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The Power Balance Between MNOs and MVNOs

The increasing pressures of the mobile industry might drive MNOs to push their MVNOs out of the market. MVNOs who want to survive and expand should consider certain strategies to preempt potential MNOs actions and solidify their market positions.

Owning their own data, customer management and billing systems, customer portal and self-care tools, and customer analytic tools are among the key imperatives in staying one step ahead. Implement the innovative, agile and digital transformation, open-source tools before your competitors and MNO do so.

In addition, a clear strategy to turn the organization into an agile, responsive and innovative institution, leading with innovation, and staying ahead of the MNO will allow the MVNO be 'ahead of the curve'.

Finally, setting balanced formal relationship with the MNO, considering engaging additional MNOs, even at the expense of short term costs increase, and differentiating the products and services as much as possible from the MNO, will likely reduce the risk of the MNO slowly overtaking the MVNO. The MVNO should meanwhile develop alternatives to keep the business running.

The MVNOs Market Overview

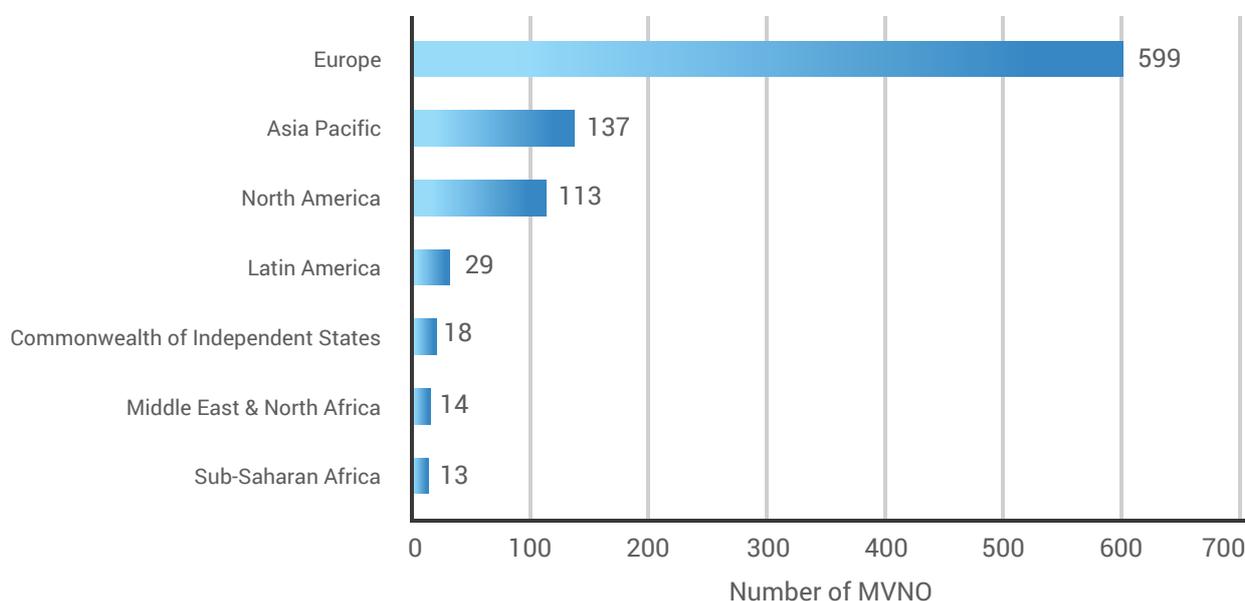
MVNOs [Mobile Virtual Network Operators] have been significant market players in the mobile telecommunications markets for almost two decades. They represent between 10% to 40% of the total mobile market, in various countries, where MVNOs are established for more than a decade. MVNOs are most popular in Europe, and are quickly gaining market share in Asia, the Middle East and Latin America.

The Market Reality

Although there are various types of MVNOs with various shapes, forms and drivers, the MVNOs market has been relatively volatile. The failure rate of new entrants to the MVNO market has been remarkably high, and a relatively small percentage [~20%, NEC] have succeeded past the initial phases.

Many MVNOs have not been able to stabilize their market share, and are unable to ensure continuous market presence. There are exceptions where some MVNOs have managed to gain market recognition and have reached significant business size. I will try to explain the reasons and factors for success of these are in my point of view, and how I believe MVNOs and players planning entering the markets, can implement these.

Number of Mobile Virtual Network Operators (MVNO) by region in 2015



Source

GSMA Intelligence
© Statista 2018

Additional Information:

Worldwide; GSMA Intelligence; 2015

The overall forecast for this 'Secondary Market' of MVNOs for the future is promising. The market is estimated at USD 54 to 55 Billion in 2017, growing at a CAGR of 8.8% for the forecast period of 2018-2023 [Orbis Research, Global Market Insights, Statista].

Other forecasts support this trend and expect the market to reach USD 88 Billion by 2022. This is also supported by the significant increase in in new market entrants, reaching around 1,000 MVNOs in 2015 and constantly growing.

Types of MVNOs

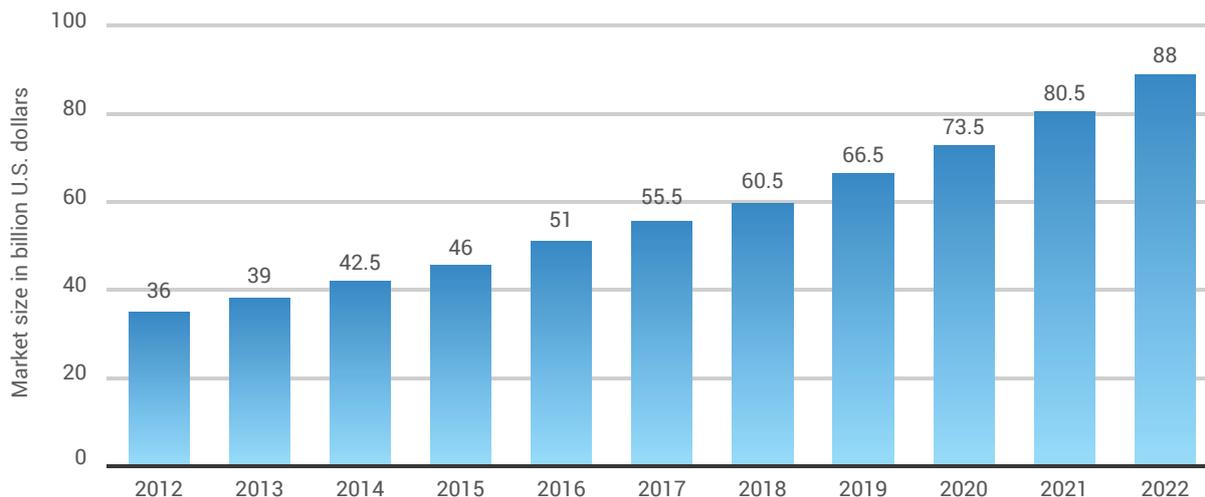
The classification of the MVNOs below distinguishes between their market approach, how they are marketed, which segments they focus on and what they offer, as well as the types of technology infrastructure they possess in order to deliver the market offering. The first section will describe the market types the MVNOs address and their offerings, and the next section will analyze the means to deliver to the market, i.e. their technological differentiators.

The Market Offerings of MVNOs

Since the emergence of the MVNO market, we have witnessed various types of players in the market. The most significant ones are:

- **Low Cost** - These are MVNOs offering low cost bundles, usually consisting of voice and messages with minimal data, for customers looking for budget packages. Other examples are roaming bundles and travelers offers of limited, pre-paid time bundles.
- **Retail and Services** - Certain companies which have a market presence leverage their customer base to offer mobile services, and offer credit or discounts for usage of these services while purchasing the companies' products, or combining the communications services with loyalty programs of the retailer. In the first wave of MVNO entries to the market in the early 2000's, some key retail chains were among the drivers of MVNOs concept adoption.
- **Convergent** - Many 'Non-mobile' players in the Telecom and Media markets identified the need to provide their customers with a complete communications package, including mobile subscriptions. These MVNOs provide prime contents and TV, VoD, Internet Broadband and/or fixed line services. The clear need to bundle these services and offset some of the shift from the traditional means to mobile, are the main driver for these providers to become MVNOs.
- **'Ethnic'** - some MVNOs identified niches in the markets, such as migrants, expats and others, where specific benefits such as discounted calls to home countries and others are key and drive the communities to adopt the MVNO offerings.
- **Specific Content** - There are MVNOs addressing certain communities such as football fans. Their offers include benefits such as discounted match tickets as well as specific contents appealing to the fans. There are other MVNOs addressing music fans of certain genres or bands, applying the same principles.

Size of the global MVNO market from 2012 to 2022 (In billion U.S. dollars)*



Source

Global Market Insights; Statista estimates
© Statista 2018

Additional Information:

Global Market Insights; Statista estimates; 2012 to 2016



The Technology Offerings of MVNOs

MVNOs have different breeds. They vary from pure reselling to fully equipped BSS MVNO with part of the OSS in their premises. The difference between these models is explained by market maturity, MVNO legacy in the market, the level of intimacy with their MNO, and the level of investments made by the MVNOs over time in order to solidify their market position.

While there are no available statistics on the number of MVNOs in each category as of 2017/2018 [See Table 3], it is fair to say that the more stable and veteran market player MVNOs are the those defined as Full/Thick MVNOs. By contrast, the 'lighter' the MVNO is, the lower its probability is to survive over time in the market.

This is no surprise, as the value the MVNOs provide their customers is positively and highly correlated with the tools and systems they have access to. These are the basic tools to differentiate the MVNO's offer from the other market players.

Size of the global MVNO market from 2012 to 2022 (In billion U.S. dollars)*

MNO	Radio Access	Network Routing	Inter-Connection	Apps & Services	Customer Care	Billing & Collection	Handset Management	Marketing & Sales
Branded Reseller	✗	✗	✗	✗	✗	✗	✗	✓
Skinny MVNO	✗	✗	✗	✗	✓	✓	✓	✓
Light / Thin MVNO	✗	✗	✗	✓	✓	✓	✓	✓
Full / Thick MVNO	✗	✓	✓	✓	✓	✓	✓	✓

Source : 3G4G.UK

Other Market Players in the MVNOs Market

Besides the MNOs and MVNOs, there are additional players in the market, the MVNEs [MVN Enablers] and MVNAs [MVN Aggregators]. These entities are intermediate, between the MNOs and the MVNOs and provide starting MVNOs with most of the infrastructure MVNOs need to start their operations, an 'MVNO in a Box' approach. They equate to the Full/Thick MVNO type described above and allow new MVNOs use the services they need.

This approach gained traction in the first wave of market entries by MVNOs during the late 2000's. The aggregators did fill a market need - from the MNO perspective, they filled the gap in utilizing the unused bandwidth and capacity of the MNOs. From the new entrant MVNOs, they addressed the need for minimizing the initial investments in setting up the operations.

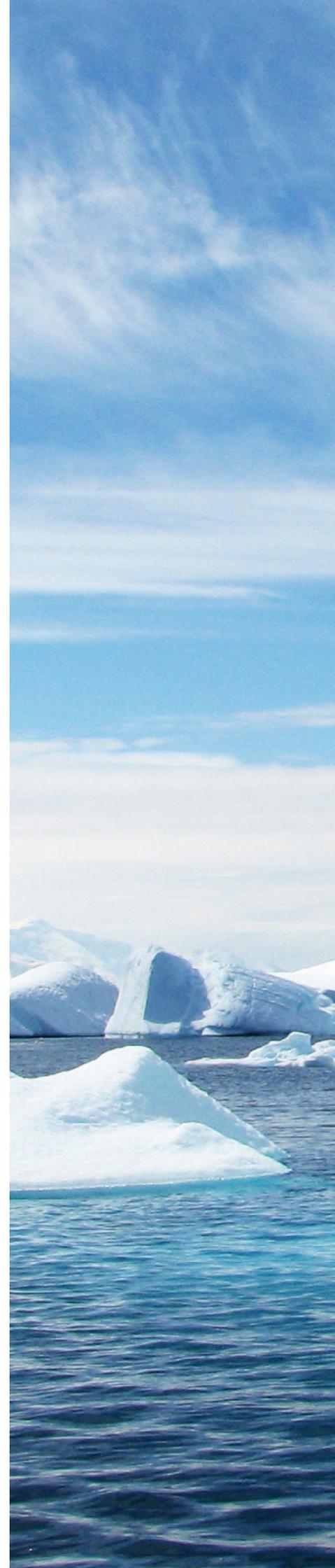
Regulations have been overall favorable to MVNOs, perceiving them as competition accelerators and change agents. Europe is leading the regulations but the larger countries in Asia have opened up the tap for MVNOs in China and India, as well as in the rest of the Asian continent.

Where is the MVNOs Market Going to?

The discussion about the MVNOs market as one unified market is a broad generalization, and ignores various very important factors such as local environment of the overall economy, the state and number of MNOs, regulations, maturity and market saturation and many more factors.

Yet, it is clear that given intensifying competition and market pressures, the strategies adopted by the MVNOs in the past will not sustain their business in the [near or distant] future. This is mainly referring to the 'low price' approach and/or the addressing of certain market niches with low end services. With the maturing of the markets, the customers demand is for higher quality services and products, while prices still decrease.

Furthermore, there are few key common factors for all MVNOs that emerge, regardless of the specific market conditions. These factors might have variable impact on the overall business of the MVNOs, but with time their importance will grow.



Developments, Trends and Pressures in the Mobile Markets

Beyond the state of the MVNOs market, there are some key developments in the Telecommunications market that strongly influence the MVNO market and effect the future of MVNOs.

In a nutshell, the key trends, developments and market behaviors are:

- **The increasing influence of handset manufacturers**, smartphones, on the roles of MNOs and consequently, the roles of MVNOs. MNOs are losing brand supremacy to the manufacturers.
- **Markets are saturated.** In the developed markets, penetration rate of mobile phones is beyond 120% and fast approaching the 150%. MNOs growth from higher penetration is very unlikely. In these countries, number porting is increasing, making the return on Customer Acquisition Costs [CAC] even more risky.
- **The shift from Voice to Data.** This is a clear trend correlating with the wide adoption of smartphones, allowing customers to use their phones for many other purposes and usages, mostly based on data streams [video clips, social networks, various apps].
- In tandem with the shift from voice to data, there is a **trend of ARPU decline**. This trend is related to the shift from prepaid engagements to postpaid contracts with fixed and unlimited bundles.
- Increase in **demand for higher bandwidth** by customers. With the introduction of AR/VR as well as an increase in customers watching movies on their phones, the need for 'wider pipes' is clear. For many MNOs who reached their network capacity, this poses a challenge.
- The introduction of LTE and later, of 5G, **requires heavy investments** in network infrastructure. Some of the MNOs fear they will have no benefits or incentives from increasing network bandwidth, and are unsure that they can leverage their heavy investments with a worthwhile return rate.

Key Strategies for Future MVNOs

The most significant strategies MVNOs might need to take includes insulating their customer relationship from the MNO, so that the management of the MVNO customers cannot be easily taken by the MNO. In addition, reducing the dependencies of the the MVNO in their MNO will create a more balanced relationship between the parties.

Own the Right Infrastructure

The MVNOs should over time create an infrastructure to hold their most valuable asset, their customers. The MVNOs should have all the IT components that involve customer management:

- Billing and customer care
- Customer relationship [CRM] and customer portal
- Specific apps and services

Superior customer management tools, an easy process to register and user experience will win the customers' hearts and minds. An MVNO with its own integrated BSS solution and specific services and apps, is on its way to success.

Manage and analyze customers' behavior

The MVNO should be able to continuously identify, analyze and act upon their customers' requirements, faster than any MNO. For this, the MVNO should:

- Collect customer data of all types.
- Constantly analyze customers' usage patterns [shift from voice to data, churn warnings].

Design an agile organization

With the usage of customer management tools and focus on analyzing customers' behavior, the MVNO must have the organizational agility to act upon the opportunities in the market and preempt competitive steps.

Manage the MNO-MVNO relationship

The most significant actions are those responding to the dangerous MNO strategies which are taking ownership of the MVNO destiny. A good start would be questioning the viability and necessity of the MVNA/MVNE as an intermediate entity providing services and acting as a broker. The MVNO has to establish direct relations with the MNO:

- Develop relationship with other MNOs, so the MVNO can have a better 'negotiating position' with the MNO on their next contract renewal.
- In certain scenarios, engage a second MNO, and have access to an alternative mobile network and shift the usage from one MNO to the other, balancing over them over time. This will put the MNO in a better negotiating position as well provide the proper flexibility and not rely on either MNO's infrastructure.

Develop New Products and Services

In addition to the MNO-MVNO relations, the MVNO has to constantly develop new and appealing products and services, attract new customers, maintain and satisfy the existing clientele, and sustain profitability. The market initiatives were not covered in this document. We will briefly mention a few that could fit the structure of the 'skinny to thick' MVNOs:

- IoT - The IoT promise, in terms of the exponential growth of IoT devices connected to networks, has yet to become a reality. The common pattern we're seeing in the market is of small steps taken by IoT providers, involving small quantities of devices/SIMs, testing market acceptance, business models and value. IoT providers need a platform to manage their connected devices [Usually referred to, as CDP - Connected Device Platform] and small quantities that probably won't be significant for MNOs, but can allow MVNOs to differentiate themselves by providing a CDP as well as small SIM quantities. Normally, IoT providers that succeed, will continue with the same providers with whom they initiated the business.
 - International Coverage - Traveling is becoming more popular. With the new EU roaming regulations, the challenge for European MVNOs is even tougher. Most MVNOs operate locally [except few large MVNOs - Virgin, Lyca, Lebera], and the lack of roaming charges can be detrimental and significant. Establishing a loose network of local MVNOs cooperating with each other and offsetting part of the damage of the EU decision, might increase their customer value, and solve or minimize a key financial concern.
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Why does an MVNO need a robust BSS ? Or how can MVNOs protect their market presence ?

Following the turbulent times in the Telecom markets and the relatively high number of exits from the MVNO market, one of the key questions is how to shield, secure and solidify the MVNO's market position. There are various reasons that can explain the phenomenon, such as local circumstances, market maturity, a change in customers' tastes and more. Still, one common reason is the [relatively high] dependency of the MVNO on the MNO, not only for network access, but also for customers management, billing, and other business applications [BSS - Business Support Systems].

The MVNO, in most cases, is not the first priority for the MNO. The MNO has to manage and focus on its markets, compete with other MNOs, and will try to unify and align the services it provides to the MVNO within its 'normal business'. However, the whole concept of an MVNO is to differentiate and take to the market using an approach distinct from the MNOs.

Many MVNOs understand the importance of being independent of the MNOs, especially in the BSS realm, but are reluctant to take action. This can be because they need to manage a tight expenses envelope at their inception and launch phases, and BSS doesn't seem to have a major impact on revenues in the short term. At later stages, the daily management reality, the services package delivered by the MNO [including BSS] and the perceived high costs to implement its own BSS, diminish the probability to drive change.