

## Telus Would Gain Canadian Market Share With Microcell Acquisition

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The proposed acquisition of Microcell would make Telus the largest wireless provider in Canada and remove a tough price competitor. But integration and customer migration would be time-consuming and challenging.

## NEWS ANALYSIS

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### Event

On 14 May 2004, Telus, a major Canadian telecommunications provider headquartered in Vancouver, announced a CDN\$1.1 billion offer for the outstanding assets of Montreal-based Microcell Telecommunications, which operates the Fido wireless telephone network. The acquisition of Microcell — which emerged from bankruptcy protection in 2003 — would make Telus the largest wireless provider in Canada. The proposed acquisition must be approved by Canadian government regulators.

### Analysis

Microcell has long presented a competitive challenge for the three largest Canadian wireless providers — Bell Mobility, Rogers Wireless and Telus Mobility. Microcell's Fido City service, a flat-rate package priced at CDN\$45, has been well-received by the marketplace, undercutting the larger providers' pricing plans. The acquisition by Telus would remove this "rogue vendor" from the marketplace. (Rogers or Bell could also decide to bid for Microcell, but Gartner believes this is unlikely, and it would not change our enterprise recommendations in any case.)

Although the acquisition would remove Microcell as a competitor to Telus, the integration of the two providers' networks would be a huge undertaking. Telus — like Clearnet, which it acquired in 2000 — uses CDMA (code division multiple access) networks, but Microcell's network is based on GSM (Global System for Mobile Communications). There is no simple way to migrate the customers to a single network. Telus would need to either continue to run two separate networks, losing economies of scale, or — more likely — migrate all customers to new handsets.

Gartner believes this acquisition is intended essentially to allow Telus access to Microcell's customer base, and to reduce the impact of its aggressive pricing. Gartner believes that if the acquisition is finalized, Telus will likely migrate Microcell's customers to the Telus network. Although Microcell (Fido) is primarily consumer oriented, there are some businesses using their services.

**Recommendations:** Enterprises do not need to make changes to their wireless services as a result of this announcement. However, until this acquisition is finalized (assuming it is), enterprises making new purchases should consider focusing on wireless providers other than Microcell. Current Microcell enterprise customers should keep new handset purchases to an absolute minimum, because any handsets they purchase may eventually need to be replaced.

**Analytical Sources:** Bob Hafner, Elroy Jopling, Tole Hart, Michael King and Tuong Nguyen, Gartner Research

### Recommended Reading and Related Research

- "Wireless Substitution Becomes Real, and the Market Gets Nasty" — The Canadian wireless market reacted sharply to Microcell's introduced of a substitution service delivery model. **By Elroy Jopling**
- "MTS Purchase of Allstream Will Remake Canada's Telecom Market" — By acquiring Allstream, Manitoba Telecom Services (MTS) will significantly extend its market presence. **By Elroy Jopling**

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