



## The BCE Privatization and its Aftermath

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### What does the future hold for Bell Canada?

BCE will see an end date to its *privatization ordeal* one way or another. While the Supreme Court deliberates on the merits of the arguments presented by shareholders, management and bondholders, it is interesting to think about what is next for Bell Canada. (You can watch the June 16<sup>th</sup> interview of Ms. Johanne Lemay on BNN regarding what the future holds for Bell at [“LYA in the Media.”](#))

Whatever happens with the Supreme Court decision, the Bell Canada of tomorrow should be dramatically different than the one we see today, if it wants to remain a dominant player in Canada and relevant on a global scale. And in our view, becoming a global player may be a major determinant for Bell’s future.

Of course, if the Bell privatization does go through, and even if it does not, divesting of certain assets may be the first order of the day. Bell would be ill advised to divest of any wireless related assets or operations, other than potentially spinning off its towers in a new entity as some US carriers have done.

Assets that could be on the selling block could include Aliant as well as a spinning off additional network infrastructure and customers outside of Bell’s key target markets. Spinning off Aliant entirely would still leave Bell with all the wireless assets in Eastern Canada as these were “extracted” from Aliant in the course of Aliant’s conversion to an income trust.

However, this would not be nearly enough, in our view, to bring back a shiny outlook on Bell’s future.

It is time for the Bell Canada of missed opportunities to be put to rest if it hopes to remain a dominant player in 5-10 years from now.

Here are a few broad thoughts on what Bell should consider in the aftermath of the privatization process, whatever its outcome.

1. Focus on improving its brand and customer perception via superior innovation:. The telecommunications industry is in the midst of unprecedented upheaval in how consumers and businesses use telecommunications as well as media services and increasingly, media and telecom do converge (Oh! that dreaded word from



BCE's not so distant past). There is no equation at the moment in Canadian consumers' minds between Bell Canada and innovation. In Quebec, a consumer survey published in March 2008 by Les Affaires<sup>1</sup> ranking the 150 enterprises most admired has Bell Canada at 142 out of 150 in 2008 while Sympatico, rated separately, comes in at 122. Of note, 25% of respondents held a "negative opinion" of Bell Canada. By comparison, Google came in at position 29 out of 150, Apple at 46, Videotron at 52, Yahoo! at 55, Rogers at 113 and Telus at 114 to name a few. Bell Canada needs to recapture lost ground in perceptions related to the quality and leading edge of its offerings. A focus on advertising and promotion is not enough. Innovation, and delivering the goods on innovation, is where the game is being played now and for the foreseeable future in telecommunications.

2. Focus on network investment and specifically on broadband on their fixed as well as mobile networks. Bell Canada has been losing ground in terms of bandwidth provided to households in Quebec and Ontario compared to the cablecos, but the race for increased speed is far from over. Fibre to the home is costly but brings about many benefits and provides close to unlimited opportunities for expansion. Even though Bell Canada already provides a good quality satellite TV service with ExpressVu, and this fact has surely played a significant role in its decision not to deploy IPTV up to now on any large scale, Bell should focus on being the carrier of the future for its customers, not the provider of bygone telephone service<sup>2</sup> to which an average quality Internet service and other services are added. This may sound like an exaggeration, but at LMA, we expect the disconnection of fixed telephone service by consumers to accelerate post the current AWS spectrum auction.

Bell Canada is still the dominant telco in Canada and its operations in Canada have *little real potential for significant growth* other than via major acquisitions, which always raise antitrust concerns that cannot be easily answered.

In the meantime, as evidenced by potential new entrants in Canada's wireless industry that bid actively in the AWS auction, new global organizations have emerged targeting growth markets in countries around the world including Canada.

Canadian firms have been protected by the foreign investment restrictions in this country. Considering the top notch expertise in telecommunications in Canada, still prevalent today although under attack owing to the relative lack of penetration of mobile services,

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<sup>1</sup> Les Affaires, 'Les 150 entreprises les plus admirées des Québécois', 1er mars 2008.  
<http://www.lesaffaires.com/publications/commerce/150plusadmirees.fr.html>

<sup>2</sup> We highlight that Bell Canada does not offer to new customers its Digital Voice (Voice over IP) phone services launched to great fanfare in the midst of its lobbying efforts to get local telephone service deregulated.



it is somewhat a shame that in the telecommunications industry this protection has not been translated into active investments in the US and abroad so that at least one (or more) Canadian carrier could compete as a global player. In recent years, Cogeco is the only Canadian carrier that has made a significant investment abroad.

BCE via its subsidiary Bell Canada International has in the past scurried into foreign markets, usually ending up in some form of retreat. More recently in March 2005, Bell Canada invested \$100 Million in Mr. Craig McCaw's Clearwire WiMax venture as well as became its partner for VoIP services in the US and in "markets beyond North America"<sup>3</sup>. Now that Clearwire has announced a definitive agreement to combine its assets with Sprint Nextel's next generation broadband wireless business in a more than \$3B deal, Bell Canada's \$100M investment in 2005 seems to have become another example of a missed opportunity ([See an Interview of Ms. Johanne Lemay on BNN on May 7<sup>th</sup> related to this transaction at "LYA in the Media."](#)).

Thus, our last thought on Bell Canada post 2008 is:

3. Expand (for real) outside of Canada.

Bell Canada and Telus do not need to join forces to become a national champion in order to become global players. Other global players provide ample example of how it can be done. A more competitive and vibrant domestic market would be one of the pillars supporting a future successful expansion of Canadian telcos beyond their cocoon.

*The views expressed herein are solely those of Lemay-Yates Associates Inc.  
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<sup>3</sup> BCE Press Release, March 8, 2005 , "Bell Canada and Clearwire Form Alliance".