

Cellular Phone Operation in Brazil - From Mistrust to Success

by Alvaro Pereira de Moraes Filho, Chief Executive Officer, Tele Celular Sul Participações S.A

. Abstract

To me, cellular telecommunication in Brazil is an example of pioneering work, the persistence and dedication of a few visionaries who realised that the new technology could change the future. It seems incredible that this has occurred in less than ten years - a period in which the country has shown amazing advances in this sector.

Empty handed, the cellular pioneers travelled around the world in search of a model that could be adapted to our reality. In a very few years they transformed a dream into one of the most promising businesses in the Brazilian economy - a business providing one of the best cell phone services in the world to more than 20 million clients.

Startup was difficult: lack of resources for investment and the resistance shown by government officials to invest in mobile telephone services, a new technology they knew little about, when the country was short of fixed phones. And then, the largest doubt of all: was the Brazilian market ready to absorb this new technology? The fear of shooting their own foot was not enough to keep public telephone companies from launching the cell phone in 1992. From mistrust to success, was a leap. And what a leap! Until their privatisation in July 1998, the state owned companies had long lists of those waiting for cellular phones - a symptom that this novelty service was promising, but that the government was unable to run the business.

"The explosive growth of cellular services served to alert the region to the perspective for the sector..."

The privatisation of the government controlled operating companies was a landmark event in cellular phone growth, not only for Brazil, but for the region as well. Due to Brazil's strategic and economic importance, the changes adopted by Brazil are quickly perceived and absorbed by the Mercosul countries. The explosive growth of cellular services served to alert the region to the perspective for the sector and served as a guideline for the business throughout Latin America. Once the privatisation of telecommunication companies began, the Brazilian State was signaling that, over and above its decision to back away from the control of a strategic sector, it was seeking a way to strengthen its partnership with private investors. The goal was to foster expansion and improvement of those services vital to the country's development. The Brazilian Government's attitude encouraged international investors, the big players and global leaders in their segment, to bet on Brazil's new strategy to reduce the state's intervention in the economy.

This strategy will spur further reorganisation of Brazilian telecommunications. The reorganisation of the sector will be intense during the next two years - as intense as anytime in the past decade when the government changed the rules of the game, privatised the state owned companies and introduced competition. Today, unlike in the past, large corporations are in this now highly competitive game; there is no room for amateurs. The market is mature; probably, only four or five highly competitive players will survive. To survive, players must be capable of offering complete global communication solutions at ever lower prices and be able to accompany the technological and behavioural evolution of a market

in constant change.

The history of the cellular technology employed and the prices charged clearly illustrate the changes in cellular phone sector. It is not surprising that the government soon perceived it could not accompany the demands of the market. The first cell phone was sold in Rio de Janeiro in 1992. It entered history as one of the heaviest and most expensive on the planet. It weighed more than two kilograms and cost - for a handset and access fee - an unimaginable US\$22 thousand. Today, handsets weigh less than 100 grams and, depending on the subscription plan, might be delivered to the subscriber free of cost. The technological evolution between 1992 and today explains part of the phenomenon, but privatisation, undoubtedly, is mainly responsible for the explosion of a business that was little more than a dream of a few technicians and engineers working for the state- owned companies.

The success of Brazil's courageous leap into the future during the past decade can be credited to various factors: technological evolution, privatisation, investments, price drops, the stabilisation of the economy and the increase of per capita income in Brazil. Also, importantly, the cellular phone has earned ample social significance. In addition to what mobile telephony means in terms of economic development, the cell phone signifies, to much of the population, economic independence, the freedom to come and go at will, an access channel to the world and everything good that life has to offer. Cell phones are personal not transferable. They have come, for many, to signify the personal identity that each citizen carries for business and pleasure. The change in culture and of habits has been profound. It is a merit of the Brazilian people, their flexibility, that they managed to change their habits and way of doing business in such a short period. These changes of habit will become increasingly profound, in the near future, when mobile internet services become widely available. The growth of this service, when it starts to take hold in 2001, promises to be charged with emotion.

None of this, however, would have been possible had there not been private investment in the sector. This brought many benefits. The consumer has gotten increasingly better service at continuously falling prices. The government has collected more taxes and can afford to provide more and better public services. Overall, both society and the economy have gained. The growth of the sector has created more jobs which produce more income and consumption, that generate more taxes, which in turn are transformed through investment into new products and services, raising everybody's quality of living. It is a virtuous circle, turning the wheels of the economy and society, for the greater well-being of all.

The most impressive aspect of this process has been the ability of the cellular telecommunication sector to win over a perplexed and mistrustful market and inspire the necessary widespread cultural adaptation. Although most thought that mobile phones were simply a novelty, cell phone operating companies have proved the opposite. The cellular operators have provided a multiplicity of services, a range of additional benefits as well as differentiated tariffs and segmented services for different sectors of the market. The introduction of new options, such as prepaid mobile phones, has revealed a growth potential that seemed unlikely a short while ago. Prepaid accounts now, in less than two years, account for more than half the country's cellular subscribers.

Until privatisation, there was one, standard, type of service for all subscribers. This obliged the client to adapt to the service and not the service to the client. Since privatisation, cell phone operating companies,

in response to competition, have adopted differentiated services and tariff plans. In order to better meet the needs of their clients and capture market share, the natural segmentation of their clients and the needs of new consumer groups have forced them to provide better services specifically targeted for each group.

The transition from the state controlled model to the private model is almost complete. In the near future Brazil will enter into a fully competitive era. Each operator will need to reinforce his position in ever reducing niches and segments which have common interests and demands. Each operator needs now to invest in programmes to reinforce subscriber fidelity, to fix trade name recognition, to ensure high quality and to distinguish his services from those of the competition.

The same technology is available to all operators, so only the human factor can make a difference. The human factor will mean as much or more than investment in technology and materials. The leaders, the most profitable companies, will be those that manage to prepare their personnel to respect the client and provide top quality, personalised, services. Services rendered the old fashioned way, courteously and with a certain intimacy, as though to an old and valued client. A client may not remember how much he paid for his handset, but you can be sure that he remembers how the salesperson treated him - and that is what counts.

We are only beginning. The market will still see a lot of growth and innovation. New services will be incorporated as the technology evolves, not just as a marketing strategy, but with market demand and the natural growth and maturity of the sector. At the moment, the cellular phone client's profile is as ample as it is enigmatic. Understanding him is the secret to winning him over. Cellular phone operating companies are investing in Brazil, in this market, at the moment, because there is still a vast untapped market to conquer. Forecasts by ANATEL (Brazil's telecommunications regulatory agency) and the market predict that Brazil will have 58 million cell phones, and up to five competing cellular operators, by 2005. We may conclude, from this, that the boom in cellular business will be long lasting and that it will be a constant challenge to keep ahead of the market.

In the year 2001, Anatel will grant authorisations to new operators for bands C, D and E . The entry of these into the market, creating additional competition, will mark the conclusion of the transition process. These operators will introduce GSM technology to Brazil. The next major market transformation promises to be the arrival of true third generation (3G) technology. All companies have an obligation to obtain a return on investment. In the case of the cellular operating companies, there are a few alternatives: increase traffic, develop new uses for cell service, expand mobility and roaming areas and new services. It is not enough to be able to compete, to conquer market share and client fidelity. Companies have an obligation not just to be profitable, but socially responsible as well - a return on investment for both the company and society as a whole.

Sharing of infrastructure usage, a practice that is quite common in Europe and North America, but still only an idea in Brazil, can produce economies on a national scale of millions of dollars. This practice could enable cellular operating companies to reduce costs, improve their bottom line, provide the client with more for less and, thereby improve the return for society.

Conclusion

Social responsibility is strategically important. It is not charity, but a philosophy of management that serves as a powerful barrier against unfair competition and foreign predators. Social responsibility demands that corporations pay long term social dividends to society. The maturity of Brazil's cellular sector demands no less. Brazil will never miss its government controlled telecommunication sector, it is now quite used to having the best.