Perspective

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Winning in MENA's New Media Scene

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EXECUTIVE SUMMARY

Communications, media, and technology (CMT) players in the Middle East and North Africa (MENA) region have experienced double-digit growth in recent years. However, they have thus far been slow to capitalize on the accelerating shift to new media. Although the business case for new media has yet to materialize for most companies in the region, the market scene is changing rapidly: Technologies are converging; traditional lines of demarcation between telecom operators, media companies, Internet players, and handset manufacturers are blurring; and there is a vacuum in terms of the customized, readily accessible, digital content that consumers want. To succeed in this radically different landscape, players must understand four key dynamics and devise strategies to capitalize on them:

1. *The Regionalization of Media:* The digital platform offers true pan-Arab coverage, providing opportunities for regional expansion. Local players should quickly build regional online assets and invest in the necessary content and marketing to capture their share of the regional audience.
2. *The Changing Demographics of Connected Users:* "Youth users" and "female socialites" are emerging as the champions of new media and will account for the lion's share of the regional audience. Successful players will build products and services that address these segments' quest for ubiquitous and interactive content.
3. *The Shift to Advertising-driven Revenue Models:* Mobile platforms will remain dominant for new media content, but will increasingly adopt advertising-based revenue models. New media players will need to achieve fluency in common and emerging advertising schemes.
4. *The Importance of Strategic Partnerships:* The new media value chain requires a wide range of competencies that fall within the domains of different CMT sectors. Companies will need to secure durable partnerships with best-in-class players that have relevant capabilities to complement their own.

THE RISE OF NEW MEDIA

CMT players in the MENA region have enjoyed impressive growth trajectories in recent years. Telecom operators, for example, have benefited from double-digit growth in mobile penetration rates in most MENA markets since 2003. The most active telecom markets in the region already have penetration rates exceeding 100 percent, thanks to consumers' propensity for owning multiple phones. In Saudi Arabia, the penetration rate is close to 125 percent; in the United Arab Emirates (UAE), it exceeds 200 percent.

Similarly, media companies have enjoyed unprecedented expansion. From 2003 until roughly 2008, advertising expenditure grew at rates of more than 20 percent per year, with net advertising spend crossing the US$2 billion mark. The number of free-to-air television channels has more than tripled since 2003, spurred by strong growth in household annual income and the penetration of TVs in the region. Similarly, other media channels, such as publications and outdoor media, mushroomed during the last five years.

That expansion has slowed recently because of the proliferation of new entrants, fragmenting media consumption, and the worldwide economic slowdown. However, the good news is that the shift to new media is accelerating in the region. Consumers' appetite for new media, be it through social websites, mobile content, or other offerings, is growing unabated, and advertisers are realizing the tremendous potential impact on their business. While TV advertising shrank in 2009, online advertising grew by nearly 40 percent in the region, driven by new media's unprecedented consumer insights and its ability to measure return on investment.

Despite these very attractive trends, most new media players in the region—and around the globe—have yet to turn a profit, even as they continue to sign up ever-increasing numbers of new users. This makes the new media business case difficult to gauge through traditional financial evaluation methods. It should be noted, however, that investment in new media is a long-term prospect; payoffs will start to materialize only after players have acquired a certain user base and devised adequate monetization models. Facebook, after almost five years of operation, has turned cash-flow positive only recently, and continues to explore business models that will enable it to extract maximum value from its massive user base of more than 400 million people.

Thus, before being able to secure any profits, regional new media players have to realize that they are looking at a new type of media consumer who is more complex and more sophisticated. Successful players will need to understand those consumers' needs and behavior and adapt to them.

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CONSUMER 2.0: CONSUMING AND PRODUCING MEDIA ANYWHERE, ANYTIME

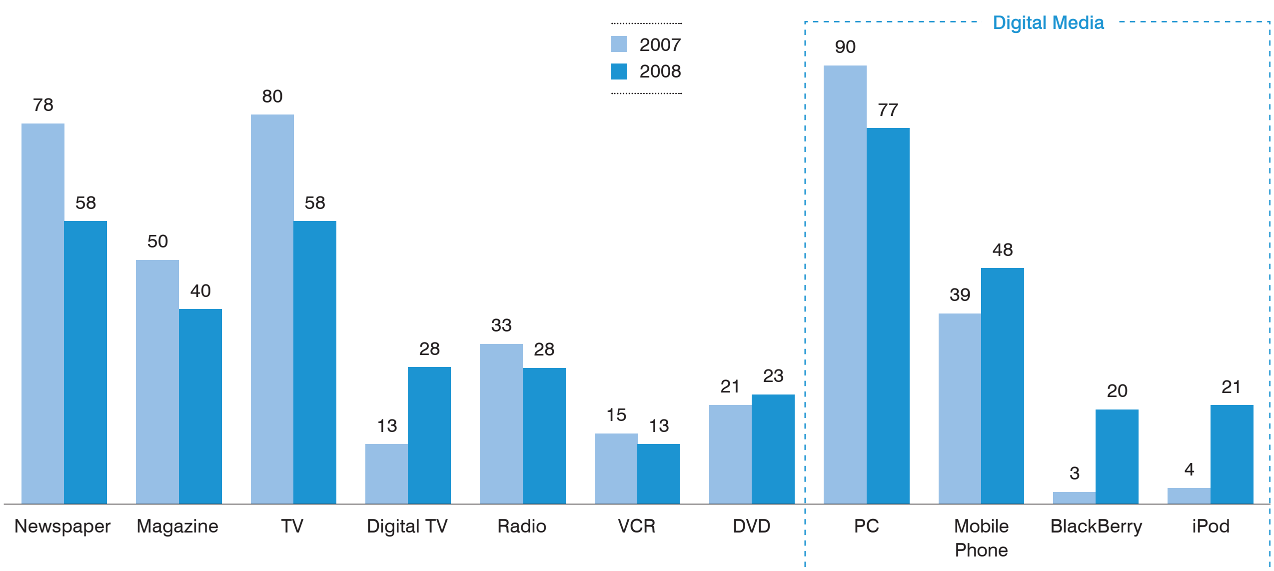
The passive consumer of professional media content is fast evolving into an active "prosumer," who not only expects to consume personalized media anywhere and anytime but also contributes to content production. Increasingly, prosumers are socializing and interacting with content creators on digital platforms. Technology trends are only accelerating these consumer shifts, particularly the shift to handheld devices and new applications capable of delivering rich content with high production values (*see Exhibit 1*).

Accordingly, there has been a radical shift from traditional media to digital communities. From June 2007 to June 2008, the number of MENA consumers active in social networking increased 66 percent. Facebook now has more than 10 million users in the region.

With such profound shifts in consumer behavior, new media involves more than simply a different delivery mechanism for content. Information in the new media world must be directly integrated into consumers' lives—accessible from anywhere, at any time, on multiple devices, for continuous consumption. This requires a new way of creating and presenting information, which gives far more control and choice to consumers. Such a strong emphasis on consumers presents a profound challenge for traditional content producers. However, it also creates powerful new opportunities for players that can best address consumer needs.

Exhibit 1
MENA Consumers Are Shifting to New Media at Accelerated Rates

ONLINE USER CONSUMPTION BEHAVIOR IN THE UAE AND SAUDI ARABIA (PERCENTAGE OF USERS)



Note: Survey participants were asked the following questions: "Which of the following do you usually use to view media and entertainment content?" "In the coming year, which of the following are you most likely to use in order to view media and entertainment content?"
Source: YouGovSiraj UAE and KSA Internet User Profile Survey

A POTENTIAL HOT SPOT FOR NEW MEDIA

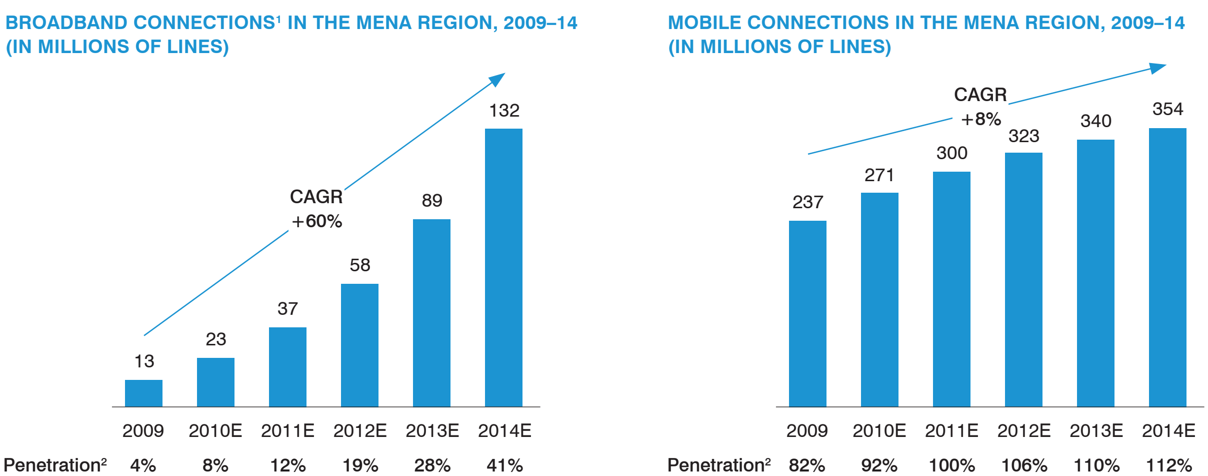
Regional CMT players already have a certain advantage in their location: Several characteristics make the MENA region particularly receptive to the shift to new media. First, whereas traditional broadcast and print media mostly operated within national borders because of regulations or distribution restrictions, new media unlocks the entire Arab region of 295 million people. Despite being spread across a vast geographic area, this audience possesses a fairly homogeneous sociocultural heritage—and a relatively high literacy rate, with the six countries of the Gulf Cooperation Council (GCC)[1] at roughly 75 percent or higher. In addition, several of its nations are extremely wealthy. By the year 2015, in the Gulf states and Egypt alone, more than 13 million households are projected to reach medium to high income levels (taking the world average of US$10,000 per capita as the medium).

The information and communications technology (ICT) infrastructure necessary for new media is also being put in place: Regionally, such infrastructure has been the recipient of largesse from both the public and the private sectors for more than a decade now, prompted by market deregulation, technological breakthroughs, and consumer demand. The MENA region's telecom operators were among the first in the world to deploy commercial high-speed 3.5G networks, while governments have invested in ICT with specialized free zones and programs to develop human capital.

The region is also a hotbed for ever-greater numbers of broadband connected users (*see Exhibit 2*). The total number of broadband connections is projected to increase at an annual rate of 60 percent over the next five years to reach 132 million, representing a population penetration of 41 percent in 2014. The region is also expected to sustain an annual growth rate of 8 percent in the number of mobile connections over the same period, to reach a population penetration of 112 percent by 2014, driven by the tendency of users to own more than one mobile connection. The proliferation of smartphones and iPad-like devices is further fueling this tendency, with users potentially keeping a smartphone for content-rich applications and another phone for voice and basic data usage. In addition, machine-to-machine communication, currently in a nascent stage, is expected to lead to ever-higher mobile SIM penetration levels in the region. Demographics are equally promising. Young people, the segment most likely to be comfortable with new media, make up a high percentage of the population. For example, more than 55 percent of the Saudi population is younger than 25 years old today.

In financial terms, the size of the market for new media in the MENA region, including advertising and content (but not digital commerce), is currently at $1.1 billion. This market

Exhibit 2
Broadband and Mobile Connections Are Expected to Grow Strongly in the MENA Region



[1] Includes fixed and mobile broadband connections. Fixed connections account for 47 percent of the total in 2009 and 17 percent in 2014.
[2] Penetration is calculated out of the total MENA population, which is expected to increase from 295 million in 2009 to 322 million in 2014.
Note: The MENA region includes Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates, and Yemen.
Source: Informa (WCIS, WBIS); Booz & Company analysis

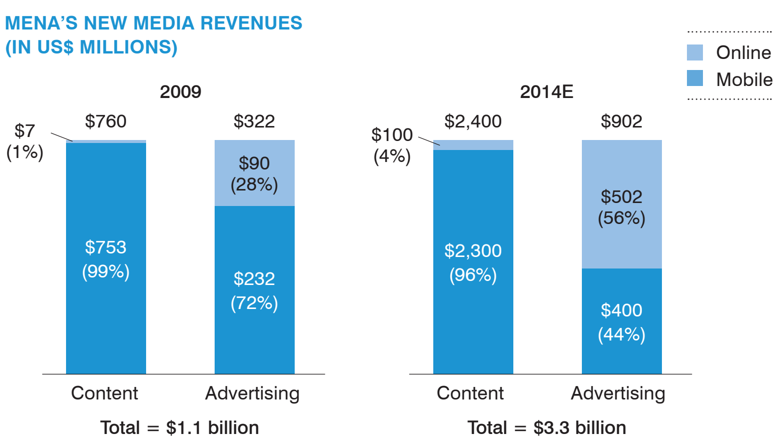
is largely dominated by mobile and content as opposed to at-home Internet or advertising. We expect this figure to rise to $3.3 billion by 2014 (*see Exhibit 3*). Tremendous growth in advertising and Internet access is likely, though discrepancies will remain between mobile and at-home Internet access. Digital commerce is also expected to become a lucrative category, with a projected market of $2.3 billion by 2013.

Yet if the market potential is clearly expanding, the content offerings so far have not been. The demand in MENA countries for integrated content and information delivered with new media functionality has exceeded supply. There is a notable shortage of local digital offerings.

Global heavy hitters such as Google, YouTube, and Facebook dominate regional traffic, not by design or intent but predominantly because of the brand awareness they have developed in their home markets. To date, few regional sites have been able to compete. And these international players are now beginning to recognize the region's potential, as indicated by Yahoo's recent acquisition of Maktoob and Facebook's partnership with Connect Ads to sell advertising in the MENA region. As the global players focus more intently on the region, the competitive threat facing homegrown CMT players will only grow larger.

However, unlike in developed markets, the new media game here is just beginning, and there are no clear winners yet. CMT players have the potential to gain not only revenue and brand loyalty but also better insights into consumer behavior. These insights could go beyond mere demographic data, encompassing such information as purchase histories and brand preferences. These players will "own" the consumer interface in a way that traditional media players cannot, and their audiences will be far more attractive to marketers.

Exhibit 3
New Media Revenues in the Region Are Expected to Triple



Source: Booz & Company

COMPETING IN THE AGE OF CONVERGENCE

To achieve this success, however, CMT players need to understand how their industries are changing. The new media space is a complex ecosystem in which companies are encroaching on one another's former positions of strength. The walled-garden approach that CMT companies have employed in the past is no longer viable. All CMT players are finding themselves operating in a new value chain in which telecom operators, media companies, handset manufacturers, and Internet players no longer compete solely within their narrow categories but rather across the entire new media space. And the core capabilities that they have developed and mastered are no longer sufficient to compete effectively.

Telecom operators, for example, face a confluence of issues—specifically, saturating penetration rates and deregulatory moves that weaken incumbents' advantage. In addition, the dominant market position that incumbents once enjoyed by owning physical infrastructure is eroding, thanks to nontraditional competitors that don't own a network but bundle their services attractively.

In short, they can no longer worry simply about the competitive threat from other operators but must consider every other CMT player, in MENA countries and worldwide, as a potential competitor. Global brands such as Apple and Nokia are adopting new business models that force carriers to reassess their approach and service delivery. The strongest Internet players are already making inroads into operators' existing models by introducing open source mobile platforms that feature strong sync functionalities. Hardware manufacturers are increasingly offering content and applications through mobile devices, and reaping more revenue: Blackberry offers an app store for its handheld devices, handling all aspects of the service except billing. Apple's app store not only sells content and applications for its iPod and iTouch handheld devices, along with laptops and desktops, but handles billing through its iTunes site. The telecom operator provides access—often at flat monthly rates—and nothing more, while Apple pulls in ever-larger revenues and develops loyal fans.

There are also indications, such as eBay's acquisition of Skype, that CMT companies outside the telecom space are looking to offer voice and data service themselves. In Japan, Dell is launching a mobile virtual network operator (MVNO), which will allow it to bundle data services with its laptops. Nokia is contemplating a similar service in Japan.

Traditional media companies in the region are in a similarly tenuous position, confronting a range of significant challenges fostered by the shift to new media. Media distribution channels are increasingly being controlled by competitors (e.g., online portals dominate online traffic; telecom operators control touch points to mobile media). Marketers are demanding more interaction with audiences and more precise, measurable ads—a transition that many print and broadcast media companies around the world haven't managed to navigate. The youthful population in MENA countries intensifies traditional media companies' imperative to change, given the disdain most young people feel for traditional print and broadcast formats. Customers of all ages are increasingly interested in user-generated content, which undermines the role of professional content producers.

Monetization is another challenge for media companies. Formerly profitable models of advertising and paid circulation and subscriptions are no longer the only ones that matter in the new media universe. Digital content delivery offers potential new monetization avenues on entirely new platforms, such as content syndication, search placement, and interactive media. Yet these new platforms come with their own challenges, including highly specific customer demands and a plethora of new competitors.

Moreover, media companies are watching more and more nontraditional players offer digital content to consumers. Nokia, for instance, recently launched a digital music store in the UAE, where it controls 75 percent of the handset market. Orange signed a multi-country agreement with Nokia to cooperate in offering music, gaming, maps, location-based services, and mobile e-mail. Saudi Telecom launched a consumer Web page in Arabic called M3com.com, which it contracted with Maktoob to design and launch. The site is rapidly gaining traction and offers a custom start page, news, sports, yellow pages, photo and video sharing, travel and financial information, and social networking.

Maktoob's involvement, which happened prior to its recent

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acquisition by Yahoo, underscores the way that Internet companies perhaps pose a bigger threat to telecom operators and media producers than the two pose to each other. Online players have come of age in the accelerated new media marketplace, so they're not as organizationally challenged by this environment as more established companies in the CMT space. They were the first to tap into changes in media consumption and control the digital interface with audiences by building strong communities around e-mail and search capabilities. That has been followed by more sophisticated applications such as social networking and user-generated content. Today, the Internet "gorillas" control the majority of online audiences by leading the applications game—with a clear focus on controlling content and advertising as well.

Such initiatives have given these companies access to a wealth of consumer behavioral data, which can be used to tailor sophisticated marketing campaigns. As a result, a few have started building end-to-end ad-service platforms, putting them in direct competition with ad agencies. Others, like Google, now offer mobile operating platforms. The company launched an open source applications platform for its Android phone, which is available both through multiple carriers and directly through Google's sales channels. The Android has generated a tremendous amount of publicity so far, in part because of Google's massive brand presence. If the venture succeeds, it may open the way for many other players to start providing communication services and bypass telecom operators by using the Internet.

To succeed in the radically different landscape of media convergence, players must understand where new growth will come from and how to capitalize on it. In particular, they must deliver content on multiple platforms, in a way that gives choice and control back to the users. To achieve this goal, they need to leverage four key dynamics: the regionalization of media, the changing demographics of connected users, the shift to ad-driven revenue models, and the importance of strategic partnerships.

KEY DYNAMIC #1: REGIONALIZATION OF MEDIA

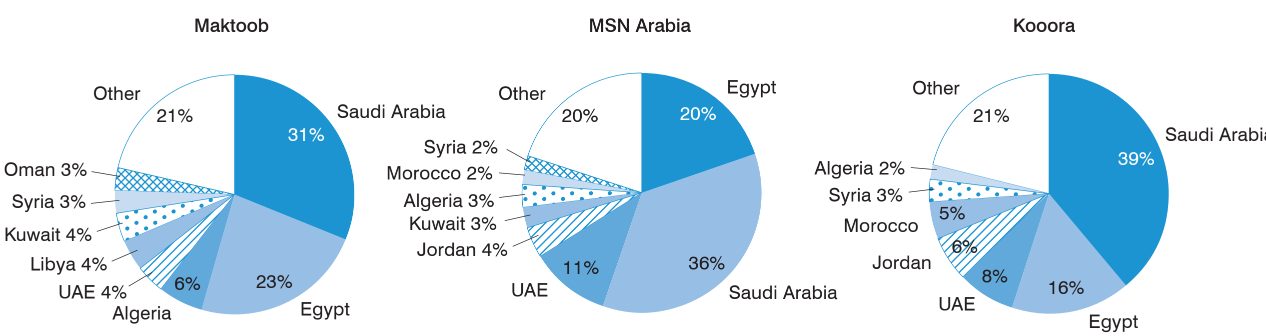
Very few media outlets offer pan-Arab marketers true regional coverage. Satellite TV is currently the only advertising medium that reaches the whole MENA region; newspapers, most magazines, radio stations, and outdoor advertising are all locally focused. Even the reach of satellite TV is limited to either the GCC countries or the Levant; viewers in these markets have different viewing habits, content preferences, and dialects. With the exception of Rotana Cinema, which has achieved significant viewership in both markets, top TV channels in the GCC and the Levant are totally distinct, causing a division of ad budgets between the two markets.

By contrast, leading websites in the region—such as Maktoob, MSN Arabia, and kooora.com—already capture audiences from all over the region and consistently rank among the 10 most visited sites in most MENA countries (*see Exhibit 4*).

The digital platform is creating a unique opportunity for local media players to expand regionally. Doing so will increase not only their reach but also their relevance to pan-Arab advertisers.

Exhibit 4
Leading Websites in the MENA Market Provide Truly Regional Coverage

TRAFFIC SPLIT OF LEADING MENA WEBSITES, JANUARY 2010



Source: Effective Measure; Booz & Company analysis

KEY DYNAMIC #2: CHANGING DEMOGRAPHICS OF CONNECTED USERS

In the new media universe, the audience is no longer confined by restrictions such as delivery areas or service contracts or even national borders. Instead, it includes everyone who can access content via the Internet, and it is segmented by usage patterns.

In that context, telecom operators and Internet players have an inherent competitive advantage in new media audience targeting, because they already have interactive touch points with consumers. Those touch points give them access to a world of data, which they can analyze by examining users' digital footprints and usage patterns.

Media companies, on the other hand, face a large challenge in analyzing their audiences. Although several print publishers in the region have recently become more adept at tailoring content to well-defined segments—for example, newspapers with local editions and magazines aimed at more narrow interest groups—such ventures remain hampered by the constraints of print. As long as these companies rely on physical content, they will be challenged to gather precise data on their customers through traditional social-research practices such as surveys and focus groups. Media companies that shift these publications to digital formats will simplify this issue, thanks to the inherent interactivity of online media.

Given the unique nature of the digital audience, all CMT players need to understand its makeup. Our proprietary research has established four key audience groups for new media in the Arab world (*see Exhibit 5*). Any new initiative from CMT companies must be undertaken with these four categories in mind, with a clear idea of which audience it will target and how it will serve that audience's unique needs more effectively than competing content, services, and applications.

Youth Users (33 percent of the market): This audience is extremely comfortable with electronic media, having come of age during the advent of digital technology, and it tends to lead other groups in terms of usage trends. The youth category's main digital content is sports, games, and music. People in this group, like their counterparts in other parts of the world, rarely use media in traditional formats. Hearst recognized this global trend and transformed *Elle Girl*, its magazine for teens, into an online-only brand.

Female Socialites (31 percent of the market): Users in this group engage in new media primarily for self-expression and to connect with friends and communities that have similar interests. Their preferred content is lifestyle media, along with music. Notably, the segment includes people at all income levels, from wealthy, non-working women to working females in the low- to middle-earning income brackets.

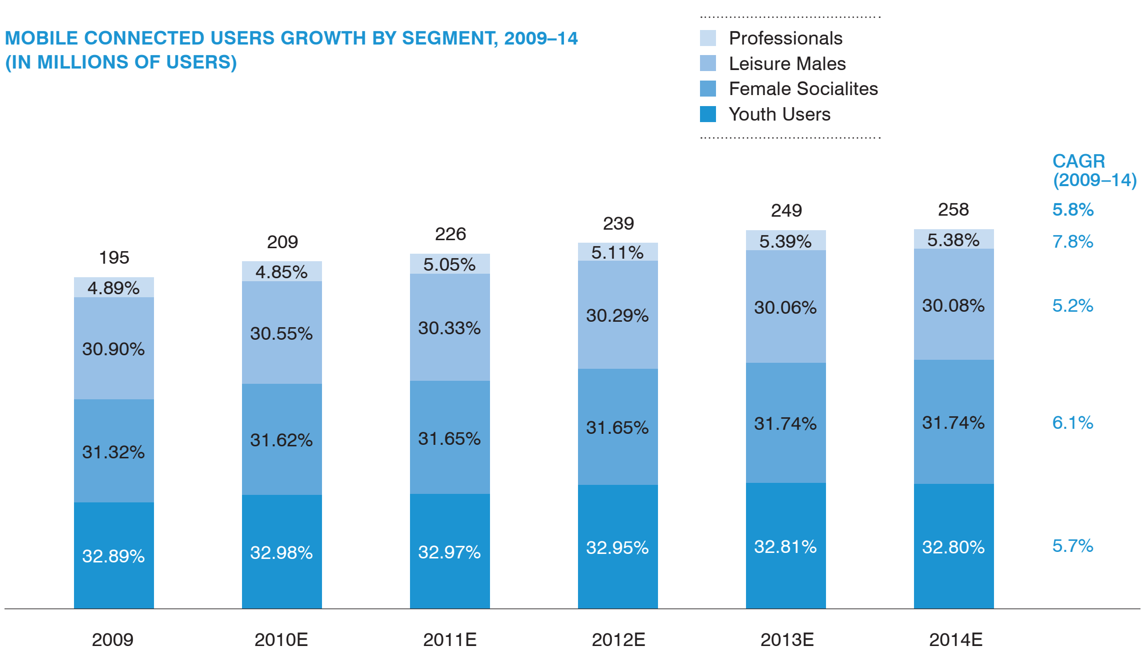
Leisure Males (31 percent of the market): This audience also spans income levels, from old-money elites to low- and medium-income earners. Leisure males use media technology to socialize, but also to get entertainment and political news.

Professionals (5 percent of the market): Although this is the smallest audience, it is the most attractive for marketers and advertisers, because its users spend far more money than those in other groups. These are pragmatic users, primarily accessing business information.

Until now, digital offerings have mostly targeted professionals. Youth users and female socialites, although they constitute 64 percent of all users, remain largely underserved. These segments demand highly localized entertainment content, such as lifestyle content and games. Significant opportunities exist for media players and other content aggregators within these segments over the medium to long term.

Also, the makeup of the new media audience demands a shift toward information developed for mobile devices. The number of PC-based Internet connections in the region is growing, but mobile users will remain the predominant connected community.

Exhibit 5
The New Media Audience in the MENA Region Comprises Four Key Segments



Note: The MENA region includes Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates, and Yemen.
Source: AMRB Survey, Informa; Synovate Madar; Booz & Company analysis

KEY DYNAMIC #3: THE SHIFT TO ADVERTISING-DRIVEN REVENUE MODELS

Whereas new media revenue in many developed markets is derived from an “advertising-plus” approach of ad revenue plus subscriptions or transactions, new media revenue in the MENA region is primarily generated through user fees for content accessed through mobile devices. The need to balance revenue from content with that from advertising remains a big challenge for the region’s CMT sector.

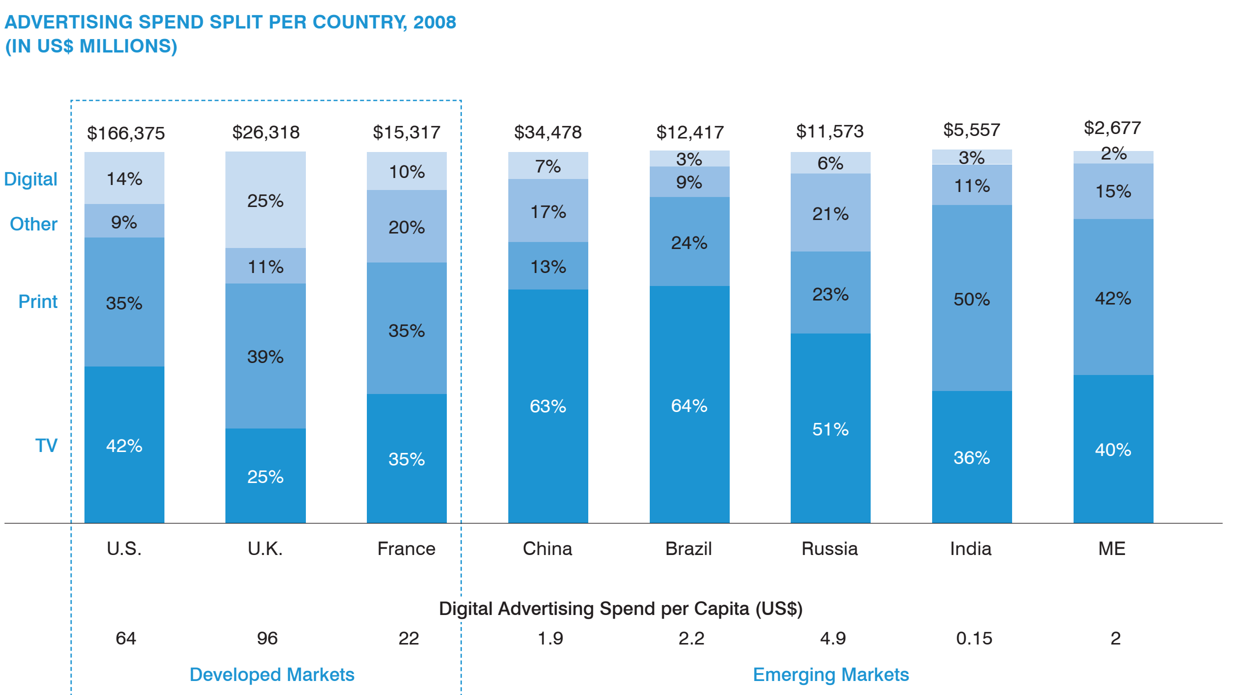
In part, the gap between the amount of revenue earned from fees and that earned from advertising stems from a lack of viable options. Popular local sites lack the qualities that advertisers consider essential; they have poor creative design, weak content, poor service levels, little user-friendliness, and a lack of bilingual support. In short, there is a large, unmet, and growing demand for high-quality digital content that can attract and support advertising (*see Exhibit* 6).

As that changes, revenue from the sale of content is likely to be overtaken by advertising revenue, primarily to reach consumers on mobile devices through broadcasting, embedded content, display, and search-related ad formats. In short, the regional market is wide open for a shift to ad-supported revenue, with marketing that supports platform-independent content. Instead of consumers paying for access to content, the coming model is for advertisers to pay for access to consumers.

The evolution of sophisticated marketing approaches will only spur this trend, thanks to digital content’s ability to support ads that are more targeted, interactive, and accountable than those in traditional media. In 2009, online advertising in MENA countries increased 40 percent, despite the presence of 10 to 15 percent cuts in overall marketing budgets.

The regional digital ad market is estimated to reach $900 million by 2014, which is a steep growth curve but in alignment with the rapid expansion of digital marketing in other areas. In the U.S., newspapers took 127 years to reach $20 billion

Exhibit 6
Digital Ad Spending in the MENA Region Remains Below That of Developed Markets, with Room for Growth



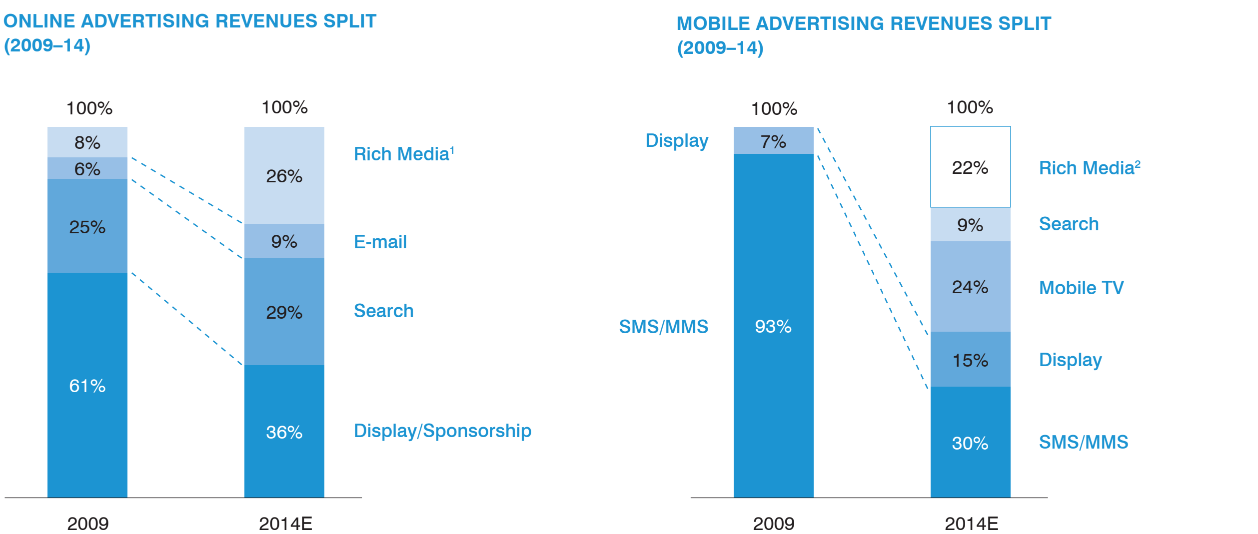
Source: Zenith Optimedia; Booz & Company analysis in ad revenues; online media have garnered that amount in just 13 years. And there is substantial room for growth—the current advertising investment per user in the MENA region is just $2, compared with the global average of $27 (and the U.S. average of $64). New media currently makes up less than 2 percent of the advertising spend in the region, whereas analysts project global levels will reach 19 percent by 2011.

This rise in ad spending will depend on increasing acceptance of the digital platform as a mainstream advertising vehicle. Both growth in broadband penetration and the proliferation of smartphones are expected to create a fundamental shift in the nature of online and mobile advertising. Online ad spending, which is currently focused on display advertising, will start to shift to rich media and embedded ad formats. Mobile advertising, currently a telecom operator play since it is dominated by SMS and MMS advertising, will shift to content-related ad formats (*see Exhibit* 7).

The shift to ad-supported revenue will offer substantial advantages for the companies that can get it right—most notably by establishing a two-way information flow that gives marketers insight into brand preferences, purchasing patterns, and other valuable consumer information. Advertisers have demonstrated a willingness to pay a premium to reach targeted audiences through ads that are interactive, that are measurable, and that deliver higher success rates than ads to more broad-based audiences. For instance, free daily newspapers, with their scattershot audience, can draw only 40 percent of the cost per thousand ads that special-interest magazines with narrower audiences charge. Performance-based ads that pay for click-through can be even more efficient in reaching consumers.

As the battle for advertising share intensifies and more of marketers' money moves toward digital, the traditional lines of responsibility among marketers, agencies, and media companies have blurred. Advertising revenue is another area in which telecom operators, and traditional media to a lesser extent, lack essential competitive advantage. This leaves them vulnerable to other players in the CMT space. The key advertising capabilities—relationships with marketers, brand pull, ad

Exhibit 7
The Nature of Online and Mobile Ad Spending Will Change



[1] Includes rich media as well as video-embedded advertising.
[2] Includes video, games, and music clips embedded in advertising.
Source: Madar; Zenith Optimedia; Parc; Group M; Ovum analysis 2007; Booz & Company analysis

inventory aggregation, search engines, content and ad portability systems—are sweet spots for ad agencies and niche technology players.

Media companies need to figure out how they can turn this development into something positive. They have the opportunity to take on responsibilities that were once the exclusive domain of ad agencies—either by using their skills to develop "private label" media offerings for marketers, or by using their integrated media properties to enhance the value of marketers' own media. Roughly 91 percent of media companies surveyed in the region already provide some kind of advertising service, such as campaign development, branded content creation, and the like.

As for telecom operators, several in other markets have formed sales partnerships with service players to grab their share of the emerging mobile ad revenue. Yahoo, for example, has handled ad sales for Vodafone, T-Mobile, and 3UK over recent years. Vodafone entered into partnerships with MySpace, YouTube, and eBay to bring Internet services to mobile subscribers. And Telefónica and Vodafone made strategic investments in Amobee Media Systems, which specializes in ad-serving solutions for mobile operators.

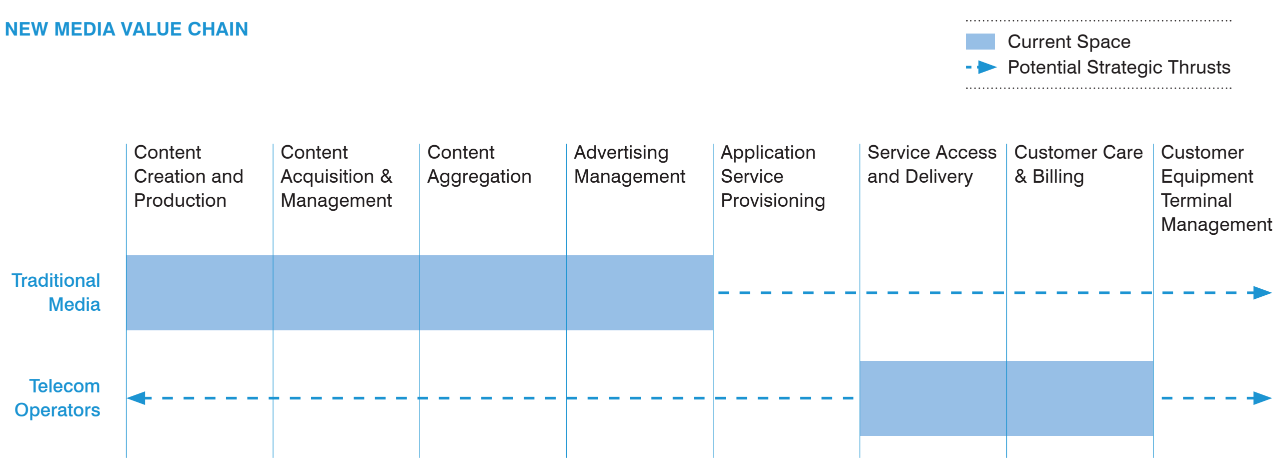
KEY DYNAMIC #4: THE IMPORTANCE OF STRATEGIC PARTNERSHIPS

Because the new media value chain includes such a wide range of competencies and skills—content production, purchasing and aggregating content, selling ad space, advertising management, application service provisioning, access, billing, customer equipment terminal management—no single company can possibly develop all the necessary expertise. As a result, CMT companies will need to go beyond their own comfort zones by joining forces with other players that offer complementary competencies (*see Exhibit 8*). Collaboration is king.

In this context, the ability to forge the right partnership, on the right terms and at the right time, will define the winners. To ensure success, the new partnership should have a clear business plan of its own (not simply a modified version of the partners' existing business plans), along with an explicit and differentiated content proposition, sufficient management talent, and complementary capabilities.

Common risk factors in these partnerships include overly ambitious and premature expectations for the partnership—understandable given the tremendous opportunities that new media provides—along with incompatible business cultures, particularly between telecom companies and media players; a lack of autonomy; and the tendency to get myopically focused on solving business model

Exhibit 8
Both Telecom Operators and Media Companies Will Need to Forge Strategic Partnerships to Expand Along the New Media Value Chain



Source: Booz & Company

and technological problems at the expense of consumers.

Telecom operators and media companies have taken various approaches to striking up partnerships along the new media value chain.

Telecom Operators

Telecom operators in the region are still reaping the biggest share of digital revenue, thanks to their control over distribution channels and access to customer intelligence on a subscriber base of more than 200 million users. Yet the service they have historically offered—voice and data access—is increasingly commoditized. As a result, operators can no longer rely on conventional competitive tactics such as price cuts, promotions, and basic product bundling to maintain their edge in the consumer segment.

Instead, they need to diversify their revenue streams by capturing a larger share of application and content providers' revenues, which are likely to make up the fastest-growing layer of the new media market. Competition in this layer will be intense and dominated by current application giants like Google, Yahoo, and Facebook, all of which have high brand recognition and a larger user base than most national operators.

Several regional incumbent operators have taken steps in this direction, offering mobile TV, IPTV, online portals, and other ventures, with the goal of retaining customers and increasing average revenue per user. These deals involve sourcing content through joint ventures with media companies and securing technical access through application service providers (ASPs).

Operators need to diversify their revenue streams by capturing a larger share of application and content providers' revenues, which are likely to make up the fastest-growing layer of the new media market.

The underlying imperative for telecom players is to secure a certain control over content so as to guarantee a steady and competitive supply. Operators are actively acquiring and aggregating content, typically through proprietary portals. Examples include 3UK and Vodafone Live in the U.K., both of which bundle content from a variety of sources and handle the advertising that comes with it. 3UK launched its service in 2001 and worked in conjunction with production companies to create mobile TV and other content, delivered over handheld devices to its target market of professionals and teenagers. Vodafone Live adopted a broader approach: Through its relatively long history, the service has gone from fairly primitive content like ringtones and wallpaper to full-fledged 3D games and mobile TV. Orange, on the other hand, now has a comprehensive content portfolio over which it exercises a high degree of control. It has acquired multiple production companies, coproducing 24 films since 2007, and signed agreements with Hollywood producers for access to their libraries. Orange now has five film channels and two sports channels, along with video on demand and a catch-up TV service. Its advertising sales division, Orange Publicité, bundles marketing campaigns across three platforms—TV, mobile, and Internet.

Regionally, both STC and Etisalat have expanded their access and control over the content part of the new media value chain. STC launched a joint venture with leading media players SRMG and Astro, while Etisalat partnered with Orange to gain access to its content library.

If telecom operators hope to make the transition from simply providing connectivity services to enabling the customer's digital experience, partnering is critical. Operators are well positioned to lead this digital revolution, provided they can overcome the organizational, technological, and business model challenges at hand.

Media Companies

Media companies attempting to compete effectively in new media have two principal options, which can be thought of as conservative and aggressive. In the conservative option, they leverage their traditional assets and monetize them through a 360-degree approach. That involves taking offline brands onto the Web, or building online-only ventures in which traditional content gets recombined and aggregated (such as with Condé Nast's food site, www.epicurious.com, which includes information from the company's food magazine along with online-only content, all presented with Web functionality). Editors and programmers have significantly more insight into consumer interests and behaviors than ever before. Search traffic, social networking, and blogs now provide a 24/7 window into what resonates with audiences. The digital platform enables editors and others to more precisely measure—and perhaps even anticipate—content appeal more accurately than any other medium. The editorial function can benefit, as advertising already has, from more sophisticated analytics. We expect to see media companies using data on consumers' Web behavior to help editors and other executives make better decisions about content development, the breadth of their coverage, and how best to present stories (video, audio, text, or interactive media).

In the aggressive approach, media companies embrace new media as a relevant opportunity to diversify their business. In addition to transitioning existing properties, this approach involves building a digital business. Syndication and content management is one such diversification opportunity. For example, in the U.S., Fox manages the sports channel at www.msn.com, but the site's lifestyle content is syndicated through a relationship with Hearst. This approach also involves new business units, either launched or acquired, centered on new media, such as News Corporation's purchase of MySpace.

Large, category-leading media companies are developing "media as service" strategies to support direct relationships with major clients and deliver an expanding range of marketing solutions. For instance, HP partnered directly with MTV Networks to promote a contest to design the skin of HP's new special-edition entertainment laptop. MTV Networks independently managed the promotion of the contest selectively in 13 countries via its television, Web, and mobile channels.

In another take on the aggressive approach, several media companies have partnered with a mobile virtual network enabler (MVNE) to develop a branded reseller or full-fledged MVNO centered on its content. An example is Amp'd, which partnered with T-Mobile to offer music videos and other youth-oriented media to U.S. consumers.

Another U.S. example is Disney, which offered content from its cartoon library, accessible on cartoon-branded phones, along with a second venture that offered sports content on branded phones through its ESPN division.

Both Amp'd and the Disney and ESPN branded-service ventures failed, somewhat spectacularly, which shows the extreme difficulty of a media company expanding beyond content generation and possibly management of an in-house ASP. Shifts in this direction on the value chain require technical expertise that so far has been beyond the capacity of media producers to either develop internally or acquire and successfully integrate. In fact, the most successful MVNOs have typically been no-frills services that focused on a particular ethnic audience and did not try to incorporate a global brand.

A regional example of the aggressive approach is GETMO Arabia, a new venture between the Abu Dhabi Media Company and Arvato Mobile's Middle East division. The venture is aimed at distributing digital content and music on mobile platforms. GETMO launched in late 2008, and although it has become a popular digital download portal in the Middle East, it does not have a long enough track record for its success to be evaluated.

Irrespective of the approach traditional media players take, it is important to note that digital is a totally new game. It's not only a matter of transforming their content for multi-platform consumption. A digital brand has to respond to a new generation of consumers who demand personalization, interaction, socialization. Building this brand requires integration of technology and leading-edge applications, a different editorial philosophy, and an appreciation for partnerships and alliances, sometimes with competitors. It requires a fundamental shift in business principles and operating models.

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CONCLUSION

The CMT space in the MENA region is at a significant inflection point; traditional revenue streams are being upended by new technologies and a seismic shift in consumption patterns. Vastly different from the environment of just a few years ago, the market today resembles a dynamic, complex, and interconnected ecosystem in which telecom operators, media companies, Internet players, technology players, and ad agencies depend on one another to thrive.

However, it is also a brutal competitive arena in which winners are rapidly distinguished from losers. CMT companies must try to anticipate future demand—and make necessary arrangements to develop or otherwise secure infrastructure, marketing, and other key competencies—even as consumer behavior and technology continue to evolve at accelerated rates. They are in essence aiming at moving targets.

The sheer pace of change in the current market makes strategic options difficult to evaluate. Yet there is no advantage in waiting for the situation to resolve. Customers and competitors will not wait. The market is only going to get more competitive as convergence erases the sector boundaries that formerly divided business segments.

What's required in this environment is a more open platform for the delivery of applications and content. For CMT companies in the region, this means they will need to expand beyond their historical areas of expertise. They need to do more and offer more, in a way that anticipates consumer trends. To reach that goal, they will need to think regionally, gain a better understanding of audience segmentation, devise a monetization model that can capitalize on the strengths of digital advertising, and cultivate a willingness to form partnerships, allowing them to expand their service offerings along the value chain.

Endnotes

[1]The GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

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