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First Person Interview

Interview with Dr. Saad Al Barrak
Deputy Chairman and CEO, Zain Group

Current Industry Outlook

The current economic turmoil has affected all sectors including telecommunications. For example, it is estimated that due to the recession, global mobile entertainment revenues will touch US$13 billion over the next 5 years, as opposed to earlier forecasts of US$26 billion.

Does Zain envisage any major shift in customer behavior in light of the changing economic climate?

Mobile telephony plays a critical role in our lives, so most people will continue to use their mobile phones regardless of economic difficulties. Some customers will redefine the share of their wallet depending on their basic needs. However, usage of mobile telecommunications will be less affected than other industries. In some instances customers are also looking at telecommunications to save money by using it to replace travel.

What is Zain doing to cope with the economic crisis?

We regard such times as opportunities to attract customers by enabling them to benefit from a wide range of appealing services. Zain is committed to using its revolutionary "One Network" platform to offer these services. For example, we were the first mobile operator in the world to successfully introduce cross-border local GRX[1]-based data access. This innovative technical solution ensures faster access speeds at more cost-effective local rates, allowing traveling customers to access high-speed Internet for their communication and entertainment needs.

> "CUSTOMERS WILL REDEFINE THEIR WALLET SHARE *depending on their basic needs*"

Zain has aggressively pursued growth through some significant acquisitions. It has recently announced investing almost US$324 million to take a stake in Wana Telecommunications in Morocco.

Do you expect a slowdown in Mergers & Acquisitions (M&A) activities due the present credit situation?

We believe the trend of M&A activities of telecom operators will continue with a focus on convergence players that can add value in advancement in the broadband arena. This explains our investment in a convergence player like Wana, and also the recent merger of Zain Jordan with Paltel. Decline in valuations has made M&A opportunities favorable.

Zain's recent deal with the Arabic music label Rotana indicates that it is taking the content space seriously. Would you consider any acquisitions to strengthen your capabilities in this segment?

The infotainment market is a strategic pillar in our overall mission, and the "Zain Create" portal shows our commitment to the digital distribution area Zain is entering into by providing customers with full track download and streaming. Zain is in the process of expanding its partner ecosystem so as to provide more content to its customers.

> "*The infotainment market* IS A STRATEGIC PILLAR IN OUR OVERALL MISSION"

Emerging Markets

You have focused mainly on the African market, which has resulted in Zain's African business contributing around 56% of Zain's total revenues.

What are the attractive features and conversely the challenges associated with operating in African markets?

The main attraction of the African market is the growth potential and unique cross- border customer behavior. As for challenges, they are not different from any other emerging market that requires consolidated efforts to build the enabling infrastructure.

Do you believe there is a business case for 3G services in these constrained markets, with very low penetration and low ARPUs[2]?

Broadband services should be an integral part of our value proposition to the customer regardless of the delivery technology. We have recently launched 3G services in African countries such as Nigeria, Tanzania, Ghana and Sudan, and in the Middle Eastern markets of Bahrain, Kuwait and Saudi Arabia. We aim to roll out broadband services in all countries where we operate.

How does the organization tackle the unique challenges of these high-growth but highly competitive markets? How does it integrate its operations in spite of presence in such varied geographies?

Zain's brand stands for being Daring, First, and Different. Zain is unique in that it has a unified brand and an innovative cross-border service

1 GPRS Roaming Exchange.
2 Average Revenue Per User.

> **M&A ACTIVITIES WILL CONTINUE** *with a focus on convergence players*

portfolio. Furthermore, over 100 nationalities are represented at Zain, enabling us to leverage the unique opportunities and potential in our markets. We are "customer share" market leaders in over 60% of our operations even after entering as second, third or fourth operator in many of them. We believe our unique offerings such as "One Network" and our brand promise of "A Wonderful World" differentiates us from other providers in attracting customers.

Does the company have any plans to expand in other potentially attractive markets like India in the future?
Zain is continually looking at expansion opportunities into high population, low penetration emerging markets in which we have a strong cultural affinity, potential to extract significant synergies and which are likely to represent minimal execution risk. Zain has examined the Indian market and recognizes that while there are clearly growth opportunities from a subscriber acquisition standpoint, the market itself is highly competitive. While we have decided not to enter the Indian market right now, we anticipate market conditions will evolve and improve in 2010, increasing the scope to look at opportunities in the Indian market.

Beyond Wireless

While most of Zain's competitors in Middle East are integrated players, you have focused solely on wireless operations.

How do pure play players compete with integrated players, especially with respect to their ability to provide fixed-mobile bundles and triple/quad play services? Does your broadband strategy revolve solely around wireless technologies or would you consider venturing into the fixed-line business?
Zain is a private company that does not rely on the incumbent for fixed services. The focus on wireless service delivery is our decision in the absence of the fixed infrastructure, declining fixed penetration and the unavailability of local loop unbundling in the region. Zain has had huge success in providing broadband services like the WiMAX service in Bahrain and Jordan. With the recent merger of Paltel, we aim to gain more knowledge of multi-play services.

> **BROADBAND SERVICES** *should be an integral part* **OF AN OPERATOR'S VALUE PROPOSITION**

How do you intend to overcome the inherent challenges like low PC penetration and low availability of local language content for broadband in the African market?
We are looking at opportunities with major players in the market that can complement our mobile services and assist in improving the low PC penetration in these markets. Based on our experience, local language is not an entry barrier as most of the addressable market speaks English or French. However, we are looking at media partners in Africa similar to our partnership with Rotana to provide localized content.

Mobile Data and Content

Zain faces a unique challenge in providing content services across multiple cultural and linguistic geographies.

With such a wide varied presence, how do you plan to build content offerings? What are your views on an open platform model to give customers the best choice in content and applications?
Zain partners with local, regional and international content providers to supply content in a timely manner to its customers. Content is provided in English, Arabic and French, in addition to local languages such as Swahili. Our strategy is to use an "open garden" approach, providing customers with plenty of choice, along with access to multiple vendors.

Recently, telecom operators such as SK Telecom have made inroads into advertising, by acquiring agencies focused on mobile advertising.

> *A strong, unified brand* **IS A MAJOR ASSET**

Do you see mobile advertising developing into an important revenue stream for operators any time soon?
Zain has implemented basic advertising through cell and SMS broadcasts, while closely monitoring the major problem of spam. We have also completed several pilots of different business models for mobile advertising and are analyzing the different options available. An important variable in this strategy is the partnerships with media buying agencies and the knowledge they bring into the equation.

What should operators be doing to build on this capability given the present dominance of online players?
Services like "Zain Create" have allowed Zain to compete with non-traditional telecom online players. Similar to mobile advertising, it is also a new playing field involving different skills that need to be acquired. Partnering with existing leaders in each of their fields or markets will put us in a position to build our internal capability.

Innovation

Zain's "One Network" has been a highly innovative concept, which has evoked much appreciation and curiosity in the industry.
The "One Network" service revolutionized and replaced the concept of roaming in 19 countries where Zain is present and has fully changed the way people communicate. The service is renowned as the world's first truly borderless mobile service and is accessible to more than 500 million people in a territory three times the size of the European Union. Many operators have attempted to replicate the "One Network" concept in Middle East, Africa and even in Europe, but without much success. It has enabled us to attract many corporate and government accounts that have cross-border operations.

What were the operational challenges around rolling out "One Network"?
To make the experience seamless for customers, Zain had to put a lot of effort into aligning not only technical platforms, cross-border transmission, and tariffs, but also business processes across all Group operations. Even language support had to be properly aligned.

Transformation: Growth and Cost Management

Zain plans to be a top ten global operator by 2011. Until now it has relied on acquisitions to achieve this target.

How vast an international footprint is Zain targeting to have? When will the focus shift to organic growth?
ACE (Accelerate, Consolidate and Expand) are the three pillars of growth of Zain's corporate strategy. The objective of ACE is to propel us into the ranks of the world's top ten mobile telecommunications companies by the end of the year 2011. Zain intends to continuously evaluate opportunities for both organic and inorganic growth. Coupled with increased operational efficiencies and economies of scale, the strategy will provide Zain with the necessary thrust to capture the large growth potential in the markets in which it operates.

Telecom operators are increasingly conscious of the need to manage their cost base. Zain itself, in spite of having shown impressive revenue growth, has seen a drop in its EBITDA[3] margin.

What steps have you undertaken or are considering in order to manage your costs?
"Drive11" is a new initiative within our ACE strategy designed to propel the company towards its 2011 target of being a top ten global mobile telecommunications operator. "Drive11" will maximize economies of scale and realize significant efficiencies and savings, focusing on customer facing services and commercial activities while centralizing or outsourcing some back office/non-core functions to strategic partners.

Are you considering outsourcing any other facets of your operations to achieve costs savings?
In Nigeria, our biggest market by customers, we recently outsourced all our IT and networks management to world-class companies like ITS and Ericsson. This will result in significant savings in the short- and long-term. Similar outsourcing will take place across many other operations in the future.

Closing Thoughts

Zain has actively pursued strengthening its brand, having rebranded 15 operations in the African region under a single brand.

Do you see brand as a long term differentiator for telecom operators going forward?
Unifying all the companies under the Zain name has resulted in strong brand equity and created synergies, as well as fulfilled our promise of delivering a unique and rewarding experience for customers. "One Network" best demonstrates how the value of a single brand and contiguous networks can directly benefit customers. A strong, unified brand is a major asset that is compelling to customers and the glue that unites our people in all our country operations. Our brand value is estimated to be over US$2 billion today, and this is a testament to our decision to undergo this transformation.

3 Earnings Before Interest, Taxes, Depreciation and Amortization.

About the Authors

Dr. Saad Al Barrak has been Deputy Chairman and CEO of Zain Group based in the Middle East and Africa since 2002. Since his appointment in mid 2002 and through the implementation of his vision of the "3x3x3" profitable expansion strategy, Zain's customer base has increased from 600,000 from a single operator in Kuwait to having a commercial presence in 24 countries with 69.5 million active customers across the Middle East and Africa.

He has held a variety of senior executive positions with leading IT and Telecoms companies in the region and has been honored with a number of industry awards recognizing his influence and achievements as an international business leader.

Dr. Didier Bonnet is vice president and managing director of Capgemini's global Telecom, Media & Entertainment consulting practice. He was for many years a vice president with Gemini Consulting and prior to this with several large and small strategy consulting firms. He is based in London.

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