Interconnect Modelling

Securing a commercially viable MVNO wholesale agreement

Piran Partners LLP

May 2007

Piran Partners LLP, 10 Fitzroy Square, London. W1T 5HP

MVNO Wholesale pricing

"End-to-end connectivity" describes the process of enabling retail customers to make calls to other customers or services on the same network or other providers' networks. The largest and most variable rate in any 'End-to-end connectivity" is typically the interconnect fee charged by the receiving network, which is subject to zealous regulatory scrutiny.

Wholesale pricing for voice and SMS are typically provided to MVNOs based on the partner operator costs plus the interconnect fee of the receiving network(s). Wholesale pricing varies widely depending on call types i.e. National, International, Partner to Partner, Mobile to Mobile (M2M), Fixed to Mobile (F2M), Mobile to Fixed (M2F), Peak, Off Peak, Transit legs etc. Pricing models also vary greatly from operator to operator.

Consequently it is a complex task to ascertain if the wholesale pricing offered by an operator is competitive; enables the MVNO to deliver a successful market proposition; and provides a healthy return on investment allowing for the risks of changes in the market or regulatory environment, call type or customer mix.

The implication of getting it wrong

In March 2005 the easyjet entrepreneur Stelios Haji-Ioannou launched a UK MVNO promising the best mix of quality, service and attractive prices in a partnership with the Danish telecom company TDC and easyGroup.

In the same month the UK mobile operator O_2 warned investors of a downturn in growth revenues as the UK regulator cut mobile termination rates by 30 per cent.

In subsequent months Tesco mobile launched its "Value" tariff and Carphone Warehouse reduced its "Fresh" tariffs, further undercutting easyMobile. All this and a legal battle over the colour orange with Orange!

In 20 months easyMobile's partner TDC withdrew deciding the proposition did not work in the UK. EasyMobile closed down its service in December making the announcement to its 80,000 registered customers by text message.

The analysis

The launch of easyMobile immediately plunged the UK into a mobile price war as easyMobile launched an aggressive SIM only package providing low call and text prices. This was a price war that was not sustainable in the long run as a new MVNO in the market.

It is easy to review a failed venture in hindsight, both parties had clear strengths TDC/Telmore grew a very successful MVNO in Denmark having aquired 0.5 million subscribers in just 3 years in a market of only 4.7 million, while the easyGroup's brand was well recognized throughout Europe.

EasyMobile went into the UK market with a strong proposition, were undercut and reacted with further cuts of its own.

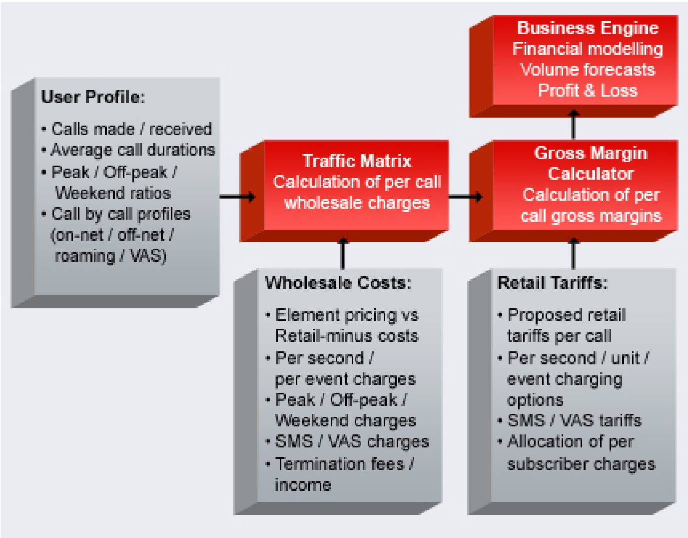
Whilst price plays can and do work in the market as an MVNO understanding your cost base is critical. Sparking a price war against a mobile operator or established MVNOs is ultimately a no-win game.

A comprehensive interconnect model would have allowed the management to understand the sustainability of their proposition in light of retail tariffs, competitive reactions and future regulatory changes.

Virtual Partner Programme (VPP™)

Interconnect Modelling

As part of Pirans VPP we offer the VPP interconnect model. This is a comprehensive spreadsheet tool able to model aggregate and individual call-by-call gross margins for all types of calls including on-net, off-net, fixed and mobile, premium rate and voice-mail, inbound, international and roaming calls plus texts and data services by time of day and minimum call durations. Upfront fees and any termination revenues are also modelled to provide an accurate picture of overall profitability.



Piran Partners' VPP Interconnect Model.

The VPP Interconnect Model allows clients to:

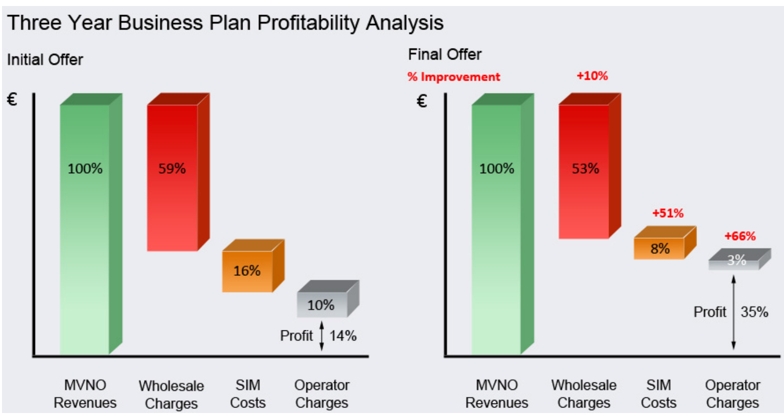
- Benchmark competitors and understand their profitability.
- Prove MVNO business plans, guide wholesale negotiations and understand the business impact of wholesale rates or new tariff plans.
- Drive gross margin improvements.

Whilst the structure and input to the interconnect model will vary by MVNO according to the regulatory requirements and market conditions the methodology remains the same.

Combining the VPP Interconnect Model and the overall business case gives a powerful and comprehensive picture of the economics and sustainability of any MVNO. To drive the interconnect model you need to:

- Identify all services which are to be provided and proposed tariffs.
- Identify direct costs with respect to each service.
- Determine various call scenarios and traffic for each of the call scenarios.
- Determine non-revenue traffic such as calls to call centres.
- Determine the capital cost of network elements such as billing, customer care, switch, IN platform, HLR etc.
- Determine return on investment.
- Identify the relationship between services and cost pools.
- Determine the routing factors which reflect the different use of the network (incoming, outgoing traffic both for off-net and on-net, non revenue and non voice services)
- Divide cost pools into "unit costs" based on routing and usage factors.
- Combine unit costs to produce unit costs for each service.

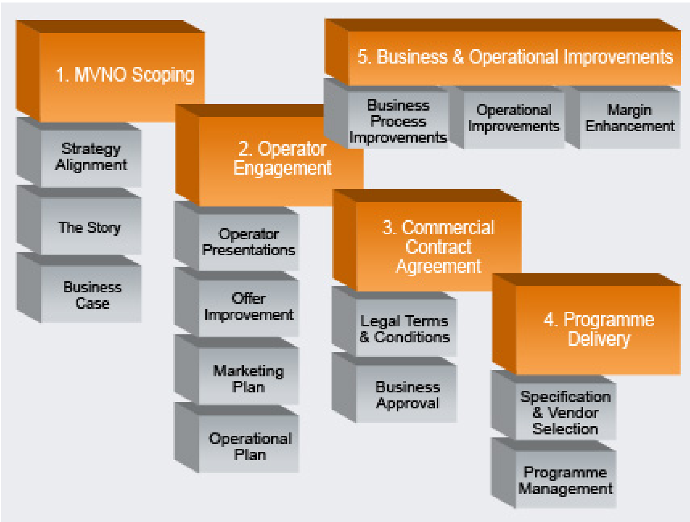
By using the VPP Interconnect Model we have helped clients triple their overall margins from initial to final offer. The diagram below demonstrates improved margins following Piran Partners interconnect modelling and negotiation to final offer on behalf of a typical MVNO client.



Virtual Partner Programme

Piran Partners has developed the Virtual Partner Programme (VPP) to enable MVNOs to gain mobile operator agreements as well as launch a successful and profitable MVNO.

The VPP is divided into a number of distinct modules from initial scoping through to programme delivery.



Piran Partners' VPP for MVNOs.

Each of these modules has a clear set of deliverables and the completion of a module marks an important milestone, they include:

MVNO Scoping: Development of the MVNO operator engagement strategy and supporting materials including business case 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.

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.

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**