GROWING FAST AND PROFITABLY IN THE HIGHLY COMPETITIVE TELECOM INDUSTRY: THE CASE OF GVT

CRESCIMENTO RÁPIDO E LUCRATIVO NA INDÚSTRIA ALTAMENTE COMPETITIVA DE TELECOMUNICAÇÕES: O CASO GVT

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ABSTRACT

The purpose of this teaching case is to study the remarkable history of GVT, the former Brazilian telecom company which was acquired by Telefónica Vivo after it had revolutionized the telecom industry in Brazil throughout its 15 years of operation. Telecommunications is an industrial sector that is constantly undergoing upheavals, owing to the rapid pace of technological innovation, as well as the fierce competition, that forces companies to redesign their business models in order to flourish. This case is aimed at Master´s and Doctorate students doing courses in Business Administration, and should also be a useful way of helping teachers/lecturers to discuss business models in a dynamic class environment, such as in the area of the telecom industry. The learning objectives are to enable the participants to understand the features and limitations of the traditional concepts of business models, and to set out guidelines for an alternative framework that is suitable for a dynamic environment. The teachers involved should cover the aspects of differentiation strategies, consistent execution, process management and learning capabilities.
Keywords: telecommunications; profitability; competitiveness; business model; GVT.

RESUMO

Este caso de ensino estuda a distinta história da GVT, antiga empresa brasileira de telecomunicações adquirida pela Telefónica Vivo, após revolucionar a indústria de telecomunicações no Brasil ao longo de seus 15 anos de operação. Telecomunicações é um setor da indústria que enfrenta turbulências constantes, devido à inovação tecnológica acelerada e à concorrência acirrada, que força a reinvenção de modelos de negócios para que as empresas prosperem. Destinado a alunos dos programas de Mestrado e Doutorado em Administração, este caso é útil para ajudar o professor a discutir em sala de aula acerca de modelos de negócios em um ambiente dinâmico, como é o caso da indústria de telecomunicações. Os objetivos de aprendizagem concentram-se em oferecer aos participantes a possibilidade de compreender as características e limitações dos conceitos tradicionais de modelos de negócios, orientando para a discussão de um quadro alternativo que seja mais adequado ao contexto de ambiente dinâmico de negócios. É sugerido que o professor cubra os aspectos da estratégia de diferenciação, execução consistente, gerenciamento de processos e capacidades de aprendizagem.
Palavras-chave: *telecomunicações; lucratividade; competitividade; modelo de negócios; GVT.*

INTRODUCTION

It was at the end of July 2014. VB, the chairman of Vivendi, a French entertainment and telecommunications group, was taking his summer holiday on board his yacht in the Mediterranean Sea close to the mainland of Greece. Suddenly, he was interrupted by an unexpected visit from an approaching motorboat. This was CA, the CEO of Telefónica Group, a multi-billion Spanish telecom company, who handed over an envelope with a tempting proposal: he was offering € 6.7B (US$ 8.99B) to buy the Brazilian Global Village Telecom (GVT)[1].

What could explain this astonishing visit in such circumstances? It was just one more behind the scenes episode of the turbulent history of GVT, a Brazilian telecom company that had started from scratch 15 years earlier. It then paid US$ 54K for a license to operate in one region of the country – although this was granted on the understanding that it would subsequently invest around US$ 600M (almost all from loans). From then on, GVT rapidly achieved a profitable growth in the highly competitive and dynamic Brazilian telecom industry. In addition, it established a business model that attracted the attention of the international community and was the object of a huge financial offer for its acquisition.

However, growth and profitability in a competitive industry are not the main issues in this case, but are rather the background circumstances. GVT arrived in Brazil when the country's telecommunications sector was first opening up. It started as a small and independent company with no links to any global giant in the technological or financial sector, and with a limited investment capacity. Its Board of Directors did not know anything about the Brazilian telecom market and did not speak a single word of Portuguese. Owing to the fact that it was a mirror company formation, or what is called a competitive local exchange carrier (CLEC) – i.e. a firm which competes against officially recognized telecom companies that have recently been privatized –, it ran the risk of becoming insolvent, just as

1 A rich and detailed analysis of the entire GVT's trajectory can be found on Fernandes and Barbosa (2016) – that book is one of the main references for the information selected for this business case.

its counterparts had failed in the domestic and international scene. GVT's competitors were large companies owned by huge international telecom conglomerates and governed by traditional business models. When faced with this situation, the company experienced a number of critical turning points, such as the bursting of the dot-com bubble, the September 11th terrorist attacks, and the collapse of Lehman Brothers, not to mention the various economic crises in Brazil during the period, which all had a significant impact on the sector. Despite all this, in 15 years, GVT achieved a record growth rate of around 30% a year, with an Ebitda margin of 40%, well above the market average of around 25% - 30%.

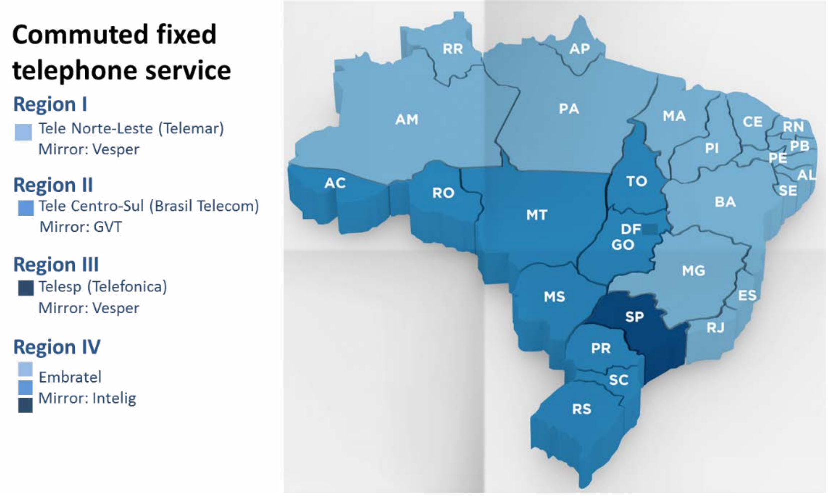
THE BEGINNING: AN OPPORTUNITY AND A STRATEGY

GVT's history (which can almost be described as an adventure) started in 1999, when two Israeli entrepreneurs, SS and AG, arrived in Brazil. They did not speak a single word of Portuguese, lacked any knowledge of the Brazilian market, and had limited capital. Their challenge was to take part in the public tender to operate fixed telecommunications services in Region II (the South and Midwest regions of Brazil) and three States in the North of Brazil.

Both entrepreneurs were involved in GVT Latin America, a small company mainly operating in Chile. This company provided telecommunications services via satellite, through a technological system called VSAT (Very Small Aperture Terminal), consisting of fixed earth stations, with small-diameter antennas for communications via satellite. Even though the VSAT technology experienced a 1.5 second delay between talking and hearing, it was quick to set up this new system, which was mainly used in remote regions, where the physical infrastructure (i.e. copper or fiber cables) was underdeveloped or not available. However, the system sounded perfect for Chile, which has many sparsely populated small villages scattered over a mountainous terrain.

However, both SS and AG soon realized that this was a niche market and if they wished to pursue their ambitions, they would need to try something bigger. At that time, (April 1998), they were participants in Telexpo, the largest telecommunications event held in Latin America, when they met some executives from Inepar. Inepar was a Brazilian company operating in the energy and telecommunications sector. This meeting led to an invitation for GVT together with Inepar, to tender a bid in an auction for Region II, which was due to take place in August 1998. At that time, the privatization of the Brazilian telecom industry was coming to an end. The Region II licensing procedure for a fixed telephone mirror company was the last act in that process. GVT's founders accepted the conditions and started to prepare a business plan for this venture. However, just 48 hours before the auction, Inepar announced that it would not take part in the auction. GVT decided to proceed and, contrary to expectations, won the tender. Though GVT offered less money than the other bidders in the auction (US$ 54K against US$ 2.7M), the company committed itself to making further investments in the years ahead (even though it had no equity at that time). According to regulatory policy, investment was more important than cash in hand. Exhibit 1 shows the distribution of players in the Brazilian telecom industry at that time.

Exhibit 1: Distribution of players in the Brazilian telecom industry after privatization



Source: the authors, adapted from Anatel (http://www.anatel.gov.br).

After winning the tender, it was time to plan a detailed strategy. GVT made a commitment to the regulatory agency to launch the operation in 54 target cities, 24 in 2000, and the rest in the following years. Instead of conducting a widespread operation, like rival companies such as the Spanish Telefónica, and Brazilian Telemar and Brasil Telecom, GVT focuses on the most prosperous cities and neighboring areas, which can afford the sophisticated technology it wishes to offer. That emphasis was different from the policies adopted by other Brazilian mirror companies. Instead, GVT created a high-value portfolio, and focused on broadband and video streaming, at a time when voice services hardly existed. They designed elements of modern topology in the network for this, with a different architecture that included mini telephone switches, known as fiber optic cabinets, which were interconnected by an extensive fiber optics ring. This network forms the basis of high-speed broadband services. The neighborhoods where these networks would pass, were carefully chosen through geomarketing techniques, that involved mapping private individuals and corporate entities with a higher purchasing power, who were able to spend more for a better service.

Another challenge was to raise money for the plan, as the entrepreneurs did not have sufficient funds. Their original plan was to rely on vendor credits, a kind of operation which was quite common at that time, and involved the suppliers delivering their equipment and only charging for it sometime afterwards. However, by the time GVT had got underway, times had changed. Owing to the dot-com crisis and failure of many CLECs all over the world, the product suppliers became quite skeptical about the value of vendor finance, especially to the unknown shareholders of a small company in Brazil. However, the tide turned when Hewlett Packard's CEO, CF, agreed to grant GVT an initial line of credit of US$ 50M. With the endorsement of HP, many other vendors agreed to embark on the project as well.

The IT platform was also original in its time, as it included a range of software within the same system, such as billing, provisioning, inventory management of the geographical information systems with external links, customer relationship management and so on. The aim of this was to reduce the risk of data inconsistency. The platform was developed over a period of 10 months, during which time GVT won awards all over the world owing to its innovative features, such as a prize from Information Week magazine.

STARTUP OPERATION

With its strategy, products, infrastructure network and IT platform in place, GVT started its operation in October 2000. The Latest generation network and integrated IT platform, allowed other innovative services to be launched for the first time in Brazil too. These included Surf and Talk, which, as the name suggests, allowed the customer to use the phone without being disconnected from the network. This was at a time when the Internet was generally accessed through dial-up. In addition, there was Three Way Talk, which allowed more than two speakers to share the same call. Another new venture was Follow Me, which made it possible to direct calls from a fixed to a cell phone. Further innovations followed such as GVT's Super Assistant, which shared a message center with a number of customers, while maintaining the privacy of each; and another service, Caller ID, that went in the opposite direction and dismayed prank callers and telemarketers by allowing the customer to know who was calling without the need for a separate Caller ID. These services are common today, but, back then, they were truly revolutionary, since even a simple call was frequently interrupted or not completed at all.

An initial marketing campaign accompanied GVT's launch. This emphasized that the objective of this new company was to improve people's lives. It was encapsulated in its slogan: "GVT: connecting you to a better life" and involved sales teams and installation technicians knocking on doors and making their sales pitch in districts within the GVT infrastructure. Once the client had agreed to the terms and conditions, installation was carried out right away, which was a novelty in a business where installing a telephone line sometimes used to take several months. As a result of these strategies, GVT revenues increased rapidly in its first years of operation. However, a sudden and major crisis originating from abroad would soon threaten everything.

AN OVERWHELMING CRISIS

The impact of the tragic events of September 11, 2001 on the world economy was particularly damaging to the technology sector, which was still staggering from the effects of the bursting of the dot-com bubble a year and a half earlier. The situation became even worse a few months later, with the scandal of WorldCom, a company that artificially inflated its profits by US$ 4B, while increasing its debt to US$ 30B. The combined effect of the dot-com crisis, September 11 and the WorldCom scandal, had serious implications for technology companies, since it resulted in a lack of liquidity and scarcity of funds for financing business. In Brazil, the global tide was further aggravated by domestic matters, including the energy crisis – the result of a drought combined with a lack of planning and investment in energy supplies – which led to blackouts between July 2001 and September 2002. Added to this, was the rise of the dollar against the real (the Brazilian currency), which jumped from R$ 1.80 in January 2000 to R$ 3.73 in December 2002.

The effect was even more devastating for CLECs (Competitive Local Exchange Carriers). According to Greenstein and Mazzeo (2006), there was a reduction in the number of CLECs in 638 out of 1,119 American cities in the period 1999 - 2002. Hu and Huang (2006) confirmed this and estimated that t, trillions of dollars of market value evaporated with these companies between 1999 and 2000, leading to the loss of around half a million jobs, billions of dollars in unpaid loans and hundreds of CLECs being closed. The CLECs in Brazil followed the same pattern: unlike GVT, the two other operating companies (Vesper and Intelig) did not survive, but were sold and taken over by larger companies.

Surviving this period was not easy for GVT. It had to pay back its debts obtained from vendors finance in the midst of this worsening scenario. Since the company was incapable of honoring its commitments, the GVT executives had to negotiate its debts, with a risk that the vendors could legally remove the shareholders, assume control and take drastic measures to recover their loans, including selling the company to a competitor for a low price. The challenge that the managers and owners of GVT faced was, thus, to restructure the debt and, at the same time, maintain control of the company.

AD, an executive from GVT's investment funds, who was one of the leaders during this round of negotiations, outlined the strategy that was adopted: "The decision was to play tough. On one front, led by AG, we proved that the suppliers had not met their delivery deadlines for equipment and threatened to sue them. On the other front, which I led, we created a complicated negotiating strategy." Negotiations took place in New York. AD recalls: "There were teams from different suppliers, with their financial and legal departments, as well as law firms and banks that had been hired. There were around 20 to 30 people, representing groups with a market value of more than US$ 100B. GVT's side usually consisted of TA, a partner of Allen & Overy, a law firm in New York that represented. There was a striking imbalance which was somewhat intimidating. However, it helped us to a certain extent as it meant we had a more coordinated strategy, provided quicker answers and wasted no time on internal conflicts over policy." Hundreds of meetings and teleconferences were held during the period of negotiations. Many were tense, with shouting and fists banged on the table. Thousands of e-mails were exchanged. After a year of negotiations, GVT's team finally managed to reach an agreement at the end of 2004. "We convinced our creditors that if they worked with us and we made money, they would also make money. They might still lose some of the loan repayments but they would lose much more if they 'took over' GVT. The final outcome was that the GVT shareholders held onto 100% of the shares and the debt profile was altered to reflect the new economic situation", AD said.

There were also contracts with local suppliers that had to be negotiated. After many trips and roundtables, these matters were also addressed. But the company also made a huge effort to reduce expenditure, by adopting action plans and holding daily meetings to cut costs and generate a cash

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flow. After a year, it had saved US$ 98M. As a result of these initiatives and increasing revenues, GVT recorded a positive Ebitda for the first time in the second quarter of 2002. The company's ability to generate cash only seven quarters after setting up business, was a world record. Until then, no other telecommunications operator had managed this feat in such a short period of time. This did not happen by chance. Surveys showed that more than 70% of customers considered the services to be good or excellent. GVT ended up being elected by the Yankee Group as the company with the best business plan in fixed telecommunications. In 2003, GVT obtained authorization from Anatel (the Brazilian telecommunications regulatory agency) to expand outside of Region II, by offering local as well as national and international long distance services. At that time, it already had around 700K worth of fixed telephone lines in service, generating revenues of US$ 125M.

Exhibit 2 shows the breakdown of GVT revenue products from 2004 to 2006, before the company had its IPO. Appendix 1 shows other GVT financial statements before its IPO.

Exhibit 2: breakdown of GVT revenue, in R$ (US$) millions

	2004	2005	2006
Telephone services	434.8 (163.0)	515.2 (220.5)	588.1 (275.7)
local service	289.8 (108.7)	358.2 (153.3)	422.8 (198.2)
long distance services	98.0 (36.7)	107.3 (45.9)	121.3 (56.9)
network services	47.0 (17.6)	49.7 (21.3)	44.0 (20.6)
Corporate Data	18.3 (6.9)	27.1 (11.6)	34.2 (16.0)
Broadband / ISP	89.2 (33.4)	109.6 (46.9)	131.9 (61.8)
Broadband	13.9 (5.2)	32.2 (13.8)	61.9 (29.0)
dial up	75.3 (28.2)	77.4 (33.1)	70.0 (32.8)
Voip Services	0.0 (0.0)	2.2 (0.9)	14.3 (6.7)
Net Revenues	542.3 (203.3)	654.1 (280.0)	768.5 (360.3)

Source: Company data.

Exhibit 3 shows the progress made by GVT in terms of network from 2001 to 2006.

Exhibit 3: GVT evolving network

	2001	2002	2003	2004	2005	2006
Fiber network (km)	1,134	1,513	1,610	1,962	2,064	2,482
Copper network (km)	3,621	4,833	5,141	7,103	8,154	9,667
Total network (km)	4,755	6,346	6,751	9,065	10,218	11,298
Connected Buildings	11,098	14,812	19,873	25,066	30,711	37,274

Source: Company data.

INITIAL PUBLIC OFFERING (IPO)

The GVT founders always treated the company as a publicly-traded entity. When employees were hired, they were encouraged to take part in a stock options program that gave them the "right to buy shares", though few of them understood what that meant. Yet in 2006, the time was ripe, as a wave of Initial Public Offering (IPO) was sweeping across the market in various sectors of the Brazilian economy.

With the backing of Credit Suisse, which had helped GVT restructure its debts, preparations were made to draw up a prospectus for the *Comissão de Valores Mobiliários* (CVM), Brazilian agency which is the equivalent of the US Securities and Exchange Commission. Once it had decided to be listed, GVT had to restructure some of its debt with international lenders. These creditors had entered the game when some of the equipment vendors decided to sell their securities in the market at a discount, during the 2002 crisis. Some of these securities were related to GVT's debts. Negotiations took place in New York with the funds that held these securities in mid-2006. "We negotiated the conversion of each of the debts into investments, and thus paved the way for the future undertaking of the IPO process" said the CEO (JOP) of Brazilian Credit Suisse, when referring to dealings with the funds.

Everything was ready by the end of the first half of 2006, but GVT decided to wait for a better climate for its IPO. This window of opportunity came in February 2007. GVT's IPO was the first of all the CLECs in the world, so it was difficult for the stock market to fix its share price. There were simply no precedents with which to make a comparison, an uncertainty that led, interestingly, to a higher than average estimate for the share price: the R$ 11 to R$ 16 valuation range was much higher than the normal one of R$ 2[2]. Once the price was defined, a roadshow was set in motion throughout Brazil, Europe and the USA. The favorable impression made by the company during the roadshow led to a higher share price for the shares (R$ 18). As a result, on February 14, 2007, GVT's shares were sold at Bovespa (Brazilian Stock Market) and allowed the company to raise US$ 510M.

EXPANSION

With the money raised in its IPO, GVT made a further geographical expansion. The first step was to buy Geodex, a backbone company with 11,000 kilometers of cables, cutting right alongside the coastline of Brazil and serving all the main towns and cities in the North and South. Geodex was a strategic factor in enabling GVT to achieve its expansion plans outside Region II. In light of the Geodex acquisition, in 2007 GVT invested three times more than in the previous year, and broke the record for an expanding infrastructure by also tripling the number of built-in access points. As a result, the company increased its operations outside Region II, which, until then, had been restricted to the corporate markets of Sao Paulo, Rio de Janeiro and Belo Horizonte. The new focus was on the retail sector, and this began in the largest cities.

As RS, the Marketing VP of GVT, explained: "We had a period of austerity in terms of efficiency and financial management from the startup to the IPO process. The money from the IPO came in 2007 and we then replicated the business model on a larger scale for a new cycle of geographical expansion." As a result, the earnings accrued at the end of the first year

2 R$ is the symbol of Brazilian Reais.

of being an open capital company, justified the confidence of investors, customers, the sales team and market observers. Net revenues were almost US$ 510M, with a remarkable Ebitda margin of 40.1%. The *Valor Econômico* newspaper stated that GVT shares had produced the best return on investment in the Bovespa index in 2007.

The year 2008 followed the same pattern, with GVT winning prizes and, more importantly, achieving positive results. The company won the IDC Innovation Award for the best broadband project of the year. It was also regarded by JP Morgan as one of the best investment choices in telecommunications in Brazil in that year. Moreover, it was classified as the third best investment choice for shareholders in the category of companies with a market value of between US$ 2.14B and US$ 6.42B in the "Best Companies for Shareholders" ranking of *Capital Aberto* magazine. GVT was the only company in the telecommunications sector that performed well in all the items assessed m – liquidity, value creation, financial return, corporate governance, and sustainability.

THE CULTURE OF GVT

The corporate values established by the founders, combined with a wide-ranging team of international specialists and the previous experience of GVT, consolidated a distinctive organizational culture. By the year 2007, GVT decided to formalize its values in what it called a Management Model. The values were listed as follows:

- Measures aimed at customer satisfaction (including factors such as caters for the customer needs promptly and sympathetically).
- A mean of determining to what extent customers' expectations can be met, and queries properly answered on time.
- Commitment to profitability and continuous growth (covering items such as concern with cost control methods in all the activities of the personnel).
- A constant search for new sources of revenue, new businesses, and cost effectiveness.
- An attempt to do things correctly the first time, and avoid rework.

- Personal initiative, accountability and integrity (including strict compliance with the company's ethical standards)
- Intelligent decision-making (with topics such as avoiding putting off decisions and spending enough time on reaching a decision).
- Careful thought about the implications of each decision.
- Simplicity in execution, taking measures that are easy to carry out and improve the company's results.

In addition, the company defined its corporate competence and laid down guidelines for its employees and executives with regard to performance management systems. These corporate competences included: strategic guidance, obtaining the required results, taking account of external clients, leadership and people management. In the case of GVT, these factors were not a management fad, but an attempt to pass on to future employees what was grounded in its history and believed to be essential for perpetuating business success.

The practices of the company illustrate how seriously these values and competences were taken. For instance, the company decided to invest in its own call center system, in contrast with the common practice of other telecom operators that prefer to outsource it. This involved a policy to make executives and top managers follow the operations of call centers in person, on some days each year, so that they could face the customer's situation more closely than simply studying executive reports. Another practice was to require this managerial team to wear the uniforms of phone installers and go out in the field to accompany technical staff in their daily operations, with the aim of having a greater awareness of their activities. This was an internal operation called "Expedition Consumer". All of these practices demonstrate the value of "Measures aimed at customer satisfaction".

A NEW PLAYER EMERGES

In 2009, as a result of this good performance, the shareholders of GVT were considering launching a secondary IPO. Thus, a new campaign was launched and in the course of this, a new player came on the stage. The chairman of Vivendi, JRF, was about to sail off to Cannes, when a manager of Crédit des Alpes investment bank drew his attention to the fact that an interesting Brazilian company, (GVT), would be placing some shares on the market. Vivendi is a French telecommunications and entertainment conglomerate that owns businesses such as Universal Music (the music industry's global leader in recording and publishing), Canal Plus (the producer of television programs and leading French Pay TV company), Activision Blizzard (a leader in the gaming market), along with telecommunications carriers like Maroc Telecom (a leader in the Morocco market) and SFR (a French telecommunications company). In 2008, Vivendi's revenues in 2008 amounted to € 25.39B (US$ 35B).

As Vivendi was looking for opportunities to enter the telecom business, the offer caught JRF s attention. After studying it and talking to GVT's shareholders, they decided to buy its entire stock. This interest led GVT to interrupt its attempts to obtain another IPO.

After some deliberation, Vivendi offered R$ 42 per share, which was above the price of R$ 32 at which the shares were being traded on the market at the time. The shareholders accepted the offer, and JBL, the CEO of Vivendi at the time, flew to Brazil in September 2009, to close the deal. As soon as he arrived at the airport, however, he read in the newspaper that Telefónica, the huge Spanish telecom company which had extensive operations in Brazil, had raised the offer to R$ 48 per share, in what appeared a hostile takeover as it had not communicated its intention to the GVT executive management. Later on, Telefónica's executives explained to AG that they did not wish to lose the competition, and that was why they made the offer in this way. Telefónica had always been regarded as a potential buyer of GVT, as its operational coverage complemented the operational region of GVT. Telefónica could not let that opportunity pass by and, to ensure the acquisition, on November 5th raised its earlier offer to R$ 50.50 per share.

However, on November 13th, 2009, Vivendi group made its final offer of R$ 56 per share and Telefónica withdrew. Thus, on April 27th, 2010, Vivendi assumed control of 99.17% of GVT's capital. It canceled the company's listing on the CVM 10 days later. The share price gave the company a market capitalization of over US$ 4.29B, a huge appreciation for investors who had paid R$ 18 per share at the IPO in February 2007. Appendix 2 shows GVT's earlier financial statements when it was a publicly-traded company between 2007 and 2009.

As Vivendi was a holding company that had stakes in various companies and was not itself an operator with specialist expertise in any area, it did not interfere to any great extent in things that were working well. AG remained as CEO, and he was given a seat on Vivendi's Management Board in France, where he recognized there was an opportunity to accelerate the expansion of GVT's sphere of influence: "The change in control has a strategic character as we now have a majority shareholder that is active globally in fixed telecommunications, mobile telecommunications, Internet broadband, Pay TV, online games and content. This broadens our horizons and will allow us to speed up our schedule for expanding and entering new businesses." And this was what happened. With the support and capital of Vivendi, GVT tripled its investments in CapEx.

The French corporation not only introduced new products and resources for investment, but also made important contributions to management. Despite its broad strategic guidelines, in the pre-Vivendi era, planning at GVT had a one-year investment horizon. The cycle began in the middle of the previous year, with a discussion of the initiatives for the following year. Then, a budgetary forecast was made and a detailed business plan was drawn up. Hence, the plan got underway, on the basis of an understanding that there would be provisions for alterations that might be made during the year.

As a result of Vivendi's arrival, the planning horizon was expanded. "We started to have more structured policies and make projections for a period of five years," said RS. "These forecasts are revised every year and this makes all the difference."

ENTERING PAY TV

However, the main contribution of GVT was still to come. This was when GVT decided to enter Pay TV. Although it had been the company's intention to enter this business since it was founded, as they saw it as a convergent business, they lacked opportunity to do so. This was especially because the Brazilian market already had huge players, that dominated both the cable and satellite industry. Moreover, there was legislation that allowed cable TV to enter the telecom market but not vice-versa, and the fact that profit margins at pay TV were lower - 22% in contrast with the 40% Ebitda margins GVT was used to achieve. However, things changed around 2011, because the legislation was altered and since, Vivendi arrived with experience in Pay TV, a new technology emerged. While visiting the IPTV (Internet Protocol Television) World Forum held in London, AG, RS, and CV, the Innovation Manager of GVT, were walking through the stands when one in particular caught their attention. It was that of the Swedish telecommunications technology supplier Ericsson, which had developed a hybrid TV that combined a satellite for the transmission of channels with the use of broadband for interactive services. This solution allowed the customer to have access to standard TV programming through a satellite dish while browsing the Internet and thus gave a chance to offer something different: as AG said, "GVT always looks for a way of innovating when it enters new businesses".

GVT entered into negotiations with Ericsson with a view to implementing this new technology. After working together for a year, GVT arranged a pre-launch of its Pay TV service in September 2011. By January 2012, the service was established in the market, although the decision to offer a revolutionary hybrid platform in record time came at a price. GVT faced problems over quality that it had never experienced before. The broadband Internet was good, as was the fixed telecommunications service, but the Pay TV feature within the package did not work properly, and sometimes even interfered with the functioning of the other platforms. The entry into the TV sector brought record levels of complaints and, as a result, the company lost clients. GVT was used to providing a top line service and being perceived as a premium service provider. Being the subject of so many complaints from clients, dented its self-confidence, and even led to an identity crisis.

However, the company did not stand idly by as client dissatisfaction rose. It mounted an aggressive operation to reverse the situation. First, it created a new position in the company - Vice-President (VP) of Quality. The hybrid technology was adjusted, and the Pay TV product was altered so that it could be sold in a simpler, satellite-only version, without the interactivity provided by the combination with the Internet. After a strenuous effort, the problems were finally overcome.

Despite the initial problems with Pay TV, the view was that, at the end of the day, GVT had to enter TV at that time or it would run the risk of losing the triple play[3]-wave; moreover, the net effect of TV is positive. "TV contributes a lot to the company's growth today, thanks to the development of the products and its new functions," reflected FF, Sales VP. VB, the Chairman of Vivendi, shared this opinion: "GVT has been able to diversify its activities in Pay TV, which has been experiencing a steady growth since it was launched in 2012." At the end of 2014, the company reached more than 860K registered TV subscribers. Furthermore, even though TV was a business with lower profit margins, GVT's Ebitda margin remained in the range of 40%.

Exhibit 4 shows some of the financial indicators for GVT, both when it operated as a publicly-traded company, from 2007 to 2009, and after that, from 2010 to 2012, when under the control of Vivendi. During this period, it always achieved results above those of public forecasts.

At that time, (2012), Brazil´s fixed-line telecom market hovered around US$ 35.1B, and represented 18.9% of America's fixed-line telecoms market value (The U.S. accounted for 55.3%, with US$ 102.B; after Brazil, Canada accounted for US$ 23B and 12.4% share, and Mexico US$ 9.3B and 5% share; other countries in America accounted for US$ 15.7B and 8.5% share). In Brazil, Oi S.A. (a merger of Brasil Telecom and Telemar) accounted for 36.7%; Embratel 27.4%, and Telefonica 18.5% (MARKETLINE, 2013). By then, GVT represented 6.3% of this market.

3 Landline telephone, Internet and Pay TV.

Exhibit 4: GVT's Financial indicators for GVT from 2007 to 2012 - public forecasts *versus* actual results

Source: Credit Suisse, Wall Street Research, 2013.

Notes: (1) Initial Report if Credit Suisse Research as of April 2, 2007.

(2) Report of Credit Suisse Research as of July 30, 2009.

FOR SALE, AGAIN

Despite its good results, in October 2012, Vivendi announced its intention to sell GVT and the news took GVT executives by surprise. The company had received large investments shortly beforehand and had met expectations by experiencing high levels of growth and enviable financial results. "We were one of the darlings of the Vivendi group, the one that had grown the most and added most value. Despite this, we received the news that we were going to be sold", said AG.

The decision was because of a bad investment Vivendi had made a year before at SFR, a large telecom mobile company. Just after investing € 7.95B (US$ 11.3B) to buy a stake of 44% of SFR shares from the British company Vodafone (Vivendi had already 56% of its share, so achieved to-

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tal control), a new French competitor, Free, launched an aggressive quadruple play combo (bundling 4G mobile service with broadband Internet access, Pay TV service and a fixed telephone service) a few months later, for half the market price. The result was a plummeting of the sales and market value of the other telecom operators in the French market. Less than a year after buying SFR, Vivendi's share price had tumbled from around € 23 to € 12.

This setback increased pressure on the Board of Directors of Vivendi to abandon all its investments in telecom and concentrate on the media and entertainment business. As a result, former CEO JBL resigned and was replaced by JRF, the chairman. His first decision was to sell off all investments in telecommunications, GVT included.

When GVT was put up for sale, some investors showed an interest, but none offered the price Vivendi had expected. Meanwhile, JRF visited Brazil and got to know GVT better. He liked what he saw and in March 2013, decided not to sell it. "GVT could be integrated into Vivendi's new strategy," he said. But now, the person who was not confident of remaining inside Vivendi's conglomerate was AG. As he saw it, "Vivendi's focus remained on content and media. Projects for Pay TV were welcome, but it would be hard to obtain approval for heavy capital investment, such as expanding the fi ber optic network.". To make matters worse, being able to offer quadruple play combos (bundling fixed broadband, fixed telephone systems, mobile telecommunications and Pay TV) was expected to become increasingly important. This meant that one item was missing from GVT: mobile telecommunications. And it would be expensive to get it.

With all these questions in mind, in February 2014, AG suggested to Vivendi, that GVT should look for another partner or find the resources for the necessary investments. Perhaps it was time for a fresh opening for capital expenditure in Brazil. "In light of Vivendi's strategy, I told them it was time to let us find another partner, so we could ensure we were able to compete". He was told that GVT would not be put up for sale but that he could look for sources of financing or arrange local partnerships, and then submit the results to the board for its consideration.

Once granted approval, AG started discussions with MP, CEO of Telecom Italia, the owner of TIM, one of the Brazilian leaders in the mobile industry. As MP put it, "the future of mobile telecommunications will be mobile connectivity. This will require a considerable investment to be able to offer all the services the customer wants, regardless of whether there is a fixed or a mobile network. To do so, we needed to have a fiber network that was well established in the large urban areas of the country." GVT fits this project like a glove. "GVT has had an incredible history, great coverage, the latest generation technology and an executive team that we feel very comfortable with. There was a chance to merge two companies with a very similar DNA in innovation", he added.

After some meetings, both AG and MP agreed on the possibility of a merger, and to take advantage of the synergy that existed between the companies. They agreed that the next step would be a visit to Paris to present their plans to Vivendi's Chairman, VB. On June 25th, 2014, AG and MP met VB. They explained their plans and VB agreed with the thinking behind the merger between GVT and TIM, and authorized a due diligence inquiry.

It was then that Telefónica heard about this approach between TIM and GVT and, fearful of losing GVT again, literally embarked on the plan, first announcing its interest and then arriving in a motorboat to show a proposal to VB in person in the Mediterranean Sea.

THE ACQUISITION BY TELEFÓNICA

Although GVT was not actually up for sale, the sheer scale of the interest meant its controllers had no other choice but to examine the proposals. They issued a market notice, announcing that other companies wanted to acquire GVT, and stressing that, if there were any other candidates, Vivendi would receive their bids until August 27, 2014, on the eve of the board meeting. On the last day of the deadline, both Telefónica and Telecom Italia tendered their bids. Both were analyzed at the board meeting the day after. Telefónica's bid of US$ 9.29B was considered the best and meant that Vivendi, which had spent US$ 4.44B purchasing GVT 5 years earlier, had nothing to complain about.

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In summary, a valuation ranging from US$ 54K to US$ 9.29B in 15 years is pretty rare in the telecom industry. No other cases are known, apart from the equally impressive one of WhatsApp, which was acquired by Facebook for US$ 19B just 5 years after starting its operations (DATTA; FUAD, 2017).

With its control over GVT, Telefónica Brasil consolidated its leadership position as an integrated telecommunications operator in Brazil, by being the leader of both the mobile industry and the high-speed broadband market, with national coverage, and with a solid lead in high-value segments. It was an ideal combination in structural and operating terms, and was recognized as such by the market.

In March of the following year, the regulatory agencies in Brazil approved the acquisition. On the same day, Telefónica announced its new structure in Brazil, with AG as the president of the company. This meant that AG would face some major challenges: how could the culture of GVT, together with its innovative approaches, be embedded in Telefónica, a much larger corporation?

Appendix 1: Financial statements of GVT before IPO (in US$ millions)

BALANCE SHEET	2004		2005		2006	
ASSETS	1,612	100%	1,683	100%	1,685	100%
Current assets	200	12%	250	15%	264	16%
Cash and cash equivalents	17	1%	66	4%	42	3%
Receivables from clients	143	9%	164	10%	196	12%
Other current assets	40	2%	21	1%	26	2%
Long-term assets	1,412	88%	1,433	85%	1,421	84%
Long-term receivables	21	1%	38	2%	40	2%
PP&E (Net)	1,155	72%	1,102	65%	1,093	65%
Deferred assets	236	15%	293	17%	288	17%
LIABILITIES & EQUITY	1,612	100%	1,683	100%	1,685	100%
Current liabilities	124	8%	132	8%	172	10%
Suppliers and other liabilities	124	8%	132	8%	69	4%
Other operational accounts	0	0%	0	0%	103	6%
Debt (short & long-term)	1,314	82%	1,222	73%	1,246	74%
Long term payables	144	9%	176	10%	185	11%
Stockholders' equity	30	2%	154	9%	82	5%
INCOME STATEMENT	**2004**		**2005**		**2006**	
Net sales	542	100%	654	100%	769	100%
(-) COGS	(191)	-35%	(233)	-36%	(252)	-33%
(-) SG&A expenses	(223)	-41%	(231)	-35%	(261)	-34%
EBITDA	129	24%	190	29%	256	33%
(-) Depreciation	(176)	-32%	(195)	-30%	(200)	-25%
Operating profit	(47)	-9%	(5)	-1%	56	7%
(+/-) Net financial revenues (expenses)	(55)	-10%	71	11%	(186)	-24%
(+/-) Monetary / FX gain (loss)	0	0%	0	0%	100	13%
(+/-) Non-operational revenues (expenses)	2	0%	2	0%	(37)	-5%
Net income before income tax	(101)	-19%	67	10%	(67)	-9%

(-) Income tax and social contribution	27	5%	57	9%	5	1%
(-) Minority interest / Employee profit sharing	0	0%	(3)	-1%	0	0%
Net income	(75)	-14%	121	18%	(62)	-8%

SIMPLIFIED CASH FLOW	2004	2005	2006
Net income	**(75)**	**121**	**(62)**
(+/-) Depreciation / amortization	176	195	200
(+/-) Monetary / FX gain (loss)	0	0	(100)
(+) Minority interests	0	3	0
Cash flow from operations	**102**	**319**	**38**
(-) Increase in current assets	(84)	(1)	(37)
(+) Increase in current liabilities	40	8	40
Cash flow after working capital	**58**	**326**	**40**
(-) Capital expenditures	(138)	(142)	(193)
(-) Increase in other L-T assets	10	(17)	(2)
Free cash flow	**(70)**	**168**	**(154)**
(+/-) Increase (decrease) in debt	(24)	(93)	125
(+) Subscription	0	0	0
(-) Dividends + ROC distributed	0	0	0
(+) Increase in other L-T liabilities	54	32	9
(+/-) Other financing activities	50	(58)	(3)
Change in cash position	**10**	**49**	(24)

Source: Company data and Credit Suisse.

Appendix 2: Financial statements of GVT as a public-traded company (2007 - 2009)

FINANCIALS - R$ millions (US$ millions)	2007A	2008A	2009E
Revenues	981 (554)	1,320 (567)	1,674 (971)
COGS	327 (185)	457 (196)	558 (324)
SG&A	296 (167)	360 (155)	466 (270)
EBIT	155 (88)	189 (81)	266 (154)
EBIT margin	15.8%	14.3%	15.9%
EBIT	358 (202)	503 (216)	650 (377)
EBITDA margin	36.5%	38.1%	38.8%
Adjusted EBITDA	358 (202)	503 (216)	650 (377)
Net financial expenses	38 (21)	38 (16)	41 (24)
Taxes	70 (40)	9 (4)	109 (63)
Net income	59 (33)	30 (13)	192 (111)
Net margin	6.0%	2.3%	11.5%
# shares (millions)	127	128	128
EPS (R$)	0.46	0.24	1.50
NOPAT	85 (48)	180 (77)	157 (91)
Depreciation	203 (115)	292 (125)	353 (205)
Capex	410 (232)	721 (310)	583 (338)
FCFE	(246) (139)	(339) (146)	(67) (39)
Dividends / IOE	-	-	-
Total assets	2,684 (1,516)	3,248 (1,395)	3,678 (2,133)
Cash	564 (318)	497 (213)	613 (356)
Current assets	947 (535)	978 (420)	1,215 (705)
Current liabilities	235 (133)	391 (168)	483 (280)
Net debt	(110) (62)	285 (122)	224 (130)
Book value	1,728 (976)	1,792 (769)	2,009 (1,165)
Market cap.	4,427 (2,500)	4,427 (1,901)	4,427 (2,568)
EV	4,317 (2,438)	4,712 (2,023)	4,651 (2,698)
Invested capital	1,618 (914)	2,077 (892)	2,233 (1,295)

Source: Company data and Credit Suisse.
N.B.: 2009 is only a partial estimate, with results until July because it was the year when GVT was sold to Vivendi and closed its capital account. Thus it had no further obligation to make public its financial statements.

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PEDAGOGICAL NOTE

This case is one of the outcomes of a larger research project on business models (BM) in dynamic companies. In the case of GVT in particular, the authors mainly collected data through semi-structured interviews combined with focus group debates, observation and the gathering of secondary data. This research involved 35 semi-structured interviews (recorded and transcribed) with the GVT top management team, as well as stakeholders, competitors, and regulatory/ financial representatives. The method employed was snowball sampling, "where the researcher makes initial contact with a small group of people who are relevant to the research questions, and these sampled participants proposed other participants who have had the experience or characteristics relevant to the research" (BRYMAN, 2012, p. 424). We started with the GVT C-Level team and used theoretical saturation, "carrying on sampling theoretically until a category has been saturated with data" (BRYMAN, 2012, p. 421): in our case, the (BM) components. Secondary data and a documentary analysis were drawn on for the following data sources of GVT: cash flow and cost reduction action plan (GVT, 2002); marketing strategy plan to enter the market of Brazilian Region II (McKINSEY, 1999); marketing strategy and business plans from the vendor financing information memorandum (McKINSEY, 2000). An appropriate triangulation was carried out between the primary and secondary data: after all, qualitative studies like this can achieve higher standards, in terms of reliability, credibility, transferability and confirmability (ABDALLA et al., 2018).

This teaching note is useful for academic discussions about business models in a dynamic environment, such as the sector that GVT represents (i.e. the telecom industry).

SUMMARY OF THE CASE

GVT entered Brazil as the first stage of the telecommunications sector was drawing to a close. It took part in the last of the fixed price telecommunications auctions. It entered with no experience as a large-scale telecommunications carrier and paid US$ 54K for its license (although it committed itself to subsequently investing a further US$ 600M).

GVT's history can be best understood as moving in cycles. First of all, its "pre-history" coincides with the previous experience of its founders in operations in Latin America before it obtained authorization to operate in Brazil's Region II. The second cycle corresponds to the efforts it made to launch the company in the market. The third (operational) cycle, is characterized by a large number of externally- driven crises and by lean times within the company itself. The IPO process was the start of its fourth cycle, and involved making heavy investments, as well as expanding outside its original area of activity, by replicating the highly successful strategy of differentiated goods and services for selected clients and regions, still in the same business – fixed telecommunications and Internet broadband. A fifth cycle got underway when the company was acquired by Vivendi and investments in infrastructure tripled – as did its growth rates and results – and GVT entered a new business – Pay TV. Finally, a new cycle has begun with the takeover by Telefónica.

Subject

Business models in a dynamic environment.

Target public

Students from Master´s and Doctorate programs in Business Administration.

Learning objectives

To enable the participants to understand the features and limitations of traditional concepts of business models, and encourage them to hold discussions about an alternative framework that is suitable for a dynamic environment.

THEORETICAL FRAMEWORK

The telecommunications industry

Organizations of all sectors and sizes operate in a constantly-changing business environment, constrained by uncertainty and with a continuous need to respond rapidly, to changes that go beyond local boundaries. In the case of the telecommunications industry in particular, discontinuities and disruptive innovations that affect consumer demand, are examples of challenges that organizations in this sector face (FRANSMAN, 2001; VAN DER BOOR; OLIVEIRA; VELOSO, 2014). Some features of this industry are increasingly leading to a high degree of volatility, complexity, ambiguity and uncertainty (TANG; HSU, 2018). This kind of turbulence in the business environment makes the strategic planner's job harder (WHITTINGTON et al., 2017). In addition, increasing g convergence (e.g. technological convergence in telecommunications, software, the Internet and electronic devices) has caused a paradigmatic shift in traditional telecom organizations (FRANSMAN, 2001; CHOI, 2018). There has also been a shift in this industry to an Information and Communication Technology (ICT) converged market (BIRUDAVOLU; NAG; WALI, 2016). Some of the pressures this industry is subject to, are issues related to a sustainable public-centric perspective, e.g. public access to the service, the conditions of consumerism and its implications from the standpoint of social welfare (CHOI, 2018). Thus, technological innovation is a constant factor since organizations need to invest more and more to provide a robust yet scalable infrastructure that can accommodate innovation and new industrial trends (BIRUDAVOLU; NAG; WALI, 2016).

As well as industrial innovation and changes in consumer demand, there are other external factors such as broader market competitors and the strategies of key players, stakeholders and regulatory policies that are key features that cannot be ignored when building a business strategy (ZHANG; LIANG, 2011; GHEZZI; CORTIMIGLIA; FRANK, 2015; STADTLER; LIN, 2017). Specialization, financial markets, competition, consumer demand and the vulnerability of this industry are driving forces in its development (FRANSMAN, 2001; CHOI, 2018). When faced with this fierce competition and technology-driven, multifaceted volatility, telecommunications service providers must focus on quality, value-added services, and corporate competencies to respond to the challenging task of setting up a successful business (BIRUDAVOLU; NAG; WALI, 2016).

A BM design that includes a pricing strategy and value network relationship is required to handle these kinds of dynamic environmental conditions (FERNÁNDEZ; USERO, 2009). In fact, BM is a key driving force that can ensure organizations obtain a sustained competitive advantage (TEECE, 2010; JOHNSON; CHRISTENSEN; KAGERMANN, 2008). In light of these complex industrial features that characterize the telecommunications market in Brazil and its recent trend towards privatization, there are even more challenges, such as regulatory policies, manual labor costs, infrastructure, the purchasing power of the public and tax burdens (ARMIJO; RHODES, 2017). After examining all these challenges, we came to the conclusion that traditional BM is insufficient when assessing external factors, notwithstanding its dynamic business context and the rapid expansion of the telecom industry.

BUSINESS MODEL

The implementation of an efficient BM design can lead to success in an organization (FOSS; SAEBI, 2017). Critical decisions regarding market niche and related investments can be processed at the design stage (HAHN; SPIETH; INCE, 2018). For this reason, BM might be able to bring about a sustained competitive advantage if it is well-structured and innovative (TEECE, 2010). Casadesus-Masanell and Ricart (2010) define BM as the rationale of the company - how it operates and creates value for its stakeholders. The choice of a BM entails making a careful alignment of the organizational components (TEECE, 2018). The authors agree with this and hence support a strategy, in which the choice of BM enables a given company to decide on its tactics, (i.e. the possible residual (and consistent) decisions to be made within a BM).

Zott, Amit and Massa (2011) divided a BM body of knowledge into 4 key areas: (a) unit analysis; (b) a framework to explain how organizations do business; (c) a framework to analyze planned commercial models; and (d) a framework to explain the concept of value creation in companies. Value creation is linked to a combination of processes, resources and the financial structure of companies to provide their customers with value-added goods and services (PRIEM; WENZEL; KOCH, 2018). This is a critical factor with regard to a sustainable competitive advantage, as is also the ability to determine customer needs and the feasibility of its implementation (JOHNSON; CHRISTENSEN; KAGERMANN, 2008; TEECE, 2010; GHEZZI, CORTIMIGLIA; FRANK, 2015).

This means that, companies are able to create value for their customers by finding solutions to a problem or by offering goods or services that suit their needs. A firm´s profits result from customer value creation; thus, it represents an important marker of business success (JOHNSON; CHRISTENSEN; KAGERMANN, 2008). Teece (2010) argues that both an innovative portfolio and a robust and well-designed BM are essential to obtain a competitive advantage. When a company finds a solution to a problem or makes innovations (no matter whether in terms of goods or services) to suit the needs of customers, this is an outcome of a well-structured BM that can drive a company to success (JOHNSON; CHRISTENSEN; KAGERMANN, 2008).

Disruptive innovation is a necessary condition for a virtuous cycle framework, where feed-forward and feedback loops enable rapid learning from, and in response to, customers and partners, while making them become force multipliers (SNIHUR; THOMAS; BURGELMAN, 2017). Game-changing opportunities bring about new and radical customer value propositions: they accomplish a job-to-be-done in dramatically improved ways, solve a problem that has never been solved before, or serve a wholly unaddressed customer base. Capitalizing on these opportunities does not always require a new BM, but one that offers enough flexibility to leverage its ability to make innovations: after all, it neither addresses an entirely new group of customers nor represents a major disruptor (JOHNSON; CHRISTENSEN; KAGERMANN, 2008; SNIHUR; THOMAS; BURGELMAN, 2017).

Lambert and Davidson (2013) regard BM in analytical terms and state that it can be used to assess organizational performance. Johnson, Christensen and Kagermann (2008) believe that successful organizations operate by employing a BM that can be broken down into four elements: (1) customer value proposition, that can carry out an important task for the customer in a better way than that of competitors; (2) profit formula, which lays out how a company can make money by delivering the value propositions; (3) key resources and (4) the key processes that are needed to deliver that proposition. The model of Johnson, Christensen and Kagermann (2008) succeeds in integrating these four organizational components, which are some of the most significant in the literature with regard to understanding the value creation process.

A customer value proposition expresses the way in which an organization creates value for its customers, including the effective delivery of what is offered. A company´s profit formula is the way in which it creates value for itself, at the same time that it is providing value to the customer; it includes methods for creating revenue streams, working capital, profit margins and a cost structure. Key resources encompass people (involved in the processes), technology, equipment, distribution channels and the brand itself; they are supposed to be aligned with customer value delivery and create a competitive advantage. Finally, key processes include training, designing, budgeting, planning, sales, services, metrics, rules and standards (JOHNSON; CHRISTENSEN; KAGERMANN, 2008).

All in all, the model of Johnson, Christensen and Kagermann (2008) makes it possible to understand all the components of the organizational processes, by enabling any company's BM to be described and analyzed. In particular, this model provides a link between processes and key resources, by clarifying the company's value proposition.

BUSINESS MODEL IN A DYNAMIC ENVIRONMENT

Although the model of Johnson, Christensen and Kagermann (2008) covers several features required for this research, it does not explain the effects of business and technological disruptions, which are common fac-

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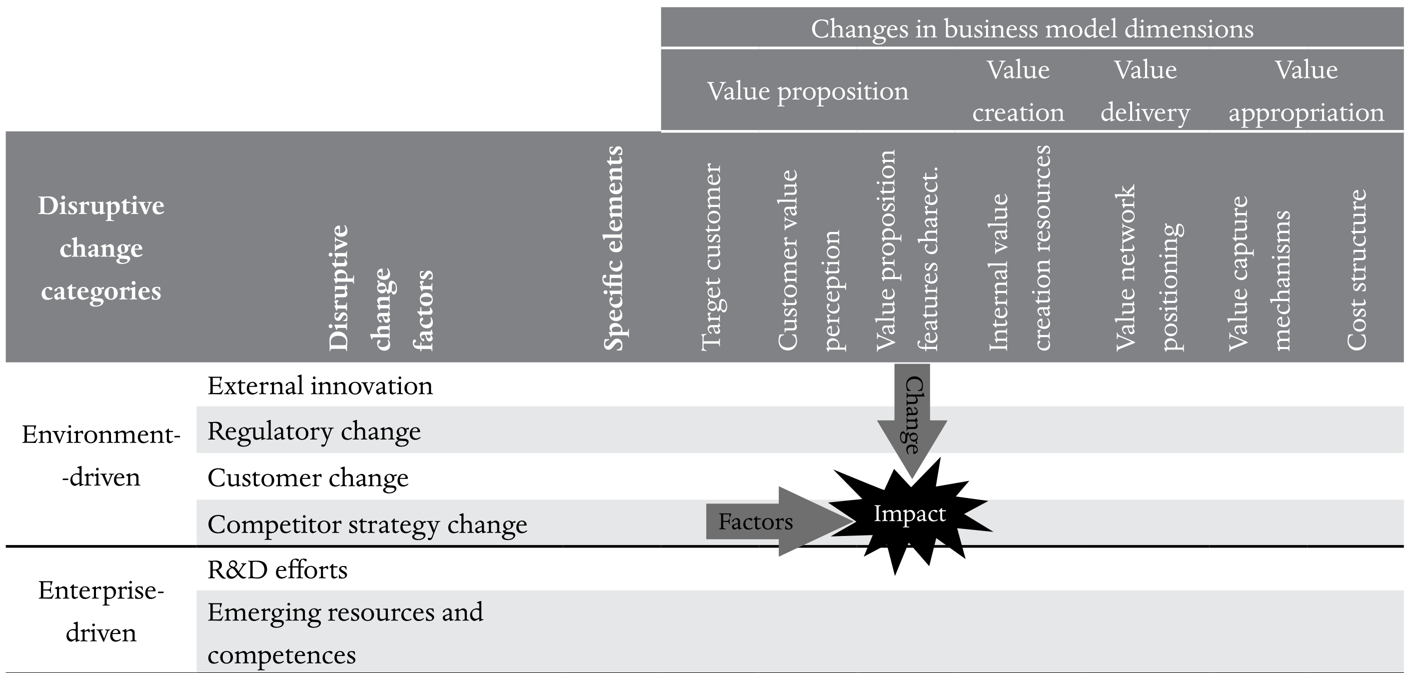
tors within the dynamic environment many businesses face today. Ghezzi, Cortimiglia and Frank (2015) and Cortimiglia, Ghezzi and Frank (2016) lay emphasis on this and argue that, it is important and necessary not only to analyze the BM itself, but the factors that nurture and sustain BM over a period of time, mainly disruptive change factors. Ghezzi, Cortimiglia and Frank (2015) classify disruptions as either environment or enterprise-driven. Environment-driven changes are exogenous to the firm and can happen at the micro-level (like strategy formation in a single company) or macro-level (e.g. industry). The authors further distinguished between the following environment-driven changes: (i) external innovation, (ii) regulatory change, (iii) customer change and (iv) change in competitor strategy.

On the other hand, enterprise-driven changes refer to disruptions to the competitive *status quo* caused by the firm itself. It may originate in: (i) research and development (R&D) and (ii) emerging resources and competencies. On the basis of these concepts, Ghezzi, Cortimiglia and Frank (2015) seek to analyze how disruptive change affects BM dimensions. In their framework, each disruptive factor is assessed in terms of its impact on each BM dimension, as illustrated in Exhibit 5.

Exhibit 5: The framework of Ghezzi, Cortimiglia and Frank (2015)



Source: Ghezzi, Cortimiglia and Frank (2015).

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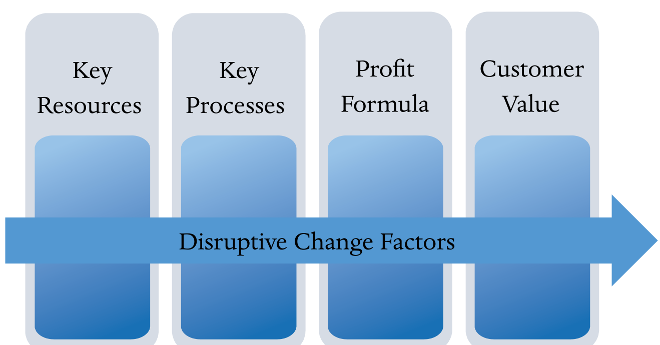
However, the model of Johnson, Christensen and Kagermann (2008) fails to provide the nurturing process that sustains the BM: in other words, the relationship between external components has an influence on BM dimensions. From this perspective, the model of Ghezzi, Cortimiglia and Frank (2015) manages these significant external factors by combining disruptive change factors and BM dimensions. By doing this, it makes it possible to estimate the different degrees of its effect (i.e. strong, average or weak, or through any other suitable scale, in a quantitative approach). However, the tool itself, is not enough if used alone, because of the lack of other qualitative analytical features.

Thus, as we sought to employ BM as a valid method of explaining a company´s performance, and provide an insight into the strategic process of nurturing its BM over time, we extended Johnson, Christensen and Kagermann (2008)'s model, by including features of the tool employed by Ghezzi, Cortimiglia and Frank (2015). The outcome was a more suitable framework for this assessment, (as shown in Exhibit 6).

Exhibit 6: Adjusted model from Johnson, Christensen and Kagermann (2008) and Ghezzi, Cortimiglia and Frank (2015)



Source: Ghezzi, Cortimiglia and Frank (2015).

As in the model of Johnson, Christensen and Kagermann (2008), the key resources encompass the following: people; technology / products; equipment; information; channels; partnerships / alliances and brand. The key processes encompass processes, rules, metrics and norms. The Profit Formula includes the revenue model, cost structure, margin model and resource velocity. All these features lead to a customer value proposition that encompasses the targeted customer; offers, and "job-to-be-done" to solve an important problem related to an important need for the targeted customer. In addition to these dimensions, we included two disruptive change factors adapted from Ghezzi, Cortimiglia and Frank (2015): environment-driven (external innovation, regulatory change, customer change and change in competitor strategy) and enterprise-driven (R&D, emerging resources and competences).

In summary, on the basis of the research literature, the following aspects of this case can be highlighted: mediated factors of both environmental / business models to support and conduct the analysis: a) Customer Value Proposition (CVP); b) Key Resources (KR); c) Key Process (KP); d) Profit Formula (PF) and e) Disruptive Change Factors (DCF).

RECOMMENDATIONS

In class, striking facts of the GVT history could be investigated, from its foundation until its acquisition by Telefónica. In a triangulation stage, this could be underpinned by reference to the book "Of fiber and people", by Fernandes and Barbosa (2016). It is essential to consult in advance the papers of Johnson, Christensen and Kagermann (2008) and Ghezzi, Cortimiglia and Frank (2015).

As a discussion strategy, the students should analyze the gathered information from the business model, with the aim of understanding the magnitude of business dynamics in the telecom sector.

POSSIBLE QUESTIONS AND EXPECTED ANSWERS

Key question: In light of the history of GVT, conduct an analysis of its business model, bearing in mind not only its components but also the disruptive factors that affect the company and its environment.

Customer value proposition: GVT demonstrated that making innovations in value proposition, may be the only alternative for new entrants in a highly competitive market, such as the telecom industry. The decision to become a differentiated telecommunications company, serving a demanding sector of the market, is seen in factors such as state-of-the-art technology. This is aimed at customers who were carefully selected with regard to their geographical region, and involved offering sophisticated products, directed communications and a differentiated service, among other factors. The company complemented the BM by making a tactical decision, (which it upheld throughout its existence) of keeping, an updated portfolio of products and technological devices aimed at its targeted public. GVT's corporate philosophy was to carry out its policies in a disciplined and consistent way.

Key resources: One of GVT's key resources was its culture. It can be determined how the traits and experiences of its founders were blended to form a particular culture, that was expressed in its management model. The emphasis on planning and execution is a key feature and corresponds to the list of the firm's competencies. The company's approach to a new product was preceded by undertaking detailed feasibility studies. The fact that the process was carried out in such a meticulous way does not mean that there was no consistent policymaking. This was how decisions about which technology to advocate, which markets and cities to enter, and which products to launch, were made. Having a technological infrastructure was another critical resource for GVT. Even during the times of crisis, whatever funding was required in these areas was provided.

Partnership / alliances: The role of technological suppliers (or ¨vendors¨, in the jargon of the telecom industry) was a decisive factor in enabling GVT to start its operations, in so far as partnership and alliances are key features of the company's BM. Most of GVT's innovations, like its IT platform, network infrastructure or pay TV technology, were original at a global level and obtained through a joint venture with its partner or else as a sort of pilot test.

Key processes: Strategic planning was a trademark of GVT. It made projections five years in advance and defined targets for the following year, on the basis of budgetary and key performance indicators. These were closely monitored, through quarterly reviews. Customer care was a GVT key process. Practices like "Consumer Expedition" and the agreement by executives to devote time to attending the on- call center are proof of this. Training was another key factor, with a busy schedule of internal and external events throughout the year, to train workers, recycle traditional knowledge and be receptive to new ideas, especially in the case of new technologies. Another factor was the performance of the management system, with its stress on consistency upholding the company's values and corporate competence. Accounting methods were also meticulously designed and monitored. Every financial transaction was made from the perspective of return of investment, control of expenditure and a sense of urgency. In summary, well-designed management was one of the key features of GVT's BM.

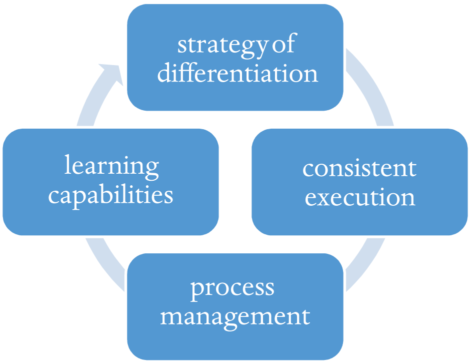
Profit formula: with regard to the profit formula of GVT, revenue was originally sourced from double play (fixed phone and the Internet), moving on later to triple play (fixed phone, the Internet and pay TV). Throughout the period of its existence, the firm decided not to explore mobile communications, since it was a market already dominated by the giants of the telecom sector. This decision allowed goods and services of a higher standard to be provided, in both technical and financial areas. This was one of the reasons why the Ebitda was above average for the sector.

Disruptive change factors: Like other operators, GVT always had to deal with technological breakthroughs made in other parts of the world, like VOIP services, Skype and WhatsApp – some of them turned into new business for the company, as in the case of Vono (VOIP service). In the telecom industry, new technologies often lead to changes in regulations, customers, competitors and market fields. However, GVT not only suffered from influences from outside, but also inflicted them on competitors with its R&D projects, emerging resources and corporate competencies (some of which were acquired from Vivendi, as in the case of pay TV). Its new IT platform and infrastructure network allowed it to sell products at prices its competitors could not rival.

BLACKBOARD PLAN

Exhibit 7 summarizes the proposed blackboard plan.

Exhibit 7: Blackboard plan



Source: Own authorship.

- **strategy of differentiation:** a distinct strategy to deliver goods and service to high-income consumers (class A and B, and corporate), e.g. customers willing to pay more for a differentiated service.
- **consistent execution:** a coherent strategy, in operations, finance (selective investments and control), customer care (communication, customer service and products), people care through strong leadership with a sense of mission (revolutionized telecommunications), an overview (started in several countries before arriving in Brazil) and closely following the deal. As well as the cultural mix, there were also policies concerning human resources to stimulate uptake, retention and people´s motivations.
- **process management:** the company was also concerned with its processes, care planning, setting budgets and monitoring results through indicators; and knew how to regulate the sector properly, by both respecting it and exploring its limits.
- **learning capabilities:** the company showed a great ability to learn quickly, take advantage of opportunities, and know how to adapt and innovate.

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