

The Microtelecom Business Model

WHITE PAPER

Vishal Sehgal, February 2008

Microtelecom is a powerful approach to the rural telephony challenge and can be deployed within a wide range of operator business models.

In this paper, Vishal Sehgal summarises one such model, The Microtelecom Business Model, which calls for the integration of local entrepreneurs into the value chain.

This business model addresses the unique socio-economic dynamics of the Indian marketplace but is also applicable to many rural populations around the world.



THE MICROTELECOM BUSINESS MODEL

The evolving telecommunication revolution is essentially an urban phenomenon. For example in India – with over 8 million subs being added every month (Dec 2007), there is a wide disparity in the telecom penetration levels. While the urban centers and especially metros are approaching the over 50% penetration levels, the rural penetration levels are single digits with several thousand villages yet to see the connectivity. The rural areas with low paying capacity and low concentration of subscribers are being bypassed. The need of the hour is to think of a new model of business that allows these people – with low incomes – who have never made a phone call to be part of the telecom revolution.

ITU research has shown that impact of the telecom investment is highest for lowest income countries. Each new phone adds to the GDP growth of the country and the impact is higher, lower the GDP of the country. The fact is that for geographically isolated communities and people at the bottom of the pyramid connectivity equals productivity. And it is precisely this set of people that the current models of telecom business are not serving.

Telecom business has been a driver of growth in the urban areas in India. The self employment boom was fuelled by the STD PCO model. In the current scenario there is very large employment in the telecom sector. Direct Sales Agents, Franchisees, Billing services providers, bill collection points etc all provide large employment opportunities. But these have not percolated to the rural areas.

The microtelecom business model addresses these shortcomings and provides solutions to take the telecom revolution to these areas. The Microtelecom Business Model solves several problems:

- *It minimizes the risk of the large urban operators to the rural areas. This allows them to expand their foot print from largely urban areas to the rural and semi urban areas at a cost that makes financial sense.*
- *The resulting telecom spread gives voice to the people who have never made a phone call. .*
- *By promoting rural entrepreneurship, the model empowers the people at the bottom of the pyramid to attain higher incomes and thus self esteem.*
- *The increased connectivity provides an impetus to initiate new businesses and make existing businesses more efficient. This indirectly impacts the GDP of the rural areas in a positive manner.*

The Microtelecom Business Model is a new business model where the provision of the telecom services in rural / remote areas is divided among several stakeholders instead of it being the responsibility of the operator only. It takes into account the unique skills and strengths of the various stakeholders in the system and exploits the same to develop the model in such a way that:

- *it cuts down costs of services drastically, and*
- *at the same time provides a "full service" state of the art telecom service to these areas.*

The model essentially entails that the stakeholders that are best equipped to provide certain tasks are assigned those tasks and are provided appropriate incentives to ensure that these tasks are performed in the eco-system. The stakeholders in the model are:

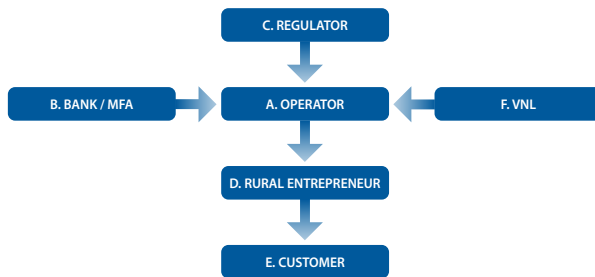


Illustration 1: The Eco-System

THE STAKEHOLDER ROLES

A. Operators / Mobile service providers

The operators run the business of developing and managing the large telecom networks. They are best suited to undertake the following roles:

- Provides and manages the macro-network backbone, roaming, interconnect and billing services.
- Builds the brand and standardizes the services offerings over an area based on the profile.
- Selects the rural entrepreneur after screening and shortlisting.
- Provides a start up suitcase containing the SIM cards and sales collateral that allows the rural entrepreneur to set up business.
- Assist/ train the entrepreneur to acquire and retain customers, collect the billed amounts and troubleshoot as and when needed
- Arranges for sufficient spectrum and interface with the regulator/WPC for related issues / clearances

B. Banks / Microfinance Agencies

Have funds and are in the business of disbursing these funds for enterprise activities. They are best suited to provide the following value adds:

- Vet the local business plan and the financial needs
- Validate the entrepreneur short listed by the operator
- Finance the local rural entrepreneur to implement the local business plan - at the appropriate terms and conditions and through the operator.

C. Regulator/ DoT/ USOF

Ensuring the level playing field and the regulation of the entities in the eco system by developing an appropriate mechanism is the key task of the regulator. They are best suited to provide the following value adds:

- Approve the Microtelecom Business Model thus paving the way for the USO funding of the model
- Protects the interests of all the players and ensuring quality service delivery to the customer by legislating uniform and fair play rules.

D. Rural Entrepreneur

The rural entrepreneur brings in the local knowledge of the area, the capability of service delivery in the local area and risk capital to run the business. They are best suited to undertake the following roles:

- *Applies for the scheme floated by the operator and becomes a local business partner of the operator.*
- *Brings in the risk capital and ensures that he has the "skin in the game".*
- *If needed, accesses capital from the funding sources to invest in the local business.*
- *Markets the service in the local area and acquires the customers for the same. Troubleshoots if necessary.*
- *Provides local inputs to the operator, bill collection services and passes on to the operator.*
- *Becomes an evangelist for the development of local businesses in the area.*

E. End Consumer

The customer is the key stakeholder – the service needs to reach him. He will use the service and pay for it.

F. VNL

The technology provided by VNL enables this whole local model. VNL will need to:

- *Carry out the business planning*
- *RF Planning and dimensioning*
- *Sales and installation of the GSM systems*
- *Provide GSM and other tech support and trouble shooting as needed.*

THE PROCESS

The process of the operationalisation of the Microtelecom Business Model is illustrated in the diagram below .

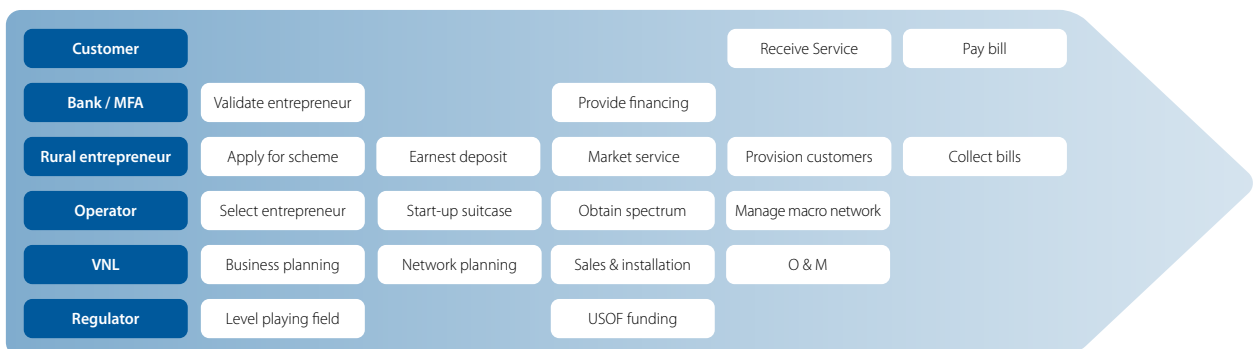


Illustration 2: The Process

THE FUNDS FLOW PROCESS

The process of the flow of funds is depicted as below:

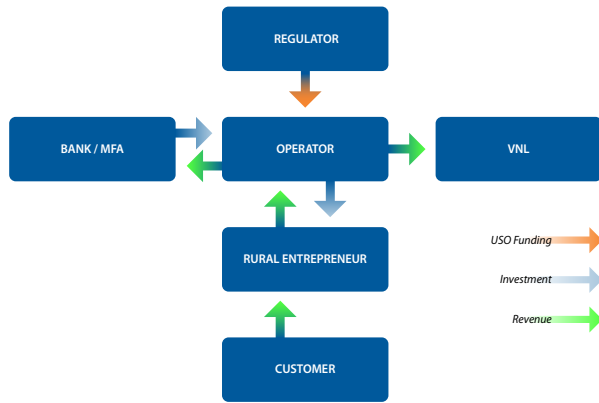


Illustration 3: The Money Flow

The process starts with operator deciding on the geographical areas within which he wants to extend coverage and the targets for the same. The operator then works with VNL to develop the appropriate plans for the areas.

The operator then approaches the USO Fund to finance the project on a per site basis for a fixed cost. This cost would be decided as per the existing policy and the necessary approvals as in force from time to time. The USO fund commits fund to the site and the same flow through he operator as per the implementation plan.

The operator then selects the rural business entrepreneur from the local are based on the pre set up parameters. The Bank / MFI works with the operator and performs the due diligence on the local are and the selected rural entrepreneur. The Bank/ MFI then decides on a quantum of funding based on the credit rating of the rural business entrepreneur, the plans and the potential of the area, the services being offered in the area, the risk profile etc.

The loan is disbursed as per the approved plans and

milestones decided. It is channeled through the operator. This helps in ensuring the business is scaled as per the pre-decided milestones. The funds are utilized as needed. The operator/ rural entrepreneur uses part of the funds to pay for the down payment of the GSM equipment supplied by VNL plus other business needs.

As the operations are set up the business starts to generate collections from the local area on a monthly basis – for both pre paid and post paid services. These funds flow back to the operator by the local entrepreneur. The operator then apportions these collections among the relevant stakeholders:

- *Repayes the Bank/ MFI – an equated monthly installment (EMI) – that is pre decided on a regular basis.*
- *Pays VNL for the O&M services and the technical support provided by VNL*
- *Keeps a part of the revenue for the newtrok related services provided*
- *Passes on the residual amount to the rural business entrepreneur based on the earlier agreement. This is the profit of the rural business entrepreneur.*

The division of the Dollar collected form the end customer is shown as below:

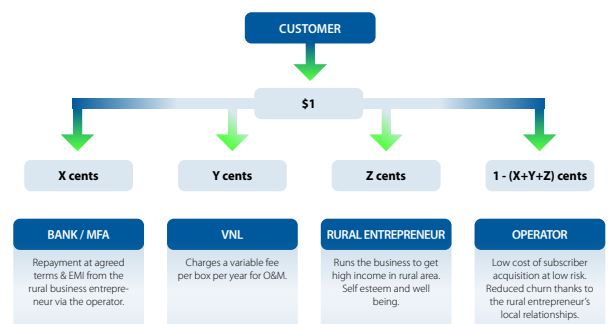


Illustration 4: The Revenue Sharing Model

ABOUT VNL

VNL makes an end-to-end GSM system that helps mobile operators reach rural markets profitably.

WorldGSM™ is a complete solar powered GSM system entirely optimized for rural markets.

For the first time, operators can build profitable businesses serving low-ARPU users in difficult to reach communities.

The microtelecom revolution is ready to begin and VNL is leading the charge.

CORPORATE HEADQUARTERS

VNL, Vihaan Networks Limited
21-B, Sector 18, Udyog Vihar
Gurgaon 122 015, Haryana, INDIA
Tel +91 124 309 2000

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