



Securing Key Strategic Options with WiMax Licences

Zürich, Spring 2005

If prepared carefully, potential licence applicants can secure key strategic options by acquiring WiMax Licences at relatively low cost and low risk. To create a winning bid, CSK provides guidance through the entire bid process and offers support in all relevant areas. CSK brings experience from over 30 licence bids and auctions, including recent BWA bids.



Currently, many telecom regulators all over the world are in the process of allocating radio spectrum for Broadband Wireless Access (BWA).

In this context, the most hyped buzzword is certainly WiMax (Worldwide Interoperability for Microwave Access). It potentially breaks the monopoly of the last mile to bring fast and cost-efficient wireless internet access to businesses and consumers. Eventually, WiMax may be extended to provide roaming and mobility. So, it might be competing against conventional cellular telephony with "Skype"-type phones using VoIP. Eventually.

It is therefore still very open what type of new business concepts might emerge or which new market segments should be covered. The WiMax standard (802.16) is still under discussion and field tests revealed disappointing results that are far behind the targets. Learning from infamous 3G and Wireless Local Loop (WLL) auctions, WiMax has not generated the same desire amongst operators (yet) to acquire these frequencies.

Further, many potential bidders not only show great difficulties to estimate the potential business value of such a licence, they are also rather reluctant to invest in another wireless technology that is actually competing against former investments. This is one of the reasons why in those countries where BWA licences have already been auctioned (e.g. Austria), they were priced extremely cheap.

However, potential new players, such as global players seeking to enter the local market, or Internet Service Providers (ISPs) looking to offer VoIP services to compete current voice telephony providers might as well be attracted to bid. Potentially, this might be a paradigm-shifting process, turning the telecoms industry upside-down. Potentially.

In any case, winning licences will secure these strategic options at low cost and low risk. Potential licence applicants should be well prepared to bid.

The Challenge

Potential bidders now need to carefully analyse and evaluate the eventual impact of WiMax on their business. The difficulty to run a business case for WiMax is that most key parameters will be rather a "wild guess" than a calculated value.

To determine the business value of a WiMax licence, it is necessary to define a variety of scenarios, including those "low probability, but high impact" scenarios.

It is then important to understand that it is not the business case of the most likely scenario that determines the bid-or-no-bid decision. Each scenario has its individual value with an associated price that a bidder wants to spend to keep this strategic option open.

With these scenarios in mind, potential licence applicants will have to answer the question whether they can afford to "miss the boat" by waiting and doing nothing.



Beauty Contest or Spectrum Auction?

Once they have determined “their” business value as well as the potential competitors’ value, they need to fully understand the process that the regulator has foreseen to allocate the frequencies. But in many cases, regulators do not yet seem to be clear on whether they will allocate the licences using a beauty contest or an auction.

At a first sight, beauty contests seem to be the most adequate method to allocate telecom licences because the regulator is in the position to design the contest criteria around the country’s needs. Those bidders shall receive the licences who meet these criteria better than the others. However, the entire procedure is a very lengthy one, and the fair assessment of the submitted bids is often a rather complex exercise. Very often, the losing parties take legal actions against the licencing decision, creating long delays.

Typically, auctions are mostly much quicker and more transparent (depending on the chosen type of auction). The disadvantages are twofold: 1. Often, bidders must pay very high prices (as in the 3G auctions in the U.K. and in Germany) that are seen as hidden taxes, and 2. it is often the financially strongest bidder receiving the licence – and not the one who serves the country’s needs best.

In reality, both forms can differ from case to case. More and more, regulators combine them by running a pre-qualification round followed by a simultaneous multi-round auction.

Spectrum Auctions – each Auction is different

In case of an auction, it will be crucial to understand the auctioning process in its very detail. There is a variety of possible auction mechanisms.

The simultaneous multi-round auction is emerging as the most frequently used form for auctioning telecommunications licences. It uses the English bidding process (ascending, “open-cry”), where all bidders can bid on any licence in every round. The auction only stops when there is a round with no new higher bid. In this case, bidders primarily need to focus on the amount they are willing to pay for each licence.

For other auction types (e.g. sealed bid auctions, or sequential auction mechanisms), it is crucial to involve an auctioning/game-theory expert who is able to maximise the so called excess value (the difference between the bid-ceiling – the valuation for the licence – of the highest bidder and the second highest bid).

Beauty Contests – complex, underestimated Projects

To secure the desired licence in a beauty contest is a complex project in itself and requires careful preparation and experienced resources. It is far more than only meeting the regulator’s conditions. It is not only about producing a maximum bid that is absolutely the best possible, with nobody else able to be better. It also about satisfying all decision makers and influencers, it is about being totally compliant to the invitation to bid, it is about adequate lobbying, it is about choosing and contracting the right partners, it is about building a convincing, logical and easy-to-read storyline.

The challenge is to do all this in the very limited timeframe between the invitation to bid and the submission date. The logistics part of such an exercise is typically much more complex than originally expected: RFT analysis, bid strategy, document layout, page budgeting, version control, text translations, printing, proof-reading and binding are just a few aspects. Experienced bid managers with proven methods and tools are able to ensure a smooth and cost-efficient bid development.

What’s next?

Making the assumption that BWA spectrum is available at low cost, it is obvious that it is worth to secure a licence to keep all strategic options open.

Licence applications are complex projects that are often underestimated in terms of scope, cost and workload. If the bidder is committed to win, he needs the right approach and the right skills.

To create a winning bid, CSK provides guidance through the entire bid process and offers support in all relevant areas.

CSK brings experience from over 40 licence bids and auctions, including recent BWA bids.



CSK – the Bidding Experts

CSK has access to experienced resources in all relevant areas.

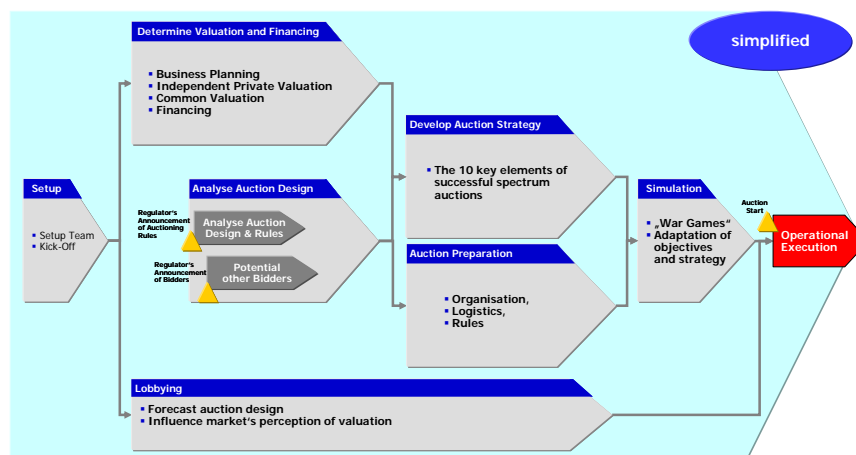
- **Bid Production (Bid Document Development, Beauty Contest)**
CSK has actively participated in almost 30 bids worldwide
- **Auctioning**
CSK has access to a number of world-class auction experts who have significant spectrum auction experience (involved in over 20 auctions as participant, and involved in over 15 auction designs)
- **Bid and Auction Strategy Development**
CSK's team has the *experience of over 20 bid strategy workshops*
- **Business Planning and Valuation**
CSK brings comprehensive experience in telecoms business planning and valuation
- **Network Planning**
CSK has access to top wireless data and cellular network engineers with experience in BWA planning. They have been *involved in 9 licence bids, and designed over 30 mobile networks*

Proven Methods and Tools

- **AuctionMaster™**

With AuctionMaster™, CSK has developed a comprehensive approach for preparing and executing auctions, and has defined 10 key elements of an auction strategy, going far beyond just determining the bid ceiling.

Fig 1 CSK has developed AuctionMaster™, a comprehensive approach for preparing and executing auctions



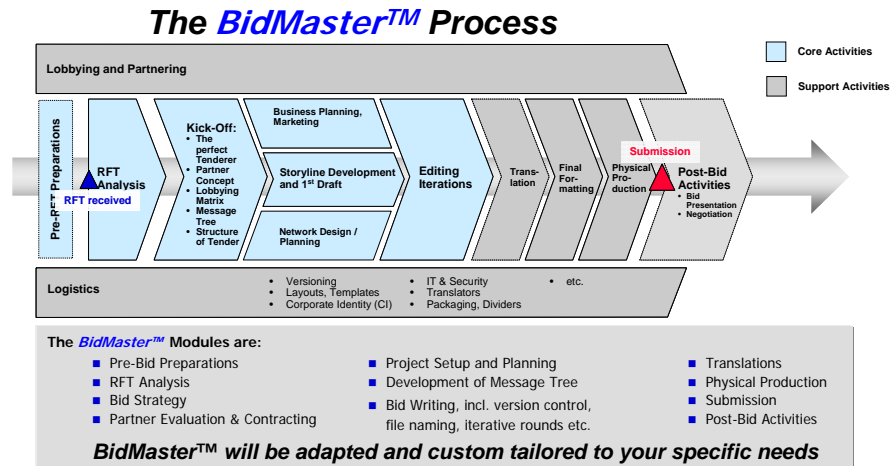
Source: CSK



▪ BidMaster™

For beauty contests, CSK has developed the BidMaster™ Approach to cover the entire bid process, from RFT analysis and Bid Strategy to document production, from bid office installation to bid presentation.

Fig. 2 BidMaster™ covers the entire bidding process



Source: CSK

Track Record

The CSK Team has an excellent track record, including a recent BWA bid

- Successful bid of a Swiss telecoms operator for the second national mobile licence (valued CHF 1 bn)
- Successful **telecom licence application** for a new telecoms operator in Portugal (valued USD 400 million)
- Successful application for the fourth national **mobile licence** in Austria (valued USD 200 million)
- Successful application for the third **GSM licence** in Spain (valued USD 600 million)
- **Mobile licence bid** for a Swiss Operator in Liechtenstein
- **Mobile licence bid** for a TEM in Switzerland
- **Fixed network licence** application in Poland
- **Mobile licence bid** in Slovakia
- **Successful UMTS licence** application in Italy
- **European BWA bid**

Fig. 3 We are happy to receive outstanding ratings from our customers

"Our bids have improved drastically."

"The BidMaster approach is the most efficient and best structured method to increase the probability to win bids irrespective of the complexity of the bid"

"The approach was professional, logical and effective, and the result was excellent. I can confirm our perfect satisfaction with the commitment and the output!"

"CSK's contribution to produce the two world-class bids was extraordinary, both in terms of the bid preparation procedures and work control and in terms of the quality of the final result. This work, prepared in a very short time frame, led to the award of two FWA licenses. CSK clearly have exceeded our expectations"

Source: CSK clients



We are happy to discuss our thoughts in more detail with you.

CSK Management is a premium consulting firm specialised on Bid Management.

CSK co-operates with:

- Merlin Consulting Ltd.
- Woodfield & Associates
- a number of world-class auction/game-theory experts

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Personal Notes
