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Latin Lessons

BellSouth Finds Pocket of Growth In an Odd Place

As Others Flee South America, It Thrives on a Shoestring; A Cool Cellphone for $20

Paulina Rubio's Belly Button

By Almar Latour

CARACAS, Venezuela—BellSouth Corp. spent $3 billion in Latin America to build a regional cellphone business. Then the tech boom ended and the area's economies soured. But unlike many of its rivals, the U.S. phone company isn't giving up. Without any new investment funds, it's relying on less expensive ways to jumpstart its operations.

One fresh concept: enlisting local entrepreneurs. Juan Andres Ugueto, a 31-year-old former investment banker, scrounged more than $15,000 to buy a franchise from BellSouth to run telephone booths outfitted with cellphones. In return for his investment, Mr. Ugueto received equipment from BellSouth in-

cluding a set of shiny silver-and-blue booths lined with mirrors. Mr. Ugueto says he was profitable in three months.

This is what running a business looks like amid the worst of business conditions. The telecom industry is still reeling under heavy debt, disastrous overseas investments and brutal price competition. While there's no magic bullet for the sector's ills, BellSouth's experience shows how companies willing to be canny and thrifty can find pockets of prosperity without being supported by the vast financial resources of the 1990s. Its Latin American operation, toiling in a region where few can afford cellphones and landlines are scarce, has become BellSouth's fastest-growing unit. (See related article on page A18.)

In addition to using local franchisees to finance wireless phone booths, BellSouth persuaded a Taiwanese manufacturer better known for making computers to build it a sleek cellphone that sells for as little as $20. Atlanta-based BellSouth also buys used cellphones in the U.S. and turns them into wireless home phones with inexpensive tariffs. The company, which has told executives in the region there's no more money for expansion, is also forcing its 10 formerly independent operating companies to share ideas and services.

"Without diminishing what our people in our domestic business have done, I think it's hard for them to imagine what our Latin American operation has been through," says Duane Ackerman, BellSouth's chairman and chief executive officer. "They can learn something from that experience."

During the 1990s, U.S. and European telecommunications giants spent tens of billions of dollars expanding in Latin America, Eastern Europe and other emerging markets. Nearly all of those investments turned sour, felled by gyrations in currency markets and fights with local partners. Knowing how to run a phone company in North America didn't prove an advantage in the Czech Republic or Ecuador with their unpredictable regulations and changing political climates.

AT&T Latin America filed for bankruptcy protection in April and agreed to

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BellSouth's Latin Pocket of Growth

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sell most of its assets to Mexico's Telmex last month. AT&T Corp. had written down the property last year and put it up for sale. Vodafone Group PLC and Verizon Communications Inc. sold their stake in Mexico's Grupo Iusacell SA this summer for $10 million after investing about $1 billion each. And last week MCI said it wants to sell its 19.3% stake in Embratel, a Brazilian phone company, as the U.S. operator emerges from bankruptcy.

By contrast, BellSouth's persistence seems to be paying off. Revenue at BellSouth's Latin American operations grew 19% in this year's third quarter to $587 million, making it the fastest-growing unit of the company. After losing a combined $190 million in 2000 and 2001, the unit posted net income of $108 million in 2002. For the first nine months of this year, it recorded $99 million in net income, a 43% increase from the year-earlier period.

Company officials now refer to the Latin American operations as "the back nine," referring to the second nine holes of a golf course. The first nine holes are BellSouth's U.S. operations. The company envisions handling both ends of phone calls between the growing number of Latinos living in the U.S. and their friends, family and business contacts back home.

BellSouth hasn't been able to avoid many of the same problems that defeated its rivals. BellSouth quit the Brazilian market, deciding it would be too expensive to turn around the debt-laden unit. By the end of the year, it will have written down more than $600 million as a result. The company will likely reclaim some of that when the unit is sold. In May, one of the company's wireless base stations in Colombia was blown up during the country's continuing civil war.

Some BellSouth executives, in particular those on the finance side, as well as some investors, are leery about the region's wildly fluctuating economic situation. Some analysts who cover the company think BellSouth should sell the unit now that it's back on its feet. Mr. Ackerman, the BellSouth CEO, said he has no plans to do so but adds, "you can never say never in this business."

Leading BellSouth's Latin American effort is Ralph de la Vega, a longtime telecom executive who got his start at age 10 sweeping factory floors after being dispatched by his Cuban parents to live with friends in Florida. While running BellSouth's network in the Southeast, Mr. de la Vega contended with hurricanes, tornadoes and floods. In the aftermath of Hurricane Andrew, the executive searched for a missing employee and found him hiding in a corner of what was left of his home.

Latin America was supposed to be Mr. de la Vega's reward for having turned around BellSouth's ailing broadband division. But one week after he started in December 2001, much of the region skidded into an economic crisis when a collapse in confidence sent foreign investors fleeing. In Venezuela, Argentina, Brazil and Ecuador—BellSouth's largest markets—currencies plunged by as much as 46% within days. Suddenly, BellSouth's operation had to pay back U.S. dollar loans with revenue generated in sharply devalued local currencies.

He immediately put a halt to capital spending and stopped the units from giving discounts to consumers. In addition, he sliced 2,000 jobs, or 20% of the unit's work force, and redeployed others. Executives in Argentina, who endured a similar crisis in 1989, suggested turning BellSouth's sales force, which would soon have little to do, into a debt-collection team.

Ralph de la Vega

In the following weeks, Mr. de la Vega drew up a survival plan, taking notes in a black, leather-bound binder he always carries. That binder contains every piece of data he might need at any time, including 157 financial metrics for each of his businesses.

During a tour of his new empire, he visited Buenos Aires and found himself stuck in the middle of a huge demonstration against the government, which had frozen bank accounts. Mr. de la Vega watched the crowd surging through the capital's wide streets but was struck more by the high quality of the city's basic infrastructure. His conclusion: Long-term, this country will bounce back; don't pull out.

"I'm like the guy spinning plates on sticks on the Ed Sullivan Show," he says. "You can't just ignore one or it will come down."

The BellSouth name is little known outside the Southeast of the U.S. and is seen by many in the industry as stodgy. In Latin America, Mr. de la Vega decided the cachet of belonging to a large U.S. company would help. He insisted each operation use the brand and in one country tried using racy marketing tactics that its U.S. parent would never match. In Ecuador, BellSouth recently began selling a cellphone shaped like the curvy physique of the Mexican pop star Paulina Rubio, whose image—including belly button—appears on the back.

BellSouth's work force in Latin America is young—its average age is 33—and Mr. de la Vega has given significant responsibility to workers in their 20s from all social strata. Some are charged with tailoring marketing and ad campaigns aimed at their respective demographic, ranging from "indigenous" to what BellSouth calls "cool."

The company's Latin American countries used to work independently with separate names and advertising agencies. Vendors used to play one unit off against another, offering deeper discounts to those from larger countries. Mr. de la Vega forced them to work together on such things as ad campaigns and software development. BellSouth removed several executives who did not cooperate.

The various units, divided by national rivalries, started sharing notes. The Venezuelan unit came up with the idea for shops lined with roomy, air-conditioned phone booths. Wireless companies don't normally operate phone booths, an unglamorous business more associated with traditional telecom operators.

BellSouth executives in Venezuela figured there was an opening in a country where landlines aren't widely available because of its mountainous terrain, forests and desert. In addition, regular phone booths are hard to find. Even people who carry their own cellphones sometimes pay to use the connection centers, as the stores containing the wireless booths are known, to get away from the heat. Calls are also cheaper there, just four cents a minute.

Because friends often like to sit down together during a call, BellSouth designed the booths with benches wide enough to accommodate two people. In some of the early shops, the company put mirrors in the booths to prevent customers from feeling claustrophobic. Managers noted that booths with mirrors generated 25% more revenue than those without. Apparently, customers stayed longer if they could look at themselves. The company now puts mirrors in all the booths. After Venezuela, the booths were adopted in Ecuador and Peru.

"Wireless phone booths are the Starbucks of telephony in South America," Mr. de la Vega says. Industry analysts expect that BellSouth will have as many as 3,000 connection centers by the end of next year, up from 1,000 currently. BellSouth says the connection center will grow rapidly, but declines to be specific. The phones, while wireless, are built to resemble standard landline phones, making them near impossible to steal.

One of Mr. de la Vega's biggest struggles was to find an inexpensive-yet-fashionable cellphone. When he took his post, he discovered Latin Americans were offered mostly basic models from Europe and the U.S. that lacked functions such as games and color screens. Mr. de la Vega says big cellphone makers rebuffed his requests for more-sophisticated models, saying the phones he wanted couldn't be built cheaply enough.

Instead, Mr. de la Vega persuaded Compal Electronics Inc. of Taiwan, a company which is only beginning to break into the cellphone market, to design and make an inexpensive phone that wouldn't look shoddy. He stipulated it had to handle text messages. When he got a sample model several months later, he put in an additional request for a brightly colored screen. Two weeks later, a new model with a back-lit blue screen arrived at Mr. de La Vega's office in Atlanta. He turned off the lights and switched on the phone to admire the blue glow for himself.

"There is not much light around here at night," says Patricio Irsch, a 29-year-old cattle-ranch owner and BellSouth subscriber who lives in the mountains outside Quito, Ecuador's capital. "The screen helps," he says, as did the price.

Earlier this year, BellSouth began offering the metallic-finish phone, which is about the size of a candy bar, for between $20 and $100, depending on where it's sold. BellSouth says it matches the lowest offers of comparable phones offered by competitors.

BellSouth has sold more than half a million of the phones and expects sales to reach one million by the beginning of next year. Mr. de la Vega already has put in a request to Compal for a new model—20% smaller, with longer battery time—but for a similar price.

BellSouth is also pioneering the sale of wireless phones for use only at home. In much of Latin America, regular phone service is either unavailable or unreliable. To fill the demand for home phones among those who can't afford cellphones, BellSouth is offering so-called fixed wireless phones. They're not designed for carrying around town but instead connect to an antenna nearby and as a result have much lower rates than cellphones.

To supply Latin American, BellSouth buys second-hand cellphones from Cingular, a U.S. wireless operator in which it owns a 40% stake. It refurbishes the handsets with new plastic cases that make them look like normal landline phones.

"Just because people don't have much money," says Mr. de la Vega, "it doesn't mean they have no taste."

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NETWORKING

Technology, Management & Marketing

BellSouth Grows in Unlikely Spot

As Others Flee South America, It Thrives on a Shoestring Budget; Cellphones Feature Belly Button

By Almar Latour

Caracas, Venezuela

BELLSOUTH CORP. spent $3 billion (€2.52 billion) in Latin America to build a regional cellphone business. Then the tech boom ended and the area's economies soured. But unlike many of its rivals, the U.S. phone company isn't giving up. Without any new investment funds, it is relying on less-expensive ways to jump-start its operations.

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Persistence Pays Off

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Still, BellSouth hasn't been able to avoid many of the same problems that defeated its rivals. BellSouth quit the Brazilian market, deciding it would be too expensive to turn around the debt-laden unit. By the end of the year, it will have written down more than $600 million as a result. The company will likely reclaim some of that when the unit is sold.

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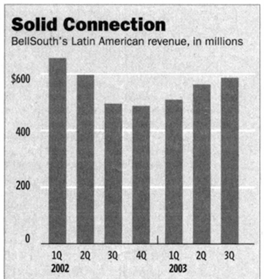

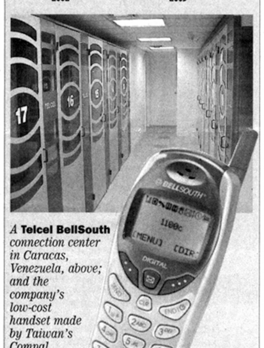

A **Telcel BellSouth** *connection center in Caracas, Venezuela, above; and the company's low-cost handset made by Taiwan's Compal Electronics Inc.*

Source: BellSouth International

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Sharing Notes

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