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MAKING MONEY FROM MOBILE PHONE SERVICE AT SEA

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It takes expertise and talent to build a new business; it takes capital and speed to maximise returns.

For as little as US\$0.50 per minute, cruise passengers nowadays have the option of accessing data services on their smartphones or mobile devices wherever their ship goes. It is also possible to make and receive mobile phone calls at sea just by paying roaming charges, as one would in a foreign country. It might still add up to a very large phone bill, but the option of using one's mobile phone at sea as one would on land is a particularly attractive one.

Until 2002, mobile phone service at sea was not even possible, never mind expensive.

"All mobile systems have fixed land signal towers, so a mobile system at sea provided a new set of challenges," says **Nils Erik Skarsgard**, former Chairman and co-founder of Maritime Communications Partner (MCP), which pioneered GSM phone services at sea. "At sea, onboard, the system is a moving mobile cell system integrating onboard services, satellite, earth stations, as well as local and international interconnect."

"Furthermore, you are subject to occasional interference or unwanted handover/roaming with passing ships and shore operators," Skarsgard explains, referring to how a phone call is transferred from one cell to another as the phone moves between cells, in order to avoid call termination. "Two or more moving or stationary operator services may be involved. On land you have fixed, regulated, multiple operators with seamless handover."

"At sea, you don't want handover nor interference—you want the ships to pass without handover and without disruptive services. Approaching land and docking you have both regulatory and revenue/billing challenges. These types of challenges, if you didn't have some of the world's best mobile people who understand, can innovate and solve the issues, you'd be in trouble. We had these people, who were key assets for success."

Entrepreneurial lessons

In 2002, Skarsgard and five others with extensive experience in the telecommunications industry co-founded MCP. The technical issues were overcome, and in 2004, one of the world's largest mobile service providers, Telenor Group, bought a 33.3 percent share in MCP through a private

placement. MCP gained credibility as a result, but hiring the right personnel to drive its expansion plan would prove to be a challenge.

“We attracted a most respected executive from the cruise/ferry industry who potentially could open the right doors and close good contracts,” Skarsgard told *Perspectives@SMU*. “He looked perfect in terms of knowledge, in terms of his ability to know the customers that we were looking for, and he was a very nice person. However, he was more comfortable in a large organisation with the structure and hierarchy, safe in comfort knowing there will be a salary paid next month. The culture shock was too big.”

Skarsgard, who had served as CEO of Alcatel Norway before becoming an entrepreneur, built his core management team with people he had worked with before because he knew their skills and “what they are made of mentally”. Failed hires are as much a lesson in judging talent as it is of judging organisational cultural fit. Experience in itself does not necessarily make the next hire any more successful.

“You can ask that question of, ‘Is this person right for a startup?’ again and again, and you ask a candidate for his aims and motives and so forth, but that’s only two, three, or four discussions; attitudes are hard to determine,” says Skarsgard.

“Another lesson is: If you have a problem, detect it as soon as possible, and act on it,” says Skarsgard. “It’s the same developing and launching a new product for the marketplace: try an idea on a customer early instead of developing a technology for a long time and then say, ‘We are perfect, now buy this’. If you didn’t have the customer dialogue early, you will not detect a problem early and you waste time and resources. Detect, correct the situation, and do it again. Your first solution won’t be perfect.”

Bought out/forced out

MCP eventually managed to find the right people to roll out globally and grow the company. With close to a hundred roaming agreements, the company was set to grow as the number of cruise customers rose beyond an annual 10 million passengers to a forecasted 13 million that has since been surpassed. Contracts with the Big Four cruise operators – Royal Caribbean, Carnival, Princess, and Norwegian Cruise Lines – and major ferry operators had MCP in position to capitalise on a growing market until tension between shareholders started to surface, resulting in Telenor buying out the co-founders following disagreements over management control.

“Large corporations, by instinct and by culture, need to have control,” says Skarsgard. “When you’re an entrepreneur and a startup you are not known in the market, you need to build credibility early on. You need to do that around both your team and organisation, through partners, and possibly, as we did, ‘buy’ our credibility by inviting our industrial partner Telenor to partake as a shareholder.”

He added, “The management team at MCP, along with venture capitalists, would have liked to move this along further. However, we don’t know how much of the ultimate potential and returns the founding team could have managed to realise. We have to be happy with what we achieved – even an early exit and profit taking is no shame.”

Skarsgard and his co-founders made back about 10 times what they invested, while later investors made what he described as “a reasonable, but not spectacular return”. However, could he have prevented MCP from being bought out too early, and persevered with their vision for the company?

“It’s not a bad outcome to have a buyer for a company,” says Skarsgard. “You should manage your future towards the opportunities. If you try to avoid everything, you will not succeed. It is more important to make decisions when you see the problems, and commit to the decisions you

make. If you try to safeguard on all sides, then you have difficulty focusing the right direction. You normally beat the big companies on speed, so move on speed.”

The importance of capital, time, and effort

With the company he and his co-founders started now awash with cash, Skarsgard looks back and wonders if things could have been different if the company had been better capitalised from the start.

“Often entrepreneurs underestimate what it takes to succeed, both in terms of money, people, and time,” says Skarsgard. “You need to show more muscle than you thought you had to before you start turning the cash flow.”

Rather than expanding and capitalising on speed, Skarsgard and MCP’s management had to devote substantial time to secure funding, which allowed competitors to enter the market. MCP climbed out of Death Valley, where many startups fold before a consistent revenue stream could be secured, but the first mover advantage had been lost.

“In terms of market credibility towards your customers, we had to answer questions such as: ‘How is your financial position?’ and ‘Will you be here tomorrow?’ It took us three years to roll out services in five locations – London, Norway, Miami, Athens, Singapore – but we could have rolled out the services there faster if we had more money and people earlier.”

One of several lessons for budding entrepreneurs: secure sufficient funding from the right investors and move as fast as you can in the market.

Nils Erik Skarsgard was the speaker at the recent Singapore Management University Institute of Innovation & Entrepreneurship talk, “Born global – an opportunity and a necessity in a captive, but untapped market”.