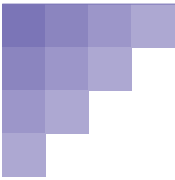




Mobile Virtual Network Operators: challenges and opportunities



Ovum in the Wireless Industry

Ovum Consulting works with clients to address a range of strategic, regulatory, technology and operational issues. Our clients include wireless and fixed service providers, content owners, equipment manufacturers, new entrants, regulators and investors.

We differentiate ourselves through extensive relationships with the industry, the depth of industry experience and the breadth of our research base. We employ structured methodologies and advanced tools and models enabling us to leverage our expertise more efficiently and effectively. We work with clients so that they take ownership of results and there is a high level of "how to" transfer to client staff.

MVNOs are well-established parts of the mobile landscape in some countries

Mobile virtual network operators (MVNOs) resell air time and services bought in from the licensed mobile network operators (MNOs), adding in some features such as branding, alternative channels to market, billing and (sometimes) custom services. They are established in Scandinavia, the UK, Australia and the US, and are destined to appear elsewhere. Their propositions vary, from basic MVNOs who simply resell airtime at a discount rate, through to those who have their own switching services and voicemail systems, and issue their own handsets and SIM cards; for example, Virgin Mobile.

The MVNO itself must consider its business plan carefully if it is to survive - operational cost controls are the key to success, even more than capital investment. In addition, the MVNO must plan how it can fit into the market and integrate its bought-in mobile services with its business processes and with other services.

- MNOs get frequent requests for MVNO deals and can choose whether to negotiate or not, unless there are regulatory directives to open up the network to MVNOs.
- For an MNO, such deals can be a threat: taking business from their own customer channels, creating downward price pressures and making demands on their own constrained spectrum and bandwidth. The latter are serious obstacles for some operators with capacity limits.
- For some MNOs, MVNOs are also seen to create opportunities to increase market share and target new customers.
- For regulators, MVNOs increase competition but might reduce investment by MNOs.

Urgent questions need to be answered by all the parties

There are conflicting views about the strengths and weaknesses of MVNO deals, depending on which party you are in the negotiations. MVNO strategies are further complicated by the wide spectrum of MVNO types and by the level of price discounts given to the wholesale MVNO, compared to the MNO's own retail prices. The pressures for MVNO deals are increasing, and there is an urgent need for each party to address the key challenges, as delays or mistakes are costly.

MNOs need to understand:

- what are the opportunities and threats?
- how can MVNOs be used to advantage?

Prospective MVNOs need to appreciate:

- how, and if, regulators should be used to force a deal onto MNOs?
- what are the trade-offs in the business case with the type of MVNO deal that is struck?

Regulators must decide whether intervention is required and, if so, what action needs to be taken.

An additional issue to consider is the emergence of MVNO enabler businesses, which can interface several niche MVNOs to an MNO.

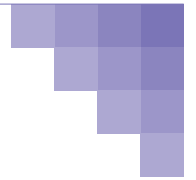
Types of MVNOs

There is a range of MVNO types between Service Providers (SP) and full MNOs. Different functions can be carried out by the MVNO or MNO. Some may be carried out by a Mobile Virtual Network Operator Enabler (MVNE) which may simplify the MVNO provisioning for either the MVNO or the MNO. MVNEs develop systems and processes to help facilitate MVNOs, such as handset distribution, channel management or billing.

	SP	'Skinny' MVNO	'Thin' MVNO	'Thick' MVNO	MNO
Network Elements	Spectrum	■	■	■	■
	HLR	■	■	■	■
	MSC	■	■	■	■
	Platforms	■	■	■	■
	SIM Branding	■	■	■	■
Retail Elements	Billing	■	■ (usually prepaid)	■	■
	Customer Care	■	■	■	■
	Customer ownership	■	■	■	■
	Tariff & product development	■	■	■	■
	Brand visibility to end user	■	■	■	■

■ MNO
 ■ Either/or
 ■ MVNO

Note: In some cases an MVNE may operate some elements on behalf of an MVNO



The process starts with developing a strong business case and negotiating a viable wholesale agreement. However, even with a strong business case, a potential MVNO (which usually lacks mobile expertise) has a major challenge in designing the right entry strategy, and developing and executing the launch plan. A very feasible MVNO can fail due to an undifferentiated market entry strategy or poor launch execution.

MVNOs can be advantageous for an MNO

If an MVNO is able to reach new customers by using alternative distribution channels or a different brand, the volume increases can more than counter the reduced tariffs offered by the MVNO compared to the normal retail rates. MNOs should ensure the MVNO increases the overall addressable market and takes share from other MNOs, but not from the MNO's existing or target customer base. In our experience, this requires detailed customer segmentation and examination of the MVNO's marketing strategy and business plan in the light of other MNO and MVNO propositions.

Above all, the level of price discount is the critical factor: too low a discount and the MVNO remains a niche; too high and the MVNO can start price wars and cannibalise the parent MNO's services.

If there are only small MVNOs or none at all, first-mover advantage can help MNOs select the best MVNO deal, and perhaps shut out or reduce the competition. However, opening up to one MVNO might result in regulatory intervention that forces other similar deals to be made: one may be good company, but three might be a crowd. Conversely, opening up the market to some commercially negotiated deals could stop any further regulatory intervention.

MVNOs are a major strategic and commercial challenge

Action is needed to address these diverse challenges. Our experience shows that MVNO types vary significantly across the world, and this can result in diverse outcomes, as a comparison of Denmark and the US will testify. This vital experience provides the grounding for any strategic planning.

We have seen how controlled MVNO emergence can benefit the MNO. For example, an enterprise-focused MVNO will benefit a consumer-focused MNO, or a 'no frills' MVNO targeting youth or low spenders could complement a full-service package aimed at high-spending consumers.

The challenges are very significant, and it is imperative that action is taken. If the wrong deal is made, the impact can be serious. If no deal is made, then other MNO/MVNO combinations can create a competitive threat. All players must have a strategy to deal with the issues and, where appropriate, this must be followed through into implementation of the best possible deal. Ignoring MVNOs is not an option.

Ovum will help your strategic plans and business developments

Strategic planning requires insight into the different types of MVNOs, and the risks and benefits that each provides. Strategic issues that we help with include regulatory impact, scenarios for cashflow, competition, market size, consumer & enterprise segments, branding, distribution channels, pricing plans, business processes, IT and investment forecasts. The possible use of MVNO enabler businesses by both parties is another area where Ovum has been working recently.

Our knowledge and experience of MVNO deals, market scenarios and technology developments, provides the critical knowledge and business analysis that is needed to enable operators and MVNOs to make the right moves and plan a successful business. Getting an MVNO decision wrong will prove to be very expensive - we can help you avoid this outcome.

Strategic understanding and decisions must be followed by successful implementation of the deals through contracts, negotiations and systems developments. A combination of commercial skills, process management and mobile technology knowledge are needed to make the deal work. With so many options of MVNO types and various supply chain variants, the risks and uncertainties at every stage are large.

We have the combined market, commercial and regulatory perspectives to ensure the best decisions. For example, we recently applied our knowledge to deliver a risk/option analysis and MVNO categorisation to help a tier-one MNO define its strategy towards the regulator and towards MVNO requests. The work was followed by MVNO pricing and negotiations advice.

Some specific solutions that we can deliver include:

- responses to regulatory authorities on mandating MVNOs and price controls
- strategic option evaluations, defining the most appropriate form of MVNO deal and developing the business model
- MVNO price planning, definition of services, negotiations and contract definitions
- market analysis of MVNOs globally, and the direction and outcomes
- planning of new business structure and changes.

Advising on the commercial impact of technology and market changes in telecoms, software and IT services.

Ovum is the leading European headquartered authority on telecoms, software and IT services, with unique expertise where these sectors converge. We deliver essential advice on market trends and drivers, and unrivalled insight into companies, markets and technologies.

Ovum offers a range of integrated services that includes tailored consultancy, advisory services that give clients direct access to our analysts, and specialist research. Our expertise is based on more than two decades of research conducted globally.

Ovum has a unique insight into global markets through offices in Europe, North America and Asia-Pacific. We are resolutely independent: we do not endorse or accept sponsorship from anybody. Our experts spot the short-term issues that will have an immediate impact on your business and advise on the longer-term visionary aspects that form the basis of your strategic planning.

Ovum Consulting

We have delivered consulting services in more than 50 countries in Europe, the Middle East, Africa, the Americas and Asia Pacific.

Our consulting expertise covers corporate and commercial strategy, financial advisory support including due diligence and business planning, operational and business improvement, licensing applications, policy and regulation, cost/profit/price modelling, strategic technology decision-making and strategy implementation support. We make a difference.

We help our clients to gain measurable benefits and increase competitive advantage. Our approach is to partner with our clients, providing the deep, expertise based support they need to make and implement sound strategic decisions. We bring in-depth industry knowledge, visionary thinking, rigorous methods and analysis and a practical, results oriented approach. We are acknowledged for our objectivity and independence.

Ovum Advisory

We deliver ongoing advice to our clients through our advisory services. These are subscription-based combinations of research and advice, featuring valuable contact and enquiry time.

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