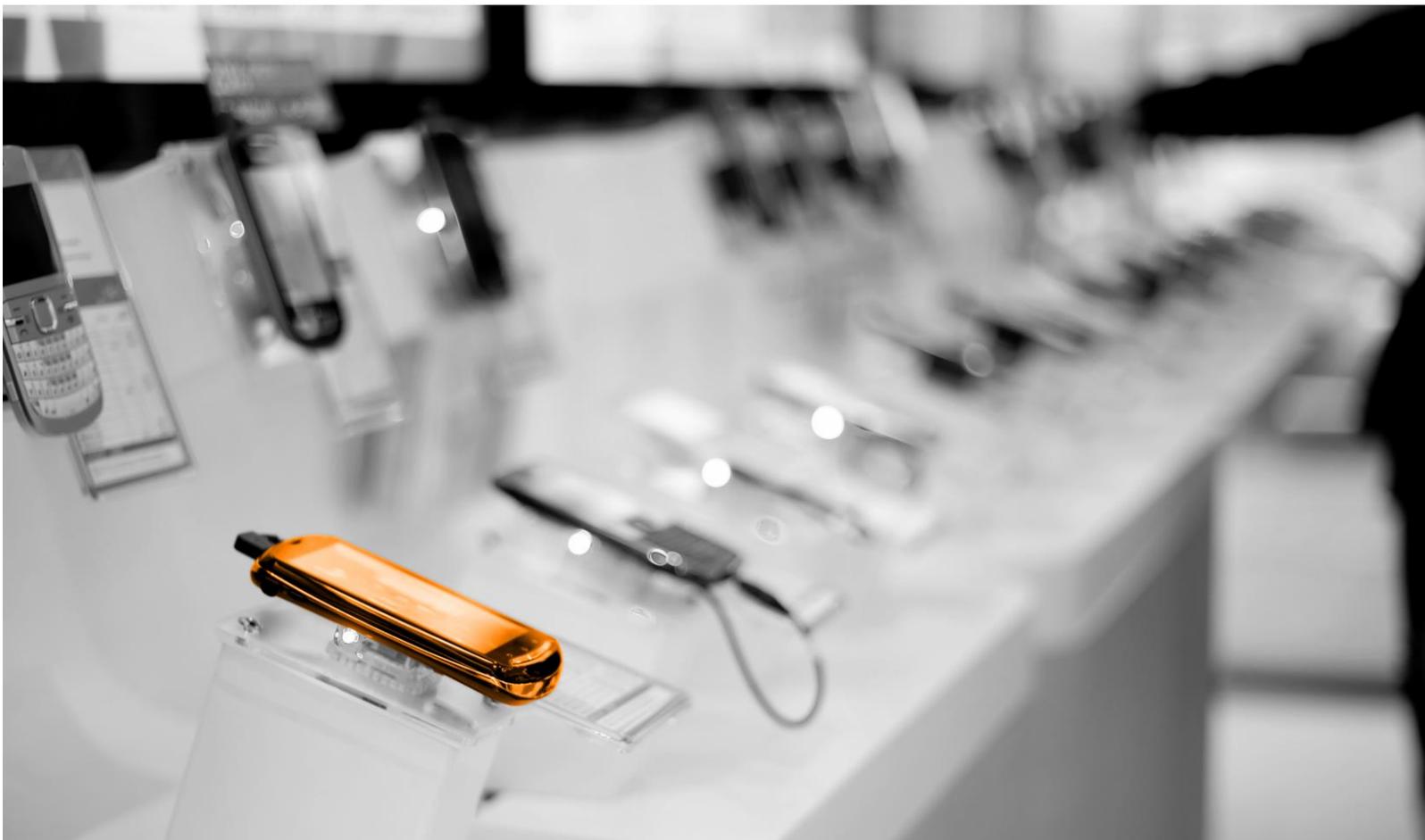




Evolution of the MVNO business model and mastering success

salience insight

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MNOs are looking to tap into new revenue streams through partnership with MVNO players that operate across lower cost base, open new market segments and increases network utilization

Mobile Network Operators (MNOs) are experiencing a period in their lifecycle when there are a large number of transformation trajectories out there to choose from. Some are geared at moving into the untapped new-markets while others are focused on further developing the existing markets through increased focused on verticals and monetizing the assets. The second category is the MNOs that are focused on transformation imperatives aimed at improving the cost structures and enabling savings. The opportunities in the form of digital, over the top (OTT) and machine to machine (M2M) creates added complexities. We also found that marketing executives are struggling in developing a more focused market entry strategy and segmentation.

These industry dynamics are fueling the drive towards a new wave of Mobile Virtual Network Operators (MVNO) as key driver for business model innovation that once took the industry by a boom back in 2004. A successful MVNO ticks those boxes with the ability of making the market more efficient on the cost side and supporting innovation with rapid services adoption on the revenue side. For an MNO a MVNO partnership could leverage over built and underutilized network assets while at the same time give a lower cost point on accessing new market segments.

Our research shows emergence of new and more innovative MVNO models across the globe, however MEA region is still behind these developments and even the traditional models could generate further market share.

New models are emerging fast in the MVNO space according to Salience research. Wi-Fi centric models, Fixed Mobile Convergence

(FMC) models and OTT enablers are topping that list. These models essentially bring a fresh approach when considering an MVNO monetization strategy. Google’s ‘Project Fi’ presents a good test case in this respect. Project Fi is a dual carrier MVNO approach that builds its value proposition around data rollovers, volume pricing and Wi-Fi to cellular handoffs. However this project runs far beyond these plain ideas. Google’s MVNO entry is poised to stir up the dynamics of wholesale versus retail sales and Wi-Fi versus mobile transmission costs. Disruptive business models like these are also set to impact the current MVNO market landscape which historically has been tilted towards discount oriented and special segments propositions which combined contribute to 80% of the MBNO market. For the Middle East and African (MEA) MVNO market which is less than 2% of the MEA mobile market¹, such models are a way forward to grow and innovate. Similar vertical integrations from other sectors such as retail, electronics and manufacturing are also building up the MVNO brand propositions.

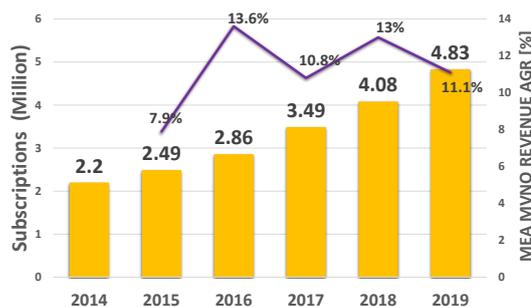


Figure 1: MVNO MEA Subscriptions & Revenue Growth

¹ Informa telecoms and media report

MEA Regulators have chance of shaping the telecom policies toward enabling more of MVNO presence in their host countries

Regulatory guidance, policy and terms play one of the most critical roles in any telecoms business success but it matters even more so for MVNOs. In the case of MVNOs, the role of the regulator varies across the spectrum from ‘no intervention role’ to ‘mandated wholesale access’. The regulators are keen to open up an established market at a lower cost of entry and increase competition while encouraging the introduction of value added services. The balancing act here is to establish a policy where the host MNO’s are encouraged instead of being threatened and the MVNO’s are enabled into wholesale contracts with MNO’s. Mobile number portability (MNP) and mandated access are among a few key tactics that go in favour of MVNOs from a regulatory standpoint.

Salience has developed a unique approach for development of successful MVNO business model that combines traditional discount approach with service innovation and focuses on four critical success factors

MVNO strategies are evolving with the changes in the industry, the models and the regulatory evolution. The major shift in strategy is seen in the movement from a discount based approach to an innovation based approach. The research at Salience shows that the balance between price and the differentiation brought in through innovation will determine the winning MVNO strategies of the future.

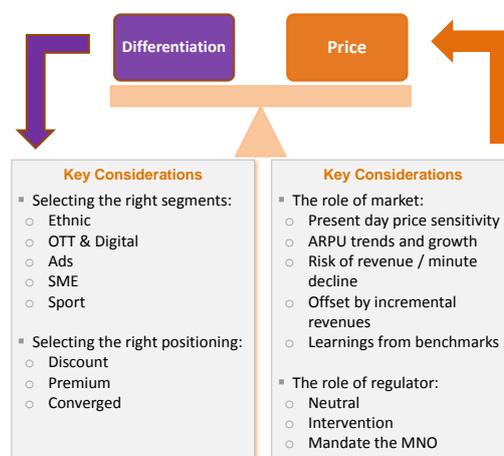


Figure 2: MVNO Strategy Considerations

Salience’s MVNO practice has established four critical success factors that are vital within an MVNO lifecycle. Informed decision making and planning across these factors has proven to help MVNOs along the challenging journey. These are: Partnering for strengths, Customer centric propositions, Efficient / lean technology solutions and Products innovation.

The business case of an MVNO is considered to be a manifestation of a retail business more than a service provider business. We start with taking a look at the MVNO business model options that generally appear in every market. These models vary from a reseller, sub-brand, light MVNO and full MVNO. The investments, cost profile and revenue profiles of each differ significantly and therefore impact the company business case. In the case of a full MVNO 50% - 60% of the costs are accounted into the interconnection and wholesale contracts, 15-20% on sales and marketing while 10-15% on customer care². Our research found that peak funding on a typical full MVNO project is observed to fall between US\$ 10M - US\$ 15M.

²Analysis Mason MVNO market analysis

Most common reason for MVNO failure is lack of planning and investment at the beginning

Failure of an MVNO business is not unfounded in the industry. Year 2004-2006 experienced the rise of MVNO markets in North America and Europe. This was followed with a dip in 2009 and a re-birth in 2012. Germany where MVNOs form 20% of the total mobile market is considered to be one of the success stories. But why do MVNOs fail and what brings them to a closure? Salience research reveals a set of common patterns that exist across most of these cases. The common aspect being lack of planning and investment in the early stages of start-up.

Country	Business model	Years of operation	Reasons for failure
Spain	Immigrant	March 2009-December 2010 (22 months)	Brand rationalization
India	Youth	March 2008-April 2011 (37 months)	Could not sustain innovation
Ireland	Charity	October 2011-August 2011 (11 months)	Lack of funding
Qatar	1 st MVNO in market, prepaid	May 2010-August 2011 (11 months)	Regulatory
UK	Ethnic	November 2010-September 2011 (11 months)	Lack of demand
Poland	Youth	May 2009-October 2011 (30 months)	Lack of demand
USA	Quad-play	November 2010-March 2012 (17 months)	Not as profitable as core business

Figure 3: Reasons for MVNO failure

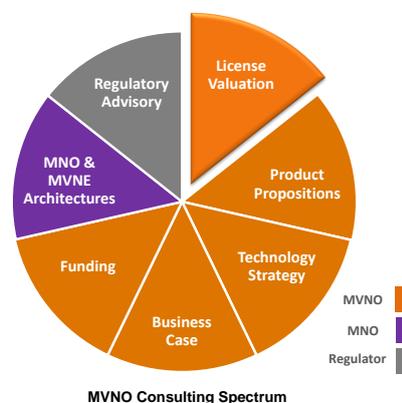
The reasons for failure revolve around brand, product, market and operations. By adequate investing in initial stages these mistakes can be avoided through analysis and business planning. Disney Mobile in 2007 brought its operations to a closure since the *demographic content* appeal was found to be insufficient to hold the subscriber base loyal to the brand.

Salience four phased approach leads MVNO investors from idea to successful launch

Mastering success is critical to the profitable evolution of an MVNO operation. Salience Consulting helps its clients in a wide variety of ways to achieve this success. Having developed methodologies and frameworks to guide the operation from investment stage to start up stage we are positioned to advice operators, regulators and investors in this area. At Salience we practice a four-phased approach to cover the entire spectrum of an MVNO launch.



MVNO Consulting Phases



The methodology and practice in the exhibit guides the lifecycle of the MVNO investment. Salience's specialist resources on strategy, technology, commercial and finance are utilized across this advisory spectrum to achieve the desired outcomes in the MVNO business plan.

Concluding remarks

The mobile industry is poised to be heading into a direction where business model transformation could be led by innovative MVNO propositions. The MEA market certainly is one of those that are well positioned to benefit from this opportunity. Learning from MVNO failures, creating OTT products and getting the initial investment strategy right is the way forward. Regulatory policy making to be an enabler of an MNO – MVNO relationship creates the much needed foundation. Salience Consulting's MVNO frameworks position the stakeholders to cover the most critical aspects of this transformation journey.

Case study

Selecting the right partner to fit the developed model

Situation & Challenges

A regional emerging market recently regulated the MVNO policy and invited investors and operators to participate in the bidding process. The client was looking to enter this MVNO market and wanted to have the right strategy and partnerships in place for this opportunity.

Emerging markets come with the challenge of lower ARPU's and high penetration rates on one hand but with the opportunity to innovate and grow on the other hand.

Salience solution

Salience Consulting advised the client through the initial journey of feasibility, market entry strategy and striking the right partnerships. Salience's team helped the client to undertake the regulatory steps by benchmarking the policy terms and conditions.

Our experts then established initial business case to work out the best available MVNO model from the license options. Eventually Salience played the advisory role to form a working consortium that will synergize and add value to ensure a profitable MVNO operation.

Authors



Hasan Iftikhar, Partner

Hasan is an experienced telecoms, media and technology management consultant with a strong focus on driving business transformation, strategic change and operational efficiency. He has advised service providers, MVNOs, utilities and regulators to identify growth and optimization opportunities and implement change programs that have quantifiable impacts on their business.

Hasan has industry expertise on OSS/BSS, SaaS, NFV, cloud solutions, spectrum valuation, IoT and how these investments are monetized to a business advantage.



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Anna is a Business Analyst with experience in market research and analysis and design and implementation of sales support. Prior to Salience she worked with Abinegar Corp. as IT Project Manager Assistant and with Dahliamatic as Business Analyst.

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Salience Consulting provides advisory services for telecom operators, governments and private investors in the Middle East. At our core we are a group of technical and management consultants who have been delivering telecoms projects in the Middle East for the past 10 years. Our regional knowledge and client expertise positions us at the forefront of telecommunications in the Middle East.

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