and faster and more reliable Internet connectivity, challenging the tight reign of traditional CSP businesses within these countries.

As a result, government regulators throughout LATAM countries have recently created a regulatory environment to promote M&A activities in the region. These changes have enabled North American (NA) CSPs to accelerate their entry into LATAM markets and challenge incumbents (e.g., Nextel and Iusacell merging with AT&T\(^1\)) by stimulating competition and innovation – and thereby lowering costs for consumers and businesses.\(^3\)

Despite a more favorable M&A market, cultural, socioeconomic and operational hurdles are hampering progress, in terms of new services, offerings and cost savings.

This white paper highlights the challenges faced by NA CSPs attempting to expand their LATAM footprints, and it offers strategic insights to help turn threats into opportunities.
DECONSTRUCTING LATIN AMERICA

Most of Latin America’s telecom sector is booming,¹ which has attracted the major worldwide telecom giants, many of which are seeking to expand into growth markets. Latin America continues to provide ample opportunities in the wireless market, which can be attributed to numerous factors: a stronger demand for mobile subscriptions, the existence of robust 4G/LTE and 3G networks, and the region’s insatiable appetite for smartphones.

In fact, Internet usage in Latin America is expected to reach approximately 400 million users by 2019, which explains why LATAM is attractive to the world’s telecom giants willing to explore its horizons (see Figure 1).

Economic growth, consumer demand and favorable regulatory changes have been instrumental in bringing telecom companies to Latin America. After arriving in LATAM, these companies continue to invest and innovate to meet the communications needs of their consumers.

Making Sense of Mexico

Mexico is one LATAM country where major M&A activities abound.⁶ One prominent example is AT&T’s entry. By acquiring telecom companies including Iusacell and Nextel, the U.S. company has brought extra wireless competition to the country. In fact, AT&T Chairman and CEO Randall Stephenson announced⁷ that the company plans to invest approximately US$3 billion to extend its high-speed, mobile Internet service to Mexico,
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covering 100 million people in Mexico by yearend 2018 (see Figure 2). This is in addition to the US$4.4 billion that AT&T invested earlier this year to acquire iusacell and nextel Mexico.

Despite its hearty investment appetite, AT&T (as well as other market insurgents) will need to pay attention to potential changes in Mexico’s regulatory environment. By facilitating ongoing M&A activities in the region, the country’s regulatory environment plays a crucial role in the well-being of the telecom sector.⁸

LATAM’S M&A CHALLENGES

We foresee the following foremost challenges to telecom giants entering the LATAM markets:

- **LATAM has a multiplicity of operational challenges that impact both domestic CSPs as well as foreign companies, including those based in the U.S.** Expanding an existing business or starting a new business in Latin America takes more time and cost due to delays in securing construction and electricity permits, and contending with local regulations.

- **Sub-par infrastructure, sub-par business climate, and poor training and schooling of local labor** result in a growing skepticism of doing business with U.S. companies.

- **The need to adhere to Latin America culture and work ethics creates organizational issues.** It is essential to learn and follow local culture practices which can determine the success or failure of CSPs trying to expand their footprint in LATAM.
Telecom giants must become accustomed with more empowered consumers and business customers who will assess them based on services offered, customer experience delivered, local capabilities and shop-based offerings.

- **The lack of local skilled telecom workers can pose additional operational challenges.** Service prices must be in line with other providers and need to be affordable to the average customer.

- **There is a need to make investments in efficient infrastructure to ensure secure development of telecommunications corporations.**

Among the biggest agenda items affecting the region’s telecom industry for the past several years are the politicization of government policy and direction combined with regulatory uncertainty. These factors had made it difficult for telecom companies to freely expand and function in the past.

There’s also a need to bridge the digital divide between the rich and poor. Research suggests that two out of three homes in LATAM are not connected to the digital backbone yet. The primary challenge is in making the investment to connect them – a task that must be carried out jointly by government and corporations.

Across LATAM there are more than 696 million cell connections among 322 million customers.⁹ To be both effective and efficient, operators must ensure that they can provide value-added services to customers while maximizing their investments in fresh networks and offers.

Unquestionably, these challenges can be best addressed through enhanced collaboration. Telecom companies must bring together public as well as private endeavors in all the subdivisions that are linked with a shared goal – to grow digital infrastructure in Latin America.

**OVERCOMING M&A CHALLENGES**

Post M&A, the telecom industry faces innumerable challenges.⁸ Among the top priorities is to offer seamless customer experiences to all customers – new or existing.

AT&T’s biggest obstacle in the aftermath of its recent acquisitions is to deliver outstanding service to local customers as well as customers moving from the U.S. to Mexico. It must ensure that customers get the very same experience as delivered in the U.S., in terms of products, customer service, offers, etc.

Moreover, telecom giants must become accustomed with more empowered consumers and business customers who will assess them based on services offered, customer experience delivered, local capabilities and shop-based offerings, as well as numerous factors influenced by telecom services experienced in countries outside the region.

To remain relevant, we believe telecom operators and entrants must focus on the following areas of building customer trust and loyalty:
Customer experience must be outstanding. In spite of the built-in differences and all the other factors, telecom operations must make a concerted effort to understand new and existing customer needs and work toward meeting those needs by providing a best-in-class seamless customer experience.

Building brand trust is essential, and it must be a central pillar in terms of offerings and usability; hence, design thinking must be meticulously applied. (For more on design thinking, read our Cognizant article “Human-Centric Design: How Design Thinking Can Power Creative Problem-Solving, Drive Change and Deliver Value.”)

Instant measures must be sorted out beforehand. That way, operators can speed the remediation of customer experience breakages or other issues.

Testing customer experience, from every perspective ranging from advertising to quality of service (QoS), is mandatory. Otherwise, operators cannot deliver a smooth customer experience over the long run.

Post M&As, interdependencies should be acknowledged as early as possible; it is vital to ensure that processes and systems are stable enough to deliver a durable experience end to end.

IT integration is among the most demanding tasks, as the assets of the merging companies have to be carefully assessed, rationalized and then integrated. Operators must develop a thorough plan for the overall merger roadmap. For example, in Mexico, AT&T is making substantial investments and concentrating on merging and advancing its own and its partners’ IT and network systems. (See the sidebars for M&A metrics and an engagement example.)

M&A activities in telecom and wireless are expected to be on a fast-track trajectory throughout LATAM. The region’s accomplishment will be highly dependent on ongoing preparation and integration strategies (at a reasonable cost), which would significantly ease the complexity of bringing together two dissimilar units.
The IT Imperative in Effective M&A

The CIO’s job has changed considerably in the last decade. In light of the growing dependency on IT enablement and the emergence of digital, every business is a technology business. Thus, CIOs are taking a bigger role in translating business objectives into IT goals, with over 44% reporting directly to the CEO. (See our report “Being Digital: How & Why CIOs are Reinventing Themselves for a New Digital Age.”) Many are at an inflection point: whether to remain “just” the IT support department head or to fundamentally change their role – and position – in the organization. In order to establish that enhanced role, CIOs need to be a partner “at the table” as early as possible during a transaction.

For M&A transactions, we recommend the CIO – or a senior IT executive – be involved during pre-deal. While there are different deal types, transformational acquisitions do require the CIO to be involved early on. We have identified three key areas about which organizations should be mindful:

- **Synergies:** With the growing cost of M&A transactions, the expectations of synergies are increasing as well. Recent studies reveal that about 50% of synergies gained from M&As are related to IT.12
- **Cloud computing:** Virtual computing and storage creates an entirely new frame of reference around the idea of infrastructure, yet the cloud evolution hasn’t replaced all the legacy infrastructure that still underpins many critical systems.
- **Security breaches:** As interactions between customers and companies increasingly occur in digital form, vulnerabilities have skyrocketed. A security breach can be a career killer not only for the IT stakeholder, but for business executives as well.

While most mergers focus on a somewhat vague definition of deal success, we have created a set of clear IT-related metrics that should be addressed, ideally steered by the CIO:

- **Improved IT capabilities to advance the underlying motives of the integration:** Differentiation through better coordination of production capacity; supporting a new, integrated R&D function; promoting vertical integration; and enhancing visibility with the supplier are all critical.
- **Improved IT operating model:** Creating an enhanced version for the “business of IT” will keep business and IT in sync.
- **End-user satisfaction with systems, information quality and usage:** By not disrupting the work of employees, not inconveniencing customers, making corporate-wide information accessible, and providing accurate, useful and timely information, IT boosts its credibility in advancing M&A objectives.
- **Effective and efficient IT integration management:** The difference between winning and losing M&A efforts is often decided by the thoughtful use of resources (time, money and personnel) during the integration processes, proactive management policies regarding project management, sufficient attention to change management, seamless sourcing, etc.
- **Efficient IT staff integration:** Retaining key IT people and their expertise, while not always easy, can ensure that intended M&A outcomes are realized within projected timeframes and budgets.
LOOKING FORWARD

While the deregulation by LATAM governments of the telecom market has created a favorable environment for NA CSPs to enter these markets, it is critical that they invest in infrastructure upgrades and rapid technology integration to meet customers’ evolving communication needs.

Cost and capital synergies need to be carefully planned and implemented, and CSPs need to approach mergers with a customer-centric mindset.

Just as they do at home, NA CSPs will also need to deliver a world-class customer experience to win loyalty and create stickiness in markets.

Inorganic growth by M&As will require early detection of complementary capabilities, product offerings, processes and seamlessly integrated systems. Therefore, a thorough merger and post integration roadmap will be the most critical ingredient for NA CSPs’ successful expansion in LATAM.

M&As will continue to accelerate market growth in LATAM. However, the region’s success will depend on effective planning, implementing and integrating strategies, and on overcoming the complexity and challenges of bringing together two often widely different entities.

QUICK TAKE

A Seamless MSO Transition for End Users

As part of the consolidation of North American cable multiple system operators (MSOs), certain companies were required to exit particular geographic markets in order to satisfy competitive federal regulators. For one such MSO, Charter Communications, we had responsibility for the overall program management office, and we performed the underlying technical analyses.

These market exits required the exchange of large customer bases between the operators. The customers within geographies might have various combinations of MSO product offerings, including cable television (CATV), high-speed data/internet (HSD) and classic telephone service, albeit supported with voice over IP (VoIP) services.

Customers within a geography will, of course, have varied and rich profiles according to their provided services. For example, cable TV customers might have purchased various combinations of premium channels, pay-per-view movie rentals or unlimited viewing ownership in the form of unlimited viewings or subscription packages. Furthermore, HSD customers also have varied and rich profiles of speed and bursting capabilities of services in addition to their numerous email addresses and histories. Finally, voice subscribers likely have stored voicemail greetings as well as messages, in addition to their associated street address in support of E911 service.

Our challenge was to plan and effect the repeated nightly migration for these millions of customers, with all of their service profile nuances and particularities.

Simply stated, when a customer wakes up in the morning, all of their services post-migration have been seamlessly migrated from one MSO to another. To make this happen for millions of customers is a monumentally challenging task.

The benefits to Charter are clear: If its customers are dissatisfied with their migration experience, they may opt to disconnect, and the entire rationale for the transaction will have been lost. Pleasing all its customers with a seamless transition was the end goal.
FOOTNOTES

8. The Mexican government recently established an entirely new set of regulations related to foreign telecom companies seeking to enter the market, with a focus on challenging the monopolies and promoting an even playing field.
10. www.excelacom.com/resources/blog/m-a-defining-latin-america-telecom-landscape
12. www.mckinsey.com/insights/corporate_finance/understanding_the_strategic_value_of_it_in_m_and_38a

ABOUT THE AUTHORS

Amit Jindal
Senior Program Manager, Cognizant Business Consulting
Amit Jindal is a Senior Program Manager within Cognizant Business Consulting’s Communications, Media and Technology Practice. He has led multiple program management and management consulting engagements focused on retail sales operation, business process transformation and IT strategy. Amit has expertise in driving digital strategy within M&A integration, streamlining digital business operations and vendor relationship management. He received a bachelor of electronics engineering degree from Nagpur University, and has an M.B.A. from Pune University. Amit can be reached at Amit.Jindal@cognizant.com.

Jan Diederichsen
Senior Director, Cognizant Business Consulting
Jan Diederichsen is a Senior Director within Cognizant Business Consulting’s Strategy & Transformation Practice and the M&A Advisory Service Line Leader for North America. For over 16 years, he has worked with 30-plus companies on transactions with a total deal value of over $150B. Jan’s expertise spans from life sciences (medical devices, in particular) to retail/consumer goods and financial services. He holds a B.B.A. from GSBA Zurich (CH) and an M.B.A. from University of Wales, Cardiff (UK). Jan can be reached at Jan.Diederichsen@cognizant.com.
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