

Kings of convergence

By ITP.net staff writer **CommsMEA** on Monday, December 15, 2008



[DOANY: Hopes to challenge Vodafone for the number two slot in Turkey.](#)

Turk Telekom is putting convergence at the centre of its offering in a bid to win over a new generation of customers.



Despite an economic downturn that is denting the financial performance of many telecom operators around the world, Paul Doany, CEO of Turk Telekom, Turkey's incumbent landline operator and a growing force in the country's mobile and ISP markets, remains bullish.

Indeed, with Turk Telekom experiencing strong growth in its third quarter results, Doany is feeling little of the bearish sentiment that is leading many operators to consider scaling back investment.

Turk Telekom's revenue increased by 10% to reach TRY 7.6 billion (US\$4.63 billion) compared with the same period of 2007, and operating profit increased by 15% to TRY 2.2 billion (US\$1.33 billion).

We believe that investing in IT companies can help us both domestically and for the export markets.

And the results were certainly welcome news to directors at Turk Telekom, and its owner, Dubai-based Oger Telecom, which has a 55% stake in the company and also controls Cell C, a mobile operation in South Africa, and Cyberia which has ISP operations in Saudi Arabia, Lebanon and Jordan.

Turkish expansion

In its home market, Turk Telekom's biggest operation is the incumbent fixed operation which has some 17.5 million fixed lines. The company also has about 5.7 million ADSL lines and owns a stake of about 81% in Turkey's third mobile operator Avea.

Turk Telekom is also a wholesaler of ADSL services to several ISPs through its subsidiary TTnet, and runs AssisTT, a call centre business. In a move to further broaden its base, the company also recently acquired three IT companies in Turkey: Innova, a payment systems, billing and customer care company; Argela, a fixed and mobile products company specialising in convergence products, IPTV, advertising and support; and Sebit, which specialises in educational software.

Doany admits that in the Turkish market, much of Turk Telekom's focus is on "protecting the voice from the gradual decline". With fixed-line business in decline in many countries, Turk Telekom is attempting to develop its fixed business by introducing a number of new services and technologies, and by offering converged services that incorporate mobile and data.

"We have plans for a lot more voice bundles, more value to the customer, and on the ADSL and mobile side we have very high growth and to keep that growth we are investing in these IT companies, which we believe can help us a lot both domestically and for the export markets," Doany says.



To this end, Doany is bullish about the potential of the fixed-line operation. "We believe that fixed-line has a very big strength compared to mobile only. With it we will be able to offer customers services whether they are at home, in the office, or a hot spot that they frequent a lot. The delivery of that service into these locations should be at the most cost-effective way.

Doany is also optimistic that the sector has much potential, not least because Turkey has a large, young population.

"The Turkish market is very exciting, because it has a very young population, and it has high levels of literacy, so obviously for this reason, having mobile and broadband, we find that the bulk of the growth is coming from the young - broadband is a big important upside for our business and that is why we are complementing it with education software, games, all sorts of services that are seen to be young, so we see big potential there. And of course they are more amenable to a converged solution, so the market will be driven by the young," he adds.

Competitive edge

While fixed-line growth is static, Turk Telekom's mobile operation, Avea has Telekom has been growing its market share consistently in recent years, and the company eventually hopes to challenge Vodafone for the number-two mobile position in Turkey. The company's mobile and broadband operations have grown by about 30% in the past year.

But Doany insists that competition between the three mobile operators is tough. Furthermore, some of this competition is partly owing to unfair practices from the dominant mobile operator, Turkcell, according to Doany.

"There is one main dominant player here that has been in the market a very long time and never had any strong competition, so they have managed to have very good network quality and now competition has started through us and Vodafone."

Doany's main complaint is that the incumbent mobile operator's pricing is anti-competitive, with low on-net tariffs and high-off-net tariffs. "The on-net is much lower than the termination rate so there is a big challenge there," he says.

Avea is attempting to counter this level of competition by offer various types of converged offer. Doany points to a service that allows the subscriber to use a regular mobile phone to make low-cost WiFi calls when they are in a WiFi area. The company also intends to bundle 3G over its broadband service as well. "With that we believe we will be able to offer further advantages to our existing customers to be able to put up some competition," Doany says.

Doany is also hopeful that Turk Telekom will be able to gain more ground in the mobile sector since the introduction of mobile number portability in Turkey in November. "We see it as something that enables competition in the sense that all our surveys indicate that customers really prefer not to change their number, especially the better customers, the higher ARPU customers," he says.

Video phone

Doany also points to Turk Telekom's video phone as a significant development at the company, and one that represents a new drive towards convergence. The device, which allows users to make and receive video calls over the landline infrastructure, was launched in Turkey in May. Subscribers can also watch TV on the device and even make video calls to 3G phones with the device, which works over a fixed ADSL line.

"It's a unique product that nobody else has as yet," Doany says. "We are creating something like a VoIP offer, because we offer unlimited calls from video phone to video phone and we are now putting up some of these video phones in payphones in certain locations."

While incarnations of the video phone have failed to catch in other markets, Doany believes Turk Telekom's device will prove more popular owing to its low cost - the device is offered free to subscribers - and a price structure that allows unlimited use, and the level of convergence that allows the user to call 3G phones.

Interest for the video phone is coming from business as well as home users. "Some of the banks appear to be keen to have this type of service where they have their account managers speak to most favoured customers and offer them a video phone...then see the person when they are speaking to them," Doany says.

While the fixed version of the video phone works over an ADSL line, Turk Telekom also plans to incorporate the video into WiFi hotspots in various public places. These hotspots will allow people to access the internet, make phone calls and video calls. As Turkey has compulsory military service, Turk Telekom is also planning to install hotspots in military installations, which will give the video phone service a wider audience.

"With this we believe we can transfer the value of a service to third party locations, especially for young people in hot spots," Doany says. "The target is to have 4000-5000 by the end of the year, covering cafes, hotels, shopping centres, conference centres, airports."

Acquisition trail

But aside from developing and rolling out new technologies, Turk Telekom and its parent company Oger Telecom are also keen to expand geographically and adapt the lessons learnt from the Turkish operation to other countries in the region.

Indeed, Doany says both companies see opportunities for expansion, with Turk Telekom keen to expand in Central Asian republics to South and Eastern Europe, while Oger Telecom is also pursuing targets in a bid to expand its footprint.

But far from simply looking to expand the size of the company, Oger and Turk Telekom are keen to ensure that any acquisitions they pursue fit with both companies strategy of offering a converged service.

"From Turk Telekom perspective we are very keen to expand into the surrounding regions, which is the central Asian republics and as much of central and eastern Europe as we are able to work in, because in the end we are keen on fair value acquisitions and what we have seen is that people have been overpaying for licences and now we are seeing the results of that. We have been very cautious of this because we would rather fail to buy than buy and regret it later," Doany says.

"Money is important and you have to be careful. Fortunately we are an under-leveraged company and our debts are very low.

"From Oger side, we are always looking at opportunities as they arise, fixed and mobile. We are interested in IT services and products companies and we think we can grow into that side of the industry. It could bring significant advantages, whereby we benefit from these companies and help them grow into their markets... and we can convince people to buy these products."

Oger Telecom has been eyeing fixed operator Telkom South Africa, which would complement Oger's existing mobile operation in South Africa, Cell-C, and allow it to introduce converged services. "For Oger Telecom we are very keen on Telkom South Africa, because we are keen on this integration between fixed and mobile, so we think that can put us in a good position in the South African market, which could be good for Telkom and Cell-C," Doany says.

Oger was in discussions with Telkom in 2007, but this came to an end when MTN also made a bid for Telkom. However, when this failed to work out, Oger started discussions with Telkom again, but progress was slow, partly because negotiations were complicated by the fact that Telkom also owned half of Vodacom, which is the largest mobile operator in South Africa.

"We had to pause that one from the Telkom side but we are still very interested in that opportunity and we believe that it will be re-opened some time soon," Doany says. "We are very interested because of obvious synergies that we can derive between fixed and mobile. Telkom can benefit by having a mobile subsidiary and Cell-C can benefit by having the synergies of a fixed-line operator to offer convergence.

That is a strategy that we are following in Turkey where we have a strong fixed-operator and a challenger mobile running third in the market. There is a lot of great potential there."

"We are very interested and we believe the benefits to both sides are very compelling and that at the appropriate time we are confident that both sides will see the benefit of doing the deal at the right time."

Doany adds that a deal with Telkom, which also runs services in some other African countries, could also open the door to other opportunities in the continent. "There are other opportunities in North Africa as well that might be considered in the context of the group," he says.

Meanwhile, Turk Telekom has also been busy looking at potential acquisitions. The company has made a bid for the privatisation of Kyrgs Telecom, which is a fixed operator with a mobile licence. Turk Telekom is waiting to hear the outcome. "We like that combination and Kurgis Telecom also has a CDMA 450 operation which is a very cost-effective way of providing voice and data in underserved areas for fixed, although it can also work for mobile," Doany says

If it secures the bid, Turk Telekom's intention is to use the CDMA 450 operation as an access network, mainly because it costs less to operate in low density areas, compared with cable networks, which work well in higher concentrated areas. "As soon as you get to suburban and rural areas you need a wireless solution and CDMA is a cost effective solution for that type of offering," Doany says.

"The beauty of CDMA is that you can also offer broadband services. You can offer voice and data, and we see a very important upside on the data demand. People need internet access and using just mobile is not the most effective way of pitching that."

However, the licence would allow Turk Telekom to run a mobile operation as well as the fixed network, giving the company the "best of both worlds" if it wins the licence, according to Doany.

He also confirms that Turk Telekom is keen to bid for the Azerbaijan operator tender. Indeed, Doany expects privatisation to happen "some time next year", and adds that Bosnia and Herzegovina is also in Turk Telekom's sights.

In profile: Oger Telecom and Turk Telekom

Oger Telecom is the controlling shareholder of Turk Telekom, following a 55% block share purchase at the end of 2005. It also controls Cell C, mobile operation in South Africa, and Cyberia, with ISP operations in Saudi Arabia, Lebanon and Jordan.

Turk Telekom is the fixed-line incumbent in Turkey, with around 17.5 million fixed line customers. TT is a wholesaler of ADSL services to several ISPs. TTnet, meanwhile, is a fully-owned subsidiary, responsible for all data service offerings, including ADSL/VDSL.

Avea is Turk Telekom's mobile subsidiary (with around an 81% stake held by Turk Telekom), with nearly 12 million GSM customers.

Turkey in focus

Mobile operators: Turkcell, Vodafone, Avea

Population: 71.9 million

Mobile subscribers: 61.9 million

Fixed-lines: 18.4 million

Internet users: 13 million plus