

**BellSouth Ecuador: Present and Future
of a Telecom Company
in a Third World Country**

“For many are called,
but few are chosen”
Matthew 22:14

Despite the small size of the Ecuadorian market, the experience of an American based company like BellSouth on this country could be used as a profitable lesson for new foreign investment. South America is right now the battlefield of world telecom players and on the following years we will see an impressive growth of the telecommunications market. A very low fixed line penetration rate has permitted a spectacular increasing of cellular/pcs number of subscribers on the last five years. In some countries, as Chile and Argentina, the market lives a merciless competition and many companies have been kicked out, dropping dramatically the margins of profitability. However, there are some countries like Ecuador where, even without a hard competition, profit is still hideous and uncertainty is the main factor of concern. In a Third World economy, American top management has to deal with several factors of economic, regulatory and political instability. BellSouth Ecuador is a good example and this paper will address to define a general framework of possible scenarios where this American company will have to live and the best measures it could to take in order to survive.

The first part will be a summary of what is happening in South America on the telecommunications field, especially the wireless market, and who are the major players.

The second part will detail a country profile of Ecuador and the present situation in the local wireless market, emphasizing on the actual situation of BellSouth Ecuador.

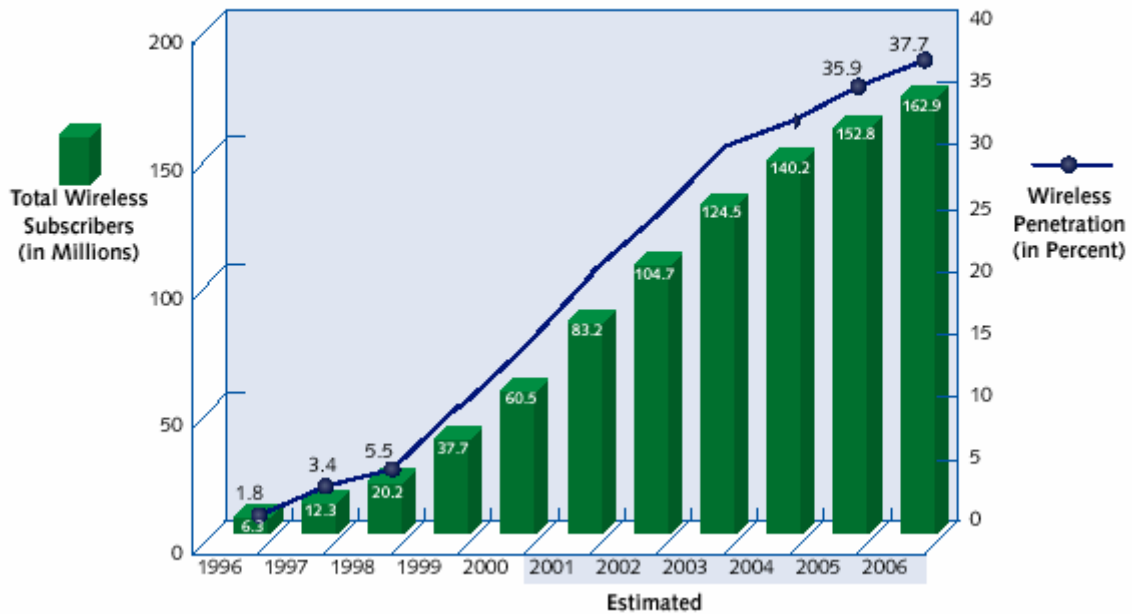
Finally, the third part will estimate possible scenarios on the following 5 years to come and the impact over BellSouth, defining the alternatives strategies the corporation could take.

I The scenario is taking a form...

Latin America wireless/mobile markets continued their growth trend over the course of the last year and there is a high probability also over this year. During the year 2000 the growth rate was 58.6% and the penetration went from a regional average of 7.8% in 1999 to 12.2% by the end of 2000 (Yankee Group, April 2001) Most of this impressive performance is due to the intense competition between international corporations who wants to establish a firm position in this area.

Latin America Cellular/PCS Subscribers and Penetration Rate, 1996–2006

Source: the Yankee Group, 2001



1. The regional players

Country	BellSouth	Telefonica	Americas Telecom	TIM	MIC	France Telecom
Argentina	X	X		X		X
Bolivia				X	X	
Brazil	X	X	X	X		
Chile	X	X		X		
Colombia	X		X		X	
Ecuador	X		X			
El Salvador		X			X	X
Guatemala	X	X	X		X	
Honduras					X	
Mexico		X	X			
Nicaragua	X					
Panama	X					
Paraguay					X	X
Peru	X	X		X		
Uruguay	X					
Venezuela	X	X				

At the beginning of the 90's, several major corporations intended to enter Latin American markets. Nevertheless, the following years we will see how the strongest and biggest will stay and others will have to leave. For this reason we can consider that France Telecom and MIC will finally leave this region or they will stagnate only in markets they already are. Consequently, we will present a brief profile of the principals' competitor for BellSouth: Telefonica, Italy Telecom and Telecom Americas.

- Telefonica



- Ownership: Telefonica de Espana
- Strategic Partners: Portugal Telecom
- Main Strength: Coverage and service portfolio, cultural similarities
- Main Weakness: lack of corporate focus and operational coordination

Telefonica, under the command of former CEO Juan Villalonga, has gained Latin American largest coverage (both in terms of geography and client base) and a fully integrated service portfolio (fiber capacity, fixed and mobile voice, data, Internet access and content, and VASs) Next CEOs have not been able to consolidate a truly regional operation instead of a mere multi-country coverage. Telefonica is right now reorganizing its internal divisions. It is facing problems with local investors (Chile for example)

Source: Yankee Group, May 2001

- Telecom Italia

Telecom Italia



Source: Yankee Group, May 2001

- Ownership: Telecom Italia
- Strategic Partners: none
- Main Strength: Coverage and service portfolio
- Main Weakness: lack of control over subsidiaries and, consequently, of a regional strategy

Telecom Italia has developed an aggressive entrance in many markets and it is trying to gain a regional presence. However, its structure is not fluent and there is an overlapping between TIM (Telecom Italy Mobile) and the international arm of Telecom Italy (Stet). It is also clear that, due to the impossibility of covering multiple products, in the following years Telecom Italia will probably stay (as BellSouth) only in the wireless market.

- Telecom Americas

Telecom Americas



Source: Yankee Group, May 2001

- Ownership: America Movil (Telmex), Bell Canada International, SBC
- Strategic Partners: Telmex, SBC, BCI
- Main Strength: Financial backing
- Main Weakness: Disparate properties and different styles of management

The brand name of Telecom Americas, in South America, is null. Therefore the mind share is affected. As the other players, TA has a limited participation in some of its subsidiaries and this undermines its ability to roll out a regional strategy. It is also critical the role and support of its member: Bell Canada and SBC. The diversity of LOB (lines of business) will also affect any attempt to define a regional strategy. It is probably that TA will leave the market, as France Telecom and MIC did, during the following years or rest as a niche player.

- BellSouth

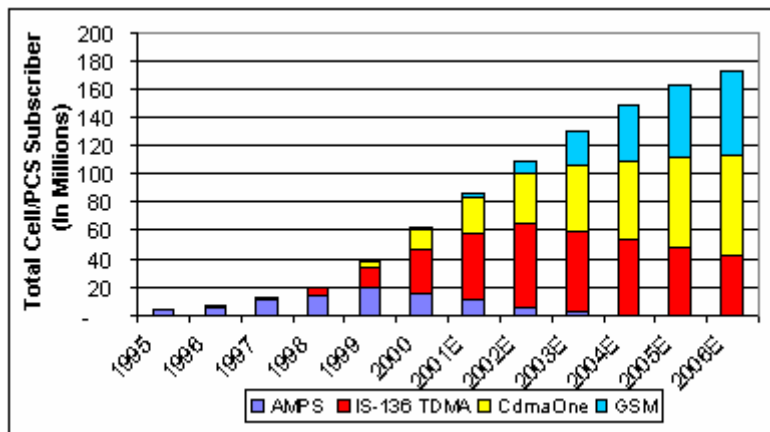
- Ownership: BellSouth International
 - Strategic Partners: None
 - Main Strength: Financial backing and Main Weakness: Focus only on mobile telephony
- BellSouth is now restructuring its organization in more decentralized structure. The released of a LA tracking stock allows a better survey of each property performance. BellSouth's policy of full control of its companies allows a better management and fast adoption of a regional strategy. Despite this, the lack of market aggressivity and definition of corporate standards have produced problems to capitalize knowledge management and infrastructures.

2. The migration dilemma

The technical limitations of TDMA technology toward the transmission of data and image, will drive the carriers to decide during the following years the upgrade option will choose. Selected operators have made initiatives towards 2.5G networks upgrades however; it is highly probable that we won't see commercial deployments until 2002. The reason is because, excepting Argentina and Chile, Latin American customer is not sophisticated enough in order to justify an earlier implementation. Also the target of most of the products provided by Third Generation equipments is related only to high-end customers.

Driven by the costly network investments required to deploy 2.5/3G solutions, the mobile operators' business model will evolve from merely being an interface between the network and the end user to becoming a key player in the development of content and value-added applications that will generate increased revenue streams. As a result, mobile operators are making important decisions with regard to next-generation wireless network deployments. Barring technological and cost implications, CDMA's advantage lies in its

smoother migration path to 3G, while the GSM/GPRS and W-CDMA solution offers massive economies of scale and international roaming unrivaled by any other technology. The Yankee Group, based on the statement defined before, does not expect to see commercial deployment of 3G networks in Latin America until 2003 in advanced markets and as late as 2005 in smaller markets. The first country to deploy next generation networks will likely be Venezuela, followed by Argentina, Chile then Brazil and Mexico.



Following network deployment and service launch, adoption of 2.5G and 3G services will also depend on handsets and service pricing. Operators have had a bad experience with WAP (Wireless Application Protocol) on TDMA networks with CDPD because Ericsson was unable to provide enough handsets on time and in reasonable price. It is important to notice that next generation networks will enable more efficient use of spectral assets, allowing operators to lower service pricing at the expense of profitability.

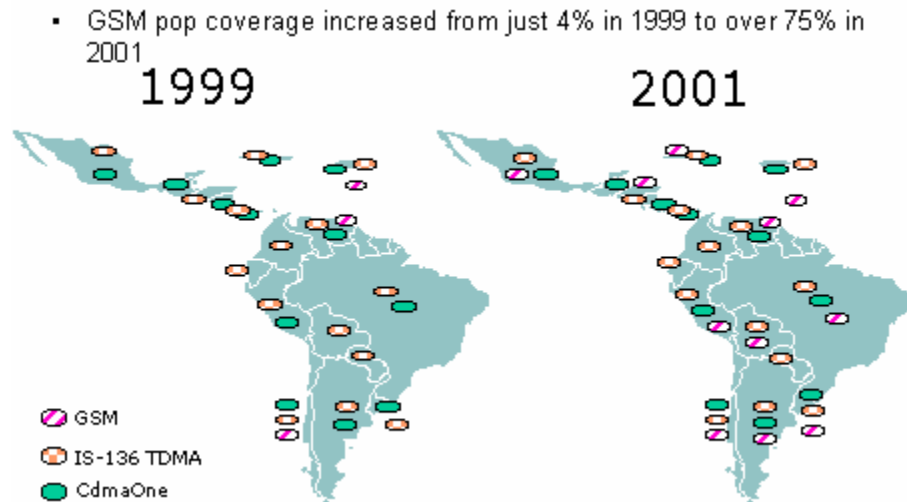
Sample of Mobile Data Availability and 2.5G Announcements

Source: Operators and the Yankee Group

Country	Operator	Technology	One-Way SMS	Two-Way SMS	WAP	2.5G
Argentina	Movicom	cdmaOne	Yes	N/A	Yes	1XRTT 2002
	CTI	cdmaOne	Yes	N/A	N/A	1XRTT
	TCP/Unifon	TDMA	Yes	Yes	N/A	GPRS 2002
	Telecom Personal	TDMA	Yes	Yes	N/A	GPRS 4Q01
Bolivia	Entel Movil (TIM)	GSM/TDMA	Yes	Yes	N/A	Undefined
	Nuevatel	GSM	Yes	Yes	Yes	GPRS 3Q01
Brazil	Telesp Celular	cdmaOne	Yes	Yes	Yes	1XRTT 3Q01
	Telefonica Celular	cdmaOne	Yes	Yes	Yes	1XRTT 3/4Q01
	BCP	TDMA	Yes	Yes	Yes	Undefined
	Tess	TDMA	Yes	Yes	Yes	GPRS
Chile	TIM	TDMA	Yes	Yes	Yes	GPRS
	BellSouth	TDMA	Yes	N/A	Yes	RTT 1H02
	CTC/Startel (Telefonica)	TDMA	Yes	N/A	Yes	Undefined
	Smartcom PCS	cdmaOne	Yes	Yes	Yes	1XRTT
Ecuador	ENTEL PCS	GSM	Yes	Yes	Yes	GPRS
	BellSouth	TDMA	Yes	Yes	Yes	Undefined
Mexico	Iusacell	cdmaOne	Yes	Yes	Yes	1XRTT
	Telcel	TDMA	Yes	Yes	Yes	GPRS 4Q01
	Unefon	cdmaOne	N/A	N/A	N/A	Undefined
	Pegaso	cdmaOne	Yes	Yes	Yes	1XRTT
Venezuela	Movilnet	TDMA	Yes	Yes	Yes	GPRS

Next generation wireless technologies have the potential to increase the price-value trade-off of wireless services, increasing MOU (Minutes Over User) and ARPU (Average Revenue Per User) levels. Although, from the four regional players detailed before, BellSouth is the only one who has not defined its choice for the next generation. The reason for this delay in the decision-making process, the American company is considering network coverage, available data transmission speeds, needed to acquire more spectrum, ease of migration, and--most importantly--their regional/global strategy. This decision has become a critical issue because operators that move ahead with technology decisions will have the advantage of being first to market, potentially capturing a bigger portion of the early adopters who are more likely to boost ARPU through these services; while the operators that are waiting to see what technologies

prevails may lag behind in terms of their ability to roll out services and lose market share. On July of this year, BCP (a Brazilian Telecom company owned by BellSouth) announced its plans to invest roughly US\$250 million to upgrade its TDMA-based networks with 2.5G technologies. The latest market rumors are that BellSouth will choose a CDMA 1xRTT solution.



3. Bundling players vs. Niche players

BellSouth, on the early 90's, decided not to enter to the privatizations process in Latin America of the fixed line companies. The reasons for this decision were:

- The future of telecommunications is wireless
- Incumbents are companies with obsolete technology and many internal problems (bureaucratic cultures, employee unions, etc)
- Due the political practices of Latin American governments, the risk of the investment will be high

Consequently, BellSouth defined to buy only wireless licenses. During these more than 10 years in South America, the company has maintained this strategy. However, after a decade, we are able to analyze the weakness and strengths of this option.

	Strength/Opportunities	Weakness/Threatens
Niche Player: Wireless Operator	<ul style="list-style-type: none"> • Technology flexibility • Low capital investment • Low government intervention • High market growth potential • Economies of scale • Possibility of competing with incumbent when competition opens • Good platform to launch other services 	<ul style="list-style-type: none"> • Difficulty to diversify • Absence of the last mile • Competitive advantage easy to be equaled by competition • Profit decreasing • Interconexion problems • Difficult and costly process of mind share • Not always a national coverage • Difficulties with regulatory
Bundle Player: Wire line Operator	<ul style="list-style-type: none"> • Bundling possibility • High lobbying position due "first move" player • Dominant position due interconexion process • First on mind share • National coverage • Essential advantage: last mile • Possibility of easy diversification due the wire line network 	<ul style="list-style-type: none"> • Acquisition of old technology: high investments to upgrade • High government intervention: lobbying <ul style="list-style-type: none"> ▪ Short term market growth potential ▪ Different incumbent technology: unable economies of scale • Limited exclusivity • Bad customer perception due service problems • Competition can focalize to high end customer

We can conclude that to become a niche player, you need to achieve high levels of quality in order to survive competition. Although it is not the same with the wire line operator. If we compare the performance of BellSouth with, for example, Telefonica, we can see the success of the Spanish company when, in contrast, the mediocre results of its American counterpart. It is also evident that Telefonica has succeeded due its lobbying skills in the political spheres on the countries where it is. Obviously BellSouth, because of the constraints American laws established on international business, would have probably failed to survive on this kind of environment.

Therefore, the decision to focalize to the wireless business has not only considered economic and technological elements, but also ethic and political concerns.

II Ecuador and BellSouth

BellSouth has been operating in Ecuador since 1997 even though the company (Otecel S.A) had started operations since 1994. Actually is providing several services (cellular, long distance, public telephony, CDPD and lately corporate internet provider). Licensed for all of Ecuador, BellSouth current coverage area is 80% of the country. The financial performance of the company, however, has been weak. The last 3 years the company has lost a total estimate of 60 million dollars but this year they will try to arrive break even. The launch of the tracking stock has forced Atlanta's headquarters to leverage economies of scale between South American properties. The overall performance of BellSouth Ecuador is tight tied to the country's economy. Before we make a comparative analysis of BellSouth and its competitor Porta (Telmex), we must define a brief profile of this Andean country.

1. A country profile of Ecuador

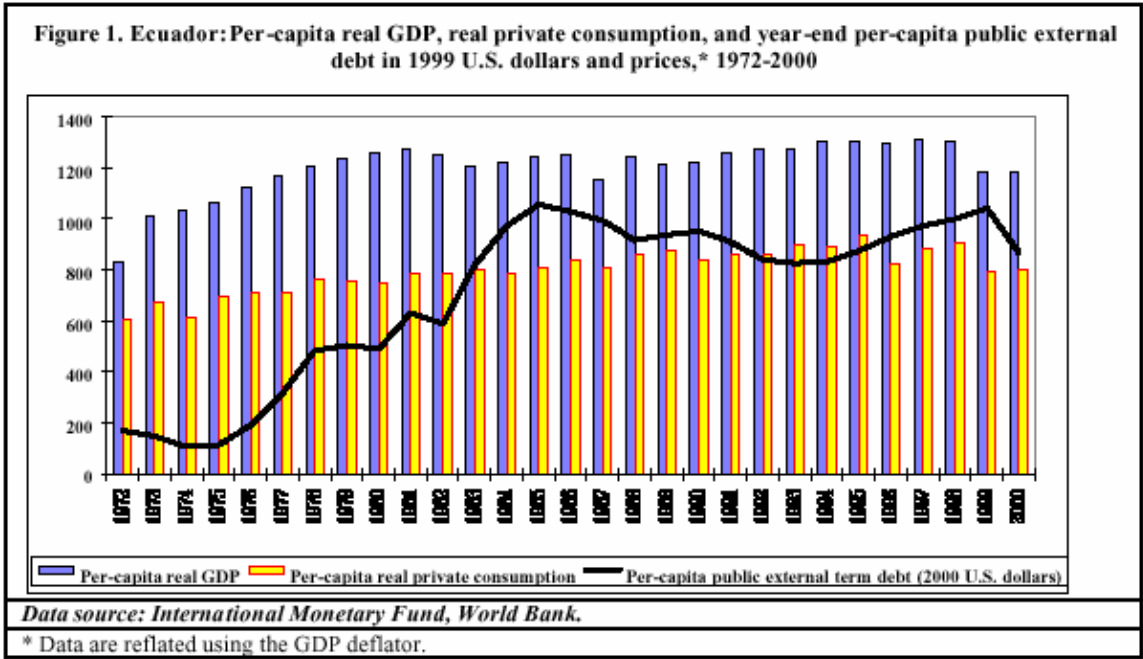


<i>Factors</i>	2001 (e)
<i>Estimated Population</i>	13,300,000
<i>Estimated GDP per capita</i>	\$ 1,373
<i>Fixed Line Penetration</i>	8%
<i>GDP growth</i>	5.10%

Source: Banco Central del Ecuador

Ecuador has been known by a volatile economy, consequence of the deep dependence on few products: oil, bananas and flowers. The impacts of the external economy plus a chronically political instability have resulted in a constant impoverishment of the population.

The lack of critical mass of consumer with purchase power, as in other countries of Latin America, has made difficult to survive for many companies. Ecuador has one of the lowest GDP and fixed line penetration of the region



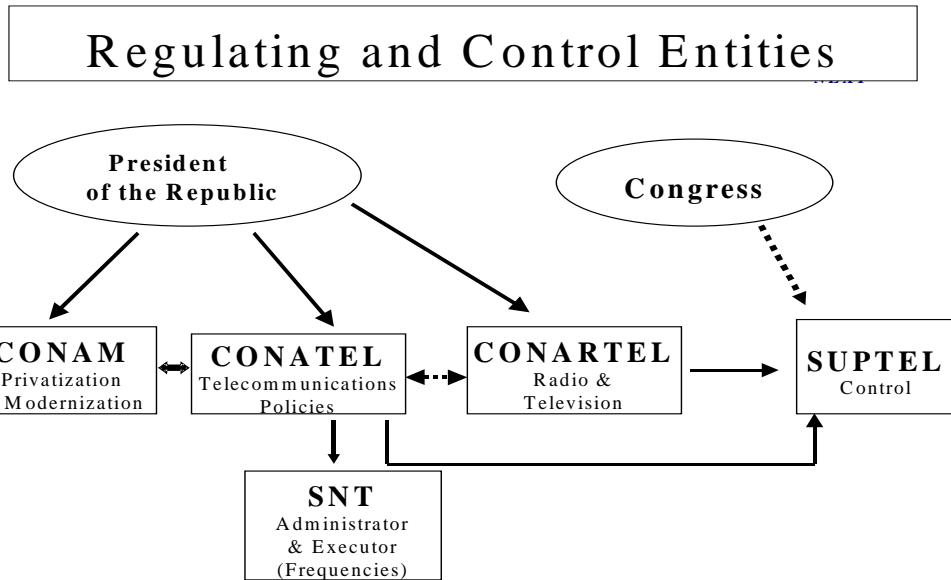
On January 2000, Ecuador adopted US dollar as its current currency, after a severe bank crisis and a decrease of 7.3% of the GDP in 1999.

Oil sales are 70% of the government revenue and the possibility of a dramatic external shock if oil prices drop will be the major threat for the country.

Factors	2001 (e)
Unemployment rate	14%
% of exportation to US	36%
Inflation	23%
Wireless penetration	7.32%

Source: Banco Central del Ecuador

From the regulatory point of view, Ecuador has the following regulatory framework: The reformatory law of 1999 is still valid, so the regulatory structure depends



on it. The following regulatory entities exist and are depends entities on two of the Government institutions, Executive and Congress. The wireless company's obligations in regulatory terms are: a payment for the cellular concession, covered on December 19th, 1996; a one time life payment and the monthly payments for the frequencies use, represented by tariffs A, B and C for the hole period of concession.

There is not a defined amount of renovation, and they should not make any additional payment different from the mentioned amounts related to the cellular concession. The mobile cellular telephony license will be valid up to December 2008. Valid for it's renovation as it is contemplated in the Mobile Cellular Telephony Regalement, the company must manifest its interest two years before the due date, this means year 2006. The conditions in terms of costs and renovation will not be known until 18 months before the license due data.

On the demographic side, the Ecuadorian population is concentrated in 3 main cities: Guayaquil, Quito, and Cuenca. These three cities concentrate the 37% of the population and 50% of the buying power.

City	Population (in millions)	% of Total Population	Buying Power
Guayaquil	2.28	19%	30%
Quito	1.61	13%	16%
Cuenca	0.59	5%	4%
Total	4.48	37%	50%

Source: Strategy Research Corporation

By 2010, these cities will have 45% of population and more than 50% of buying power:

	1998	2000	2005	2010	Growth
Total Population	12.0	12.6	13.8	14.9	1.8%
Households	2.6	2.7	3.1	3.5	2.6%
Person Per HH	4.7	4.6	4.4	4.3	-0.7%
Persons >=19	47%	45%	43%	40%	-1.2%

Source: Strategy Research Corporation

2. BellSouth Ecuador vs. Porta Celular (Telmex)

These companies enjoy right now an oligopoly. Each of them has focalized to different marketing strategies, especially concerning prices tactics.

BellSouth Analysis

Strengths

- Good reputation and strong brand name
- Customer service & satisfaction
- Network quality & coverage
- Solid financial backup & expertise

Lines of Business

- Cellular
 - ILD
 - Roaming
 - Public Telephony
- Data Transmission
 - CDPD

Weaknesses

- Lack licenses for new LOBs
- Limited ability to share resources with new LOBs

Porta Analysis

Strengths

- Good reputation and brand image
- Licenses and technological platform for different LOB's

Lines of Business

- Cellular
 - ILD
 - Roaming
 - Public Telephony
- Paging
- Internet
- Data Transmission

Weaknesses

- Null mind share of Telmex and lack of market agresivity
- Comfortable maintaining the statu quo

<i>Subscriber information Dec 2001 (e)</i>	<i>BellSouth</i>	<i>Porta</i>	<i>Total</i>
Cellular penetration	3.97%	4.06%	8.03%
Number of subscribers	222,939	227,909	450,848
Market share	49.45%	50.55%	100.00%
Prepaid subscribers	156,960	147,186	304,146
Postpaid subscribers	65,980	80,719	146,699

It is interesting to consider that the number of subscribers decreased during year 2001 provoked by the crisis lived on the country during the years 2000 and 2001.

Service and product offerings	BellSouth	Porta
Post & Prepaid Digital Cellular	Yes	Yes
Hybrid Plans	Yes	Yes
Fixed Residential and Office Plans	Yes	Yes
Cellular Public Telephony	Yes	Yes
International direct dialing	Yes	Yes
International Roaming	Automatic, same number	Different Number
Voice Mail	Yes	Yes
Equipment insurance	Yes	Yes
30 days guarantee	Yes	No
CDPD	Yes	No
Internet	Yes (As a carrier)	Yes
SMS	Yes	Yes
Paging	No	Yes

Marketing & Communications	BellSouth	Porta
Positioning Target Market	Value for Money, Postpaid: B and above and medium to large business. Prepaid: B- and below and small business owners	Lower price Postpaid: B and above and small to large businesses Prepaid: B- and below and small independent business owners
Sales Channels	Company own stores, Retail & Kiosks, Direct, Indirect (Agents)	Company own stores, Direct, Indirect (Agents)
Branding & Advertising Strategies	A global company that is easy to deal with and offers value for your money	A company with multiple products and low prices

III Future of Telecommunications in Ecuador to year 2006

As we have said, Latin America is still a market with a high growth potential on the following years. The low fixed line and wireless penetration, the absence of a real competitive environment and the progressive opening of these markets to a free competition, allows us to estimate high increasing of the number of subscribers. As the

Yankee Group said, the entire region will grow from 60.5 million subscriber at the end of 2000 to 163 million by the end of 2006 (Yankee Group, April 2001).

1. Latin America's Forecast

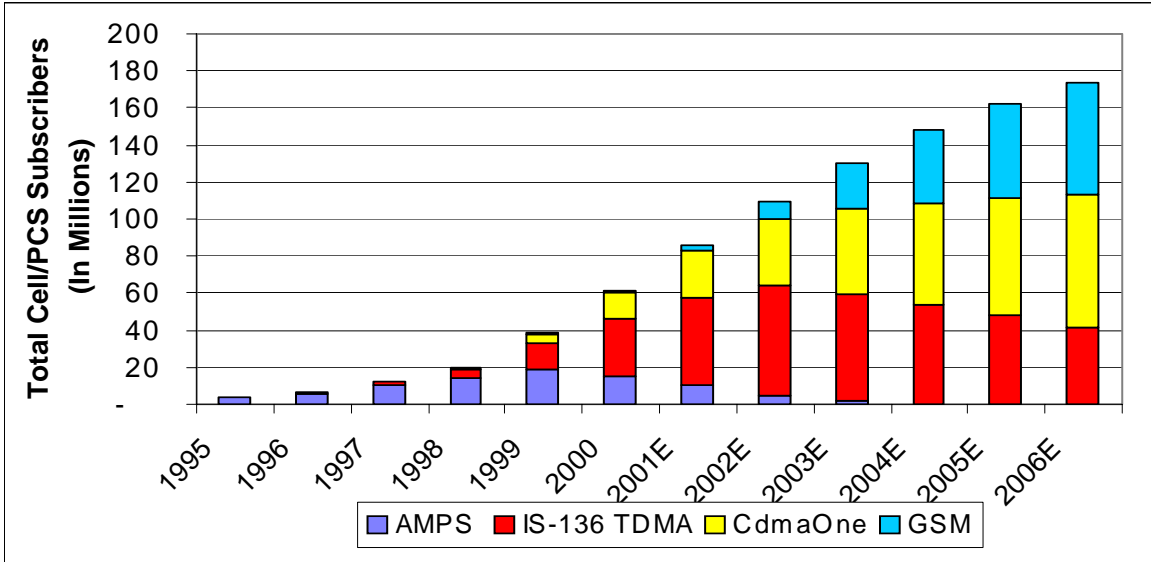
The Yankee Group Methodology (based on its estimates of GDP growth) has the following estimates:

Cross-Section of Latin America Cellular/PCS Subscribers

Source: the Yankee Group, 2001

Country	Year-End Subscribers		Penetration		CAGR
	2000	2006 (Est.)	2000	2006 (Est.)	2000-2006
Tier 1 Markets—Latin America					
Argentina	6,670,212	15,489,134	17.9%	38.5%	15%
Brazil	23,245,456	67,634,786	14.1%	40.7%	19%
Chile	3,461,240	8,358,688	22.8%	51.2%	16%
Mexico	14,175,100	35,584,778	14.3%	32.9%	17%
Venezuela	5,150,962	11,575,842	21.8%	44.3%	14%
Tier 2 Markets—South America					
Bolivia	625,000	1,423,276	7.7%	15.6%	15%
Colombia	2,256,801	8,542,100	5.6%	19.1%	25%
Ecuador	470,180	1,398,532	3.7%	9.8%	20%
Paraguay	635,161	1,328,172	11.4%	20.4%	13%
Peru	1,259,540	4,142,728	4.6%	12.7%	22%
Uruguay	391,748	1,003,237	11.8%	27.1%	17%
Tier 3 Markets—Central America					
Costa Rica	235,746	952,596	6.0%	23.0%	26%
El Salvador	621,383	1,145,699	9.8%	16.1%	11%
Guatemala	613,539	2,279,299	4.8%	15.7%	24%
Honduras	78,588	641,701	2.3%	8.6%	27%
Nicaragua	81,319	451,461	1.6%	7.6%	33%
Panama	359,348	783,323	12.8%	26.2%	14%
Regional Total	60,453,174	162,851,570	15.6%	37.7%	18%

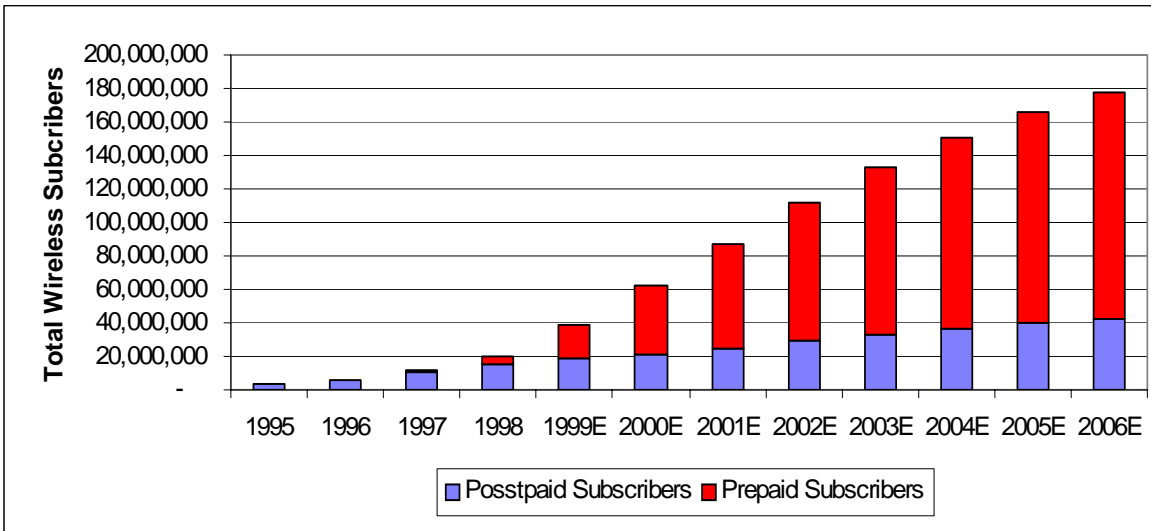
We can estimate also that 3 or more wireless operators will cover 48% of South America territory before 2003 thus we can have an idea of the competitive environment telecom companies will have to face.



Source: The Yankee Group

The GSM and CdmaOne technology will be the principal trend on the wireless sector, providing an easy transition to the 3G transitions.

The economy of the region will be still volatile and the purchase power of the population limited. Due these considerations, prepaid will be the main product of the basket (75% of the gross additions until 2006 will be prepaid)



Source: The Yankee Group

The principal task during this period for wireless companies will be to find ways to increase the ARPU (Average Revenue Per User) and/or the MOU (Minutes Over User)

2. Ecuador's Forecast

The main problem in Ecuador is the critical instability of the country that does not allow any kind of long-term economical planning

The key question, as the CIA Fact Book mentions, is the sustainability of the dollarization process and the decrease of the dependence to external shocks (considering the oil production as the primary resource of the country). Thus BellSouth has to define its strategies on the base of the following scenarios:

- Dollarization sustained: if the macroeconomic process of adopting the US dollar as country's currency could be sustained until year 2006
- Political stability: between 1996 and 2000 Ecuador has had five Presidents. This factor refers to the possibility of having a political stability until year 2006
- Economic growth above the average: Ecuador's economic growth has been, during the last decade, could not even cover the growth population. This factor refers to the possibility to growth above the minimum required.
- Sale incumbent: wire line companies (Andinatel and Pacifictel) are still own by the state. This factor refers to the possibility to sell these companies during this period of time
- Third operator 2002: the possibility to sell a PCS license to a third operator
- Free competition: by law, the telecommunication market supposes to open to free competition on year 2002

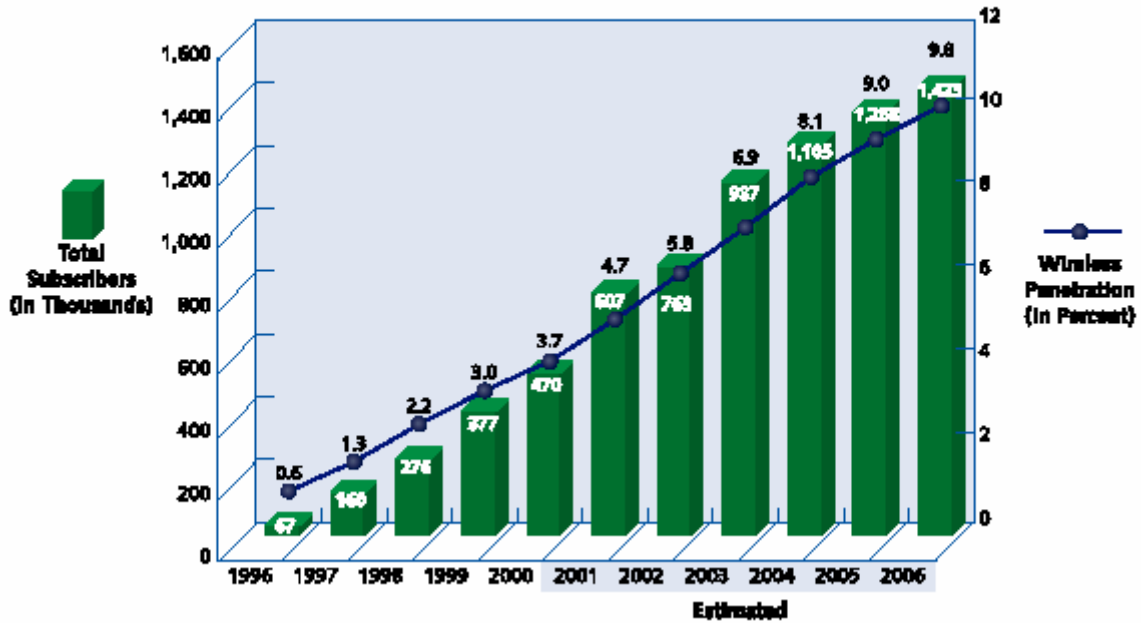
A number between 0 and 1 has rated each factor. This is an estimate of each variable and it is based on the past and present of the telecommunication market in Ecuador. That is what we called “possibility” that each factor occurs on that scenario. Each possibility is multiply and the total amount is called “Total possibility ratio” and it is multiply by 1000.

- Deflator: the base scenario is the projections made by the Yankee group. That number of subscriber, percentage of wireless penetration and year growth are multiplied by a number (the deflator) so we could compare the base estimates with other scenarios less probable.

Factors	Scenario # 1	Base Scenario	Scenario # 3
Dollarization sustained	Partially	Yes	No
Possibility	0.6	0.8	0.1
Political stability	Yes	Yes	Partially
Possibility	0.4	0.5	0.8
Economic growth above the average	Occasionally	Yes	No
Possibility	0.5	0.6	0.7
Sale Incumbent	Yes	Yes	No
Possibility	0.2	0.3	0.5
Third Operator 2002	Yes	Yes	No
Possibility	0.8	0.8	0.2
Free competition 2002*	Yes	Yes	Yes
Possibility	1	1	1
Total possibility ratio (x1000)	19.2	57.6	5.6
Deflector	0.8	1	1.2
Number of subscribers	1,118,826	1,398,532	1,678,238
% of penetration wireless	7.8%	9.8%	11.8%
Year Growth	16.0%	20.0%	24.0%

Ecuador Cellular/PCS Subscriber Forecast, 1996–2006

Source: the Yankee Group, 2001



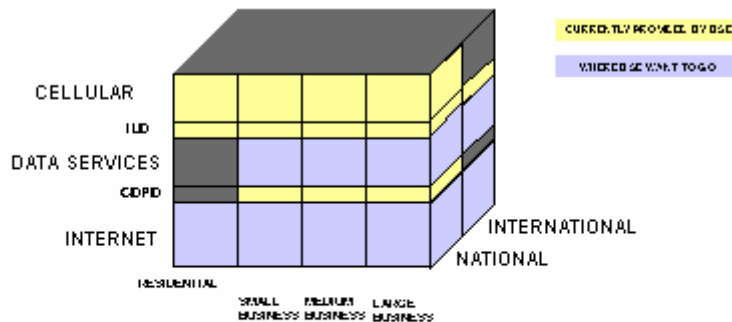
BellSouth's scenarios

Factors	Worse	Base Scenario	Best
Dollarization sustained	No	Yes	Yes
Possibility	0.1	0.8	0.8
Political stability	No	Yes	Yes
Possibility	0.4	0.5	0.4
Economic growth above the average	No	Yes	Yes
Possibility	0.5	0.6	0.6
Sale Incumbent	Yes	Yes	No
Possibility	0.2	0.3	0.1
Third Operator 2002	Yes	Yes	No
Possibility	0.8	0.8	0.2
Free competition 2002*	Yes	Yes	Yes
Possibility	1	1	1
Total possibility ratio (x1000)	3.2	57.6	3.84
<i>Deflector</i>	0.8	1	1.2
Number of subscribers	1,118,826	1,398,532	1,678,238
% of penetration wireless	7.8%	9.8%	11.8%
Year Growth	16.0%	20.0%	24.0%

As we could see, we can define with some degree of certainty:

- A third operator will arrive to Ecuador at the end of year 2002 or middle of year 2003 at maximum
- Economic growth will be sustained although not at the levels the country needs
- The incumbents will not be sold due the old infrastructure and the uncertainty of the political environment in Ecuador

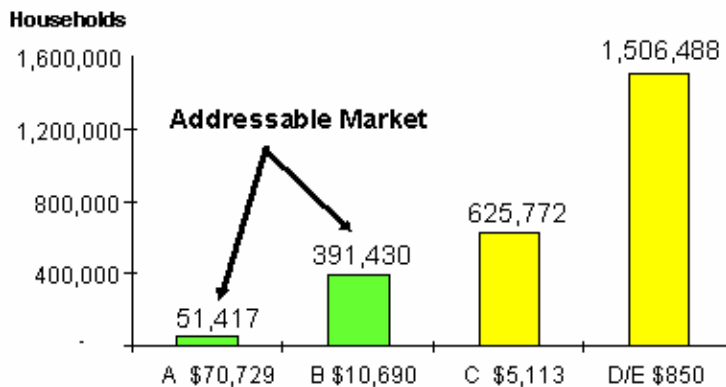
Where should be the focus of BellSouth during the next five years?



These are the key areas of interest and opportunity for our market for the next 5 years.

Source: BSE Strategic Planning

Household Buying Power by Socio Economic Group (1998)



- 60% of households earn approximately \$850 per year
- 10-17% of households earn over \$10,000 per year
 - Addressable market limited to individuals over 19 in A & B households

Sources: Strategy Research Corporation; Market Research Studies

Despite the data of Household buying power is from 1998 and probably the situation is even worse due the economical crisis of the country over the last three years, there are still important opportunities on the B- and C customers. As we said before, prepaid is the most important product and it should be transformed from a rising start to a cow (using the BCG terminology)

There are three barriers for entering these customers:

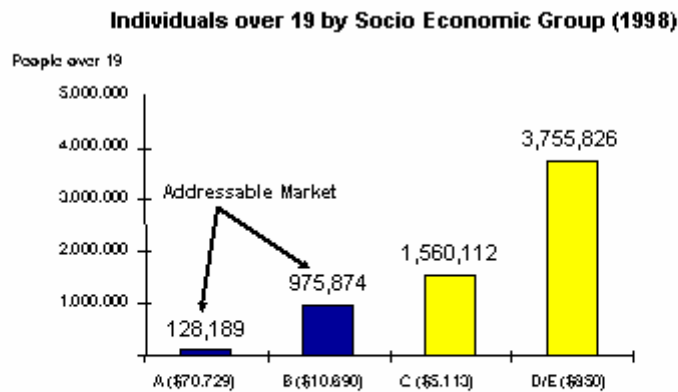
- Price of handsets
- Tariffs and price per minute
- Cost of giving customer service to such considerable population

BellSouth has invested in Ecuador more than 400 million dollars, most of them in infrastructure. Thus, the company should play for a long-term relationship and gain market presence on a majority of the population. Sooner or later these customers will increase their purchase power and they would be potential post-paid customers. Right now, the company should offer them what they want: prepaid telephony to the lower cost. The reason of this change it will be explained on the next section.

BellSouth and a Third competitor

There is no doubt that the next operator will use Cdma one or GSM technology. That will mean a considerable disadvantage in front of A level user, user more sophisticated and interested toward data transmission who will immediately migrate to the new company. Despite this potential threat (and considering the fact that prepaid products are the one to focalize), BellSouth would also have an important opportunity: the following years, TDMA radio bases' price will drop because several countries will

change this equipment by 2.5 generation. Consequently, the first strategy suggested will be that BSE could buy these equipments in reasonable costs and increase dramatically the capacity of its network. Consequently, the possibility of use WLL (Wireless Local Loop) to replace the wire line company and the falling prices of the handsets, would allow implementing an aggressive campaign toward B- and C level customer. The migration toward 2.5 equipment would be delayed to 2005 or 2006 (loosing market share on the corporate or high end customer)



- There are ~1 million people over 19 in A & B households
- 250,000 cellular subs by end of 1998
- Cellular has penetrated ~25% addressable market

Sources: Strategy Research Corporation, Ecuador Market Information

The second alternative strategy could be, due the concentration of the population on three cities, to build a 2.5-generation network only on those in order to keep its corporate customers and compete with the newcomer. Despite a possible initial advantage of BellSouth (as first mover) the competition for that specific market will be hard and the results uncertain. Paradoxically, the cost of both strategies (considering the drop of prices in TDMA radio bases) would be the same.

Who Will Use What Service?

Source: Operators and the Yankee Group

	Corporate	Consumer	
		Prepaid	Postpaid
One-Way SMS	E-mail notification, information services	Ringtone/icon downloads	Entertainment services
Two-Way SMS	LBS, telemetry	Cheaper alternative to voice communication	LBS, chat
WAP	Unified messaging, m-banking, m-commerce, corporate extranet	Salesforce automation, LBS	M-banking, m-commerce

Conclusions

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