The multifaceted world of MVNOs: Growth and challenges ahead
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“In 2013 and beyond, operators will look more like internet and digital players than Telco dinosaurs. The fight for inclusion in adjacent market will continue to be a recurring theme while protecting profitable core – broadband access, voice and messaging – remains a C-level priority.”

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Executive summary:
Explosive growth, in a minefield

In any country there will always be customers that can be better or more cost-effectively served by a brand other than the main MNOs.

Informa Telecoms & Media

Informa Telecoms & Media is forecasting the mobile virtual network operator (MVNO) market to reach 270 million subscriptions by the end of 2018, a significant increase on the MVNO subscription base of approximately 117 million at the end of 2012. By the end of 2018, MVNOs will be serving over 3% of the world’s subscriptions (see fig. 1).

Fig. 1: Global MVNO subscriptions, 2012 and 2018

Note: Figures refer to year-end
Source: Informa Telecoms & Media

Geographically, Europe represents the largest MVNO market while the US, the second-largest geography, is experiencing a buoyant period of renaissance after the misfortunes of 2006-2008. Both markets will continue to provide the largest base of MVNO customers for many years but Asia Pacific region is starting to emerge as the “third pole” of global MVNO activities.

The “ethnic segment”, which is made up of both tiny and huge companies specializing in international communications services for the communities of people living outside their own countries, represents by far the largest MVNO segment.

Retailers and alternative fixed-line telecoms operators, such as fixed-line incumbents and cable operators, account for the bulk of MVNO subscribers today.

Business models are incredibly different across the range of MVNO markets, which are made up of a myriad of large, medium, small and tiny companies with disparate identities and business models. Today there are close to 1,000 MVNOs, branded resellers, sub-brands with business models varying from brand licensing, brand resellers, full MVNOs, light MVNOs, and operator-owned second brands acting as virtual operators.
There is virtually only one common element when it comes to MVNO identity – the quest to grab mobile-related revenue streams. To sum up, MVNO is the business of [better] segmentation. Of course, segmentation can be done by an independent brand or by a sub-brand owned by a mobile network operator (MNO), but it is likely that any country will always have a segment of the mobile customer base (large or small) that can be served better or more cost-effectively by a brand other than the main MNOs.

Failures are frequent. Although Informa Telecoms & Media strongly believes that MVNO opportunities are still expanding, creating a sustainable MVNO business is far from easy and many MVNOs have not been able to do so. Historically, one in every four MVNOs has gone out of business. Even the most solid business proposition will need to be able to adapt rapidly to customer and market changes.

Growing strongly

Globally, there will be approximately an additional 150 million MVNO customers up for grabs over the next five years. In the more immediate future, revenues from MVNO activities are expected to continue growing and market sentiment remains positive: 82% of the respondents to Informa Telecoms & Media’s MVNO Business Development Survey are anticipating moderate or strong revenue growth in 2014 (see fig. 2).

Growth patterns will differ substantially on a company-by-company basis but also on market-by-market basis. While Europe and North America will continue to be the largest MVNO regions globally, the fastest uptake will be recorded in Asia Pacific, Latin America, Middle East and Africa, albeit from a much smaller base.

In mature MVNO markets, MVNOs can account for as much as 10% to 15% of the country’s mobile customer base; very exceptionally, MVNOs and second brands operated by MNOs can gain a share as high as 30% of subscriptions.

Huge and tiny

There are three prominent MVNO segments (see also fig. 3):

- **Ethnic MVNOs**: For example, US-based Tracfone, which caters for the international communities based in the US, and UK-based Lyca Mobile, which offers low-cost international calls in 15 markets around the world.
- **Retailers**: For example, grocery retailers like Tesco Mobile, which operate an MVNO in many of the countries in which they have outlets, and post offices, such as the Italian post office, which sell telecom services in their retail outlets.
• **Telecoms operators:** These include Virgin Media, one of the most successful MVNOs in the UK that is now aiming to expand its mobile-branded business globally, and the cable company UPC-Media, which is in the process of launching mobile services in every market in which it operates fixed-broadband services.

![Table of Large and small MVNOs](image)

Beside a small group of large-sized MVNOs, there are hundreds of very small MVNOs often employing a very small number of employees and servicing fewer than 1,000 mobile subscribers.

**Why do MNO like and need MVNOs?**

Put simply, MNOs like the MVNO business because it is profitable (see fig. 6) and MVNOs help them to reach segments of the market which they cannot profitably serve themselves.

![Table of Retail vs. wholesale: MNOs' financials](image)

Competition plays a role too: MNOs often decide to embrace the wholesale business model simply because they are eager to grow their market share and acquire a slice of the wholesale revenues. In markets where the national...
mobile wholesale business is highly developed, MNOs are more likely to embrace MVNO business models simply because there is an existing revenue opportunity but, generally speaking, MVNO business development tends to be used by those operators with a relatively smaller share of the retail market.

**MVNO business developments and challenges**

Although there are huge MVNO players with multimillion-subscriber businesses, there are also many small and micro-sized operators. However, the size of the operations alone is not guarantee of either success or failure.

**Success...**

To be the global leader in telecommunications, financial services, travel & entertainment products and services to the international ethnic community...

*Milind Kangle, Group CEO, LycaMobile*

Today, MVNO activities are mushrooming. Some very different companies and showing an interest in launching an MVNO: Post offices, football clubs, social-media start-ups, OTT players, multilevel marketing groups, banks, digital-entertainment providers, utilities, IT solution providers, non-for-profit associations, consumer-electronics manufacturers are all evaluating business development plans that includes an MVNO-based mobile strategy.

At the same time, existing MVNOs are looking to differentiate their services. Alongside the most traditional customer proposition (calls, messaging, data), many existing MVNOs are looking to diversify their business and enter adjacent markets (entertainment, travel services, financial services, advertising) by adding new service bundles. However, according to the respondents to Informa’s MVNO Business Development Survey, the most-preferred way of expanding an existing MVNO business is still for the MVNO to launch operations in new geographies [see fig. 5].

![Fig. 5: MVNOs need to enter adjacent services and launch in new geographies](image)

n=341. *Ranked on a scale of 1 - 5 where 1 = most important opportunity and 5 = least important opportunity  
Source: Informa Telecoms & Media*

...**and failure**

Despite a consistent overall market growth, the MVNO market is still a risky business for many companies: Many MVNOs have already closed down and many MVNOs will fail – presumably in the same ways as they have done over the past decade. Even solid companies such as Disney Mobile in the US, ESPN and the Easy Group have failed to to succeed as they expected to as MVNOs. Informa Telecoms & Media estimates that one in four MVNOs don’t reach a second year of operations and we expect that MVNO market will continue to see many new launches but also many closures.
While there is no “secret” business model for a healthy MVNO, successful MVNOs tend to have certain key characteristics. Over the years, Informa Telecoms & Media has observed that there are nine key stipulations for an MVNO to be successful (see fig. 6).

The fundamental role of aggregators: MVNEs and MVNAs
Historically, the bottlenecks for MVNO markets have always been the timing and the cost (both opex and capex) of connecting to a mobile network and implementing the specifications that are needed to address market niches.

Today, according to the respondents to Informa’s MVNO Business Development Survey, managing and understanding technology remains one of the fundamental challenges for both new and old MVNOs, especially for those that do not have a telecom background. However, for the existing MVNOs, some of the most important business challenges are still related to flexibility (see fig. 7).

Commercial negotiations between MNO and MVNOs, even when the main elements of the agreement are established, can take several months to be concluded. But the most onerous and lengthy part of launching an MVNO is related to network and IT integration between the operator and the MVNOs.
Issues related to technology complexity and cost are now largely addressed by MVNEs (mobile virtual network enablers) and MVNAs (mobile virtual network aggregators) acting as facilitators between MNOs and MVNOs.

The business of aggregators is rapidly expanding. They are either established internally by the MNO as a business sitting alongside the main infrastructure or contracted externally to companies that are tasked to manage all technology-related aspects of integrating and running the MVNO. These MVNEs are effectively outsourcing specialists and network-management companies focusing on the MVNO business and their background is, in most cases, IT/billing and CRM software vendors or integrators.

The technology and commercial aggregators do face a number of technology- and business-related challenges. If it is true that MVNOs need to understand and respond rapidly to changes in their markets, it is equally important that MVNOs can also implement changes rapidly. The respondents to Informa’s MVNO Business Development Survey believe that one of the most important business- and technology-related issues affecting aggregators is their ability to meet the demand for new requests from their MVNO customers (see fig. 8).

Fig. 8: MVNEs’ top business and technology challenges

n=341.
Source: Informa Telecoms & Media
Conclusions, recommendations and action plans

• The MVNO business is expanding rapidly but is increasingly challenging for newcomers. Informa Telecoms & Media forecast that there are an additional 150 million MVNOs customers up for grabs. Revenue-generating, profitable opportunities are there in many segments: The ethnic market, youth-oriented, fixed-line operators, retailers, data-only and M2M all provide growth prospects.

• MVNOs have plenty of new markets to look for: Only approximately 70 out of 227 mobile markets are hosting MVNOs today. Existing MVNO markets need to look for new ways to differentiate services, often entering adjacent markets and new regions.

• Flexibility in both technology and business processes remains one of the most important characteristics for MVNOs if they are to launch, prosper and remain profitable in these very rapidly transforming markets. A focus on cost (both capex and opex) remains a critical factor, as well as the ability to implement changes rapidly. Aggregators should consider positioning themselves somewhere between fully-bespoke and out-of-the-box in order to both launch and also continue to assist their MVNO customers over their lifetime period.

• Operators can’t ignore the MVNO trend. However, it is important to remember that serving the MVNO sector as a network operator means working with firms that are inexperienced in mobile – so the role of aggregators is becoming virtually indispensable.
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