

COVID 19: Impact

of the 2008 Financial Crisis on Operator Business Services

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This report identifies some key trends from the 2008 financial crisis which may help operators to form an initial assessment of how demand for business services is likely to change, as a result of the COVID-19 pandemic, and plan accordingly.



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Catherine Hammond (Principal Analyst) is a member of Analysys Mason's Operator business services and IoT research practice, specialising in market forecasting. She previously worked for nine years as a senior manager at Analysys Mason's Consulting division, undertaking work for a wide range of operators, regulators and government agencies in Europe and Asia.

Her work included the development and review of quantitative models, assessment of business plans, development of market forecasts, collation and analysis of benchmarks and the development of white papers as well as leading client workshops and major presentations. She holds an MA in Mathematics from the University of Cambridge in the UK.

Introduction

The COVID-19 pandemic is causing huge disruption to business activities. In the short term, many telecoms operators are responding by increasing the provision of communications services for remote working. However, business disruption looks increasingly likely to continue for many months, so it is also relevant to consider the implications for operator B2B revenue in the medium term.

This report examines the impact of the financial crisis in 2008 on operator business services. It also considers how analysis of the previous crisis might help to inform operators about the likely outcome of some aspects of the COVID-19 pandemic. It examines data from 2005 to 2012 on:

- Operator business service revenue.
- Regulator-reported total market revenue for business services.
- The number of fixed-line business services connections.
- Employment trends.

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Area of impact	What happened in the 2008 financial crisis?	What may happen as a result of the COVID-19 pandemic?
General economic downturn	The impact of the economic shock on operator business services was more muted than that on the wider economy. However, there is evidence that trends in operator business revenue correlated with trends in falling employment rates in some countries and for some services.	The introduction of social distancing and lockdowns is having a very significant impact on the global economy. Many governments are implementing financial measures to support businesses, but there has already been an unprecedented rise in unemployment levels in the USA. There could be some very serious implications for operators if business services revenue changes with employment rates as in 2008.
Voice and broadband services	Pre-crisis trends in voice and broadband markets continued to prevail in most markets, although there is some evidence of an acceleration in migration to lower-cost IP voice services, mobile services and higher-speed broadband services. A reduction in the number of business sites was linked to reduced demand for fixed voice and broadband services in countries where employment levels fell.	There has already been an initial surge in the take-up of unified communications services and collaboration tools to support remote working. This is likely to result in a long-term acceleration in the migration away from traditional voice services. Failing businesses and the permanent closure of branch sites would result in reduced demand for fixed voice and broadband services from businesses.
Corporate data services	Corporate data services revenue appeared to withstand the crisis in most countries, even for operators such as Colt that have a significant presence in the financial services market. However, the impact varied by country and by operator; both AT&T and Verizon in the USA suffered revenue declines for corporate services.	Many offices are now empty, and businesses may request discounts for un-utilised connectivity as a result. IT staff are focused on supporting remote workers and are unlikely to embark on changes to key WAN infrastructure in the short term. This will probably result in a delay in the introduction of new network architecture such as SD-WAN. In the longer term, the adoption of cloud-oriented WAN infrastructure may be accelerated, though this is unlikely to result in increased revenue for operators because businesses will try to limit non-essential expenditure.
IT services	There is limited evidence that the rate of growth in IT services revenue declined for some operators following the 2008 crisis.	The take-up of cloud-based services may be accelerated. Businesses are unlikely to embark on major new IT projects during the height of the crisis, but the adoption of cloud solutions will probably feature prominently as IT departments evaluate how to deliver improved business continuity in the longer term.

Figure 1a: Comparison of the 2008 financial crisis with the COVID-19 pandemic

We have attempted to compare all revenue and volume figures on a consistent basis, and have taken account of any restatements. We have used data directly from operators and regulators wherever possible.

We should exercise extreme caution when reading across from the 2008 financial crisis because there are many fundamental differences with the current COVID-19 crisis.

- The 2008 crisis was caused by systemic problems in the financial system, rather than by an 'external' shock.
- The crisis in 2008 was less global, and almost certainly less severe in its reach.
- The 2008 crisis did not cause a shift in working patterns and ways of communicating and accessing data.
- Although the impact from the crisis in 2008 was long-lasting, many businesses were able to continue operating in

a largely unchanged manner. It is not yet clear whether the same will be true for the current crisis.

However, we have identified some key trends from the 2008 financial crisis which may help operators to form an initial assessment of how demand for business services is likely to change, as a result of the COVID-19 pandemic, and plan accordingly.

We should be cautious about assuming similarities with the 2008 financial crisis, but there are some overarching themes that may recur (Figure 1a above).

The impact of the COVID-19 pandemic is likely to vary significantly by country and by players' roles in the market (Figure 1b overleaf).

Area of impact	What happened in the 2008 financial crisis?	What may happen as a result of the COVID-19 pandemic?
Individual countries	Some countries were hit much harder than others and some, such as Australia, did not fall into recession. The impact on operator business services revenue was the greatest in the countries that experienced the biggest economic downturn, such as Spain and the USA.	The impact is again likely to vary significantly by country, reflecting the different levels of economic downturn. Some Asian countries that were well-prepared for a recurrence of the SARs epidemic are likely to fare much better than those in Europe and North America. Indeed, at this early stage of the crisis, China's economy is showing signs that it may make a good recovery. Operators in these countries may be shielded from the worst of the impact; the impact in low- and middle-income countries is very hard to predict at this stage.
Incumbents	Incumbent operators, particularly those serving large multinational corporates, appeared to fare worse than most. Many in Europe and North America reported persistent revenue decline after 2008.	Erosion to incumbents' market shares may be delayed in the short-term as businesses postpone making changes and retain existing contracts for longer. However, as the initial crisis recedes, incumbents may struggle to respond to the changing needs of businesses at the same pace as smaller competitors.

Figure 1b: Comparison of the 2008 financial crisis with the COVID-19 pandemic

Analysis of revenue and connections trends for business services

The business revenue of many incumbent operators in Europe and North America declined during the 2008 financial crisis.

Data from incumbent operators in France, the UK and the USA indicates that revenue from large enterprise customers fell in 2009 after a period of being broadly flat or rising.

BT Global Services's revenue from businesses grew between 2005 and 2008, but suffered a long-term decline after 2008. The revenue from ICT and managed network services (which formed a large proportion of BT Global Services's overall

revenue) increased in both 2009 and 2010, but at a slower rate than in the previous three years.

Orange's revenue from enterprises was fairly stable between 2005 and 2008, but began to fall steadily after 2008.

The rate of decline of business services revenue for AT&T and Verizon accelerated significantly after 2008. Both business services divisions served mainly large enterprises.

Some smaller operators and those outside Europe and North America appear to have been relatively unaffected.

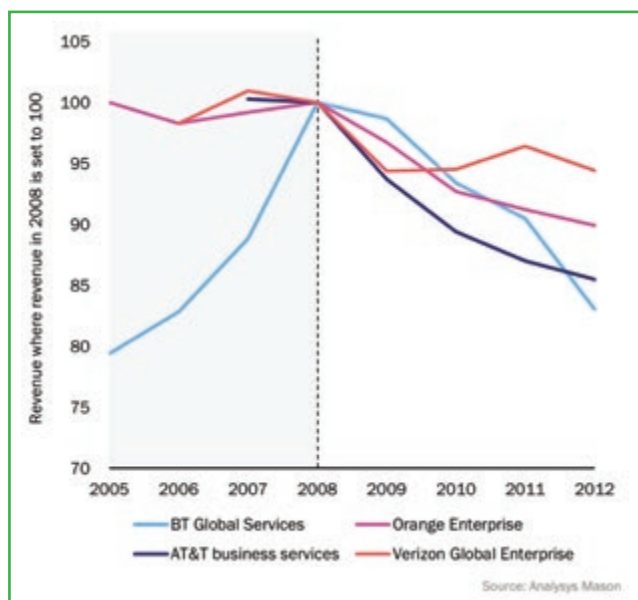


Figure 2: Operator-reported revenue (relative to that in 2008), selected incumbents in Europe and North America, 2005–2012^{1,2}

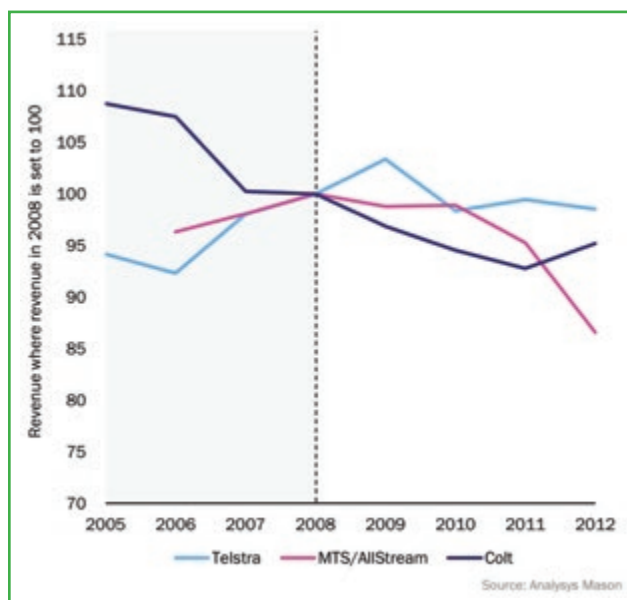


Figure 3: Operator-reported revenue (relative to that in 2008), selected operators, 2005–2012¹

¹ Relative revenue figures are calculated from reported numbers and are adjusted for financial restatements, but are not adjusted for inflation.

² BT Global Services revenue is shown for the year ending 31 March the following year. For example, the 2009 revenue is the revenue for the year ending 31 March 2010.

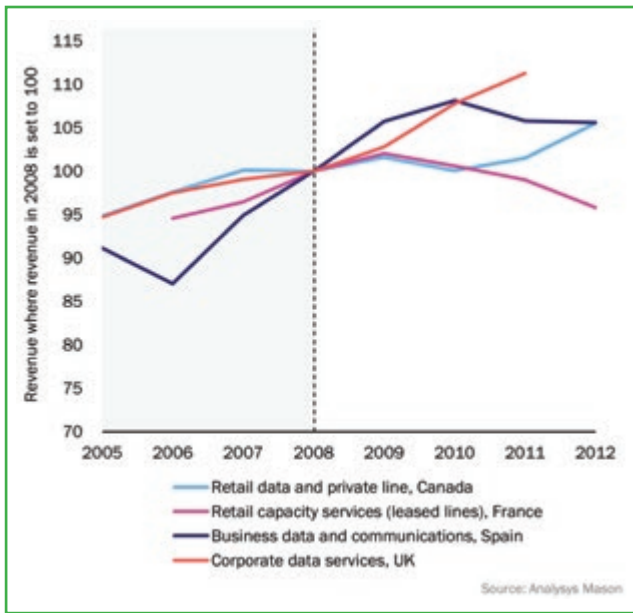


Figure 4: Regulator-reported revenue for corporate data services (relative to that in 2008), selected countries, 2005– 2012¹

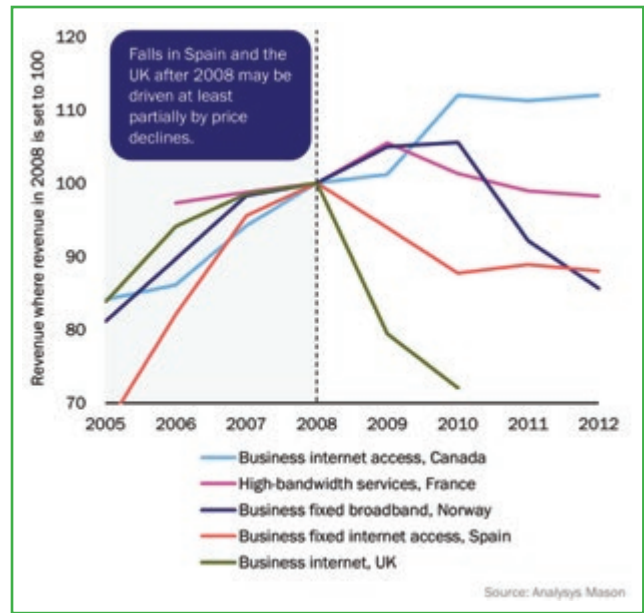


Figure 5: Regulator-reported revenue for other fixed data services (relative to that in 2008), selected countries, 2005– 2012¹

Other operators do not appear to have been affected by the global economic downturn following the 2008 financial crisis.

Telstra accrues the majority of its business services revenue from Australian businesses and public sector organisations. Australia was one of the few high-income countries that did not go into recession after 2008, and businesses there do not appear to have changed their rates of spending with Telstra.

Colt (a Europe-based B2B and wholesale operator) reported

that its revenue fell gradually during 2005–2012, mainly due to declines in corporate voice revenue. This does not appear to have been significantly affected by the financial crisis, despite Colt's strong presence in financial services markets.

MTS/Allstream (a Canadian B2B service provider which became part of Zayo Group in 2016) had stable revenue during 2006-2010. Its revenue decline in 2011 and 2012 appears to be unrelated to the financial crisis.

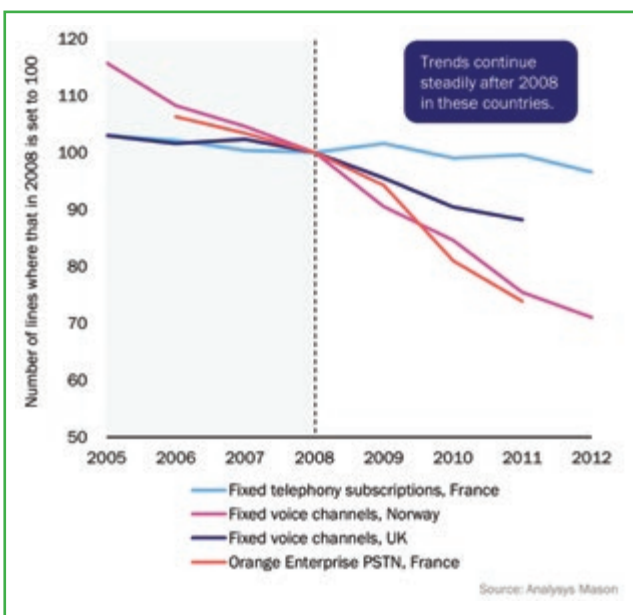


Figure 6a: Number of business fixed voice lines (relative to that in 2008), selected countries and operators in regions less affected by the economic downturn, 2005–2012

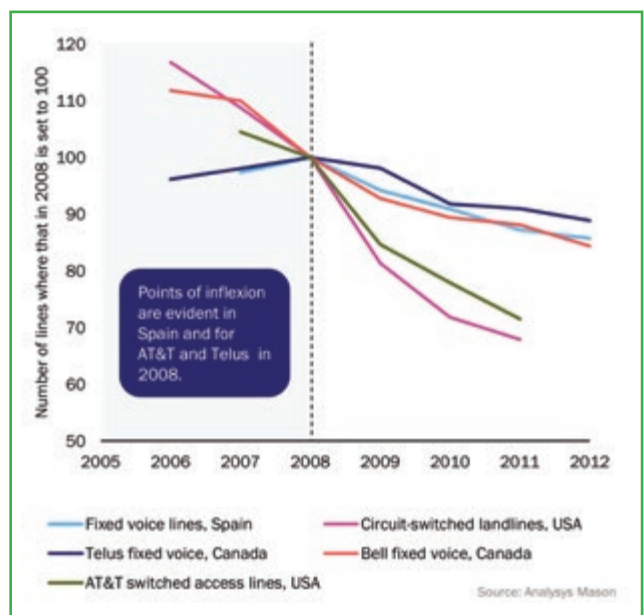


Figure 6b: Number of business fixed voice lines (relative to that in 2008), selected countries and operators in regions most affected by the economic downturn, 2005–2012

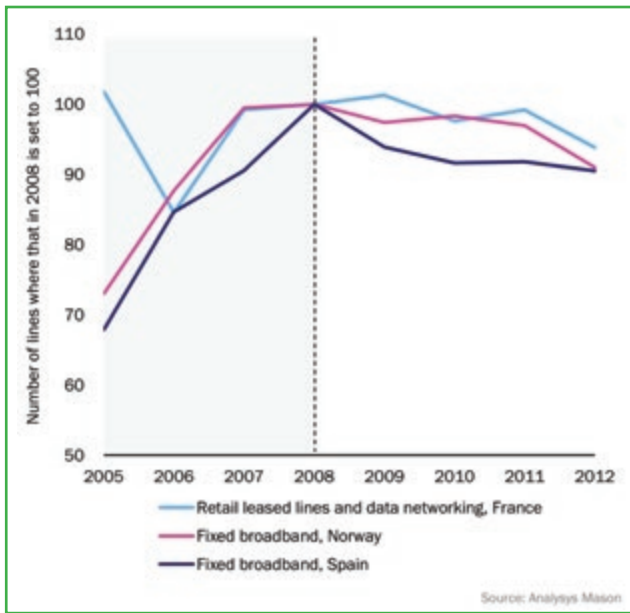


Figure 7: Number of business fixed data lines (relative to that in 2008), selected countries, 2005–2012

Regulator data suggests that business revenue from corporate data services was more resilient to the 2008 crisis than that from other fixed data services.

The reported number of fixed voice lines fell much faster in the countries most affected by the financial crisis. The number of fixed data lines was largely unaffected by the financial crisis.

The trends in the number of fixed voice and data lines for businesses remained consistent in most countries during 2005–2012.

The number of business fixed voice lines fell steadily in almost all countries between 2005 and 2012 as businesses began to migrate to SIP trunks and the use of mobile telephony increased. However, there was an acceleration in the rate of decline after 2008 in some countries. This is particularly notable in Spain and the USA, both of which suffered a significant economic downturn at this time. Falling employment levels led to fewer business sites overall, and therefore fewer sites requiring voice services.

The number of business data lines remained steady in most countries that reported this metric. The fall in the number of fixed broadband lines in Sweden after 2008 coincided with an increase in the adoption of mobile broadband services. The financial crisis may have played a role in this shift by causing businesses to re-evaluate their spending.

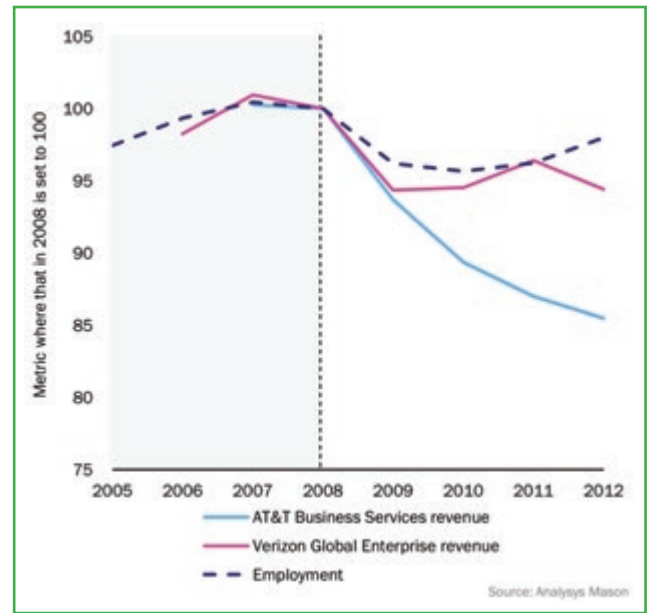


Figure 8: Operator-reported revenue and employment (relative to those in 2008), USA, 2005–2012¹

Analysis of trends by country

USA: Operator revenue fell roughly in line with employment in the period immediately after the crisis.

Employment levels fell sharply in the USA following the 2008 financial crisis, and this appears to be matched by similar rates of business services revenue decline for AT&T and Verizon.

The revenue reported under “business services” and “enterprise” relates to services delivered to large, often global, enterprises for both AT&T and Verizon. This revenue declined significantly after 2008, roughly in line with the trend in employment rates in the USA.

A very sharp increase in unemployment was reported in the USA on 27 March 2020. This raises significant concerns about how the incumbents’ revenue from large enterprises may be affected by the COVID-19 pandemic.

Spain: Revenue in most business services categories fell after 2008, although corporate data services revenue remained robust.

Spain suffered a significant economic downturn following the 2008 crisis, and regulator reporting indicates that the total business services revenue for operators fell roughly in line with employment trends.

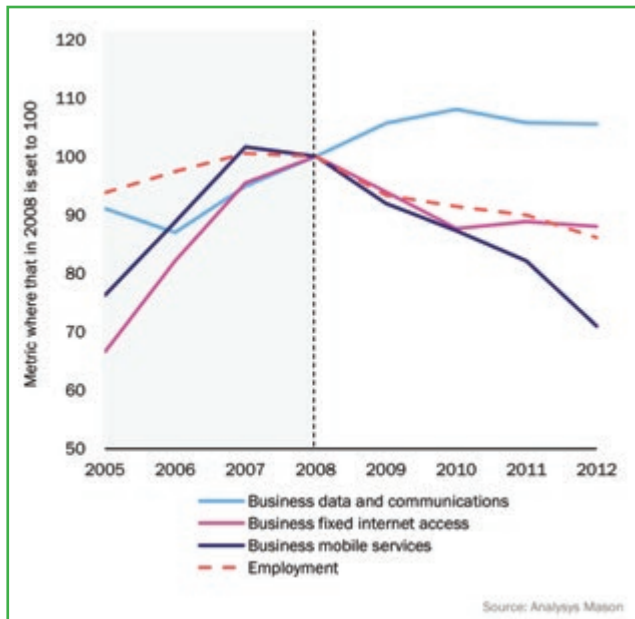


Figure 9: Regulator-reported revenue and employment (relative to those in 2008), Spain, 2005–2012

Regulator data indicates that the aggregate operator revenue from business mobile and fixed internet access services fell after 2008. This may be partly linked to price declines for these services, but is also likely to reflect the impact of the economic downturn suffered by the country.

Revenue for “business data and communications” (mainly data services to large enterprises, such as leased lines) increased steadily after 2008, in line with the pattern in several other countries.

UK: There is evidence that revenue from corporate data services was more robust than that from other business services.

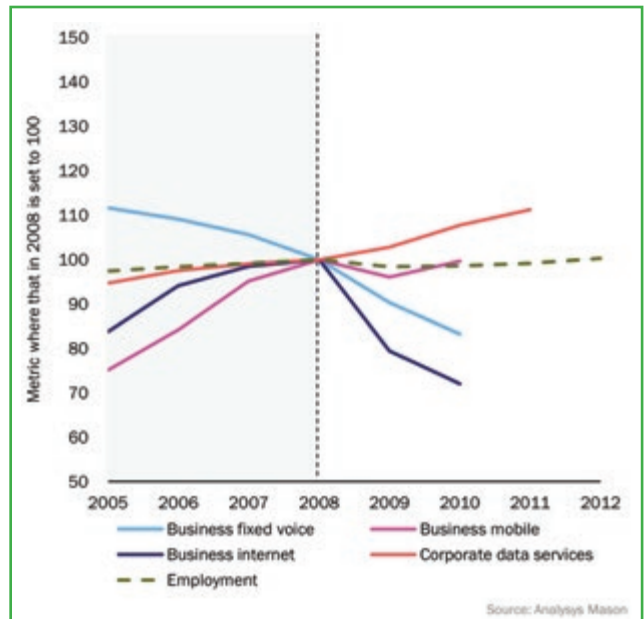


Figure 10: Regulator-reported revenue and employment (relative to those in 2008), UK, 2005–2012¹



Editor's Note

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