

Telecom Practice

October 2008

What it takes to play and win the MVNO game



MVNOs in Europe have had mixed success. The principle success factors apart from a well defined value proposition have been the market timing, strength of their strategic assets, and the MVNO team's execution capabilities. These are most likely to be the pillars for the future evolution of the MVNOs.

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Executive Summary

MVNOs have gained traction by being at the right place at the right time. For MVNOs to take off the market composition and competition play an important role, so do the regulator interest and action on ground. The assets exploited by MVNOs are only as good as they are put to use. They should help the MVNO to build a sustainable competitive advantage. It is thus important to focus on use of the asset complementarities and diffusion to make it difficult to replicate. Finally, the operational efficiencies may not be underestimated in the cut throat competition in the mobile telecom sector. Apart from improving the bottom line, more often than not execution capabilities are difficult to expropriate.

MVNOs are facing the pressure on both the growth and profitability front. The expansion strategy has to be aligned with the existing strategy. The MVNOs can focus on growing the market or getting more from the existing market. For improving the ARPU of the customers bundled services will be a way to evolve. Bundled services into double and triple play using mobile internet, and later, mobile TV will lead to higher share of customer wallet. On the other hand to increase the customer base, rapid geographical expansion may be seen in order to gain economies of scale and to exploit brand affinity through strategic partnership with operators or MVNEs as more markets show dynamic MVNO activities.

What it takes to play and win the MVNO game

MVNO business relies on their ability to fulfill the unmet needs of the market which traditional mobile network operators (MNOs) either don't serve adequately (e.g. lower ARPU customers) or don't find attractive enough (e.g. niche customers like immigrants with low spending capacity).

MNOs today face competition from not only telecom players but traditional media players who are becoming major players thanks to the mobile internet growth. Faced with this competition and the underlying need to amortize the investments made into 3G networks, operators are trying to retain the high value customers through contracts, unlimited data plans, and/or sophisticated high value handset portfolios. This leaves several segments underserved. For instance, the needs of low ARPU prepaid customers with inconsistent spending habits who exploit the tariff plans to minimize their spend is not fulfilled.

MVNOs segmented approach offer the MNOs to target specific segments with distinct needs through incremental wholesale revenues while being able to focus on high-value customers. Today, most of the western European operators are open to MVNOs and/or have a wholesale strategy. On their part, MVNOs have been largely prepaid in nature where they face least resistance from mobile operators and target the niches that host operators are under serving.

Mobile virtual network operators (MVNOs) have had a mixed success story in Europe so far. While there are MVNOs which have captured significant customer base with their value proposition, there are others who have not done as well in spite of an attractive value proposition. In our opinion, three key success factors that have played a major role in determining success of MVNOs are 1.- market timing, 2.- strength of strategic assets and 3.- execution capabilities. Understanding of these is crucial to evaluate how the MVNOs are likely to evolve in the future.

Market timing - composition, competition and enablers

If 80 to 85% mobile penetration is considered adequate for MVNOs to make an entry into the markets, what then dictates the different level of activities in the different markets?. It is important to understand the composition of the market. Which are the segments that are underserved or left out and why?. What are the needs that are not met and what it will take to meet those needs?. A case in example is Al Yildiz targeting the large Turkish community in Belgium and Germany and bringing attractive tariff plans for calling back home and within the community. Understanding that attending customers in their language is an important driver to create affinity since not all would know English or the local language has been cornerstone of their success. Immigrant focused MVNOs have since come up in Spain, France, Italy and other European countries.

MVNOs typically find it difficult to gain momentum in highly competitive markets like UK or Netherlands or in markets where MNOs have an aggressive stance towards MVNOs like in Greece and Portugal when they preempt MVNOs using their own second brands. A special case is when regulator remains passive and does not facilitate agreements between MNOs and MVNOs. However, key performance indicators of the market may give a better picture of sustainability of an MVNO once it enters the market. Specifically, some indicators to investigate further include high price levels together with number of MNOs (indicating lack of competition), network

infrastructure deployment and coverage indicating that further growth will be through segmentation and not penetration, and stable EBITDA levels indicating sustainability. A good analysis always needs to estimate the impact of a reactionary stance (pricing pressure) on the business plan of a MVNO to capture customers. In fact, a high churn coupled with high price levels may just be the right environment but not the only requirement.

High ARPU has often been cited as a key indicator to look at but fails to explain the success of MVNOs in a market like Germany where ARPU pressures impact mobile operators much more than highly segmented MVNOs. More than being high, ARPU must be right. Right ARPU is the one that should support the cost structure, growth plan and is sustainable in the specific MVNO model. Lot of MVNOs have started out with high ARPU only to see them decline with time necessitating aggressive actions that in turn put pressure on the cost structure.

In a highly competitive market, excess capacity with the mobile operator with the least market share sometimes becomes highly relevant to forge favorable partnership as a host operator for the MVNO which is first step towards entering the market. E-Plus in Germany realized that it could not gain market share as fast as a traditional MNO and rather complemented its position with an MVNE proposition and now has most of the market share of MVNO and with high margins.

Role of the regulator not only impacts the successful entry of the MVNOs into a given market but also becomes a deciding factor in their immediate and long term success. EU wide directives recommend all national regulators to increase competition in the telecom space. The push for MVNO however needs to be supported with action on the ground in areas where MVNOs are dependent on mobile operators. Favorable interconnection agreements lowering barriers to entry, price per minute floors and caps that prevent traditional operators to price out the emerging players are just a few of the things where regulators can play a role. This lack of clear commitment in case of regulator has been quite evident in Ireland with very high ARPU levels where MVNOs have just started. Regulator in Ireland has been slow to ensure favorable environment for MVNOs. Although, players have been interested since 2005, it was not until 2008 that first MVNO has been launched in Ireland by Tesco Mobile, UK based MVNO, interestingly as a joint venture with a mobile operator.

Strategic assets - as good as they are put to use

Many different flavors of MVNO are currently entering or have entered the European market leveraging the possibilities to weave innovative value propositions around technology and capture niches for themselves. Technology has enabled fresh thinking to come up with innovative data plans that allows the media companies to get more bang for buck from their assets and foster loyalty amongst its audience. For instance, 40 Móvil, an MVNO positioned as a branded reseller in Spain is part of a leading music channel. Banks are increasingly realizing that mobile may well be the next de-facto contact point with its customers and are beginning to offer mobile services to their customers with innovative incentive schemes. Rabo Bank became the first bank to successfully launch MVNO in Netherlands. Its lead has been followed by other players like Bankinter in Spain, MBank (owned by the BRE Bank) in Poland and more are expected to follow. Some MVNOs have come out with core business models around technology. A youth focused MVNO like Blyk launched in UK which brings together companies and their target customers through an ad funded MVNO. This is different in the sense that technology and innovation is being adopted as core business rather than using it to support other mainstream business as in the case of media, retailers or banks.

Why is it that in most of the markets there are a few MVNOs with a majority customer share and a long tail of struggling MVNOs? It is not that they are not well segmented, or did not have an attractive value proposition for the segment of their choice. There has been a delusion in the understanding of what assets are strategic and how they can be leveraged in the MVNO business. The most important differentiator has been the ability of the MVNOs to ensure exclusive access to their strategic assets. Most successful models are seen to have many complimentary assets working together to deliver the competitive advantage rather than banking on any single one. Focus on critical assets that customer will value and potential competition cannot replicate is key to succeed in a niche segment based competition. A pan European MVNO, Simyo, for example is strong on market orientation, positions as low cost and couples it with operational efficiencies.

Assets need not be only tangible assets which could be IT infrastructure, point of sales locations or allied assets like intermediaries that provide access to customers, even a captive customer base. Some other models have been using intangible assets like brand, and innovative concept to gain edge in the MVNO business. Yet other models have emerged which are backed by savvy management teams and strong operations backing. However, the possession of assets alone does not guarantee success for the MVNO. If the

assets can be acquired or replicated by others then the competitive advantage is lost. This partially explains the long tail as the customers get distributed with too many players offering more or less similar value proposition after a certain time.

Taking Spain as an example, Carrefour Mobile has been followed by Dia and Eroski. Lebara focusing on multi-ethnic immigrant segment has been followed by Happy Mobile (MVNO brand of The Phone House) and some more. Further, with more than 23 MVNOs in Spain, the leading MVNO has 34% market share of the MVNO market, and within top 3 they hold 67%. In UK out of 12% market that belongs to MVNOs, 10.5% belongs to the top 3 MVNOs amongst more than 30 MVNOs active in the country. The story is similar in Germany with the top 4 MVNOs accounting for 70% of the MVNO market share amongst more than 40. Finally, Belgium is also similar where top 4 represent 75% of the MVNO market share amongst more than 35 MVNOs.

For instance, an immigrant focus MVNO has to deliver on the cheap international call formula. Not only the cost becomes important but the affinity to the mobile brand becomes important for the business to succeed. The proximity to the customers and pride in the quality of service comes next in the list of levers for success as a complementary asset. However, increasingly these are becoming replicable. Another lever that becomes relevant in the immigrant focused segment then, is the ability to tie the home country with the local offering. This is the advantage of the players like Maroc Telecom, a leading mobile operator in Morocco, which launched Mobisud, a Maghreb focused MVNO, in France and Belgium. Being present in the host country allows it to claim a strong relation with its target customers. Similar efforts are being seen in Netherlands with mobile operator of Surinam in the process to launch an MVNO in Netherlands that boasts of a strong (7%) Surinam community.

MVNOs who understand how to build and retain the competitive advantage using their strategic assets are more likely to succeed in the face of tough competition with low entry barriers, as is the MVNO game.

Execution capabilities - making it happen

Two types of assets that are the most difficult to replicate are process related assets and people related assets. Most successful MVNOs are very secretive of their operational processes like MNOs. Building efficiencies into the process of Sales, Customer Service, and Back Office leads to incremental

gains that may be passed as benefits to the customers. Additionally, intelligent agreements with top-up channels, logistics and third party providers for SIM become crucial as volumes grow. For instance, in a push model of business, having attractive commissioning systems for the sales channel partners becomes crucial especially when they are non-exclusive. In a low margin business where operating margin is between 5 to 15% percent, it becomes very important to build the differentiation not only in the positioning but also in the operational model.

Unfortunately MVNO is a specialized business and knowledge of the market, different levers and a handle on the operations becomes crucial to sustainable success. However, it is important to realize that this business allows for different levels of investment risks and returns. Thus just a pure branded reseller can still focus on its strength of brand and sales but should choose MVNE partner carefully and have intelligent agreements. On the same lines, it is crucial for the MVNOs where operational processes are relevant, to identify what can be outsourced and what needs to be in-house. For example, a low cost MVNO does not necessarily mean outsourcing everything. On the contrary, it may actually increase cost as the margins are shared with the service providers. Also, if the processes can be shared across other businesses of the group than it makes sense to adapt that for the MVNO business.

Strong management expertise, understanding of the company strategy and the ability of the managers to take decisions accordingly become crucial to take advantage of the in-house processes. It is important to build a dynamic organization to react fast to the changes in the market. Price competition for low cost MVNOs demands quick reaction. SIMYO has been particularly quick in all its market to react to the competition indicating the strength of their market focus. Understanding of the key assets and how to use them at all the levels of organization aligns the team and makes it more likely to deliver on the strategy objectives. On the same note, it is important to have a fine balance between market orientation and financial orientation, for operating margin is crucial to survival, only then can one think of running the race. In contrast to MNOs which can afford big teams on marketing, MVNOs are resource-light. Skillset and experience of the team thus becomes crucial to compensate for the marketing factory of the MNOs.

What next - the evolution ball game

Strategy is not a point but a direction in which company should always try to move, evolving with the industry in which it operates. For the MVNOs already present in the market the need to grow becomes of prime importance for two reasons. As more players enter a given market the competitive pressure increases and market share growth slows down affecting profitability adversely. On one hand, the subscriber acquisition and retention costs have an upward pressure where as on the other the revenue growth is slowing down. This leads to define two ways to grow for the MVNOs - get more out of the customers or get more customers.

The usual way to get more from the customers has been to broaden the portfolio of services. For long, the MVNOs have been seen as a way to fulfill the quadruple play status for fixed telecom players. Now, it is likely that MVNOs will start moving into double play or triple play leveraging the technology and partnerships and come out with offers that combine Mobile and Internet. Simyo already offers bundles of voice, data and content (e.g. ad-funded mobile games) in its plans. Soon, market will see more innovative bundles. For example, WiFi enabled handsets are increasingly becoming available and their costs are going down. Mobile VOIP can be expected to take off in not so distant future. Content downloads still account for major portion of the data revenues for operators and MVNOs may target that through operator independent payment models by attracting the Off-Net players.

This may mean a migration of existing customers from prepaid to automatic top up-prepaid (already seen in some MVNOs) to postpaid model making it more complex for the MVNOs to manage billing processes. Other implications coming out of the above include negotiating differently with the host operators focusing on data as well negotiating with other types of operators like internet service providers or content providers. MVNOs thus need to develop a roadmap for future growth and understand its implications.

Gaining economies of scale is the second way to grow for the MVNO players. Growing into the markets with similar value proposition or different value proposition in order to leverage the existing know-how and set up is seen as a logical way forward. Lebara is already expanding pan-Europe. KPN has a pan-European strategy to launch MVNEs across selected countries in Europe. It is already active in Germany, Netherlands, Belgium and Spain while France is underway. In fact, the new brand of MVNOs are launching with a pan-geographic business plan. SIMYO has a pan European footprint. Friendi

Mobile, a Dubai based MVNO in the process of launch has plans to operate in 14 Middle-East and African countries. Economies of scale can be derived from physical asset reuse like IT infrastructure and BSS platforms or they can come from centralized operations for Back Office, Purchase, Logistics and Call Centre. Even intangible assets like brand can be reused to lower the entry barriers into new and related markets. Another flavor of an expansion strategy that is seen is based on the presence of similar customer profile. This holds typically for Youth, Immigrant or other niche focused MVNOs. Mobisud launched in France and expanded to Belgium. Simyo launched in Germany and has since expanded to Belgium and Spain.

The MVNO potential of the European market is yet to be exploited completely. This is the good news, the bad news is that it's a tough game and has to be played smart.

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