

# How to award mobile licences to the „right“ candidate

## *Guidelines for Regulators – learning from international best practices*

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Learning from the experience in the participation in over 30 licence bids (mostly GSM), CSK draws three key conclusions for regulators that are planning to award telecom licences.

The country's telecoms infrastructure fulfils a "catalyst" function to the economy. Consequently, the evaluation of the right operator for telecoms licences (mostly GSM/3G) has a high leverage, and regulators should invest sufficient time and resources to select the operator that serves the country's needs best.

## Executive Summary

In this paper, CSK outlines the three key success factors to choose the best candidate:

- 1. Award the licence through a "Beauty Contest" (criteria selection), and not through an auction**
  - If prepared carefully, „Beauty Contests“ are the better method to select the right candidate
  - The winners of auctions are obviously those candidates with the deepest pockets but most often not those companies that provide the best telecommunications services for the country. Also, High licence fees through auctions will be back-financed by the end customer through higher tariffs
- 2. Prepare a fully transparent, and easy-to-use „Request for Tender“**
  - Make your scoring criteria as transparent as possible (including the applied weighting)
  - Provide a simple but strict tender structure
- 3. Select the right evaluation criteria**
  - Value an international consortia higher than state-owned incumbents, or better, exclude state-owned operators from bidding
  - Weight (available!) resources, and relevant experience more than fancy „marketing ideas“ (distinguish between operational experience and greenfield build-up experience)
  - Valuate commitments (mainly coverage, rollout speed, and tariffs) higher than vague plans. Introduce penalties in case the commitments are not met

*CSK Management is a specialised consulting firm focusing on bid management and telecom licence allocations. CSK has the experience from the involvement from over 30 licence bids in 19 countries, from 1996 until today. They are mostly GSM tenders, but also fixed-net licence bids, WLL, WiMax and 3G bids.*

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## Success Factor 1:

### Award the licence through a “Beauty Contest” (criteria selection)

If prepared carefully, „Beauty Contests“ are clearly the better method to select the right candidate.

At a first sight, the auction seems to be fairest and most transparent allocation system - yes, it actually is fair (as long as the auction is a parallel multi-round auction) as the candidate that is willing to pay the highest amount will get the licence, and yes, it is transparent. However, the candidate with the deepest pockets is seldomly the best candidate for the country.

The primary goal for the regulator should be to allocate the licence to the very best candidate, meaning the candidate that simply provides the best telecom services to the country: For example, in GSM bids, this means: the best coverage (also in rural areas), the quickest network rollout, the lowest tariffs, and solid operations. Having deep pockets has nothing to do with all of that! And finally, those high licence fees will be back-financed by the end customer through higher tariffs – certainly not something the country desires. Clearly, auctions are not qualified to select good telecom operators.

Sure, so called Beauty Contest have their downsides, too. They are more complex to organise, they take longer, and sometimes (in particular when they were not organised in a transparent way) those companies that did not get the licence, take legal actions against the decision. Still, if prepared carefully, Beauty Contest will provide the better result for the country as it enables the regulator to apply those selection criteria that are the most important for the country. Of course, it is also possible to combine a Beauty Contest with the additional financial results from an auction: For example, the amount that a company is willing to pay makes 10% of the score.

## Success Factor 2:

### Prepare a fully transparent, and easy-to-use „Request for Tender“

The Request for Tender<sup>1</sup> (RFT), is the key to a proper evaluation process. A good RFT is fully transparent and provides a clear and strict structure. To develop a solid RFT needs experienced experts, and the amount of work to prepare it is often underestimated. Often, badly structured RFTs are the result.

First, the bidding process needs to be outlined very clearly. It should also be clearly stated who is allowed to bid. In many cases, regulators want to stimulate competition and therefore want only to receive bid documents from bidders that are not mainly state-owned.

Second, to provide full transparency, the RFT must outline a clear chapter structure with very concrete questions to answer, and it must state what score can be achieved by answering this chapter. For example, if the regulator is looking for a strong rural coverage, the RFT will ask for separate coverage commitments for rural and for urban areas, with a higher score on rural areas.

It is even recommended to provide already a chapter numbering system, and a limited page budget that must not be exceeded (to avoid 1000-page bid documents). The typical bid size is around 200 pages.

Further, it is recommended to give the bidders sufficient time to prepare the RFT (with an absolute minimum of eight weeks).

A sample bid structure can be found on CSK’s website under [www.cskmanagement.com/downloads\\_e/sample\\_GSM\\_bid\\_structure.pdf](http://www.cskmanagement.com/downloads_e/sample_GSM_bid_structure.pdf)

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<sup>1</sup> or otherwise called “Invitation to Tender (ITT)”, “Request for Bid (RFB)”, or similar



## Success Factor 3: Select the right evaluation criteria

The regulator should carefully select the right selection criteria for the allocation of telecoms licences.

In the following table, we propose a general weighting scheme for a typical GSM bid.

The reader might be surprised that the technical planning and the business planning sections are not scored higher. The reason is that the evaluation should be based on facts (such as consortium structure, ownership, available resources, experience etc.) and on the commitments that are made in the document (such as coverage commitments, committed tariffs etc.). Fancy marketing plans based on potential services should not be weighted too much.

Main Chapters	Remarks	
1. Bidder Structure	Consortium Structure (access to <i>available</i> resources), Competitiveness (low state ownership desired), Local and International Partners, Alliances, Cooperations, Cultural Fit	10%
2. Bidder Experience	Experience (from other countries, in number of staff and number of subscribers) to a) <b>build up</b> a greenfield operator, and b) <b>operate</b> the business	20%
3. Technical Planning (incl. coverage commitments)	Technical setup: IT and network architecture (5%) and roll-out/coverage commitments (10%)	15%
4. Business Planning (incl. tariff commitments, and roaming tariffs)	Do not overweight fancy marketing plans. Key: tariff commitments, incl. roaming tariffs	15%
5. Organisation	Project organisation (roll-out), and operational organisation (org chart)	15%
6. Roll-out Plan	Rollout timeline, milestones etc.	15%
7. Benefits to the Country	Additional benefits to the country such as employment or performance bonds (separately defined)	10%



## What are the specific criteria that should be weighted high?

### 1. Bidder Structure

- No state-owned candidates

As most countries want to stimulate real competition it is recommended to limit the range of potential bidders to those consortia that are used to operate under really competitive conditions. State-owned operators are not able to operate free from governmental interferences. It is therefore strongly recommended to limit the potential state-ownership to under 50%.

- Strong international partners and strategic alliances

To ensure a competitive environment that meets international standards, it is obvious that the operational involvement (and not only financial investments) from international corporations should be rated high

- Availability of Resources

For a smooth company roll-out, it will be key that the winner of the licence has access to skilled resources that are actually available for the rollout. They must not be tied up in other countries' operations.

### 2. Bidder Experience

To ensure the availability of sufficient know-how, the bidder's experience is absolutely key. It is important to distinguish between roll-out experience and operational experience. CSK recommends to value the roll-out experience higher than the operational experience. The experience in countries of the same region should also be rated better.

- Roll-out experience (network rollout, company rollout, distribution rollout, etc.)

It is important to value roll-out experience very high. If a bidder has numerous operations worldwide but no roll-out experience, this will be a significant handicap. This is often the case for companies who have acquired already up-and-running networks. As a consequence, the number of countries where the consortium partners have built up greenfield operations is probably one of the key parameters that drive the valuation.

- Operational experience (network management, CRM, etc.)

Once the new network is launch, the operational experience becomes important. A good indicator to measure the experience is the total number of subscribers that the consortium partners currently have.

### 3. Technical Planning

In general, this part should not be rated as high as it is often done. This chapter usually should only prove that the consortium has already gone through a planning process (such as radio planning, backbone concept etc.). However, one aspect is absolutely important: the coverage commitment

- Coverage Commitment

The main benefit for the country is the coverage. Certainly, countries will have a specific focus on rural coverage. As the urban coverage typically drives the revenues, there is logically no much need to push it from a regulator point of view. The operators do it themselves.

CSK therefore recommends to specifically rate the coverage in rural areas or specific regions.



#### 4. Business Planning

Business plans are plans, and plans can be changed. As a logical consequence, it only makes sense to value those parts of the business plan that are declared as real commitments (with according penalties if not achieved). Most important are the committed tariffs and roaming partners.

- Tariff Commitments

The main commitment should be the tariff level. The lower the tariff the more the customers (the consumers, the business, the authorities – the country overall) will finally benefit. Ideally, the tariff levels should be indexed to international benchmarks.

- Roaming Tariffs and Roaming Partners

Further, if the country desires to enforce international business or tourism, the roaming tariffs (both, incoming and outgoing) should be analysed and valued higher. Also, the number of already available roaming partners should be rated separately.

#### 5. Organisation

The organisational chapter should show the project organisation for the roll-out as well as the targeted organisation for the operational stage, once the company and its network is up and running. CSK recommends focusing on the roll-out organisation (as the operational operation will widely develop out of the roll-out organisation).

#### 6. Roll-out Plan

In this chapter, the roll-out project should be outlined. The bidder should provide a detailed project plan with milestones (such as coverage in phase I, phase II, etc., or number of distribution outlets). These milestones need to be declared as commitments (with penalties if not reached). In this chapter, the regulator should see the real commitment of the bidder. Logically, these commitments should be weighted rather high.

#### 7. Benefits to the Country

In this chapter, the bidder should outline which “collateral” benefits it will bring to the table. This includes employment figures, know-how injection, build-up of technical skills, specific plans to support certain regions etc.

Optionally, the regulator can ask for performance bonds. In a recent GSM (!) licence bid, the regulator asked for the possibility to provide mobile services to the police and to supply governmental buildings and schools with broadband internet services. Also, bidders should have the opportunity to outline additional aspects that do not fit into standard bids. As an example, one bidder recently offered to establish a telecoms university.

## Conclusion

Well-structured, fully transparent Beauty Contests allow governments to choose the “right” telecoms provider much better than auctions. The careful preparation of the RFT is the key for a proper evaluation process that provides the optimal result. Besides a clear and logical RFT document, the choice of the right evaluation criteria (including their weighting) is most important.

For more information on this topic, please do not hesitate to contact us:

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