ie market research

Telecom | Customer Case Study

Customer

South Korea-based provider of Mobile Handset Distribution Services

Problem

In 2005, the client wanted to enter the U.S. After Sales (AS) Services market for mobile handsets but was not certain about the market opportunity and did not have a strategy framework for selecting appropriate partners.

IE Market Research Corporation's Strategy Consulting Services

Client Description

The client is one of South Korea's largest industrial conglomerates with activities in a diversified range of sectors including resource development, information and communications technology (ICT) distribution, and energy services.

In the ICT sector, the client distributes millions of mobile handset devices and also provides handset repair services for its customers' devices.

Client Problem

In 2005, the client was looking to enter the U.S. After Sales (AS) Services market for mobile handset devices. The client's engineering and business development teams visited a number of cities in the United States to assess various investment options, which included a partnership with existing handset repair service providers and a greenfield investment option.

However, the client remained uncertain about the market opportunity for repair services for mobile handset devices in the United States and did not have a strategy framework for selecting an appropriate market entry path into this market.

How IEMR Helped

Based on IEMR's deep understanding of the U.S. wireless space and our portfolio of published telecommunications research, we were able to provide the client with a 100-page strategy report that gave an assessment of the market opportunity for handset repair services in the United States.

This assessment not only provided forecasts for handset repair services by technology type, it also provided recommendations on the appropriate course of action the client should undertake based on our interviews with leading handset repair service providers in North America.

Client Solution

Based on IEMR's recommendations, the client decided to form a joint venture partnership with an existing service provider to service its future client base in North America.

Market Size and Structure of U.S. Mobile Phone After-Sale Service Market (in 2005)

• We estimate that the United States Mobile Phone After-Sale (AS) Service Market was 18.89 million units in 2004. We expect this market to grow to 32.85 million units in 2009 or an Average Annual Growth Rate of 14.7% for the 2004-2009 period.

• We estimate that about 14% of this market– or 2.62 million handsets in 2004– is what we call the "premium market" or the Warranty Repair Market (WRM). This market is characterized by three established channels used by vendors and carriers to repair handsets: Vendor-owned and operated repair centers; vendor-authorized repair centers; and captive partnerships between vendors and carriers and reverse logistics and repair firms that fulfill distribution and repair orders.

• The remaining 86% of the U.S. AS market– or 16.278 million handsets in 2004– is what we call the "volume market". This market consists of independent AS service providers that source their handsets from recycle and
reuse programs (in which vendors and carriers participate) and sell their handsets in the cellular after-market.

• In dollar terms, we estimate that the U.S. AS market was $355 million - $425 million in 2004. The volume market is $225 million while the premium market is $130 million - $200 million. In our view, these revenue estimates of market size are conservative and are based only on published pricing literature of a select few vendors and carriers.

Channels Deployed by AS Service providers

Our research indicated that there were five basic channels deployed in the U.S. AS market. These are:

• **Vendor-Owned Repair Center Model:** All of the Top-4 handset vendors in North America had their own repair centers responsible for fulfilling repair requirements.

• **Vendor-Authorized Service Center Model:** All of the Top-4 vendors have certification programs that allow users to bring in their handsets to Authorized Service Centers for repair throughout the U.S.

• **Reverse Logistics Fulfillment and Outsourced Repair Model:** Both vendors and carriers are increasingly moving toward this model in which user fulfillment takes place immediately (2-5 days). Under this model repair and/or logistics of damaged handsets are outsourced to third or fourth party logistics firms.

• **In-Store Repair Model:** This is a relatively new model in the US market and is being deployed by carriers such as Sprint PCS and Nextel who provide in-store repair services for customer walk-ins.

• **Volume Model:** In this model, independent AS service providers purchase used handsets from carriers, banks, retailers, and fundraisers. After repairing and refurbishing, these handsets are sold in the handset after-market (i.e., distributors, carriers, exports, and consumers).

Key Success Factors for After Sales Service Providers in the U.S. Market

• Because technologies and design architectures have matured, the core of any new AS Service provider's value proposition to handset device vendors and carriers looking to make a switch must be its ability to demonstrate best-of-breed repair and refurbishment services. New entrants into this space should, therefore, emphasize their experiences and deep in-house technical expertise in making first contact with potential vendors and carriers in the U.S.

• All of the market growth projections we have seen imply that growth opportunities for AS Service providers are strongest within the GSM migration path. This will require a different set of value propositions to vendors and carriers including an ability to partner with them to assist them in their distribution and logistics problems for high-growth handsets, and a willingness to accept lower margins in order to gain market share in the AS for high growth handsets.

• Because of recent consolidation in the US carrier space, carriers are continuously reviewing their existing channel relationships. New market entrants will have a steeper curve to climb in establishing relationships with potential clients (i.e., vendors and carriers). These relationships will take time to build but can also be acquired quickly through focused hiring of senior executives (3-4 people) from key vendors and carriers as part of any U.S. management team.

• This management team's anchor must be a senior executive that has the technical expertise, the sales experience, and a large contact base within the industry to quickly acquire clients for the new entrant within the first few months of operations. The executive team should also have a strong market intelligence function to seek out potential consolidations in the industry and have the ability to drive home the new entrant's value proposition effectively to vendors and carriers.

• Fragmentation and Outsourcing of non-core operations by vendors and carriers implies that any new entrant's clients are looking for a partner that can provide end-to-end AS services. These include everything from 24/7 Customer Relationship Management (CRM) to logistics of moving broken and repaired handsets from/to customers in a timely manner. If a new entrant enters the US market through a greenfield investment, during the start-up phase, management will have to give detailed attention to process management and systems integration issues– everything from how exactly does a Customer Service Representative (CSR) respond to a customer's questions to tracking handsets using different supply chain systems used by different vendors/carriers.

• In our view, a buyers market in the United States has resulted in vendors providing increasing incentives to carriers to 'close the deal'. Because of economies of scale involved in advertising and market development, carriers have increasingly opted for high volume deals even if alternative technologies are shown to be superior. In such an environment, it may become important for new AS service providers to be part of vendor pricing of the deal and provide up-front cash incentive to the vendor which they can then pass through to the carrier. This will help ensure a captive market at both the vendor and carrier levels.

• Our sense is that if new entrants in the AS service provider space want to quickly gain market share in the repair business, they will have to enter the order fulfillment business. This can be done either on its own or through a partnership with an existing channel player. We see some important advantages of partnering: 1) Existing distribution and logistics capabilities of partners can be complemented with repair and refurbishment services that new entrants would offer; 2) New entrants could very quickly establish a revenue stream from the outsourced repair services they offer to their clients, thereby enhancing the value proposition of their established channel partner.

• The complexity of the U.S. handset distribution system means that carriers and vendors are looking for partners with economies of scale needed to fulfill their distribution and repair needs. Any greenfield investment would have to be large in order to provide effective repair and reverse logistics services to compete with established players. In our view, selecting key channel partners– i.e., a smaller volume AS service provider together with an established reverse logistics firm would be a more appropriate and less risky market entry strategy for

IE Market Research Corporation has the global reach, technical expertise, and published research portfolio to undertake deep strategy work for our clients in all parts of the telecoms value chain.

To request additional information about IE Market Corporation's innovations and experience, please contact us at:

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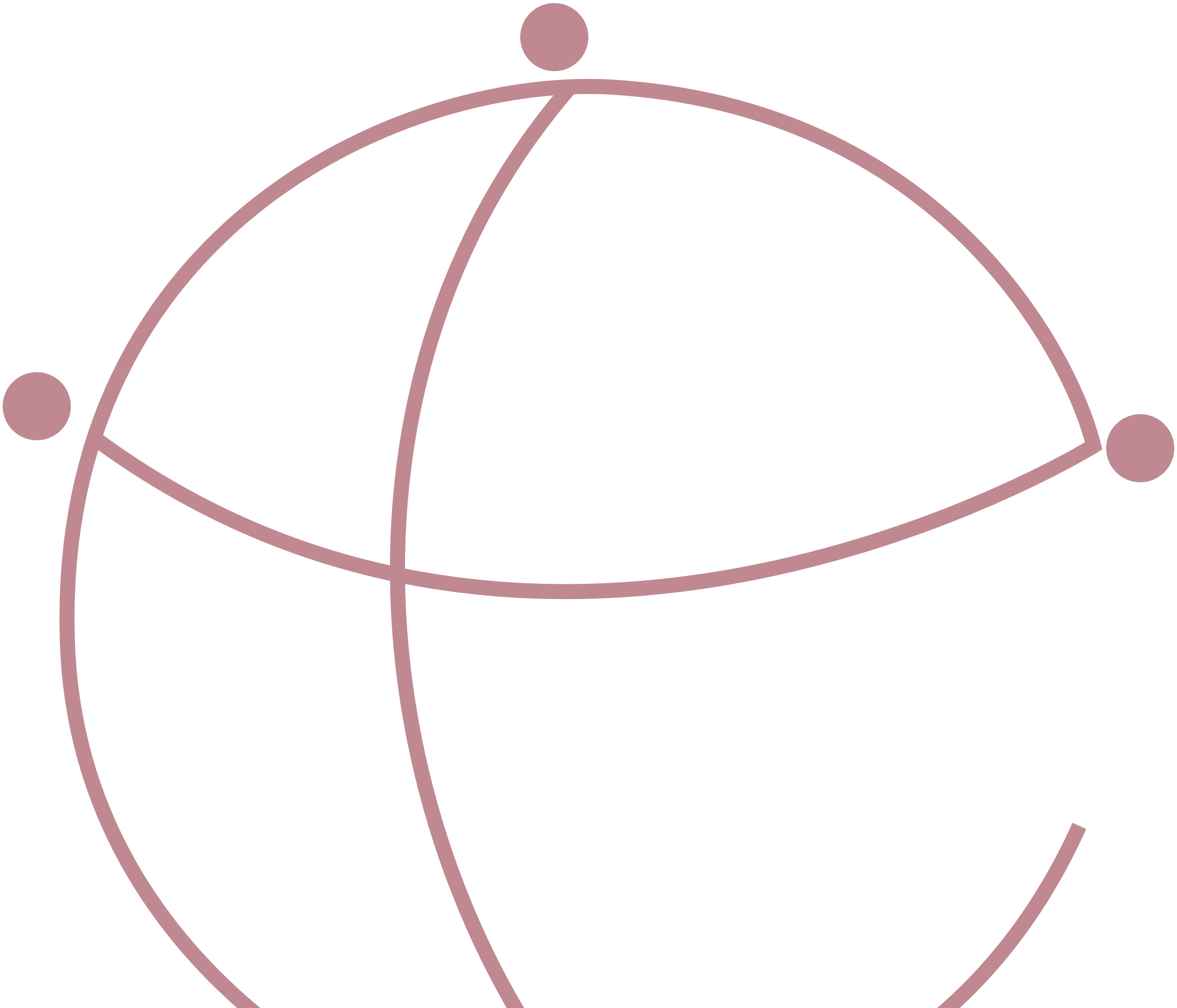

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