Chapter 4.24
An Analysis of the Latin American Wireless Telecommunications Market Portfolios of Telefonica and America Movil

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ABSTRACT

In response to slowing growth, intensifying competition in their traditional wireless voice, text markets with an eye toward increasing revenues from offering a bundle of mobile and fixed-line voice, data, text, and video services to subscribers, management at Telefonica and America Movil have restructured their companies and reconsidered their internationalization strategies. This paper focuses on the two companies' Latin American wireless market portfolios, providing background on why these reorganizational and strategic actions were taken. In particular, the paper compares the portfolios with respect to their market attractiveness and competitive positions in 2008 relative to 2002 on both an overall average and degree of variance basis across the

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markets in the portfolios. The portfolio analysis technique employed in the paper may have wider applicability for formulating corporate strategy.

INTRODUCTION

On January 13, 2010 America Movil announced that it would launch a tender offer for shares of two companies: Telmex Internacional, the international telecommunications holding company spun off from Telefonos de Mexico, S.A. de C.V. (Telmex) in December, 2007, and Carso Global Telecom (CGT), the company created to hold Telmex shares previously owned by Group Carso (America Movil, 2010a). At the expiration of the tender offer on June 10, 2010 America Movil owned 93.56% of Telmex Internacional's outstanding shares and 99.44% of CGT's outstanding shares, giving America Movil almost total control of Telmex Internacional and a large majority of Telmex shares (America Movil, 2010b). Previously, Telefonica, America Movil's primary competitor in Latin America underwent a reorganization of its own, consolidating its fixed-line and mobile operations into three geographic regions: Spain, Latin America, and Europe, a region into which it had expanded significantly in 2006. Why have America Movil and Telefonica made these organizational and strategic moves?

Deteriorating conditions in their mobile voice and text markets in Latin America have played a large part. The companies face slowing growth, fierce competition, increasing regulatory pressures, and new entrants. However, they also wish to capitalize on high-growth opportunities in wireless data and video. America Movil now can integrate its wireless facilities with the fixed-line facilities of Telmex and Telmex Internacional, enabling America Movil to reduce operating costs and increase revenues by offering bundles of fixed-line and wireless phone, broadband and video services (Parker, 2010). Consolidating its fixed-line and wireless operations enables Telefonica to develop a network specifically for video content so that it can expand video services to the home (Sinclair, 2010). The outlook for broadband and video services in Latin America is optimistic. From 2009 to 2014 the compound annual growth rate in broadband subscribers is expected to be 15%, compared with 6% for wireless subscribers (TeleGeography, 2010). With regard to video services, the number of Pay-TV households in Latin America is expected to grow from 20.8 million in 2008 to 28.5 million in 2013, a 7.4% compound annual growth rate. This compares with a worldwide compound annual growth rate of Pay-TV households from 2008 to 2013 of 4.3% (IDATE, 2010). Revenues from IPTV video services in Latin America, a market in which America Movil and Telefonica now both compete, are expected to grow at a much higher rate, from $14.3 million in 2009 to $521.5 million in 2013, a 145.6% compound annual growth rate (SNL Kagan, 2010).

The outlook for traditional wireless voice and text services was much more favorable in September, 2000, when America Movil was established in a spin-off from Telmex. At the time of its establishment America Movil operated in two Latin American markets (Guatemala and Ecuador) besides Mexico, as well as in the U.S, and had plans for further expansion into attractive markets in the region. By 2002 the company had added four more Latin American markets to its portfolio; by 2008 an additional nine. Telefonica, which the Spanish government had begun privatizing in 1987, had a significant presence in Latin America in 2000. By 2002 Telefonica was operating in nine markets in Latin America; by 2008, thirteen Latin American markets.

Telecommunications companies can derive benefits from expanding internationally, including: diversification of the companies' investment portfolios; enhanced leverage over regulators; the provision of seamless services for multinational customers; revenues from the transference of existing management and technical know-how from operations abroad; and cost reductions through

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