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INNOVATIVE MVNO STRATEGIES THAT BOOST YOUR PROBABILITY OF SUCCESS

WHITEPAPER

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Introduction

In the last ten years, mobile markets have experienced an increased focus on service innovation, a move away from CAPEX-heavy network-based competition, and favourable regulatory frameworks, giving rise to Mobile Virtual Network Operators (MVNOs) across the globe. These service-oriented operators "ride" on the spectrum and other network components of a wireless carrier (i.e. the Mobile Network Operator 'MNO' or mobile host) offering differentiated services to specific target segments.

Global MVNO revenue was consistently growing at a CAGR of 8% between 2017-2019. Similar growth is expected to continue, reaching USD 90 billion by 2024 (Figure 1).

Figure 1: MVNO market size, 2017-2024.
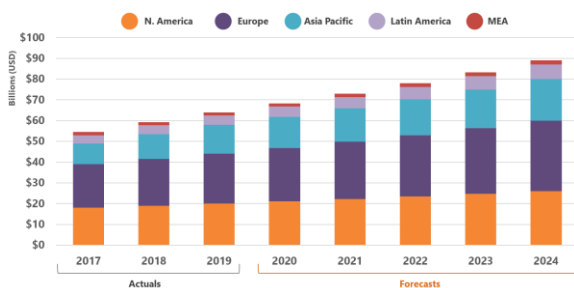
Markets and Markets research, 2019.

However, research indicates that only 20% of MVNOs survive more than a few years.[1] Simply having lower pricing is no longer the key to success.

There is a need for innovative solutions, brand partnerships and targeted branding to stand-out from competitors. After analysing the MVNO industry, we have distinguished six common innovative strategies that have assisted new MVNOs in differentiating themselves from competitors (Figure 2).

In this whitepaper we will discuss these strategies with reference to a set of case studies and analyse their successes and shortcomings. These strategies were originally developed by Salience during a feasibility study for a new MVNO entrant in the Middle East. We analysed successful MVNO examples that helped us tailor our market proposition specifically for the target market segment and the country-specific environment. The analysis considered the cultural sensitivities, behaviour, and other aspects that affect the success of the market proposition. As a result, Salience developed a feasibility study and presented the business case to the local regulator, resulting in a new MVNO license being successfully awarded.
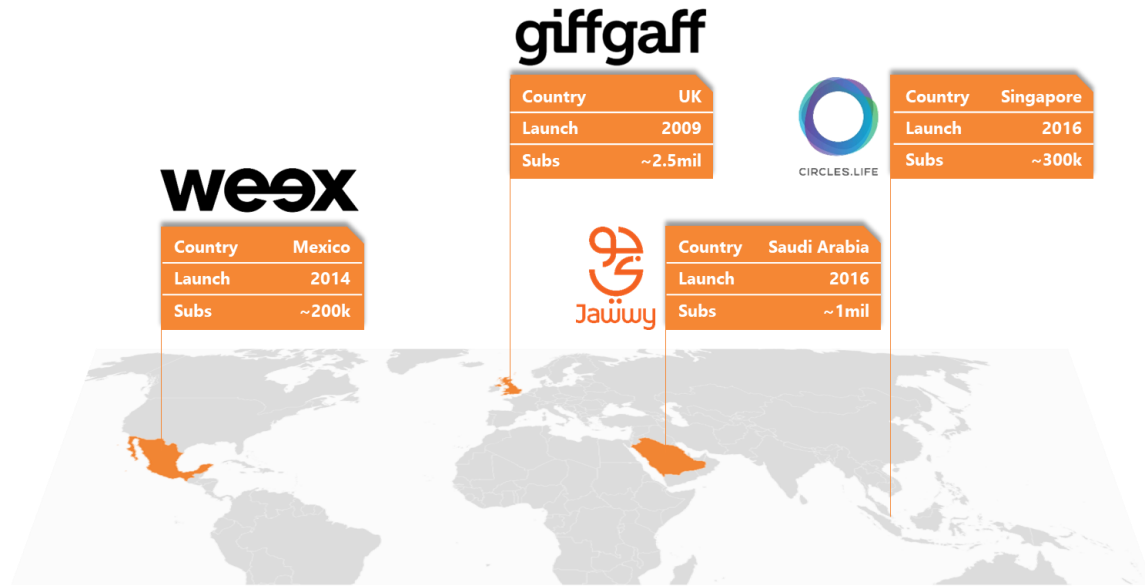

Figure 2: Summary of the six innovative MVNO strategies.

Source: Salience market research, 2019

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1 Busschaert, K. (2014) 'Three Characteristics of Successful MVNO's in Europe', 13 February
Available at: http://bics.com/three-characteristics-of-successful-mvnos-in-europe/ (Accessed: 27 April 2020)

Figure 3: Overview of global MVNO examples.

giffgaff

Country	UK
Launch	2009
Subs	~2.5mil

Country	Singapore
Launch	2016
Subs	~300k

weex

Country	Mexico
Launch	2014
Subs	~200k

Country	Saudi Arabia
Launch	2016
Subs	~1mil

Source: Salience market research, 2019.

Overview of the Strategies

To provide some reference cases, the propositions of four global MVNOs will be discussed in this report (Figure 3). The selected examples have been chosen due to the similarity of their market propositions. The strategies that we have distinguished are mapped to selected MVNO examples in Figure 4. Common characteristics refer to traditional differentiators, such as low pricing and prepaid-only plans.

In this whitepaper, it can be seen that none of the selected MVNOs use all of the indicated strategies. They have proven that if a new entrant differentiates itself from other operators and has a market proposition tailored to work in a specific environment, it is not necessary to implement all these strategies in order to succeed. In a nutshell, these MVNOs aim to differentiate themselves by offering improved and flexible overall user experience rather than just low-priced tariff options. As a result, more customers are willing to leave their mobile operators and join the new entrants, especially if they address the issues that customers are facing.

Figure 4: Example MVNOs and their strategies

	weex	giffgaff	CIRCLES.LIFE	Jawwy
Common characteristics among MVNOs	+	+	+	+
Flexibility and complete control	+	−	+	+
Application-focused user experience	+	+	+	+
Community engagement in Customer Care	−	+	−	+
Referral scheme	+	+	+	+
Customized distribution	+	+	−	+
Special partnerships	−	−	+	−

Source: Salience market research, 2019

The strategies, which are going to be described in more detail in the following sections of the report, have proved successful in accelerating customer acquisition and lowering churn. Currently, they are mostly used by MVNOs targeting youth, which have certain common preferences such as flexibility, full control of plans, and easy access. Additionally, operational benefits can also be experienced as some of the strategies reduce the need for resources, thereby optimizing operational costs. In effect, these quicken the break-even point which is an important milestone for every new MVNO.

Strategy 1: Flexibility and Complete Control

Overview

Traditional mobile operators usually offer either post-paid or prepaid subscriptions. The majority of MVNOs have used the prepaid model, or more recently the hybrid 30-day contract, which allows them to reduce costs and target specific segments. However, even though prepaid subscriptions offer some amount of flexibility, they do not meet the new expectations of today's users. A common strategy among new successful MVNOs is to promote flexibility and the idea that the customer is in control and can change their plan, top-up, or even cancel the subscription whenever they want.

In addition to such flexibility, more MVNOs are allowing their customers to build their own unique plans through the "Build Your Own" (BYO) model, instead of offering a limited list of predefined plans. Effectively, MVNOs are offering an infinite amount of combinations of minutes, data, and texts that suit the needs of each user.

It is worth noting that with the increasing popularity of other portable devices such as tablets and smartwatches, the ability to use one plan with multiple SIMs is becoming an attractive feature. It is not yet common across many MVNOs, but it is expected to be so in the near future.

giffgaff

"You're in control. Spend less, change your plan each month. You're free to leave when you need to..."

Benefits & Shortcomings

The idea of flexibility and control is well received by the youth, who tend to avoid commitments and want to be in charge of the services that they use and pay for. Many MVNOs which have targeted the youth with such propositions have surpassed subscription targets.

Such propositions come at a cost. The investment required to develop the capability for BYO plans could be too high for new entrants. Technical requirements such as Online Charging System (OCS) and IN platform increase CAPEX significantly. Furthermore, in many countries it is unlikely that the MVNO host supporting the service would offer the level of sophistication required. It would require both additional investment and time for the development of such capabilities.

A further shortcoming of BYO plans is the loss of breakage revenue. Breakage revenue is selling a customer a plan that includes a specific amount of usage allowance and the customer not using the total amount, therefore forfeiting what is not used. For example, a customer purchases a plan with bundles of 1,000 mins, 1,000 SMS, and 2GB of data but only uses 50% of these amounts, meaning that 500 mins, 500 SMS and 1GB of data is forfeited and becomes breakage revenue for the operator.

Figure 5: Weex Mexico, flexibility and complete control.
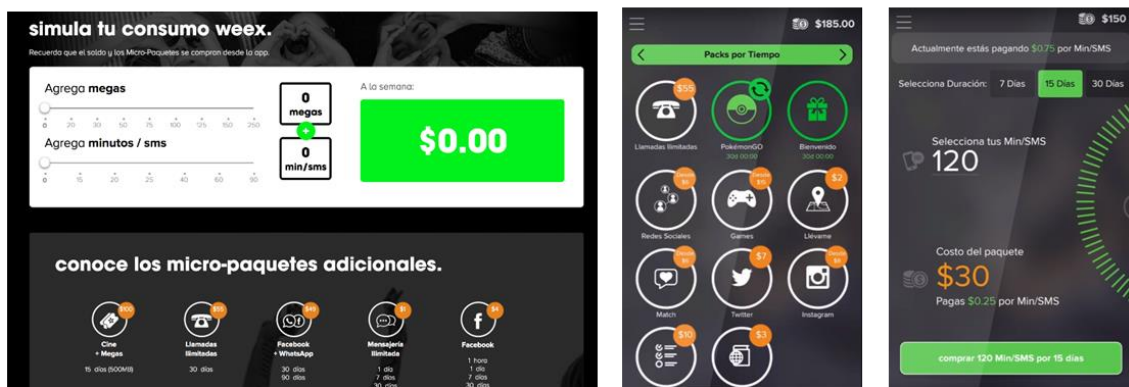
Source: Weex, 2019.

Historically, the telecoms business model is built on such a revenue model, however offering short term contracts and giving full control to the user to optimize their bundles on a month-to-month basis, or even within the month, removes or greatly reduces the opportunity for this breakage revenue. An advantage of a BYO model is that by offering great value and control, you acquire more customers and retain them longer.

Global Example

Giffgaff UK often highlights the value of flexibility and control, but it does not offer the BYO feature. Weex Mexico, however, is a good example of such a market proposition. Figure 5 shows how Weex customers can build their own packages on both a computer and a mobile device. Customers can select the number of megabytes, minutes and SMS they want to include in the package, and even choose the duration of validity. Additionally, the customers might include other add-ons such as unlimited data for social media apps or unlimited calls.

Conclusion

Due to investment recovery being a predominant factor for an MVNO business case, the cost of flexibility, which could be high and sometimes prohibitive, needs to be factored in. While many

new MVNOs want to offer flexibility and control, it might be prudent to launch the service first and introduce BYO capabilities later, once break-even and market understanding have been achieved.

Strategy 2: Application-Focused User Experience

Overview

When giving customers control it is important that they have the required tools for easy access to the functionalities, otherwise this opportunity will not be utilised and it might become an inhibitor rather than an enabler. High penetration of smartphones and heavy usage of mobile applications has resulted in apps being excellent tools for control and sources of information. A 2019 report of mobile markets revealed that more than 80% of mobile minutes were spent on apps worldwide, as well as an increase to 63% of digital media usage in 2019 from 50% in 2017[2].

Many new successful MVNOs are transferring the overall user experience to their apps, which in addition to BYO plan capabilities provides customers with the ability to track usage and chat with customer care.

Benefits & Shortcomings

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2 Comscore. (2019). '*Global State of Mobile 2019 report*'. Available at https://www.comscore.com/por/Insights/Apresentacoes-e-documentos/2019/Global-State-of-Mobile.

Considering the increasing popularity of apps, it is a customer expectation, especially from a new MVNO, to provide a similar user experience. The benefits for MVNOs are also significant, including:

- **Improved customer reach** as the customer can be simply informed about a new promotion through a banner notification rather than SMS, which is seen to be as a more favourable approach by customers.
- **Customer support** becomes easily accessible via in-app messaging or live chat, which increases satisfaction among customers.
- **Reduced operating costs** due to lower staff requirements for customer support.

It can, however, be quite expensive for a MVNO to provide an app-focused user experience as it requires additional CAPEX for development. If the app is required from the launch of the service, it might also involve some delays due to testing and the time required for further improvements.

Global Example

Many reviews have praised the Singaporean MVNO "Circles" for its app functionality. It has integrated every service in its app, including BYO, usage tracking, live chat and even SIM card delivery tracking. Customers can access all of the services that they might require from the mobile operator from their smartphones at any time, which makes the experience much more convenient.

Design Tips for Good App User Experience

Depending on the MVNOs' app development strategy, an app might perform well from a code quality perspective, but that is only half of the work required. If your app aims to be market leading, it needs a great design and user experience (UX).

Apps that are not designed well simply will not succeed. Here are some top design tips that MVNOs should consider when developing their app and app strategy.

1. Stick to proven design

There is no reason for a new app to try and reinvent the wheel when it comes to app design. It is important to differentiate, as all new apps need some level of creativity. However, an app should stick with what has worked historically and what users are familiar with as well.

Most successful apps have similar designs. Avoid designing an app that is going to have a difficult learning curve for users. Figure 7 shows the most used mobile applications, meaning it sets the interface to which most smartphone users are accustomed.

Figure 6: Circles.Life Singapore – App-focused user experience
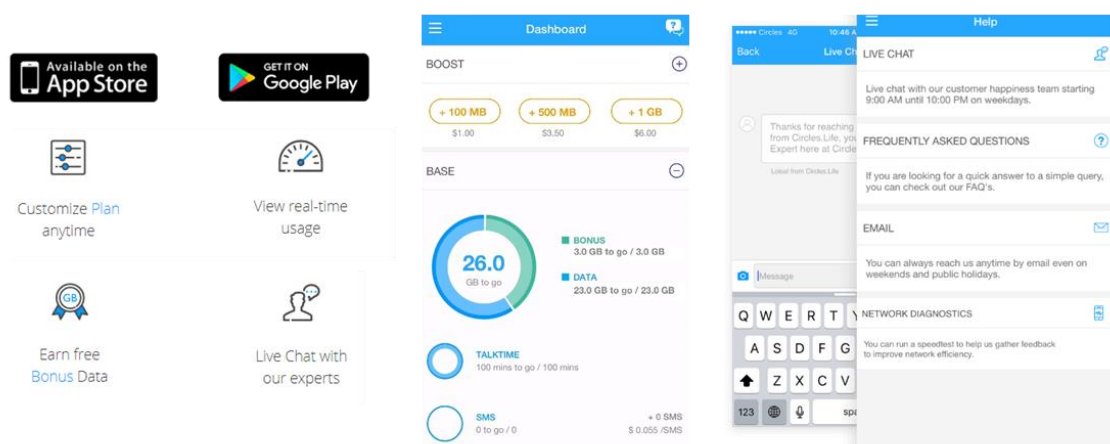
Source: Circles.Life, 2019.

Figure 7: Top 10 mobile apps by worldwide downloads as of Q3 2019.
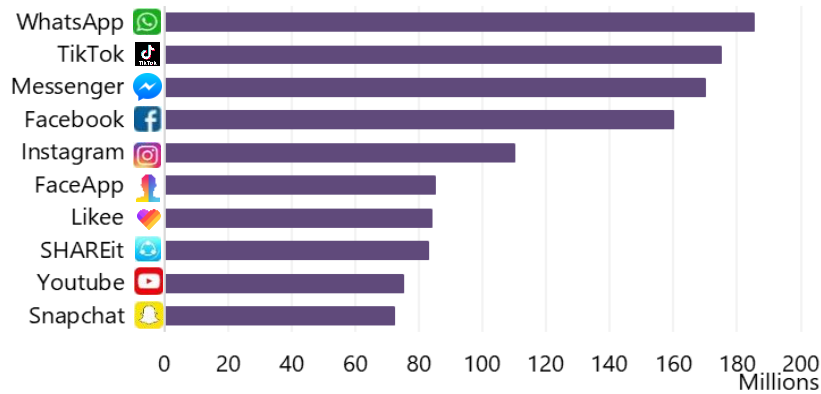
Source: SensorTower report, 2019.

These apps could be used as a reference to develop common design elements. Many of them will have similar features. For example, most mobile users are familiar with common touch gestures. If they click on a button, they expect to be taken to another page. If they spread two fingers apart on the screen, they expect to be able to zoom in. If they swipe their finger, they expect the page to move.

2. Keep it simple

It is important not to over-complicate the design of an app. In a lot of cases, the "less is more" approach is beneficial when it comes to app design. It is essential to ensure users can perform the functions they require but do not go over the top in terms of complexity.

Users are going to be viewing and using an app on a small device. Try not to cram too many menu options onto one menu hierarchy, and do not try to squeeze everything into a small space and expect the user to be able to interact.

Another point to consider is that if an app design is complicated, it could take longer for the app to load, thus decreasing app performance and user experience.

Simple designs keep the app users focused. If there are too many bells and whistles distracting them, it is going to have a negative impact on their experience and app conversion rates.

3: Don't forget about loading speed

As mentioned briefly before, if the design of your app is too complex, it will affect how long it takes for your app to load and this will lead to poor user experience and higher bounce rates. Figure 8 shows how the bounce rate increases with every second that passes when a page is loading.

Figure 8: mobile application loading time.

1s to 3s the probability of bounce **increases 32%**

1s to 5s the probability of bounce **increases 90%**

1s to 6s the probability of bounce **increases 106%**

1s to 10s the probability of bounce **increases 123%**

Source: Google/SOASTA Research, 2017.

Slow loading times will cause users to abandon the app. Try not to make a design that is so overly detailed that it causes abandonment. Simplifying the design helps to eliminate this issue.

Fast page loading speeds will improve the user experience and increase their engagement. When they enjoy their experience using your app, they will continue to use it. This gives you a better opportunity to increase your revenues.

Conclusion

Well-developed app-focused user experience could be a key differentiator for a MVNO. If available from the launch, it increases the chances of a good first impression, thus increasing the probability of higher subscriber acquisition and ongoing subscriber engagement or Customer Lifetime Value (CLV). However, due to the additional CAPEX requirements and longer implementation time, some MVNOs might choose to introduce a mobile application as a second phase after the initial launch.

Strategy 3: Community Engagement in Customer Care

Overview

For a new MVNO, high-quality customer support is vital in attracting new customers and later minimising churn. Some MVNOs have implemented a community engagement model that replaces the traditional call centre approach. The in-house call centre is here substituted by the "community" – a group of customers who provide support on the online platform. Usually, any customer can join the community and get rewarded with points that they can later transfer either as phone credit or receive as cash.

Benefits & Shortcomings

By implementing the community customer model, MVNOs can reduce or substitute the in-house call centre costs, thus significantly cutting operating expenses. Initially it may be challenging until the number of users in the community reaches a critical point, though eventually it can evolve into a self-contained mechanism which can achieve high levels of customer satisfaction. Effectively, the more subscribers the MVNO has, the larger the support community becomes.

However, this strategy might not work for all MVNOs, as success depends on various external factors. A comprehensive market analysis must be completed in order to understand the behaviour of the targeted market segment in that specific country and whether users would be stimulated to participate in the incentivized community support model. Otherwise, lack of engagement in the community would result in long response times at varying quality and customer dissatisfaction.

Global Example

Giffgaff UK was one of the first MVNOs to experiment with community support rather than have the traditional in-house call centre. Giffgaff incentivises users to participate in the

Figure 9: giffgaff UK – Community engagement.
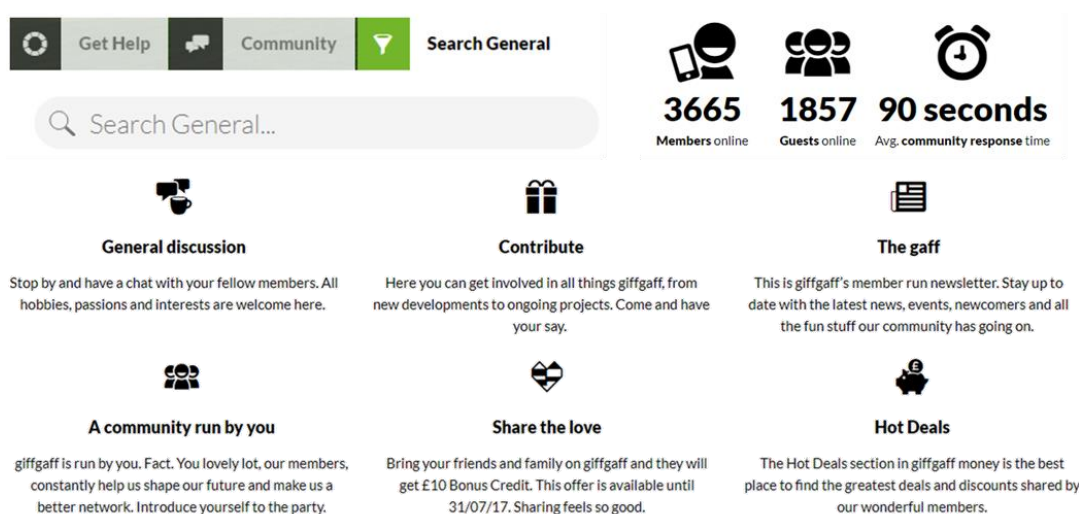
community or refer new customers by offering rewards, points or giveaways. This scheme has a secondary effect – when a community base grows, it in turn helps the overall giffgaff community ecosystem because there are more users to respond to customer queries. The risky approach turned out to be very successful and the platform continues to be run only by giffgaff's members after 8 years of operation, currently serving more than two million subscribers. Most of customers' enquiries can be found in the community forum.

After observing the forum activity for couple of days at different times, it seems that on average there are ~4,000 community members online who can address the new inquiries in an average of 90 seconds. The giffgaff example indicates that community customer support can successfully operate with one member covering around 500 subscribers (Figure 8).

The giffgaff community is quite complex in how it functions and rewards its users with points. There are detailed guidelines regarding what community posts qualify for points and these are strictly policed by community moderators. For example, a textual post accompanied by a tutorial with video content will result in more points than a standard textual post. The community is quite self-regulating in that if a user posts irrelevant or unlawful content, other readers will tend to 'dislike' it, thus driving users to read meaningful content and ensure that the content posted remains useful to the community overall.

Conclusion

Initially, community engagement as a strategy was considered as risky and unlikely to work across the globe, however it has proven to be a succesful way to increase customer satisfaction as well as reduce operational costs.

More new MVNOs understand the benefits and are willing to take the risk. It is, however, important to invest in a comprehensive market analysis and understand how the customer could be stimulated to provide support to other users, as well as set strict guidelines to avoid misleading content being published.

Strategy 4: Referral Scheme

Overview

Word-of-mouth is a key tool for marketing, and some new MVNOs have taken additional initiatives to utilise it. Just like the customers engaged in the community, the customers who promote the service are rewarded with points which they can later transfer either to phone credit or payment. Usually, both referrer and the new joiner can receive some benefit.

Benefits & Shortcomings

The idea of getting rewarded is appealing to everyone, and as a result the news about new MVNOs can spread exponentially with a higher reach than using more traditional marketing strategies.

MVNOs that decide to implement this strategy tend to spend less on other marketing streams. They usually focus on online marketing and let their customers do the rest.

To mitigate the risk of referral scheme being unsuccessful, the MVNO should not rely completely on it for its marketing but rather be flexible and relocate more budget to alternative marketing strategies as needed.

Global Example

Just like with community engagement, giffgaff was one of the first MVNOs to introduce a referral scheme. Customers can give out SIM cards, which when activated trigger a certain amount of points being awarded to the referrer. Giffgaff creates an opportunity for any member to be 'employed' without any contract which has proven to be appealing to millennials.

As illustrated in Figure 10, giffgaff allocates members into different categories, depending on how many people the referrer 'recruits". The higher the category, the higher the award the referrer receives in addition to more support from the giffgaff team. Every 6-months the referrer can transfer the points to giffgaff credit, cash, or donate to charity.

During its initial growth years, giffgaff offered a pure cash incentive for referring users where a user could earn £5 per referred customer. £5 per user can accumulate quite quickly and lead to a considerable amount of money, particularly for lower income users such as students. There are stories of some giffgaff customers earning over £100,000 per year with the giffgaff referral program.[3] This also leads to fast and more cost-effective subscriber acquisition. It also grows the community base more quickly and in turn helps the overall giffgaff ecosystem.

Conclusion

A referral scheme can result in significant operational savings as marketing expenses are only paid for newly acquired subscribers and are expected to be paid back quickly. Many new MVNOs substitute the traditional marketing with online marketing and referral schemes. If successfully implemented, this strategy can yield a substantial increase in margins. However, it is important to analyse the target market segment and select appropriate types of rewards. It is also important to make sure that the rewards are high enough to stimulate referrals, but low enough to keep the business case valid.

Strategy 5: Customised Distribution Channels

Overview

Due to lower margins, many MVNOs tend to invest less into shops and aim to sell out their SIM cards through local distributors. However, a common strategy among new MVNOs is to extend this and introduce more ways for a new customer to acquire SIM cards. Customers might choose a direct delivery to a selected address or decide to collect from a nearby retailer.

Benefits & Shortcomings

A customized distribution strategy allows MVNOs to tailor the distribution to any customer's preference. While some prefer the traditional way of acquiring SIM cards from local retailers, others, especially young people, prefer direct delivery.

Such convenience can help MVNOs to differentiate from the competitors and attract more customers, especially right after launch.

However, the delivery option is not suitable for all countries. In such cases, the MVNO might choose to use courier or Uber-type services, which would be faster but more costly. The business case should consider the best approach and appropriate costs if this strategy is to be implemented. Additionally, most of the countries require ID confirmation when acquiring a new

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3 Evans, T. (2016), 'I made £160,000 by giving out Sim cards', 18 July
Available at: https://www.telegraph.co.uk/money/consumer-affairs/i-made-160000-by-giving-out-sim-cards/ (Accessed: 22 April 2018)

SIM card. MVNOs solve this issue by allowing customers to upload their ID

The costs are expected to be higher compared to retail-only distribution, thus a thoughtful cost-benefit analysis should be completed.
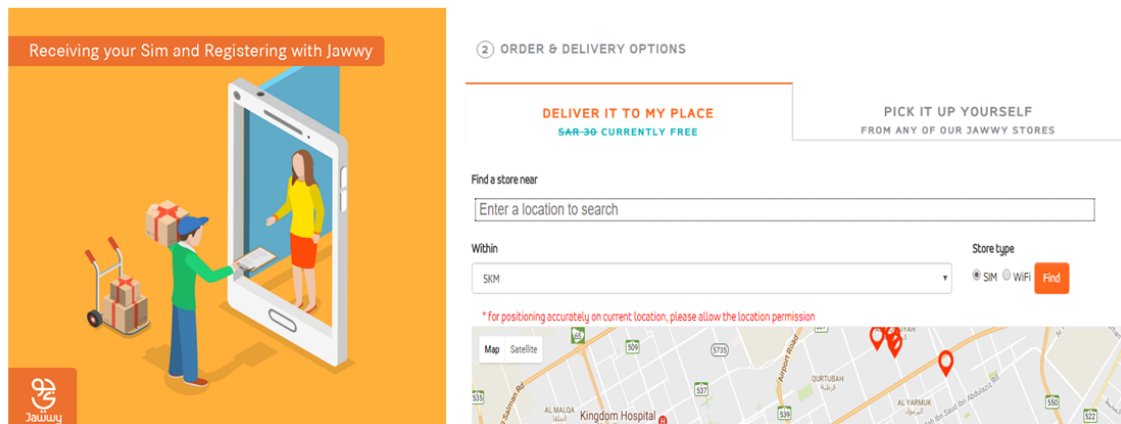
Source: Jawwy, 2019.

during the subscription process online while the courier completes the verification during delivery. However, the internal system required to support it needs to be provisioned in the business case.

Global Example

Jawwy in Saudi Arabia provides the opportunity for the customer to select the most convenient SIM card acquisition option. There are two main options that the customer can choose – either to get the SIM card delivered to a given address or pick it up at the closest retailer. Jawwy does not use courier services, but rather uses Uber, thus cutting delivery costs significantly. At the same time, Uber drivers are trained to verify new customers by checking their personal IDs and fingerprints as required by law.

New customers can expect to receive the SIM card in as little as two hours. If the second option is chosen, customers can easily identify the nearest retail shops in Jawwy's map and acquire the SIM card there.

Conclusion

The decision to introduce more ways for distribution, rather than just through retail stores, can depend on various aspects such as location, target segment behaviour, and the company's overall strategy if the MVNO service is not its core business. MVNOs targeting the youth can expect a higher recognition if they make their distribution flexible and tailor it to each customer.

Strategy 6: Special Partnerships

Overview

Customer retention can be just as important as customer acquisition and might require a similar amount of effort, especially as MVNO's prepaid model often results in high churn. One of the ways some MVNOs try to improve customer retention is through special partnerships. The two-way partnerships are done with retail stores or service providers across various industries to offer customers special offers.

Benefits & Shortcomings

Special partnerships provide customers with additional benefits which are especially useful if the customer is associated with the partner in question. The ability to save on both mobile and other services increases customer satisfaction and reduces the risk of customers switching to other operators.

The partnerships usually benefit both sides. As an example, the partner store will brief the customers about the mobile operator and the on-going special offers potentially resulting in new customer acquisition for the MVNO.

Special partnerships are expected to reduce churn, but they do not guarantee the retention

Figure 12: Circles.Life Singapore - Special partnerships.

Unlock exclusive perks with your DBS/POSB card!
Learn More

Sign up & get a FREE oBike VIP membership for 3 years!
Learn More

Exclusive partnership for UBER drivers. Interested? Get started!

Source: Circles.Life, 2018.

of all customers. Even if the customer is attracted by the idea of special offers, it is difficult to partner with all retail and service providers that would meet everyone's needs.

Additionally, it might be difficult to partner with major companies, especially for a new MVNO with a low subscriber base. Furthermore, when cross-subsidising products and services between two sectors, such as a retail business and mobile operators, it can be difficult to generate enough profit from a mobile subscription to be meaningful in a retail environment where product price points are generally higher. As an example, generating £5 extra in mobile ARPU is not a meaningful discount when a customer is purchasing a laptop from an electronics store. The best special partnerships where cross-subsidising products and services becomes meaningful are within the Fast Moving Consumer Goods (FMCG) sectors, for example Tesco Mobile and Tesco Clubcard rewards. If the reward generated from a Mobile subscription is £5, this can be a meaningful discount from a grocery bill of £50 i.e. a 10% discount.

Global Example

Circles in Singapore introduced partnerships from the launch of its operations. It has helped to attract more customers as the partnerships are tailored to the local market and particularly target the youth segment. Circles has partnered with fashion retail stores, banks, and other service providers such as Uber and Grab to offer additional benefits for customers who use these services anyway. The strategy has proved successful, resulting in increased customer acquisition and customer satisfaction.

Conclusion

While some partnerships might not require any additional expenses, others may. Each partnership should be treated independently, and its value add carefully considered. Additionally, partners' products should be in line with MVNOs branding and should be appealing to its customers.

Conclusion

Some MVNOs have learned from the mistakes of others and have managed to increase their probability of success by investing in innovative strategies that have helped them to differentiate from competitors. New MVNO entrants in different countries are likely to follow similar market proposition, especially ones targeting the youth segment. However, it is important to build a strong business case and evaluate each strategy covered in this whitepaper by undergoing a comprehensive market analysis. The cost-benefit analysis should be done to determine if the strategy is worth implementing.

Salience is well positioned with its vast knowledge base in building strong business cases to assist businesses and operators with tailoring market schemes to cater to any environment. In our approach, all cost elements are considered for the initial implementation as well as post-launch operations. Multiple market propositions and phased launch plans are evaluated to identify and ensure stakeholders receive the best value. Our recommended approach will not guarantee, but will significantly increase the chances of success

Authors

Greg Tamasauskas is a consultant specializing in financial modeling and performance analysis in the telecommunications market. He has experience in building business cases for MVNOs and fixed line businesses, covering market proposition, funding requirements and valuation.

Greg has recently assisted in developing a business plan which helped the fixed Middle East operator to secure an MVNO license.

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