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?**

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

**FUNCTIONAL MODELS**

<table>
<thead>
<tr>
<th>MVNO OPERATIONAL MODELS</th>
<th>Branded Reseller</th>
<th>Service Provider</th>
<th>Enhanced SP</th>
<th>Full MVNO</th>
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</thead>
<tbody>
<tr>
<td>Radio Spectrum</td>
<td>MVNO does not own</td>
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<tr>
<td>Switching</td>
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<td>LMNP</td>
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<tr>
<td>Provisioning</td>
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<tr>
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<tr>
<td>Distribution/Logistics</td>
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<td>MVNO may or may not own</td>
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</table>
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...

**Branded Reseller**
- SIM does NOT belong to the MVNO
- MVNO has no control over retail pricing and does not invoices 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

**(Enhanced) Service Provider**
- 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(retail)
- Revenues from inbound traffic are collected by the Host-MNO at a wholesale level

**Full MVNO**
- 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
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...

<table>
<thead>
<tr>
<th>Subscr. Ownership</th>
<th>Branded Reseller</th>
<th>Service Provider</th>
<th>Full MVNO</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Client belongs to the Host-MNO</td>
<td>The Client belongs to the MVNO</td>
<td>The Client belongs to the MVNO</td>
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<table>
<thead>
<tr>
<th>EBITDA Margin (% of revenues)</th>
<th>Branded Reseller</th>
<th>Service Provider</th>
<th>Full MVNO</th>
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<tbody>
<tr>
<td>n.a.</td>
<td>15-20%</td>
<td>20-25%</td>
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<thead>
<tr>
<th>Project peak-funding</th>
<th>Branded Reseller</th>
<th>Service Provider</th>
<th>Full MVNO</th>
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<tbody>
<tr>
<td>2-3 Mill. USD</td>
<td>6-8 Mill. USD</td>
<td>8-12 Mill. USD</td>
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</table>

<table>
<thead>
<tr>
<th>CAPEX</th>
<th>Branded Reseller</th>
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<th>Full MVNO</th>
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</thead>
<tbody>
<tr>
<td>0.5 - 1 Mill. USD</td>
<td>2-4 Mill. USD(^{(1)})</td>
<td>5-8 Mill. USD(^{(1)})</td>
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</tr>
</tbody>
</table>

**NOTE (1).-** Max. 1 mill subscribers

Source: NEREO analysis
**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.
**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.

**THE ROLE OF MVNA/E**

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.