Endeavoring to build a telecommunications infrastructure in Mongolia that will bring sustainable development

Mongolia occupies an area almost four times the size of Japan, and roughly 80% of the area is grassland. Some 2.8 million people, including many nomads, live in this vast land. Except for the nation’s capital Ulaanbaatar, there are few large cities in Mongolia and the population is geographically dispersed, which hampered the development of a telecommunications network. The situation did not change even after the country moved to a market economy after the collapse of the Soviet Union in 1990. Recognizing the need to develop a telecommunications infrastructure for the economic development and the convenience of people’s lives, the Mongolian government decided to develop a mobile phone network—which does not require the installation of phone lines to connect households across the country—and announced tenders for a mobile phone service license in 1994. As a result of this, Mongolia’s first mobile phone operator MobiCom Corporation was born in 1995. Sumitomo Corporation owns a 34% stake in the company. We had already developed relationships of trust with the government and business community in Mongolia through our previous participation in their telecommunications and broadcasting infrastructure projects, including the supply of international satellite telecommunications system equipment in 1992 and international switching systems equipment in 1993, as part of Japanese official development assistance (ODA) projects. Leveraging such relationships with local stakeholders and business expertise developed through those past projects, Sumitomo Corporation and our Japanese and Mongolian partners, KDDI Corporation (then Kokusai Denshin Denwa Co., Ltd.) and Newcom LLC, bid for the license. Newcom LLC is Mongolia’s first private communications operator, established with the aim of improving the telecommunications environment in the country. Winning the bidding competition out of three groups, our team obtained a license as Mongolia’s first mobile phone service operator in September 1995. Three MobiCom shareholders and their roles

*Sumitomo Corporation*
- Corporate governance
- Corporate planning
- Supporting new businesses
- Human resources support

*KDDI Corporation*
- Marketing
- Technological support
- Offering know-how
- Human resources support

*Newcom LLC*
- Supporting the management team
- Employee training
- Local support
- Human resources support

MobiCom Corporation

Promoting widespread use of mobile phones with an aggressive growth strategy

In March 1996, after a lot of preparatory efforts including the construction of base stations and local marketing activities, MobiCom made its debut as the first mobile phone operator in Mongolia. “As a marketing effort, we worked with MobiCom staffs in handing out pocket tissue advertising packets brought from Japan, to promote name recognition of MobiCom among the local population. We also conducted surveys, which included questions such as ‘What calling rate would make you feel you want to use a mobile phone?’” Miki recalled.

Based on the market research results, MobiCom slashed its calling rate in the first year of operation from the initial 35 cents per minute to 21 cents. The company also lowered the deposit charged to new subscribers. The new prices accelerated expansion of MobiCom’s subscriber base, allowing the mobile phone operator to achieve stronger-than-expected results. For instance, the company’s fifth-year target of subscriber population was met during the second year. In 1998, MobiCom introduced prepaid calling plans. These pay-as-you-go plans that do not require a deposit enjoyed great popularity and spurred the widespread use of mobile phones in the country. When the new plans were rolled out, the company was overwhelmed with applications from thousands of prospective subscribers every day. Prepaid calling plans have become the flagship of MobiCom’s service portfolio: 90% of its customers use these plans.

A second mobile phone operator started operating in Mongolia in 1999 and currently four companies are competing in the market. Supported by strong consumer confidence in MobiCom, which contributed to ensuring that mobile phones take root in Mongolian society as an industry pioneer, MobiCom...
building a telecommunications infrastructure in mongolia to contribute to its socio-economic development

has been maintaining its leading position in the market. now, more than 90% of people in the country use mobile phones, and over 50% of them are MobiCom customers. according to Benino, people usually use the moniker "MobiCom" for their mobile phones in general. as mobile phones have risen in popularity, the MobiCom brand has become part of Mongolian society as mobile phones have been prevailed.

mobile phones in Mongolia

| Year | Number of subscribers (Thousands of people) | Penetration rate (%)
|------|-------------------------------------------|----------------
| 1996 | 1,195                                     | 0
| 1997 | 2,400                                     | 0.9
| 1998 | 4,677                                     | 46
| 1999 | 1,763                                     | 67
| 2000 | 2,510                                     | 80
| 2001 | 2,000                                     | 80
| 2002 | 1,195                                     | 60
| 2003 | 1,980                                     | 60
| 2004 | 1,800                                     | 40
| 2005 | 2,000                                     | 40
| 2006 | 2,400                                     | 40
| 2007 | 3,000                                     | 40
| 2008 | 3,000                                     | 40
| 2009 | 3,000                                     | 40
| 2010 | 3,000                                     | 40

Sources: World Bank (1996 to 2009)
ICTRA (2010)

nurturing local industries under the slogan of coexistence and mutual prosperity

For MobiCom, seeking harmonious relationships with local businesses and local society is one of the basic policies behind its business operations, although it cannot avoid facing free competition in whichever market it operates on a commercial basis. The mobile handset business is one of genuine examples how this policy is applied in an actual situation. MobiCom’s mobile phone network is based on GSM, the world’s most common network standard, which means that subscribers can access the network with any GSM-compatible mobile phone.

A retail shop selling mobile phones in Ulaanbaatar

decision-making on daily operations to staff on the ground, while decisions on major business issues, such as those involving large-scale capital expenditures, have been made by the board of directors. Under this longstanding policy, an increasing number of high-caliber local employees have developed the skills and capabilities necessary as future MobiCom leaders who can take over the company’s management responsibilities,” Benino said.

Offering a wide range of high value-added services as an integrated telecommunications company group

With mobile phones attaining a high penetration rate and the maturing of the Mongolian economy and industry, MobiCom has aggressively diversified its telecommunications services since the mid-2000s. Additional service line-up include: a mobile content distribution service which offers ring tones, wallpapers, games, and other contents for mobile phones; operation of web portal sites; and an internet access service that offers wired and wireless access to the internet using MobiCom’s optical fiber and wireless broadband networks.

In October 2010, MobiCom launched another new service, mobile commerce, enabling users to conduct e-commerce transactions from their mobile phones.

Stakeholder’s Voice

The strong ties among the three shareholders from Japan and Mongolia has made MobiCom’s success possible

Founded in 1993, Newcom LLC is the first private telecommunications operator in Mongolia. We offer telecommunications and other services to corporate clients, and support the management of MobiCom together with Sumitomo Corporation and KDDI Corporation. Recently, we have also started an airline business to contribute to the development of traffic infrastructure in Mongolia, which, just like telecommunications infrastructures, are necessary for the country’s development.

I believe that the strong partnership between the three shareholders of MobiCom is one of the main reasons why the company achieved a rapid growth during the 15 years since it was established in 1996. While exchanging opinions in an open and candid manner, the three companies have been able to reach decisions unanimously at the general shareholders’ meetings and the board meetings. What brings us so closely together is a strong, mutual passion to make a positive contribution to Mongolian society through the development of telecommunications infrastructures. This mutual goal must have nurtured mutual trust and built win-win relationships. I hope the three shareholders will continue to bring their own individual expertise and insights together for further growth of MobiCom Group and further development of Mongolian society.

Mr. Boldbaatar Tsengenpuntsag
Chairman
Newcom LLC

column

school lunch program for students from financially underprivileged families

Despite rapid economic growth in Mongolia, many households are still facing economic difficulties. In fact, there are many students who cannot bring a lunch to school for financial reasons.

To provide a better learning and living environment for students in the country, MobiCom started to provide nutritionally balanced boxed lunches for free at 13 public elementary schools in 2006. The program, modeled on Japan’s school lunch system, has produced positive results: improved health and heightened attendance rates for students. Inspired by these results, the Mongolian government has launched a school lunch program in all elementary schools in the country, and is planning to expand the program into junior high schools and eventually senior high schools in the future.