MVNO Migration
Real World Challenges

Piran Partners LLP

November 2007

Background

An MVNO's business is only as good as its underlying deal with its host MNO. As the mobile wholesale market is not regulated, rate and terms and conditions can vary widely between individual MVNO deals in each country. Migration issues have now become topical; fuelled by an eagerness of new entrant mobile operators to the MVNO arena to poach successful MVNO's wholesale traffic as the break points that have exclusively locked these MVNOs to their host MNOs approach. However an MVNO should ensure that any potential migration is carefully aligned with its overall business strategy.

The Key Question

The key question to be considered by an MVNO is; "Will the new commercial terms out weight the Migration Attrition loss that will be suffered and if so how should we proceed?" Many MVNOs simply use the exclusivity break as an opportunity to review the market and negotiate better terms with their existing host MNO, this is after all the simplest route; or is it? This White Paper presents the framework for an alternate approach which has advantages for MVNO and both new and old host MNO.

Realistically, the challenge of migration only faces those MVNOs that have enjoyed significant levels of success. Over time, these MVNOs will have established who their most profitable customers are, the profile of these customers and the most effective propositions to gain and retain them. Herein lies the key to a successful migration: focus on migrating only those customers of value to you.

Types of Migration

Each migration is unique. Typically the way that the migration is handled is defined in the wholesale agreement between MNO and MVNO, as with any contract these terms can be refined during the life of the contract with both parties agreement. However there are three generic types of migration:

The "Short Break"

The "Short Break" is the least favourable migration situation in which the MVNO will have a very short period (3 months for example) to find a new host MNO, to reach commercial terms, to complete an implementation and to successfully migrate a customer base. The Migration Attrition rate will surely be unfavourable to the MVNO and the host MNO can not guarantee receiving any of the spoils from the disorderly migration.

The "Orderly Break",

The "Orderly Break", is the middle ground of migrations allowing an orderly exit, with a relatively short period of overlapping outgoing-MNO and incoming-MNO service. Although the Migration Attrition rate may be acceptable, this approach doesn't maximise the profitability for both MVNO and outgoing-MNO.

The "Profitable Break"

The "Profitable Break", is the most favourable situation whereby the MVNO reaches an agreement with its current host MNO to enable it to offer service via their network during an exit period in parallel to the new service being offered by the new host MNO. In Piran Partners' experience the most favoured situations arise from commercially realistic forethought being applied by both MVNO and MNO during the initial contract negotiation process.

Which Break should we Take?

The differences between migrating pre-paid and post paid customers are stark; the identity and contact details of pre-paid subscribers are seldom known making a pro-active physical contact programme difficult, as the majority of MVNO customers are pre-paid this issue is particularly relevant.

In both the case of an Orderly and a Profitable Break, the MVNO has the time to analyse and create a new proposition that will appeal strongly to its most loyal and profitable customers; the MVNO must successfully migrate these customers. The key difference between the Orderly Break and the Profitable Break is how one manages the end of life of the proposition for those customers that have not migrated. In the Orderly Break, the ultimate outcome is the simple withdrawal of the customer's service. The Profitable Break, however sees the MVNO offering its most profitable customers an attractive migration to its new proposition; whilst allowing its old proposition to become significantly less competitive, with a gradual increase in margins over time. The MVNO will continue to offer migration incentives to those valuable customers still to migrate.

Often the MVNO's management requires a detailed business case to analyse and understand the various migration options and practical implications. It is beneficial to conduct this analysis independently of the ongoing business to ensure objectivity and confidentiality.

What's in it for the outgoing host MNO

So what's in this for the outgoing host MNO, after all they have lost the MVNOs wholesale traffic? Perhaps, however the incoming-MNO will have accepted a much lower margin, most likely to the extent that the outgoing-MNO made a conscious decision not to accept wholesale traffic at that level. Correctly structured, the Profitable Break allows the outgoing-MNO to increase its wholesale rates and generate significant end of life contribution from an otherwise bleak situation. Finally, of course this strategy keeps the door open for the outgoing-MNO to re-engage the MVNO should the incoming-MNO fail to deliver upon its no doubt ambitious promises.

Attrition Rate Minimisation

The absolute gross number of customers migrated is much less important than the gross profit that one migrates; or in other words, ensuring that one maximises the migration of ones most profitable customers. The first step to achieving this objective is to accurately understand exactly who ones most profitable customer are and to understand in detail what will motivate them to migrate. The corollary of this approach is that it may be less costly than expected to migrate your customer base, for example if the 80:20 rule applies, you only need to migrate 20% of your customer base to maintain 80% of revenues. The remaining "80%" then becomes an opportunity to reap 'end of lifecycle' profits if the original host MNO agrees.

The Hidden Costs of Migration

Many of the costs associated with migrating the subscriber base are visible, such as new hardware or SIM cards. However costs relating to migrating billing, CRM and electronic top-up systems are often complex and underestimated. These apparently hidden costs can have a dramatic effect on the viability of a MVNO migration project.

In Summary

This white paper has deliberately not addressed the question of how any potential migration is aligned with the MVNO's overall business strategy however this question should be carefully addressed prior to embarking on a migration as there are often alternate means of achieving the same business objectives.

Migrating a MVNO's customer base needs careful consideration and planning, however it may be much more profitable for both MVNO and outgoing MNO than apparent at first sight.

Piran Partners offers an independent and confidential MVNO Migration Analysis service to assist MVNOs either improve their existing wholesale agreement or to make an informed decision regarding the business case to migrate to a new host mobile operator. Piran Partners offers independent advice on the various commercial structures and practicalities of migrating a MVNO's subscriber base.

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**