

Telephone Exchange



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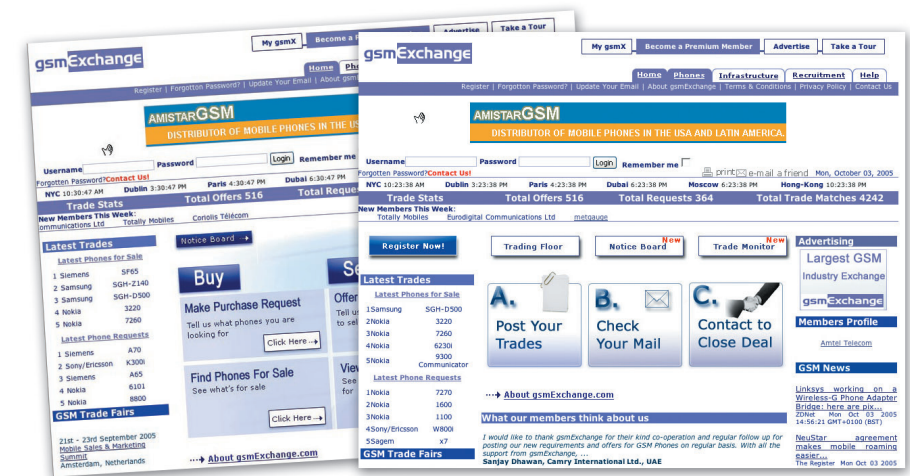
With the shelf-life of phones shortening fast, a trader's nightmare is to be left with obsolete stock with no buyer in sight

Ray Okoński meets a firm solving this distribution dilemma

No one ever said mobile phone distribution and retailing was easy. Far from it. The fickleness of the buying public is well known. There can be nothing more disheartening for a manufacturer or distributor than to discover there are pallets of phones that are going nowhere, depreciating faster than a snowball on a hotplate.

Stock like this will be a major liability if it doesn't find a buyer quickly. Phones may be a communications device. But to the end user they are a fashion or technology statement. In the early days of GSM, a phone could be

expected to provide a useful service to its owner for two years. Now, this life expectancy has at least halved. While the networks are doing what they can to keep users locked to a handset for at least a year, pre-pay users can



Accessed over the Internet, **gsmExchange** claims 7,000 registered users in more than 180 countries

switch on a whim. Just nine months between handset replacement is the average lifespan before the phone is passed on to a friend or family member.

If you are a retailer then you may have an opportunity to sell previously top contract phones at a knock-down, pre-pay price. There is the opportunity to make a killing if you can quickly offload a few pallets of the right kit at the right price. Six years ago, Essam Bishara had an idea to develop a site that would act as a centralised trading floor allowing handset buyers and sellers to find each other and arrange their own commercial deals.

Thus was born gsmExchange, which claims to offer the world's largest mobile trading floor. The organisation acts as a central clearing house to bring buyers and sellers together. It now has over 7,000 registered users in more than 180 countries. The Dublin-based enterprise has enjoyed steady growth and prides itself in providing a safe environment for its members to dispose of excess inventory and to match buyers with traders wherever they happen to be.

Deals

Retailers requiring quantities of specific models can note their requirements on the site, leaving manufacturers or distributors to thrash out an acceptable price for the deal. Members can have a bird's-eye view of the market, which keeps them informed on the latest models that are being readied to trade.

Retailers can identify trading opportunities at a time when they are profitable for all parties. Manufacturers can consolidate their position by disposing of handsets that would otherwise be difficult to place. GsmExchange has reported a 100 per cent increase in trades on the web site since January of this year alone and a 100 per cent increase in turnover since May.

Bishara comes from a background in distri-

bution and trading of computer products, such as disk-drives and memory. He saw the arrival of GSM in the mid-1990s and how the distribution model was broadly similar to that of the computer channel.

"I saw opportunities in buying overstocks from networks like Vodafone, France Telecom and Orange, then selling on to distributors who were looking for product," he says. "These handsets were destined for the Middle East and Far East in markets that had not developed as quickly as the UK or France.

"When the mobile boom kicked in, I saw how fast-moving technologies could often result in manufacturers or distributors being left with

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Fergus Matthews
sales manager, gsmExchange

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Telephone Exchange: the growth of online trading

product that was suitable for its purpose, but the original window of opportunity for sale by traditional means had passed.”

With the dotcom boom yet to peak, Bishara believed he had an opportunity to breathe life back into products that would still be valued by end users, providing he could bring the buyers and sellers together and create a trading environment that would benefit all those concerned.

He developed a web site and moved his customers on to it as a clearing house for product. The rest, as they say, is history.

It wasn't plain sailing, however. “I had planned to continue with the commission-based financial model to fund the enterprise, but it wasn't working as I'd expected,” he says.

“I had learned early on that anything that is bought at a good price will sell. Success is all in the buying, and my earlier successes had proved this, but gsmExchange wasn't my personal buying resource. It had to facilitate its members and I made a decision to stop trading and promote the service, ending what could have been a conflict of interest.”

Exclusive

GsmExchange is not a venue for market or eBay traders to pick up a few phones on the cheap for selling on to the public. From every five applications for membership received on the site, four are rejected as unsuitable to join the trading community. Each member of gsmExchange is vetted by staff to ensure that they meet minimum standards. These profiles are constantly updated to ensure these quality standards are maintained, giving the venture a measure of commercial strength.

“Our next task was to promote the service, we already had a core membership doing trades on the web site, but to be successful we had to get the message out to as many people as possible. Whether you are a buyer or seller, we can provide you with opportunities to do deals directly with people you might otherwise not have known about. Meeting vendors at trade fairs like CeBit was the starting point, and as the Internet search engines found our site it quickly became its own publicity tool and the momentum continued,” he says.

But you can't live on goodwill alone. The site was providing a free service to members, effectively being a venue to trade and nothing



GsmExchange claims to provide a safe environment for its members to dispose of excess inventory

opportunity to conclude a transaction before it becomes more widely known.”

These members can also phone the Dublin call centre at any time for market intelligence on product trends to assist their buying decision. If an offer is received for product and a member doesn't know the purchaser, a quick call can establish their bona fides and the deal can proceed. This reassurance is important because it ensures that no time is wasted concluding the deal.

“Trading feedback is important, and we are slowly modifying our web site functionality to allow a feedback function. It has only been

has become. If a buyer posts a request for a specific model type, and a vendor responds, that generates a match and when the deal is completed, we flag this as a successful trade. On average, a deal very seldom stays on the trading floor for more than five days.”

Origins

With Essam's business origins in Switzerland, what made him decide on the Republic of Ireland – a place previously described as being on the edge of Europe – as the place to launch gsmExchange? “Switzerland isn't an English-speaking nation, and English is the language

service's potential members appear to be based in Nigeria, with many of them wanting to trade GSM phones in quantity.

“A recent e-mail I received promised large quantities of Motorola, Nokia and Samsung handsets, all the latest model numbers, all factory fresh from Finland – presumably this included the handsets from Samsung and Motorola,” he says.

“It has got so bad that we had to get our credit card processor to identify inbound payments from their IP address, and not permit anyone to join the service automatically. We can process genuine potential members manually, but it remains an ongoing problem. Our card processor admits it has yet to see a legitimate transaction from that country.”

Identity

Everyone who wants to join is asked to submit basic documentation to prove their trading status. VAT and company registration documents are required, along with two references. If someone has just started up and doesn't have the required documentation, a refusal isn't set in stone. They can trade elsewhere to build up a track record of at least a year, when their application can be reviewed again. Matthews says this process ensures 98 per cent of the bad guys are kept out, and he is sure existing members appreciate the trouble that the exchange goes to.

Matthews adds that some new-starts believed the exchange could make life easy for them by letting them act as a broker. They would try to buy stock then sell it on at a profit.

“That strategy might work on an auction site, but not with us, as they're not bringing anything to the trading floor, just trying to squeeze a margin from something they have no interest in,” Essam explains. “To get round this problem, we created a rule that stated that all trades must be for tangible goods. If you were a distributor and had an allocation from a manufacturer, that's a different matter and would be allowed, but anyone trying to broker deals on the site will be removed.

“Another benefit of our service is that the historical data of trades, including the various handset models and the changing trade valuation, is extremely valuable to all our members, irrespective of whether they buy or sell. The cost curve from initial launch to, say six months or a year after launch can be a gentle slope for some manufacturers like Nokia and Samsung, while for others it can be more mountainous. Armed with this information, our members are able to use this data to negotiate in their best interests.”

Looking back at the past six years, is there a corresponding purchaser ready and waiting for every available handset? Essam laughs: “The market does mesh well, but there are some anomalies when you notice global trends. The US will always find a buyer for compatible phones by Motorola. If they become available in Australia, then it's almost a foregone conclusion where they will end up. Nigeria of course, with no indigenous handset production, will always be an importer, as will other countries in a similar situation.

“Our aim is to ensure that all the effort that goes into the development and manufacture of GSM handsets never goes to waste – gsmExchange will be there to make sure the product is placed in a market that requires it, at a price that is equitable for buyer and seller.” □

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more. A way had to be found to charge for the service.

“A commission model of payment was too intrusive, so we came up with a premium member scheme,” says Bishara. “Available to members on an annual subscription basis, its primary benefit was early access to the trading information. This allows them full access to the deals available plus the names and contact details of everyone on the trading floor, enabling a fast response as well as an

in place for a couple of weeks, but vendors will be able to comment on their current trades, and thus build the online reputation of their trading partner.”

How did Essam gauge the success of his venture? Would the value of the deals made through gsmExchange be a guide? “Not really,” he says. “You see we are not a party to the transaction itself, because we only facilitate the meeting of those who wish to trade. That said, we can see how busy the trading floor

of technology,” he says. “Also, Ireland has an excellent reputation as being a high-tech country and is home to many call and contact centres. Remember, too, all the large handset manufacturers have a presence here. It is an excellent base for our activities, and our staff here are all first-rate.”

Was it really as difficult recruiting members to the service as Essam suggests? According to sales manager Fergus Matthews, most of the rejections are due to the fact many of the