

Mobile Virtual Network Operators Building a sustainable model

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Why MVNO?

The mobile industry's era of fast annual subscriber growth is now over, with 100% plus penetration rates reflecting the highly saturated nature of many national markets.

With traditional voice services increasingly commoditised, mobile operators' strategies are increasing dependent on churning customers from rivals, introducing new (content) services or finding ways to profitably reach and retain niche market segments.

Enter the Mobile Virtual Network Operator (MVNO) – setting aside years of mobile network operators' antipathy to fostering potential competitors and in effect 'outsourcing' the customer acquisition process.

What's in a name?

There's a lot of confusion around what an MVNO is, or whether they are really Enhanced Service Providers (ESP) or Service Providers (SP). Debate quickly gets technical and tends to ignore the most important factor – how is this entity perceived by the customer?

A far better test is whether the "MVNO" can:









- Use it's own brand;
- Develop its own unique services;
- Set its own tariffs and promotions;
- Bill the customer;
- Market and sell these services directly, and;
- Control customer 'touchpoints'.

By owning the brand and billing relationship the 'MVNO' owns the customer's 'heart' and hopefully their wallet.

Market positioning

MVNOs are often known brands that believe they have a viable proposition, the brand strength and the channels to market to allow them to capitalise on their existing assets and enter – what is in many cases – an unrelated business. Hence the significant growth in retail-sector MVNOs in Europe that to date have captured some 10% to 20% of the total market.

This first wave of MVNOs was attractive to mobile operators as their mass market appeal, retail 'footprint' and associated economies of scale enabled them to offer attractive tariffs with acquisition costs

	Mobile Network Operator	MVNO Enhanced Service Provider	Independent Service Provider
Customers / Services	Sells direct to customers Wholesales airtime to partners including MVNO & Service Providers	Sells direct to customers, has the ability to develop own services	Sells direct to customers, but actual services are those of mobile operator
Branding	Own brand	Own brand	Own brand – but must acknowledge airtime provided by mobile operator
Commercial Model	Free to set "retail" tariffs Free to agree own commercial arrangements (subject to regulation)	Free to set "retail" tariffs. Purchases airtime wholesale from mobile operator & can cross-subsidise	Sells operators "retail" tariffs. Competes on operator rebates / connection bonuses. Need mass scale.
Infrastructure	Owns & operates radio / switching infrastructure & HLR Full ownership & control over SIM	May own & operate elements of network including IN Platform May have control over elements of SIM	Does not own infrastructure Has no control over SIM
B/OSS	Has complete network management, customer care & billing solutions	Provides customer care Has own billing system Advanced provisioning interface with mobile operator with full control	Provides customer care Has own billing system Service fulfilment interface with mobile operator providing limited control
Gross Margin	40%+	30%+	20%+
Examples	  	  	 

The mobile value chain

two-thirds that of the operators. It is perhaps no surprise that most were 50:50 joint ventures as mobile operators cautiously entered the wholesale market.

Customer growth was rapid with both the UK's TescoMobile and Germany's Tchibo passing the ½ million customer mark within 12 months of launch. VirginMobile, with over 5 million UK users, is also now thought of as a mobile operator in its own right proving that an 'MVNO' is whatever customers perceive it to be. And with the 2007 launch of ASDA Mobile and TescoMobile's continuing European expansion mobile operators still perceive there is growth left in this segment.

We are now seeing the second wave of MVNOs where niche segmentation, unique content and converged plays are increasingly important.

Witness the rise of ethnic mobile propositions with non-traditional brands, or the increasing number of cable TV / broadband companies adding an MVNO option as a way to round out their service offerings and expand into triple or quadruple plays.

Elements of success

Becoming an MVNO requires careful preparation and recognising at the outset that mobile operators will only entertain partnerships with MVNOs' that:

- Target niche segments that the mobile operator is unlikely to serve and have good scale or customer value potential;
- Offer a unique service proposition that minimises the likelihood of cannibalising that operator's existing customer base;
- Have the brand reputation, channels to market and execution capabilities in their current market;
- Have the financial resources to support the project through to break-even.

In practice this means only approaching the mobile operator when fully ready with a compelling, clearly differentiated and commercially attractive proposition and with at least £2 million in secured funding.

Too many MVNO proposals fall at the first hurdle through failure to develop sufficiently robust and coherent plans. The primary components necessary for success are: The MVNO strategy and associated business case, the system design, plus a realistic operational plan.

In return, the mobile operator should be committed strategically to its wholesale business. Plus offer prospective partners the network capabilities and service enablers to ensure the MVNO's proposition can be fully supported and its brand values not compromised.

The strategy & business case

Simplistically a viable strategy must fulfil the following requirements: Firstly, the strategy must clearly communicate the vision for the business, together with realistic market and financial objectives; secondly, it must address the retail offering, go-to-market tactics, logistics, resourcing requirements etc, and; thirdly, the strategy must choose the most appropriate operating model – whether facilities-based or in-house.

Closely associated with the strategy is the business case, which needs to quantify the:

- Gross and net subscriber growth, accounting for churn;
- Average revenues per users (ARPU or TARPUs);
- Network costs including regulated interconnect charges plus any volume-related discounts;
- Operating costs for people and systems;
- Acquisition costs including handset subsidies, advertising, commissions, activation and logistics costs;
- Capital expenditures on platforms and facilities.

Given that the 'wholesale' network costs, levied by the mobile operator partner, typically account for 60% to 70% of an MVNO's total operating costs, understanding the cost drivers and negotiating

reasonable wholesale rates upfront is vital to the business' sustainability.

System design & operational plan

With responsibility for service delivery, sales and marketing and distribution the MVNO must ensure that it has the systems and processes in place to support the business proposition and a clear operational plan through to launch.

The operating model determines the Business / Operational Support (billing, web portal, provisioning) and CRM systems requirements and the choice of vendors or facilities management providers.

Choosing the right blend of partners can be difficult. Outsource too much and the MVNO's customer proposition and brand values can be jeopardised. Bring everything in house and flexibility may be lost and ultimately prove uneconomic.

Virtual Partner Programme (VPP™)

Piran Partners has developed the Virtual Partner Programme to enable MVNOs to gain mobile operator agreements. The VPP is divided into a number of distinct modules from initial scoping through to programme delivery.

Each of these modules has a clear set of deliverables and the completion of a module marks an important milestone. In brief:

MVNO Scoping: Development of the MVNO operator engagement strategy and supporting materials including business plans and interconnect modelling.

Operator Engagement: Presentation of the business proposition and go-to-market and operational strategy.

Contract Negotiation: Assuming interest from one or more mobile operators, detailed contract negotiations are entered into. The objective is to gain a written offer as quickly as possible and stimulate, if possible, competition.

Programme Delivery: Implementation and project management of the MVNO launch activities and co-ordination with the mobile operator partner. Piran Partners can offer vendor / partner selection, contract negotiation and vendor management services.

Post launch the **Business & Operational Process Improvement** module ensures that the MVNO continues to deliver a unique, differentiated and customer-centric service through continual focus on business processes and operational improvements whilst maintaining profitability.

Summary

The rise of MVNOs across Europe and globally, and mobile operators' apparent willingness to embrace them has tempted many companies into believing that entering the mobile arena with a branded mobile offering is easy.

However companies still need to approach the opportunity with caution – as an MVNO is a highly complex business heavily reliant on the underlying economics and the partnership with the chosen mobile operator.



Piran Partners' VPP for MVNOs.

Crafting a differentiated customer proposition and convincing a mobile operator to grant an agreement may only be one element of the total strategy but it is often the hardest.

About Piran Partners

Piran Partners provides clear, practical and straightforward advice to clients in the Telecoms, Media and Technology sector. We approach challenges from a commercial perspective, aiming to add significant value to your business.

We work with MVNOs, mobile operators and organisations throughout the mobile value chain from retailers through to equipment suppliers.

Our Virtual Partner Programme has successfully delivered 10 MVNO agreements on behalf of European clients in the last 5 years.

Piran Partners' founders are industry veterans with over 20 years experience each of the TMT industry. We pride ourselves that all our partners and associates are carefully selected based on their proven practical experience in the industry.

For more information on our services, please visit www.piranpartners.com or call +44 (0) 8708 799 300

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