

Telecom Practice

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Mobile Virtual Network Operator (MVNO) basics:

What is behind this mobile business trend



MVNOs bring the opportunity to telecom and non-telecom companies to participate in the mobile sector. New players in the MVNO arena can extract more value from their current customers by adding a new revenue stream and/or strengthening their current value proposition. This article intends to summarize the key concepts of the MVNO opportunity to new players of the mobile sector.

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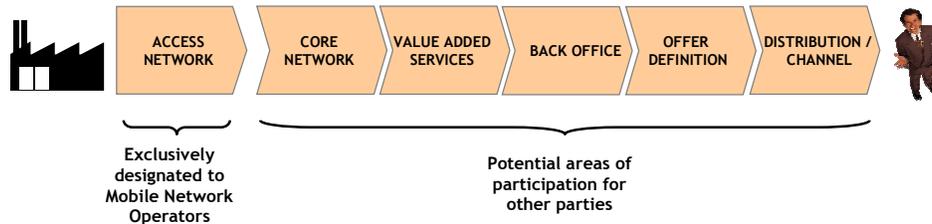
What is a Mobile Virtual Network Operator (MVNO)?

An MVNO is a business model that emerges when the traditional mobile value chain is ruptured. Therefore, new players can participate in the mobile value chain and extract value leveraging their valuable assets.

The traditional mobile value chain can be separated into two main areas: 1.- Radio access network that is exclusively exploited by mobile network operators, moreover it requires a license granted by the regulatory authority to use the spectrum, and 2.- the rest of the elements required to deliver the service to the customers. As it is shown in the exhibit 1, this second area of the value chain includes: the operation of the core network (e.g. switching, backbone, transportation, etc.), the operation of the value added services (e.g. SMS, voicemail, etc.), the operation of the back office process to support business process (e.g. subscriber registration, handset and SIM logistic, billing, balance check, top-up network, customer care, etc.), the definition of a mobile value offer and the final delivery of the products and services to the client through the distribution channel. It is in this second area of the value chain where other parties can participate by innovating, operating or selling mobile services.

Exhibit 1

WHERE CAN AN MVNO PARTICIPATE IN THE MOBILE VALUE CHAIN?



Source: Valoris Telecom practice

Both Mobile Network Operators (MNOs) and Mobile Virtual Network Operators (MVNOs) can take advantage of this business model. Mobile network operators can exploit its network capacity, IT infrastructure and service and product portfolio to acquire untargeted segments, add a new revenue stream from wholesale business and reduce spare capacity and cost-to-serve per user. On the other hand, an MVNO can exploit its brand awareness, distribution channels and customer base to provide customized value proposition and complementary products and services to its customers. An MVNO venture brings multiple benefits to a company such as: a new

revenue stream, a low-cost entry strategy to the mobile market, a new vehicle to strengthen the value proposition and an opportunity to increase customer acquisition and/or retention.

MVNO business models

The different business models in the MVNO market are based on how the value chain is restructured. Therefore, four main business models that emerge are: Branded Reseller, Light-MVNO, Full-MVNO and Network enablers (Exhibit 2).

Branded reseller is the lightest MVNO business model, where the venture just provides its brand and, sometime, its distribution channels. While the mobile network operator (MNO) provides the rest of the business, from access network to the definition of the mobile service offer. This is the model that requires the lowest investment for a new venture, therefore the fastest to implement. However, most of the business levers remain with the network provider (MNO or MVNE). Therefore, the new venture has a very limited control of the business levers and value proposition of the service.

Full-MVNO is the most complete model for a new venture, where the mobile network operator just provides the access network infrastructure and, sometimes, part of the core network, while the new venture provides the rest of the elements of the value chain. This MVNO business model is typically adopted by telecom players that could gain synergies from their current business operation.

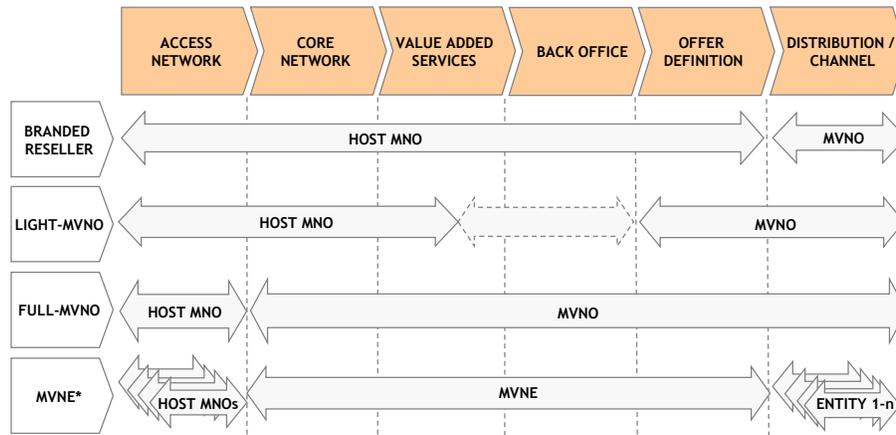
Light-MVNO is an intermediate model between a branded reseller and a full-MVNO. This model allows new ventures to take control of the marketing and sales areas and, in some cases, increase the level of control over the back-office processes and valued-added services definition and operations.

Network enablers, typically known as Mobile Virtual Network Enablers (MVNE), this is a third party provider focused on the provision of infrastructure that facilitate the launch of MVNO operations. An MVNE can be positioned between a host MNO and an MVNO venture to provide services ranging from value added services and back office processes to offer definition. MVNEs reduce the entry barriers of MVNO ventures, given that an MVNE aggregates the demand of small players to negotiate better terms and conditions with host MNO. They pass on some of these benefits to their MVNO partners. Moreover, the all-in-a-box approach to launch an MVNO through a MVNE has accelerated, even more, the explosion of the MVNO market. Some MVNE models are also called Mobile Virtual Network

Aggregator (MVNA), depending on the range of services offered or whether they aggregate different host MNOs. MVNE models range from telco-in-a-box offering, where the MVNE just offers core network, value added services and back office services, to full MVNE as shown in the exhibit 2.

Exhibit 2

DIFFERENT MVNO BUSINESS MODELS



(*) Mobile Virtual Network Enabler

Source: Valoris Telecom practice

Players in the MVNO arena

There are three groups of players that have taken advantages of the MVNO business model: Telecom companies, non-telecom companies and investors.

Mobile network operators can benefit from the MVNO model by serving untapped segments that their current value proposition is unable to attract. Additionally, telecom operators in general (fixed and/or mobile) can use the MVNO opportunity to enter to new geographies through a wholesale business based on a MVNE model. Finally, telecom operators with no mobile offering can strengthen its value proposition providing a 4-play offer.

Non-telecom companies such as retailers, media and content generators, financial institutions, travel and leisure, postal services, sport clubs, food and beverage, among other type of companies can take advantage of their current assets (brand, customer base, channels, content, etc.) to exploit a new business or to strengthen their current value proposition and customer loyalty.

Investors can take advantage of the MVNO model by investing in new opportunities to create value by participating in the telecom industry.

Key enablers for take-off and benefits of the MVNOs

The MVNO business model requires a series of conditions to be in place for take-off. For instance, the level of readiness of the MVNO market players (e.g. mobile network operators) is also crucial for this opportunity.

Therefore, if the mobile network operators see the MVNOs as a potential threat instead of a new way to extract more value from the market, their willingness to participate will be lower. The main enablers of the MVNO market include:

- Level of commitment of the regulator agency to increase competition through the implementation of the MVNO business model.
- Mobile network operator cooperation, having a strategy and see it as a win-win situation. Therefore, network, IT and processes readiness of the mobile network operators to provide wholesale services to third parties.

Moreover, there are specific conditions that could determine when it is the right time to impulse or pursue the MVNO business model in a certain mobile market. Most of them are related to the available room for growth in the sector in terms of subscribers and level of competition. Among the various indicators that mobile markets have shown before the launch of MVNOs, the main ones are:

- High level of mobile penetration (higher than 80-90%), therefore the available room to expand the market is reducing and operators will grow through the acquisition of customers from its competitors.
- Market growth has slowed down, most of the time it has happened because the level of competition has gone down.
- There are 3-4 mobile network operators that have already invested in and deployed an extensive infrastructure. Therefore, there is enough capacity that has led to spare capacity in some of the competitors.
- Low competition environment in the mobile market coupled with a low level of customer satisfaction that has led to high level of churn.
- High level of prices and low level of innovation due to significant market power of current players that has led to a low level of competition.

There are number of benefits behind the MVNO business model that have been obtained in the markets where the business model has been launched:

- Market growth stimulation by serving untapped segments.
- Open competition to avoid oligopolies, reducing entry barriers to new players. This situation has led to intensify competition resulting in: greater choice of service providers and services, price decreases that

has benefited customers and a wave of innovative value propositions and advanced services.

- Improvement in service quality.
- Stimulate private and foreign investment that acts as a new source of employment and economic growth.

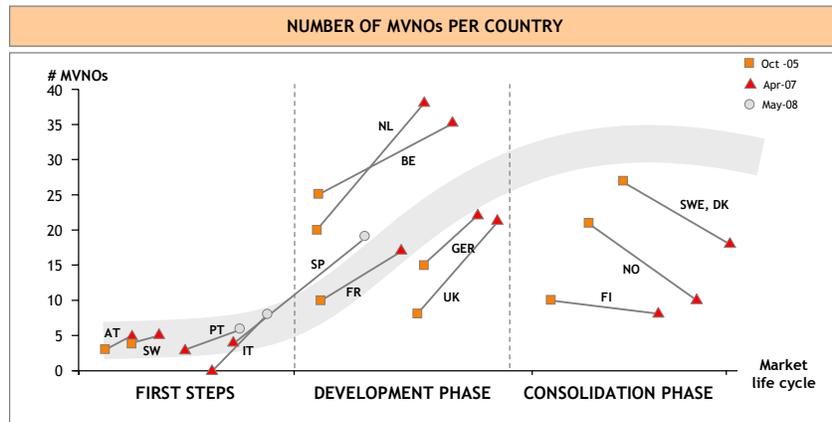
MVNO business evolution

MVNO has emerged in almost every continent. Europe and U.S. are the markets that have seen develop more MVNOs ventures than rest of the world. However, it is in Europe where most of world's MVNOs are operational and having success. Moreover, they have reached more than 20% of market share in certain European markets such as UK and Belgium. Additionally, the geographical spread of the MVNO business model has reached southern Europe, where the model has been rapidly expanding towards countries such as Spain, Italy, Portugal and, more recently, Turkey. However there are other areas of the world where the model has been gaining a relevant presence. For instance, Asia, especially in the Middle East, has adopted this model with countries such as Jordan and UAE that have already established the conditions to launch MVNOs. Finally, Latin America is also starting to adopt the model in countries like Chile, where the regulatory agency has created a legal framework and has granted around 15 licenses to operate MVNOs.

The MVNO business cycle has an evolution similar to any other industry: starting with a nascent stage where few players are present in the market, followed by explosion stage where many players emerge and steady growth is seen, and finally, a consolidation phase where the number of players is reduced. For instance, if we take the MVNO landscape in Europe, we can see that there are different levels of market maturity. For instance, Portugal is clearly in the nascent phase, this market is taking its first steps after many years of stagnation promoted by MNOs. Spain, on the other hand, is experiencing the explosion phase. The Spanish market has rapidly grown, from no MVNO activity in 1Q 2007 to around 30 players one and half years later. Finally, Sweden is in the consolidation phase, where some players have acquired their competitors during the last years (Exhibit 3).

Exhibit 3

MVNO MARKET DEVELOPMENT IN WESTERN EUROPE



Source: Valoris Telecom practice

Where are the opportunities

The main business rationale to launch an MVNO can be summarized in: 1.- Access to current customer base, 2.- Ability to deliver a differentiated value proposition and 3.- Potential synergies with existing business. Therefore, the introduction of the MVNO model brings opportunities to different types of players that can put together one or more of these elements. Companies that are able to use them will earn the right to play the MVNO game. Moreover, a good execution will guarantee a successful performance for the new venture.

Companies that have a captive customer base are able to develop an MVNO business. These companies can leverage not only its brand awareness among their customers, but also their distribution channels to sell mobile services to their current customers. These companies should consider the mobile service as a new product of their current product portfolio or, inclusively, in some cases, as a new private label. Additionally, companies that serve or sell products to niche markets are able to develop an MVNO business. These companies normally have an exclusive and non-replicable content and value-added services that can strengthen the mobile service value proposition. Finally, companies that can use an MVNO as an extension of existing value proposition (e.g. a telco from 3-play to 4-play). Additionally, companies can leverage their existing IT and core network infrastructure to exploit the MVNO opportunity.

The MVNO business model can bring different types of opportunity depending on the assets your company can exploit. Moreover, the type of opportunity that your company is able to exploit depends on the industry it belongs to.

- If you are a retailer you can offer mobile services through an MVNO as a new product category or as part of a loyalty program (e.g. Tesco Mobile in UK and Ireland and Carrefour Mobile throughout Europe).
- If you are an MNO you can expand in your home market with a second brand through an MVNO to serve new segments (e.g. UZO in Portugal by MTN) or expand to foreign markets through an MVNO and/or MVNE offering (e.g. KPN in Spain and France as a MVNE and with its own MVNO brands such as simyo and blau).
- If you are a Fixed/Broadband operator you can offer mobile services through an MVNO as a step to build 4-play and convergent solutions (e.g. TELE2 throughout Europe and Ono in Spain).
- If you are a long distance operator you can offer mobile services through an MVNO to immigrant segments that would benefit from low-rate international calls.
- If you are in media or other industries, such as sport clubs, with a strong brand and community you can offer mobile services through an MVNO as a new business line to increase the value of your clients leveraging your current positioning (e.g. M6 in France and Football Club Porto in Portugal).
- If you are a financial service institution you can offer mobile services through an MVNO as a new distribution and communication channel or as part of a retention program (e.g. Bankinter in Spain and Rabobank in Netherlands).
- If you are an investor, the MVNO market represents a new investment opportunity in a nascent market or a value generation source through M&A transactions in markets in the process of consolidation (e.g. ePlanet Ventures in the Middle East and Penta Investments in Central Europe).

However other companies in other industries have also developed MVNO business (e.g. food and beverage companies such as Red Bull in Austria, airlines such as Vueling in Spain, Catholic community such as a new venture in Poland, etc.).

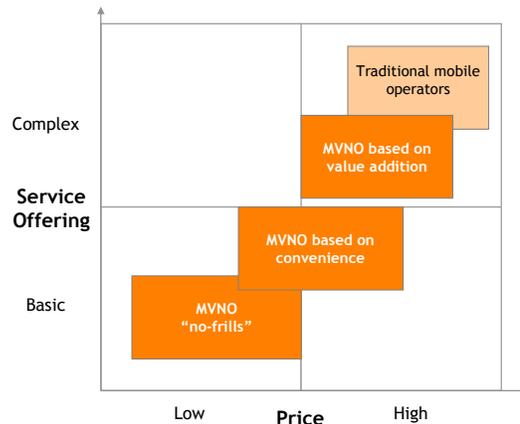
Examples of MVNO positioning in Europe

There is no success formula in the MVNO market. In fact, different MVNO initiatives have found success in their respective positioning over the last years in Europe. The different MVNO positioning has been basically

developed by variations in the level of complexity of the service offering and the level of price offered, as shown in the exhibit 4.

Exhibit 4

EXAMPLES OF MVNO POSITIONING IN EUROPE



Source: Valoris Telecom practice

Value added MVNOs have levered their existing brand, taking advantage of a strong brand value and awareness. Their value propositions are normally developed with differentiated and exclusive content and services. A success case is Virgin Mobile in UK that has reached an important market share in the UK mobile market. Additionally, Virgin has launched MVNOs in US, France, Canada, India, Australia and South Africa.

Convenience MVNOs target their existing and loyal customer base. This type of MVNOs exploits the access to distribution channels and the knowledge about its customers to design targeted offers. However, the price differential with traditional operators is not significant. Success cases are Tesco Mobile in UK and Ireland and Carrefour across several markets within Europe.

No-frills MVNOs have a value proposition based on low-cost and basic services (e.g. voice minutes and SMS bundle, online sales and absence of handset subsidies). Their offering is typically oriented to specific segments such as budgeters with low spending power. A success case is simyo, an own brand of KPN, with operations in Netherlands, Germany, Belgium and Spain.

About Valoris and Valoris Telecommunication Practice

Valoris is a management consulting firm founded in 1999. With offices in Barcelona and Madrid, it advises clients in Europe, Northern Africa, Middle East, Asia and Latin America. The company is specialized in the telecoms, media and Internet sectors, providing support in strategic, marketing & sales, and operational issues. Valoris has gained a strong expertise in the field of telecom operators and MVNOs, and has helped to launch several operations across Europe.

For more information about Valoris and its telecommunication practice please contact us at contact@valoris.com or please visit www.valoris.com

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