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MVNO Business Essentials

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MVNO FUNDAMENTALS

MVNO OPERATIONAL MODELS

Different reasons are behind the market entry opportunity for MVNOs in a market reaching maturity...

Maturity of the market

- In markets that have reached maturity, differentiation from competitors is an increasing challenge since mobile services progressively become commodities.
- In such competition environment, the growth in customer base comes necessarily from cannibalization strategies implemented by the existing competitors

So What?

The fight for the market share

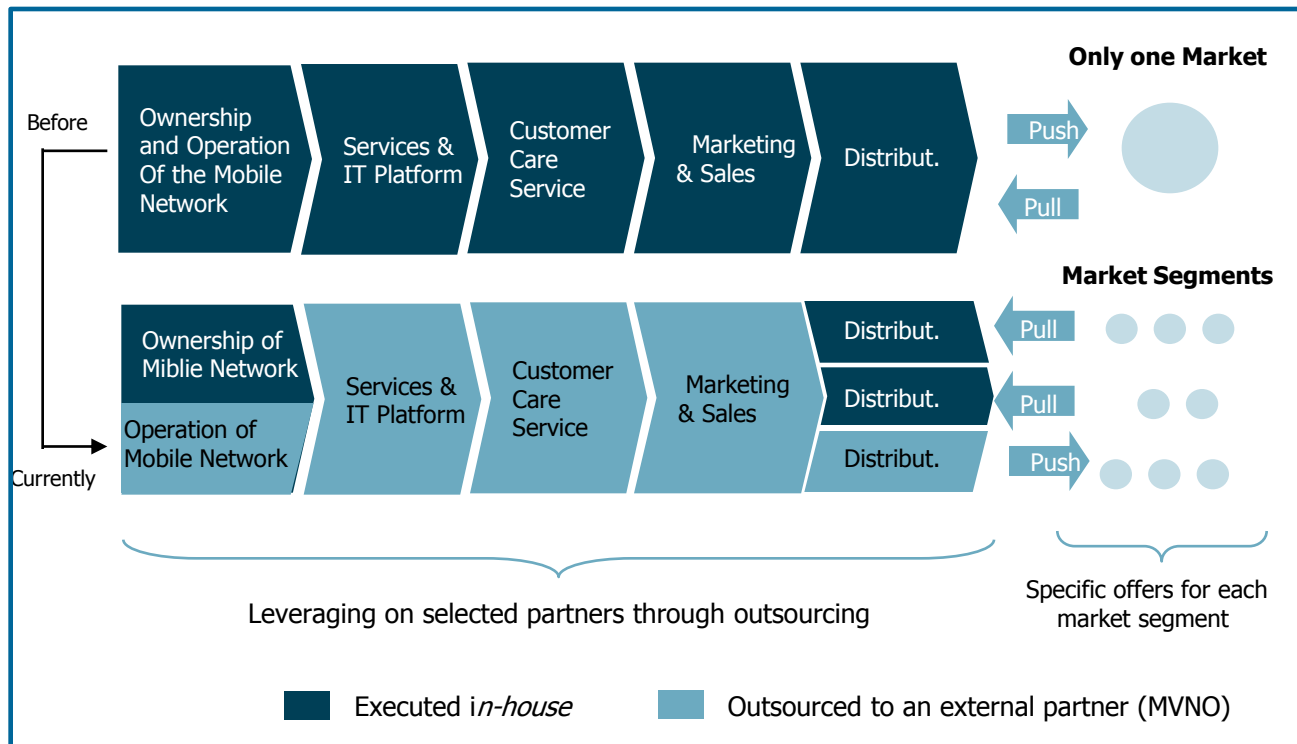
- Well-established Mobile Network Operators (MNOs) are exposed to an erosion in its market share due to the effect of increased competition coming from saturation, as mobile communications business becomes a pure market-share game.
- Appropriate wholesale strategies to be implemented by the MNOs will be crucial to maintain its growth despite the market saturation

The MNOs can address the challenges associated with market maturity through reaching wholesale agreements (MVNOs) with selected local partners

MVNO FUNDAMENTALS

The Wholesale Business for MNOs (I)

The challenge brought by market saturation leads MNOs to seek for MVNO partnerships to sustain the overall market growth...



...by creating offers aligned to the needs of each of the existing segments

...by dividing the value chain and allowing the entrance of new players through:

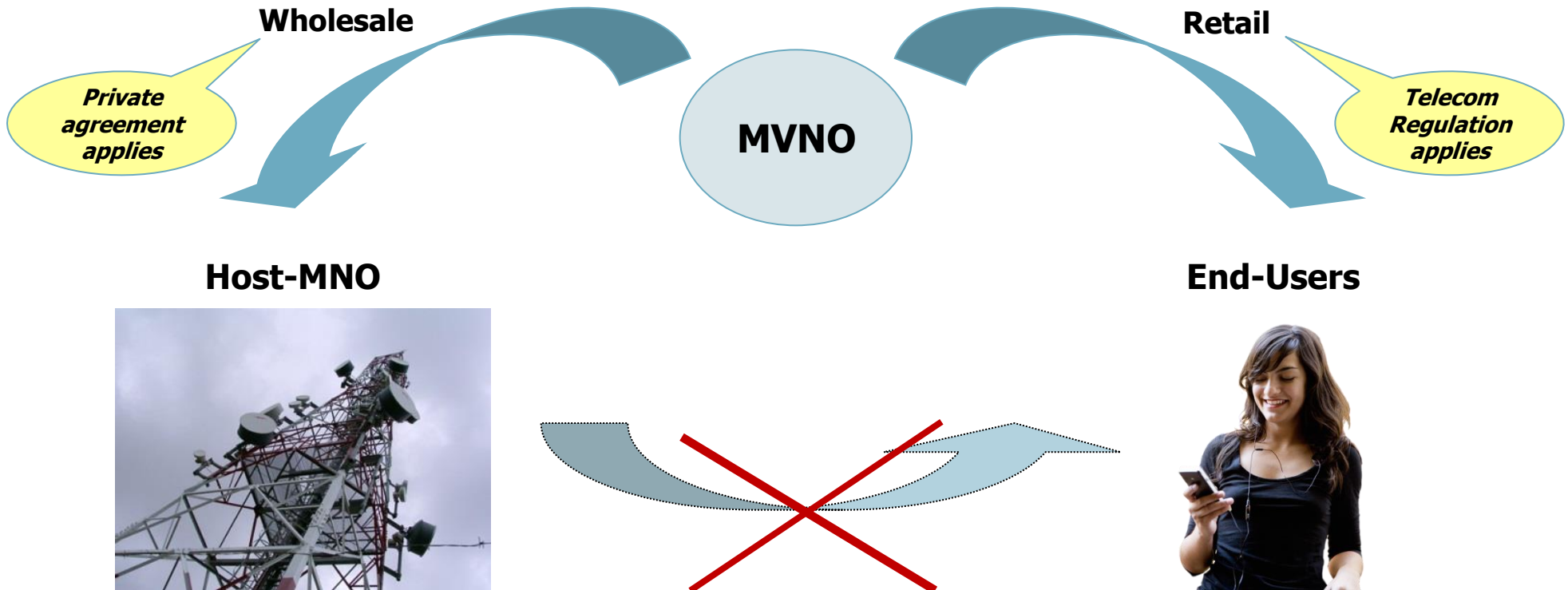
- ✓ Radically reducing costs (**increasing the EBITDA**)
- ✓ Reach new consumers in market segments not yet tapped into (**new distribution channels**)

MVNO allow MNOs to address specific market niches which they have not yet tapped into, while bearing lower Subscriber Acquisition Costs (SAC) —so adding efficiency to the whole value chain

MVNO FUNDAMENTALS

The Wholesale Business for MNOs (II)

So, the Mobile Virtual Network Operator (MVNO) business relies on two key relationships to be established...

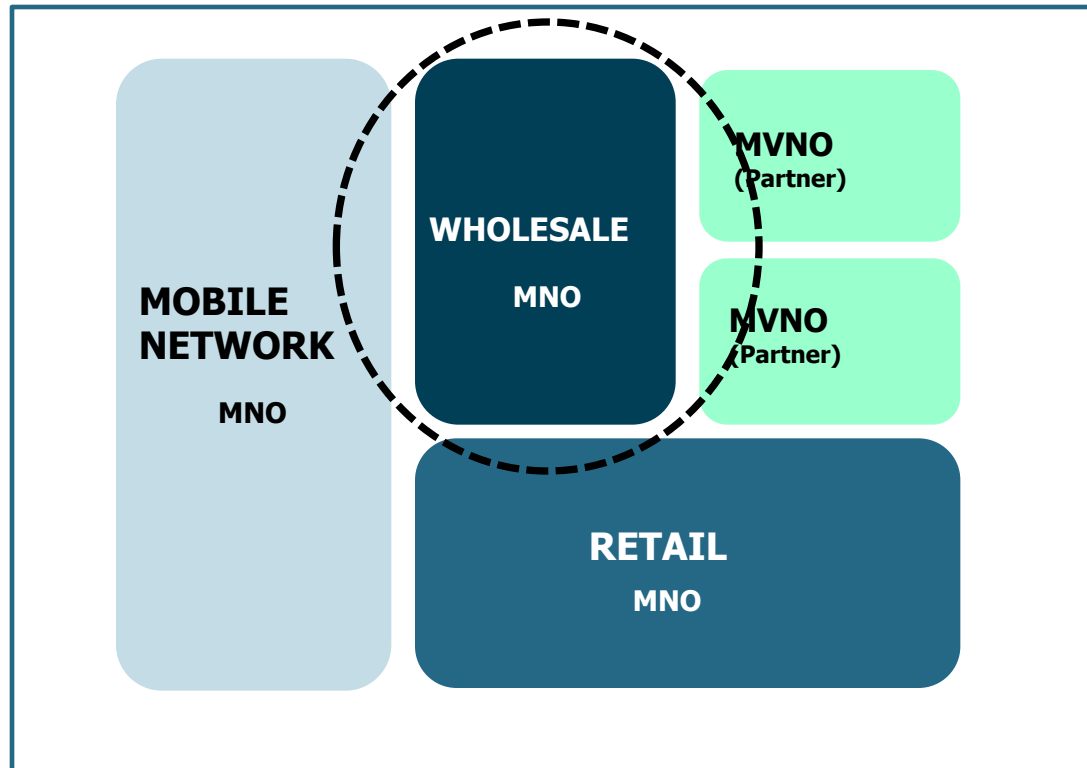


... which have to be efficiently managed over the time in order to succeed

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The Wholesale Business for MNOs (III)

...the wholesale business has to be understood by the Host-MNO as a reinforcing of the retail offer to address market niches not served by itself yet



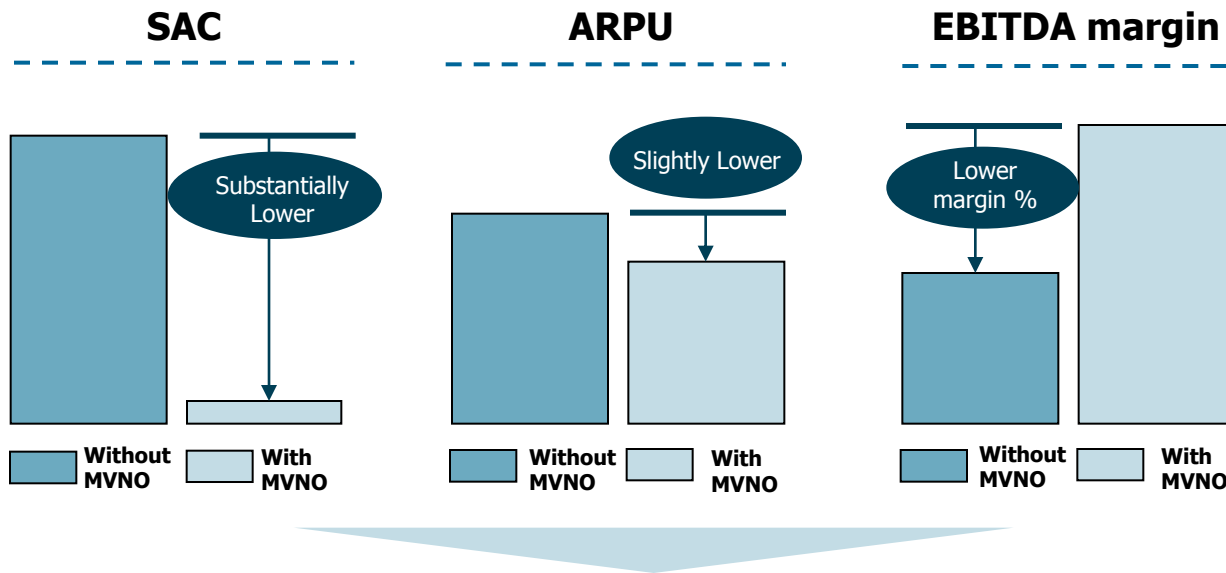
MNOs should follow a combined strategy, maintaining its current retail business and additionally targeting complementary market segments through selected MVNO partnerships

MVNO FUNDAMENTALS

The Wholesale Business for MNOs (IV)

How do MVNOs bring value for the Host-MNOs and for the overall mobile market chain?

IMPACT OF MVNO BUSINESS ON Host-MNO's FINANCIALS



- The **Subscriber acquisition cost (SAC)** in the wholesale business for an MNO is zero, due to it falling on the MVNO.
- The **Average Revenue per User (ARPU)** in the wholesale business is only slightly inferior to the ARPU of the retail business for the MNO.
- As a result, the **EBITDA margin** of the wholesale business is much higher than that of the retail one for MNOs.

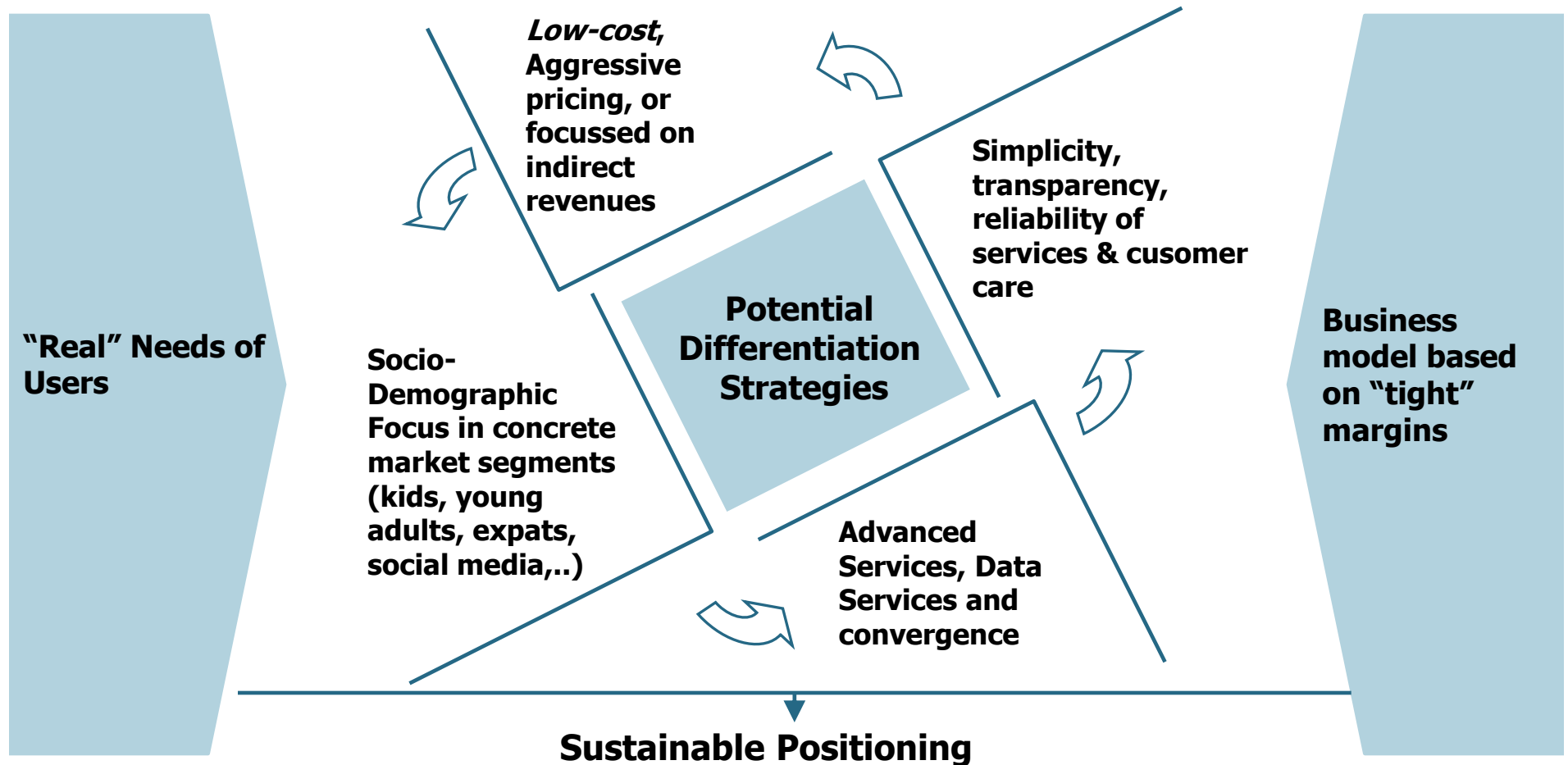
For the Host-MNOs, the EBITDA-margin coming from Wholesale customers is 3x greater than the one from retail clients

MVNOs help MNOs to drastically improve their EBITDA margins by reducing SAC costs with just a slight reduction in ARPU

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MVNO market-entry strategies (I)

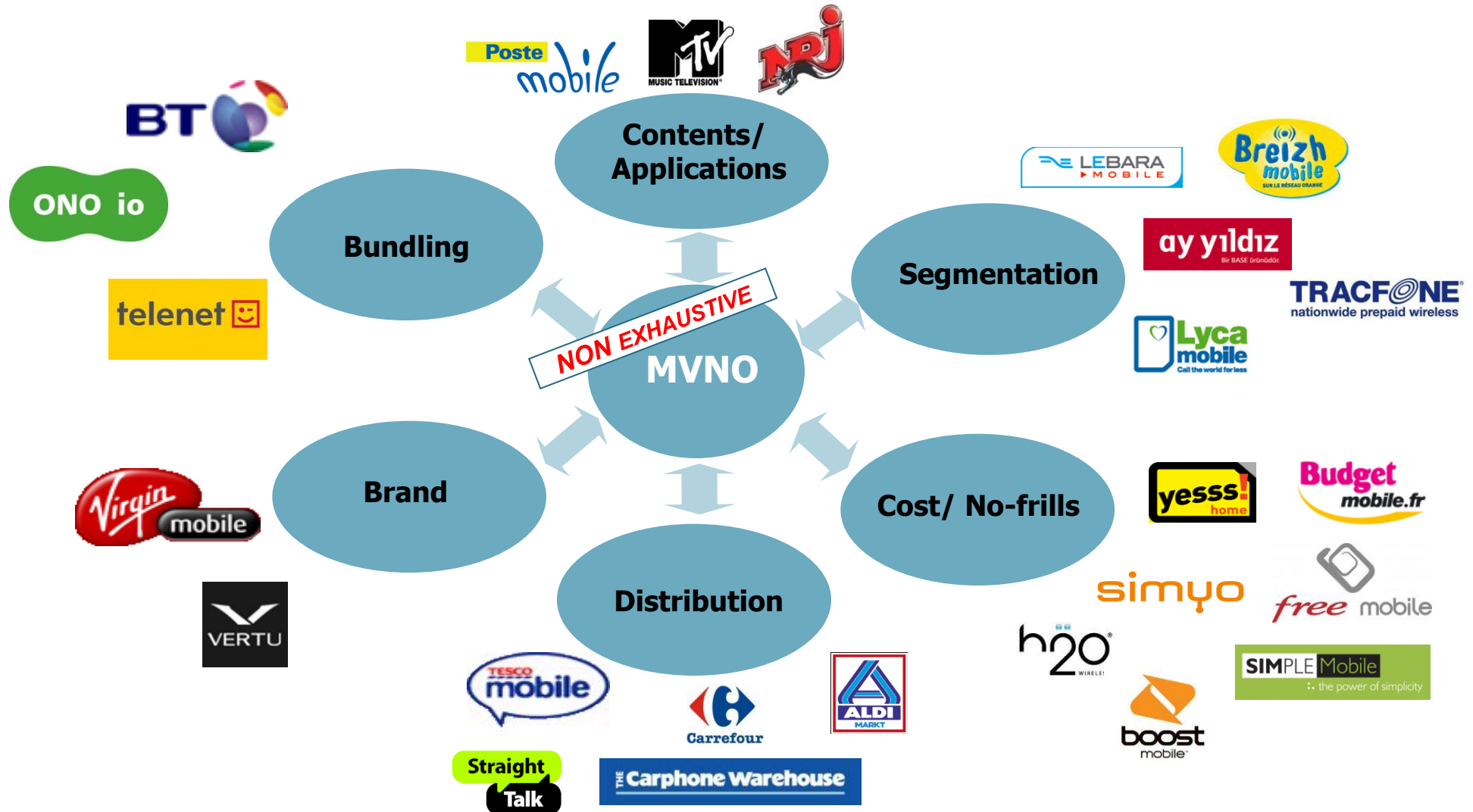
To be successful, MVNOs strategies as newcomers have to be based on **differentiating attributes** while achieving at the same time **lower operating margins** than the MNOs' ...



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MVNO market-entry strategies (II)

As a matter of fact, MVNOs all around the world have implemented a variety of strategic approaches, always depending on the specific market segment they intend to address



MVNO FUNDAMENTALS

MVNO OPERATIONAL MODELS

MVNO OPERATIONAL MODELS

Functional model Characterisation

There are several options for MVNOs to build and manage the required infrastructure over the Host-MNO radio access network...

FUNCTIONAL MODELS		Branded Reseller	Service Provider	Enhanced SP	Full MVNO
Core network & Service Layer/OSS	Radio Spectrum	White	White	White	White
	Switching	White	White	White	Blue
	IN Platform	White	Light Blue	Blue	Blue
	Numbering Resources	White	Light Blue	Light Blue	Blue
	SIM Card	White	Light Blue	Blue	Blue
BSS/CRM	Billing/Rating	White	Light Blue	Blue	Blue
	LMNP	White	Light Blue	Blue	Blue
	Provisioning	White	Blue	Blue	Blue
	Customer Care	Light Blue	Blue	Blue	Blue
Branding, Sales & Marketing	Own Brand	Blue	Blue	Blue	Blue
	Distribution/Logistics	Blue	Blue	Blue	Blue

 MVNO owns

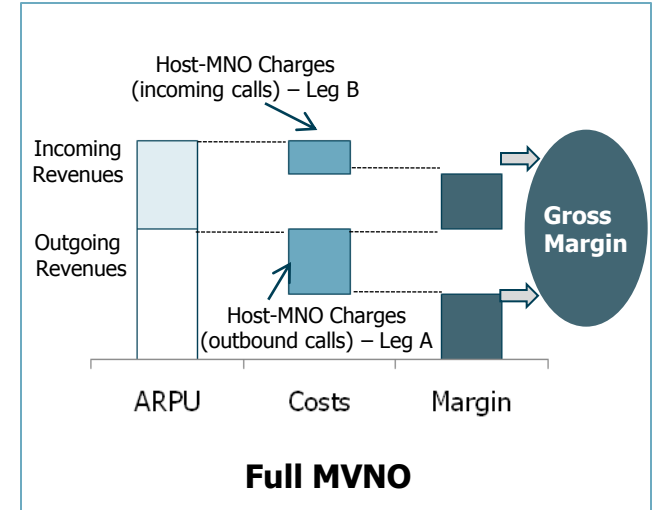
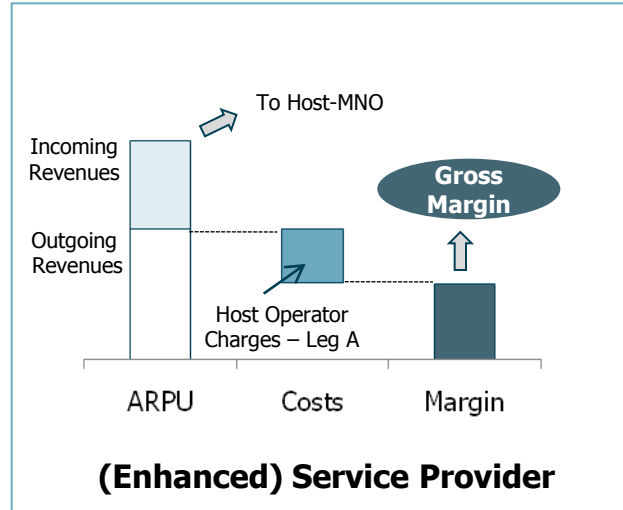
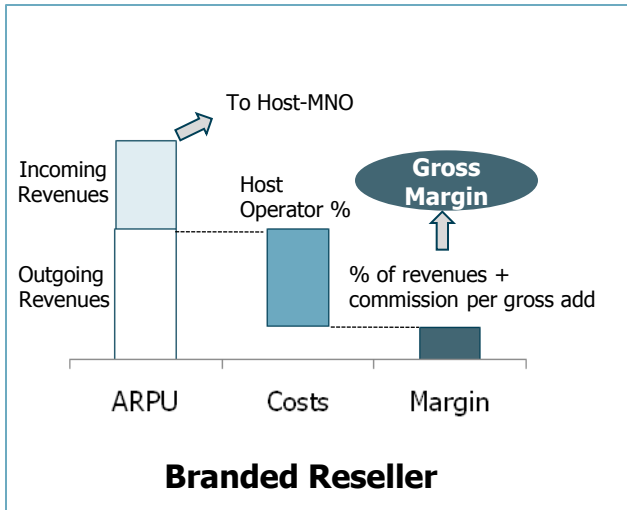
 MVNO may or may not own

 MVNO does not own

MVNO OPERATIONAL MODELS

Margin Analysis

MVNOs can be classified broadly into three (3) main functional models, each with its own economic implications on the business to be implemented...



- SIM does NOT belong to the MVNO
- MVNO has no control over retail pricing and does not invoice the subscriber for the mobile services
- No regulatory obligations apply to the MVNO –as it does not own the subscriber
- MVNO negotiates a revenue sharing with the Host-MNO along with a commission per client acquired (activation fee)
- Revenues from both inbound/outbound traffic are collected by the Host-MNO at both retail/wholesale levels

- SIM belongs to the MVNO but numbering range belongs to the Host-MNO
- Regulatory obligations apply to the MVNO
- MVNO has partial control on the production and full control on the retail prices of the mobile services (voice, sms, data, VAS) provided and directly invoices the subscriber
- Revenues from outbound traffic are collected directly by the MVNO from the subscriber(etail)
- Revenues from inbound traffic are collected by the Host-MNO at a wholesale level

- Both SIM and numbering ranges belong to the MVNO
- Regulatory obligations apply to the MVNO
- MVNO has end-to-end control on the production of the mobile services –as it owns and operates the IT platforms
- MVNO has full control on the retail prices of the mobile services provided and directly invoices the subscriber
- Revenues from both inbound/outbound traffic are collected by the MVNO at retail/wholesale levels

MVNO OPERATIONAL MODELS

Main Business Ratios

Depending on the MVNO operational model and the segment of the target market selected, payback of the investment can be expected usually between 4 and 6 years...

	Branded Reseller	Service Provider	Full MVNO
Subscr. Ownership	<ul style="list-style-type: none"> The Client belongs to the Host-MNO 	<ul style="list-style-type: none"> The Client belongs to the MVNO 	<ul style="list-style-type: none"> The Client belongs to the MVNO
EBITDA Margin (% of revenues)	<ul style="list-style-type: none"> n.a. 	<ul style="list-style-type: none"> 15-20% 	<ul style="list-style-type: none"> 20-25%
Project peak-funding	<ul style="list-style-type: none"> 2-3 Mill. USD 	<ul style="list-style-type: none"> 6-8 Mill. USD 	<ul style="list-style-type: none"> 8-12 Mill. USD
CAPEX	<ul style="list-style-type: none"> 0.5 - 1 Mill. USD 	<ul style="list-style-type: none"> 2-4 Mill. USD⁽¹⁾ 	<ul style="list-style-type: none"> 5-8 Mill. USD⁽¹⁾

NOTE (1).- Max. 1 mill subscribers

Source: NEREO analysis



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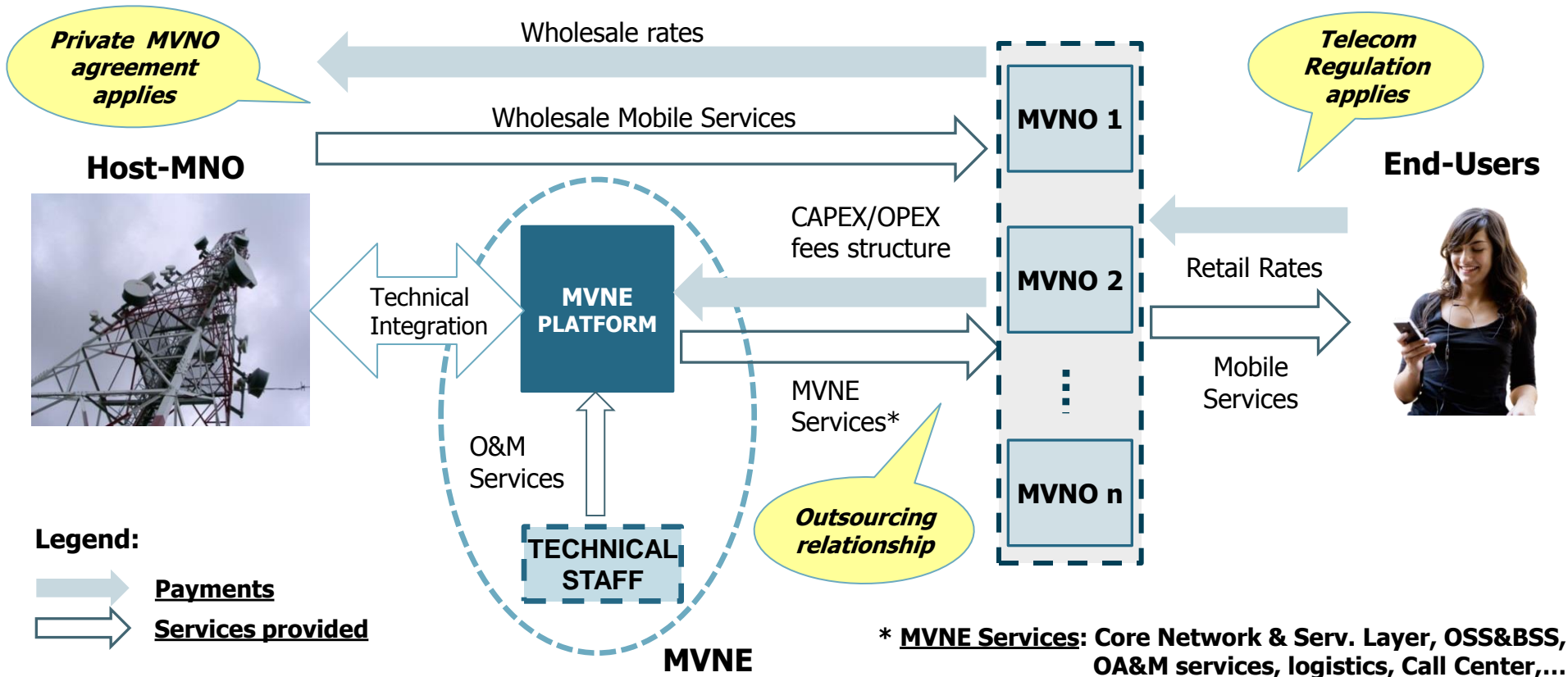
MVNO OPERATIONAL MODELS

- THE ROLE OF MVNA/E

THE ROLE OF MVNA/E

MVNEs in the value chain

MVNEs have emerged to act as an interface platform between the MVNO and the Host-MNO, bringing efficiency to the supply chain by optimizing MVNO launching (implementation costs and time-to-market) and the subsequent operational processes

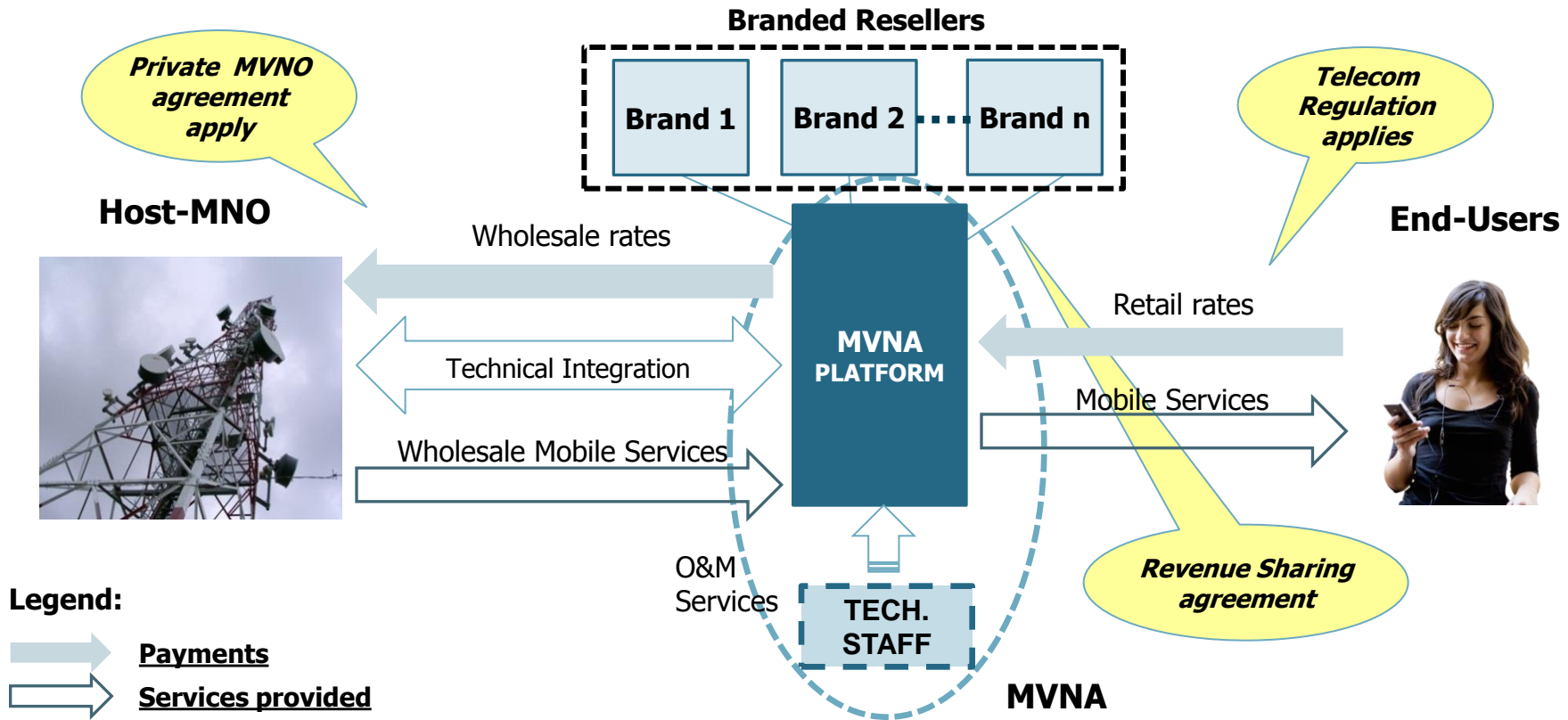


MVNE business relies on OUTSOURCING OPERATIONAL services, which is NOT bound by specific telecom regulation and it does NOT require to reach a MVNO agreement with a Host-MNO

THE ROLE OF MVNA/E

MVNAs in the value chain

MVNAs enable some players (Branded Resellers) to enter the mobile arena without scale enough to become MVNOs by themselves, providing them with the required operating support and economies of scale to allow them to compete in the market



MVNA business is strongly compelled by the specific MVNO regulation and it requires to implement a FULL-MVNO business model but entitled to resell its MVNO agreement with third parties

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