
10 Gbps home broadband for \$29.99 (A\$33.95) per month.
(includes free ONT (optical modem) and free activation)

Simba Telecom, Singapore <https://simba.sg/broadband>

Telco business is hard.

And it is getting tougher. **Simba** Telecom (see above) - founded by David Teoh, who was also previously founder and CEO of TPG Telecom - provides a glimpse of the challenging path ahead.



In Australia, we pay almost five times more for ten times less.

The **global telecom equipment market's** financial struggles provide further evidence of the challenges facing the industry. The market fell 17% in the first half 2024. This is the fourth consecutive quarter-on-quarter double-digit decline, according to market consultants Dell'Orro Group.

Yet telecommunications remain critical to almost every aspect of our economy. Today, it is deemed 'critical infrastructure' by governments in most developed countries.

This edition of our newsletter delves into the current state of telecommunications in which we see **two tiers emerging**. We explore the factors that have led to this new market structure, examine the key players in each tier, and analyse the financial performance that underscores this divide.

While traditional telcos face mounting challenges, innovative companies are redefining the market with agility and cutting-edge technology, providing a glimpse of the opportunities ahead.

In End-Bytes we briefly feature **Starlink, Qualcomm/Intel** and **AI's impact on work and SaaS**.

Previous Newsletters, including this one, are available on our site in pdf [HERE](#)

CONTENTS:

[Two-Tier Telecoms](#)

- [Introduction](#)
- [Two-Tier Market overview](#)
- [Historical context: How did we get here?](#)
- [The Current Landscape: A Tale of Two Tiers](#)
- [Financial Performance: The Numbers Tell the Story](#)
- [The Road Ahead: Challenges and Opportunities](#)
- [Conclusion](#)

[End Bytes](#)

- [Starlink, Qualcomm/Intel, AI impact on Work, AI impact on SaaS](#)

The Shifting Australian Telecommunications Industry: A Two-Tier Market Emerges

Introduction

The Australian telecommunications industry is undergoing a significant transformation resulting in a distinct two-tier market. Traditional incumbent telcos, such as Telstra, Optus, and Vodafone, are facing financial struggles, burdened by legacy infrastructure and business models. Meanwhile, challenger companies like Superloop, Aussie Broadband, Vocus and Megaport are thriving by leveraging modern approaches and innovative technologies.

The Two-Tier Market Overview

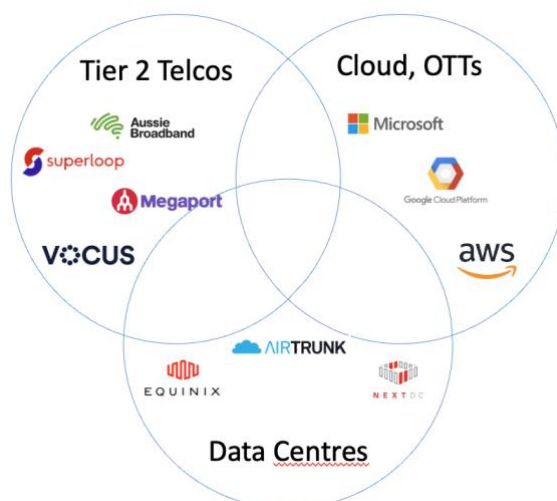
➤ Tier One: The Incumbent Giants

The first tier consists of long-established telecom companies that built their empires on monopolistic or duopolistic opportunities. These companies now face significant challenges adapting to a rapidly changing technological landscape driven by the shift to public cloud, the NBN, and evolving customer expectations.



➤ Tier 2: The Agile Challengers

The second tier is composed of newer, more agile companies that have entered the market with innovative business models and a focus on emerging technologies:



Tier 2 telco businesses have built an ecosystem together with Cloud and DC Players

These companies have capitalised on the shift towards cloud computing, data-centric services (more recently GenAI-centric), and the need for more flexible, scalable telecommunications solutions.

Historical Context: How Did We Get Here?

To understand the current market state, let's briefly review key development:

- **The Era of Monopoly and Duopoly:** For much of the 20th century, telecommunications in Australia was dominated by a government-owned monopoly, Telecom Australia (later renamed Telstra). The deregulation of the telecommunications sector in the 1990s opened the door for competition, leading to the entry of Optus in 1992 and Vodafone in 1993.
- **The Broadband Revolution and the NBN:** The NBN effectively separated the wholesale and retail aspects of fixed-line broadband, theoretically levelling the playing field for internet service providers.
- **The Rise of Mobile and Data-Centric Services:** Massive uptake of smartphones marked the beginning of a trend towards over-the-top (OTT) services which would eventually challenge traditional revenue streams like voice calls and SMS.
- **Cloud Computing and the Data Centre Boom:** The rapid adoption of cloud computing services ensured that data centres became critical infrastructure. Access to cloud changed demand for traditional telecommunications. This opened the door for specialised players like Megaport and NextDC, as well as global giants like Equinix.
- **The Entry of Hyperscalers:** AWS, Microsoft Azure, and Google Cloud Platform have established a significant presence in Australia. These hyperscalers not only provide cloud services but have invested heavily in their own telecommunications infrastructure, including submarine cables and edge computing facilities.
- **Re-imagined Enterprise Networks:** Demand for enterprise networks has changed significantly. This has led to new network constructs and direct internet access facilitated by SD-WAN. This shift was featured in my Newsletter #20: “Enterprise Networks Re-Imagined – the end of the traditional paradigm” [LINK](#).

The Current Landscape: A Tale of Two Tiers

➤ Tier 1: Incumbents Struggling to Adapt

Traditional telcos face several challenges including:

- Maintaining legacy Infrastructure
- Declining traditional revenue streams
- High operating costs
- Significant debt burdens
- Regulatory pressures
- Workforce adaptation issues

To address these challenges, Tier 1 players have taken drastic steps, including asset sales, workforce reductions, structural separation, and infrastructure (and spectrum) sharing.

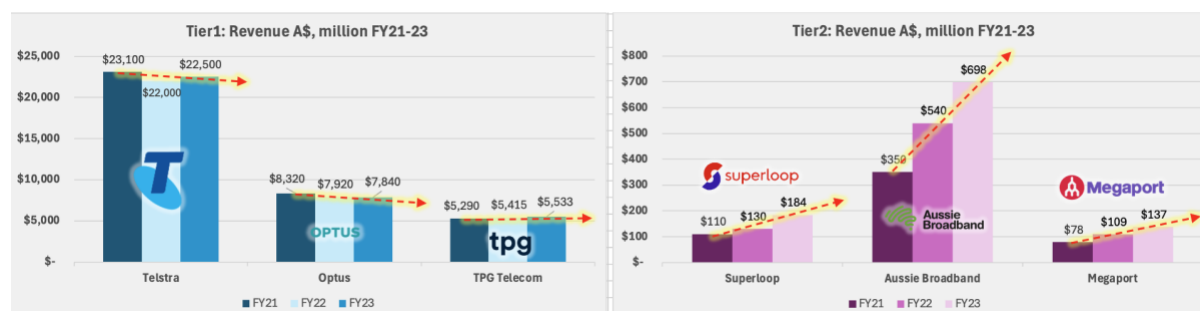
➤ **Tier 2: Challengers Riding the Wave of Innovation**

The second tier of the market is characterised by companies around new technologies and changing customer needs, offering:

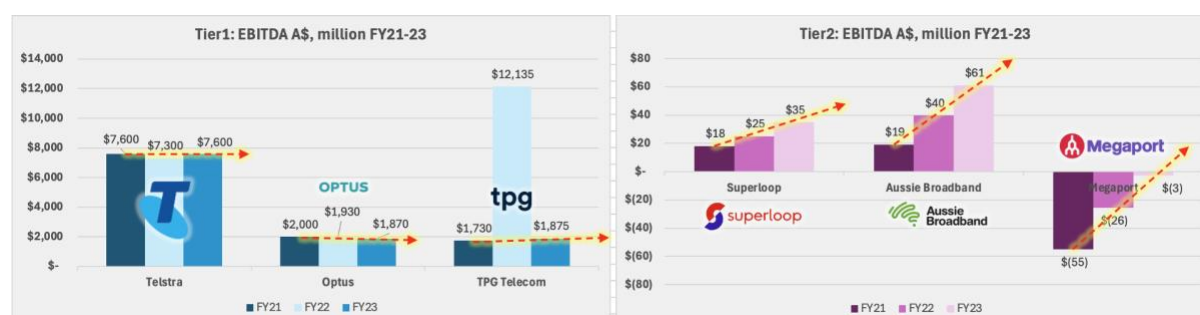
- Flexible Infrastructure: Such as SD-WAN, Network-as-a-Service (NaaS)
- Cloud-Native Approach: In which services seamlessly integrate with cloud.
- Specialisation: Focusing on specific niches or technologies.
- Lower Cost Base: Theoretically enabling lower end-user pricing
- Innovation Focus.

Financial Performance: The Numbers Tell the Story

To substantiate the two-tier hypothesis, we examine some key financial metrics. Note that due to the different nature of these businesses, not all metrics are directly comparable, but they do provide insight into overall performance trends.



While Tier 1 telecoms are struggling with stagnant revenue growth, Tier 2 companies continue to experience impressive revenue increases



While Tier 1 telecoms are struggling with stagnant EBITDA growth, Tier 2 companies continue to experience impressive EBITDA increases

These figures and graphs above reveal several key trends:

- Strong revenue and EBITDA growth for Tier 2 companies
- Mixed results for Tier 1 companies, with some showing improvement

- A significant scale difference between tiers, though the gap is narrowing
- Improved operational efficiency in many Tier 2 companies

The Road Ahead: Challenges and Opportunities

As we look to the future, several key themes emerge:

➤ For Tier 1 Companies

- Digital Transformation: Incumbents must continue to modernise their operations
- 5G Monetisation: Operators need to find higher value use-cases
- Enterprise Services: Operators need to adapt to changing demand driven by cloud
- Asset Optimisation: We can expect to see more asset optimising initiatives

➤ For Tier 2 Companies

- Scaling Challenges: Success imposes increasing pressure to scale profitably.
- Competitive Pressure: Success breeds new challengers
- Technology Evolution: SPs will need to adapt quickly to stay ahead
- Potential Consolidation

➤ For the Market as a Whole

- Regulatory Environment: Will continue to challenge all operators and SPs
- Convergence of Technologies.
- Sustainability Focus: Energy demand will grow significantly as will costs
- Cybersecurity Imperatives: The challenges will grow for all players
- GenAI: Provides opportunity for both internal (operations) and external services

Conclusion

The Australian telecommunications market has evolved into a two-tier system reflecting broader technological and economic trends. Understanding this dynamic is crucial for navigating the complexities of our modern sector.

As we move forward, success for companies in both tiers will depend on their ability to adapt to rapidly changing technologies, evolving customer needs, and an increasingly complex competitive landscape.

End Bytes

- **Starlink** signs deals with multiple airlines including United, Hawaiian and Air France. With an estimated 70 percent global market share, on the private market, Starlink's value is estimated at US\$250 billion. [LINK](#)
- **Rumours of Qualcomm potentially acquiring Intel** [LINK](#)

- **AI growing impact on the workforce.** Exemplified by the recently announced Lionsgate and Runway partnership. The possibilities are endless:- think script generation, sound effects, scenery, actors, effects (and more). Back-of-house should be worried. [LINK](#)
- **Potential threat of AI to many SaaS companies:** Microsoft, Salesforce, ServiceNow and Workday are planning fully-fledged GenAI agent releases by next year. Anyone providing SaaS offers would be well-advised to address this transition urgently. [LINK](#)

Stay connected.

Kevin