

Fixed Mobile Convergence: How Brasil Telecom Leverages Position to Offer Innovative Converged Services

By: Thomas Dorr Abreu, Analyst Americas (tabrea@pyr.com)

Player: Brasil Telecom GSM, Brazil

Differentiator: Fixed Mobile Capabilities

Service Description:

In the last week of September 2004, fixed operator Brasil Telecom entered the mobile market with a GSM platform. The landscape was already crowded, with three to four players offering 2G and 2.5G services, depending on the region of the country. Nonetheless, Brasil Telecom successfully leveraged its wireline capabilities and relationships with businesses and government, in addition to launching an aggressive marketing campaign, to exceed all expectations for subscriber growth and market share.

In a crowded, maturing, and competitive marketplace, Brasil Telecom managed to differentiate its brand and attract customers by highlighting its fixed-mobile convergence capabilities. The company offers a variety of unique programs and discounts that take advantage of both its wireline and wireless networks, including:

- a multi-use calling card capable of functioning in cellular, fixed and public phones
- a discount schedule called Bonus Every Month, that provides in-network discounts to both fixed and mobile clients
- a program called Boomerang 14, which credits any minutes used to make a mobile call originating on the company's wireline network back to the user for in-network mobile calls or local fixed calls
- a program whereby clients can register 14 local fixed or in-network mobile numbers, calls to which are heavily discounted

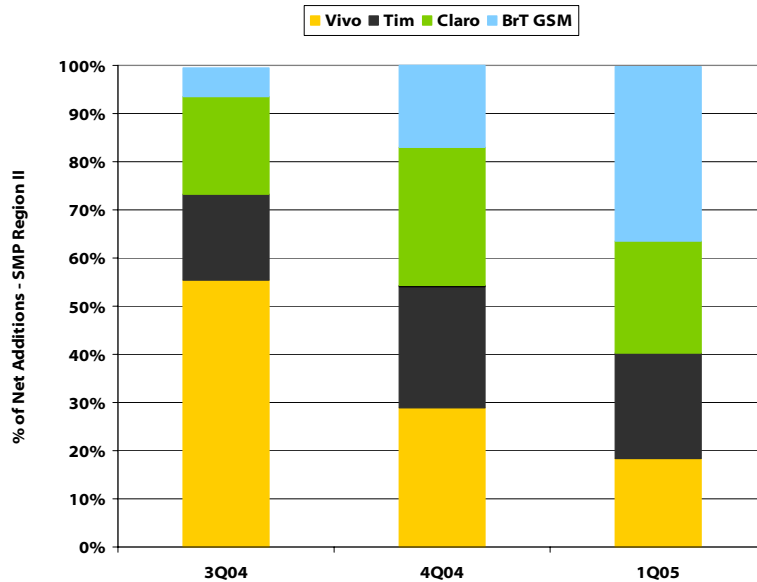
In order to promote its mobile service, Brasil Telecom also devised a new discount and retention plan whereby minutes used and paid for in a given month are credited forward to the subsequent month. The Pula-Pula program, in practice, can provide discounts of up to 50% for both pre-paid and contract subscribers. Originally intended for the first 400,000 customers to be valid until 2010, it was later made available to all customers, albeit for shorter durations.

Outcome:

Since launching its GSM service, Brasil Telecom increased its total subscription guidance twice. By the end of the first quarter of 2005, it had captured 5% market share in its area of operation with 1 million subscribers, and it now expects over 2 million subscribers by the end of 2005. As shown below, Brasil Telecom's share of net additions in its regions of operations has grown steadily in the three quarters

since it launched its GSM service, accounting for 36% of net additions in the first quarter of 2005.

Exhibit 2: Share of Net Additions by Operator in SMP Region 2



Note: Sercomtel has been losing customers for the past 3 quarters and CTBC reported negative net additions in the last quarter as well.

Source: Pyramid Research, based on company reports

Meanwhile, Brasil Telecom GSM has not jeopardized its ARPU levels by providing these aggressive discount plans. The operator’s mobile ARPU stood at \$10.50 in 1Q05 and compares favorably with other major mobile operators. Of note, Brasil Telecom GSM’s postpaid customer base comprises 32.1% of total subscribers, above the national average and indicative of the company’s success in capturing higher-end users including business users.

Exhibit 3: ARPU for major operators in Region 2 (SMP)

Operator	BrTGSM	Vivo	Claro	TIM
ARPU	\$10.50	\$9.06	\$9.29	\$11.18

Source: Pyramid Research, based on company reports

Brasil Telecom GSM has launched a mobile service differentiated by its fixed-mobile capabilities. Still, the operator has only converged at the commercial level, through bundled products and discounts. Though it is in the final testing phases of a Bluetooth-based hybrid terminal, it is lagging other convergence leaders such as BT in the UK, where handset, service, and network integration are already under way. Brasil Telecom GSM’s commercial success so far, based on strong, previously existing relationships with businesses and the government in addition to an aggressive marketing campaign, could be emulated by other convergent carriers. Indeed, Telemar, another Brazilian fixed telecom with a mobile arm, launched its own version of an all-purpose calling card in April.