TELECOMMUNICATIONS & DIGITAL INFRASTRUCTURE

Now Is the Time to Revisit MVNO Business Models

Why Now?

The MVNO (Mobile Virtual Network Operator) market has gone through waves of innovation, retrenchment and changes in approach.

An MVNO is a mobile operator offering services on someone else's network through a wholesale agreement. These changes can result in higher revenue and margin growth for MVNOs by lowering their operating cost and reduce the time, startup costs and short-term working capital needs required to launch an MVNO.

Among these changes are several key developments:

Digital-First Customer Experiences: These experiences significantly reduce business costs while expanding sales and marketing opportunities while also creating more customized user experiences that scale.

eSIM Technology: This facilitates virtual customer activation and provisioning but more important simplifies the customer acquisition process.

Enablement Partners: A diverse set of partners, many of which are pre-integrated with major mobile networks, provide BSS/OSS capabilities at scale from launch.

Network Offload: For broadband providers or those mobile operators with Passpoint technology, the ability to seamlessly offload costly mobile network traffic to their own or lower cost WiFi networks.

Many companies that have previously considered entering the MVNO market have chosen to stay on the sidelines and wait for the market to demonstrate stronger customer demand and a viable set of economics, both of which are commonplace in the MVNO market. These newer digital business models, including those with AI capabilities to enable dramatically lower costs while increasing the volume of digital and online interactions, enable once niche opportunities to expand to a much larger potential audience.

New digital MVNO models, some with AI, can significantly lower costs while increasing digital interactions, reaching a much larger audience.

In this article we will explore the main types of MVNOs, the strategies that have driven cost reduction in channel and go-to-market campaigns, and the role that digital is playing to fuel growth in the MVNO market.

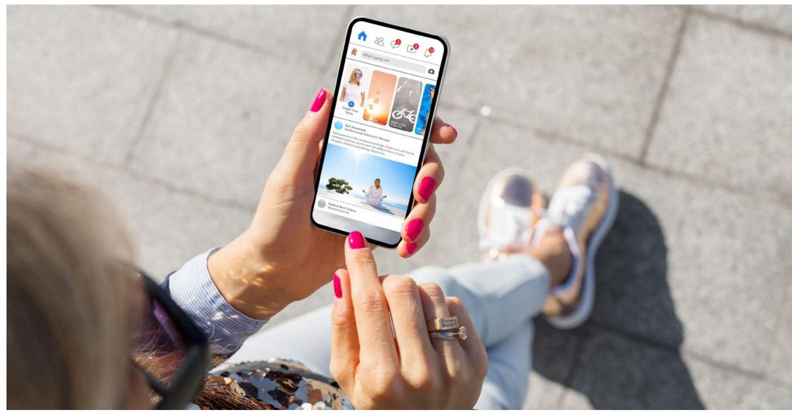
Lessons Learned

Early MVNO entrants relied heavily on their brand as a point of differentiation in the market and soon discovered that driving incremental value and creating new experiences, services and applications were difficult and expensive to create. Key cost drivers include subscriber acquisition costs (SAC), retention, channel and network access, and maintaining a strong brand with a unique value proposition.

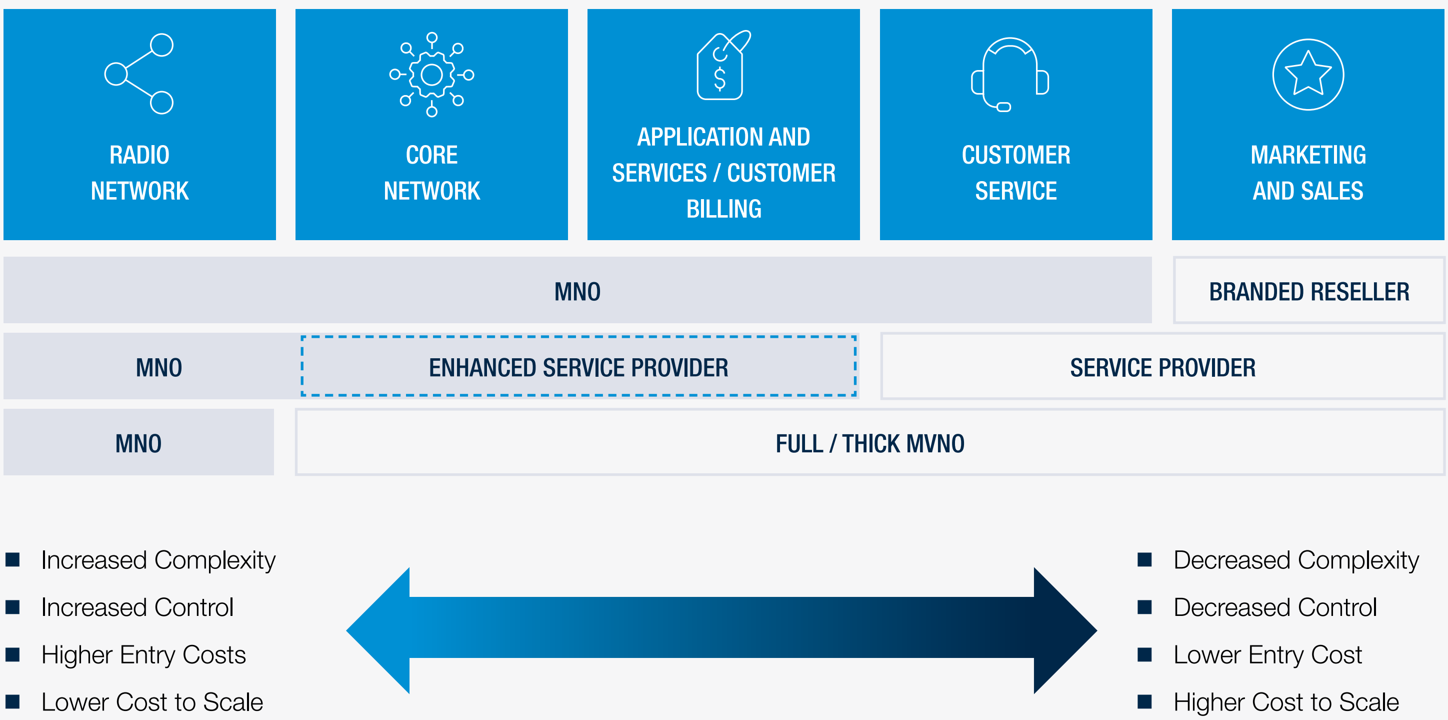
As the overall mobile market matured and the MVNO sector expanded, SAC and marketing expenses increased. At the same time, higher churn rates and declining revenues began to strain the MVNO market, discouraging new entrants and threatening existing MVNOs' business models. Those MVNOs that exhibited lower costs, however, often succeeded with pre-paid models and retail distribution partnerships. These players were able to address key challenges by lowering SAC and support costs relative to traditional MNOs, and they found ways to create unique offers for their customers.

> **In today's saturated mobile market, differentiation is challenging, but companies can leverage their customer base to cross-sell mobile services or enter with a unique value proposition anchored by a strong brand.**

In today's saturated mobile market, driving a differentiated value proposition is increasingly challenging. However, there are many companies that can leverage their existing customer base to cross-sell mobile services or enter the market with a unique value proposition — often anchored by a strong underlying brand.



MVNO ownership models vary in their level of complexity, costs and control



MVNO Archetypes and Business Model Considerations

For companies looking to enter the MVNO market, there is no one-size-fits-all approach. Bookending the different MVNO types are the full MVNO and reseller business models, however, countless permutations exist that can be tailored to align with a company's specific business model and the customer experience it aims to deliver.

The most complex archetype is a Full MVNO, where the MVNO, aside from securing access to a mobile network operators (MNO) radio network through a wholesale agreement, owns and manages all other facets of service delivery. This approach is usually CapEx-intensive and takes more time to deploy. Full MVNOs are typical for large enterprises aiming to offer services to their existing customer base, leveraging their existing operational assets and seeking to get as near as possible to "owner economics."

Conversely, at the other end of the spectrum lies the Reseller. Resellers believe that they can capitalize on their brand, customer relationships or retail distribution to sell mobile services. This model enables companies to test market receptivity, explore different value propositions and quickly capture income from the mobile service market. Reseller economics are typically less attractive than any of the other archetypes, because resellers own customer acquisition, which can be one of the most challenging aspects of running a mobile business.

Companies should consider several factors when defining their business model for an MVNO and the right archetype for them to deploy. To the right are four elements that are critical in gaining alignment early in the development cycle, as they will inform the right type of MVNO to pursue and establish the framework for which MNO to partner with. MVNOs that have clearly articulated their value proposition and have considered what capabilities they need to go to market with can mitigate risks to their business model and long-term viability.

Control

What level of customization does the MVNO require to deliver the value proposition and specific customer experience needs?

Execution Risk

What capabilities and resources (talent and funding) exist to stand up and manage the MVNO?

Brand

What brand attributes does the MVNO want and can it brand all aspects of experience?

Flexibility

What flexibility does the MVNO seek considering ever-changing market conditions and evolving bbusiness models?

Channel and GTM

Even without the scale economics that accompany network ownership, MVNOs that adopt these new strategies are positioned to achieve higher margins while de-risking their business model:

Buy Online, Pickup in Store (BOPIS): In a digital-first economy, it is no surprise that most customers begin their journey online — researching products and services, comparing prices and evaluating options before making a decision. These hybrid sales models offer personalized user experience and alternative retail distribution models.

Bundling and Cross-Sell: Companies with existing customer relationships and interactions, particularly digital or low-cost inbound channel interactions, can cross-sell MVNO services to these customers at a lower cost, addressing a key MVNO challenge and creating attractive "bundle economics."

Bring Your Own Device (BYOD): With many mobile markets already at or beyond full penetration, BYOD enables carriers to quickly add subscribers without the high cost associated with device subsidies or installment plans or managing significant device inventory.

eSIM: eSIM technology allows customers to easily activate service on an MVNO without visiting a physical store and provides enhanced online support, lowering operating costs.

Digital Acquisition: New digital and AI that enable online ad placement and hyper-localization help level the playing field for new MVNO entrants, enabling them to compete more effectively and scale faster.

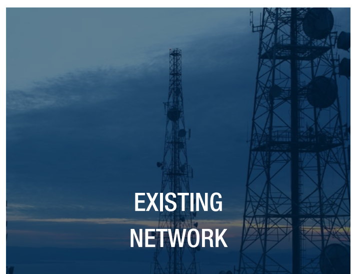
Technology and market trends are creating new MVNO opportunities – Examples

- Established residential and small business subscriber base
- Ability to bundle mobile with broadband, TV and VoIP offerings for extra discounts
- MSP's experience lower churn

- Subscriber Acquisition Costs
- Churn

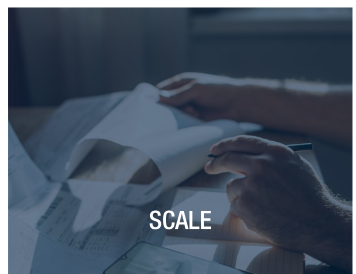
- National retail and installer footprint
- Existing sales and service touchpoints that can simply add mobile products and services
- Leverage of existing customer service infrastructure

- Subscriber Acquisition Costs
- Operating Expenses
- Speed to Market



- Cable operators can leverage existing network when negotiating with MNOs on wholesale pricing terms
- Ability to offload significant traffic to existing assets
- Integration with existing backhaul and transport infrastructure

- Network Operating Expenses
- Quality of Service in High-Traffic Areas
- Site Deployment



- Diversified revenue from multi-service bundling
- Economies of scope in customer service, billing and provisioning
- Shared infrastructure and logistics

- Cost-to-Serve
- Per Account Revenue
- Site Deployment

Broadband and Cable MVNOs

Broadband MVNOs have a unique advantage when entering the market. Compared to traditional MVNOs, these MVNOs can leverage their existing brand, customer base and operating capabilities for speed, lower risk and scale.

Additionally, they can create differentiated products and services, including service bundles, which can provide tremendous value to their customers. By leveraging existing customer relationships, data and interactions, broadband and cable MVNOs can dramatically lower SAC. By offloading costly mobile traffic onto their own broadband infrastructure, cable and broadband MVNOs have a path to unlock significantly higher operating margins. Traditional MVNOs operate in the range of 20–30 percent margins, whereas broadband and cable MVNOs that can off-load network traffic operate closer to a 50 percent margin.

Convergence: One of the more successful trends in the telco industry is converged service offerings. The ability of existing, or new, broadband operators to add mobile services to their existing products and services is allowing them to deliver voice, data and messaging via broadband and mobile. These converged services are allowing MVNOs to create unique products and services in the markets.

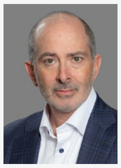
Network Offload: For MVNOs with existing broadband services, creating user experiences combined with mobile device management and Passpoint technology can significantly reduce the fees that MVNOs need to pay to their network operating partner.

Traditional MVNOs earn 20–30% margins, whereas broadband and cable MVNOs that off-load network traffic can achieve margins greater than 50%.

Conclusion

MVNOs are on the rise as barriers to entry have decreased and technological advancements have narrowed the economic gap between MNOs and MVNOs. New entrants must begin with a compelling value proposition to attract and retain customers, identify the essential capabilities needed to develop and launch their offerings, and establish a viable business model. Choosing the appropriate operating model and strategic partners, including the MVNO archetype, can help mitigate risks and clarify the underlying capital and operating expenses required to launching and scaling the MVNO.

AUTHORS



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