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MVNOs - competition policy and market development

ITU workshop on 3G mobile

David Lewin

Email: david.lewin@ovum.com
Direct line: +44 20 7551 9213
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www.ovum.com

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What is an MVNO?

Characteristic	***Service provider***	***Indirect access operator***	***Enhanced service provider (ESP)***	***Mobile virtual network operator (MVNO)***	***Mobile network operator (MNO)***
Spectrum					Licensed to use
SIM card			Brands host's SIM cards	Issues own SIM cards	Issues own SIM cards
Network infrastructure		Switch and transmission	Varies	Switch + HLR + transmission	Switch + HLR + VLR + transmission
Pricing		Partially independent	Partially independent	Fully independent	Fully independent
Branding	Some independence	Some independence	Fully independent	Fully independent	Fully independent

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Why become an MVNO?

Player	***Type of MVNO***	***Example***
3G only MNO	2G MVNO in home country to get early customer base	Group 3G on EPlus 2G network
2G only MNO	3G MVNO in home country	Bouygues Telecom
2G/3G MNO	3G MVNO in other countries eg via reciprocal agreements	Hard to find examples
3G ESP/MVNO	3G MVNO in other countries	Virgin Mobile

Supply conditions for the MVNO

- Current supply conditions negotiated rather than regulated
- Buying in bulk cheaper but riskier:

Buy in bulk	*Pay roaming charges*
High risk - pay for capacity which may not be used	***Low risk*** - pay only for minutes used
Poor cash flow - pay up front	***Good*** cash flow - inbound and outbound payments at same time
Low price per minute - 30% (?) below retail prices	***High*** price per minute - at or slightly above retail (?)

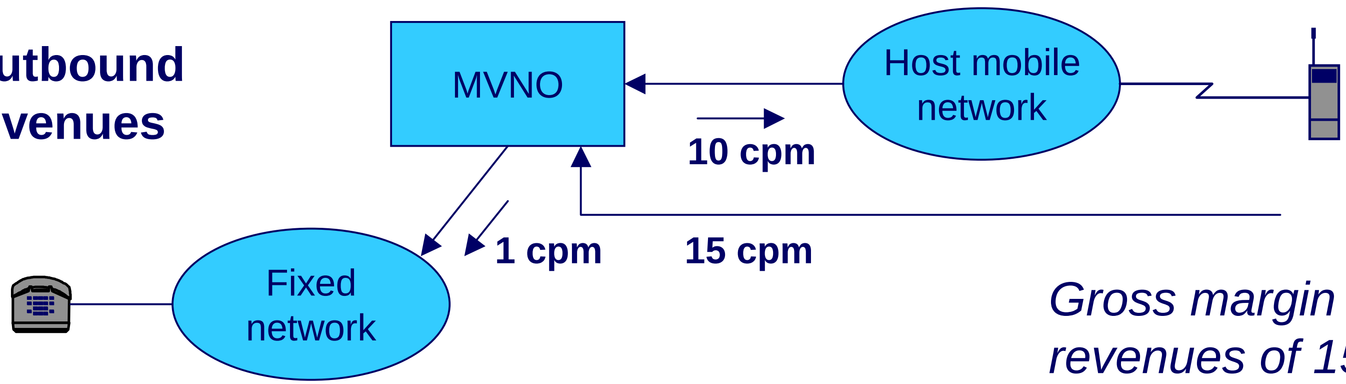
The commercial case for MVNOs

- Capex much lower than MNO but higher than ESP
- 30% gross margin likely - but not enough for viable voice only business so…..
- …..need to develop significant volume of value added data services
- Important to get inbound as well as outbound revenue streams

- Main MVNO capex (v ESP):
  - *mobile switching centre/HLR/VLR*
  - *SIM cards*
  - *VA services and billing platforms*
- But no radio access network capex (v MNO)

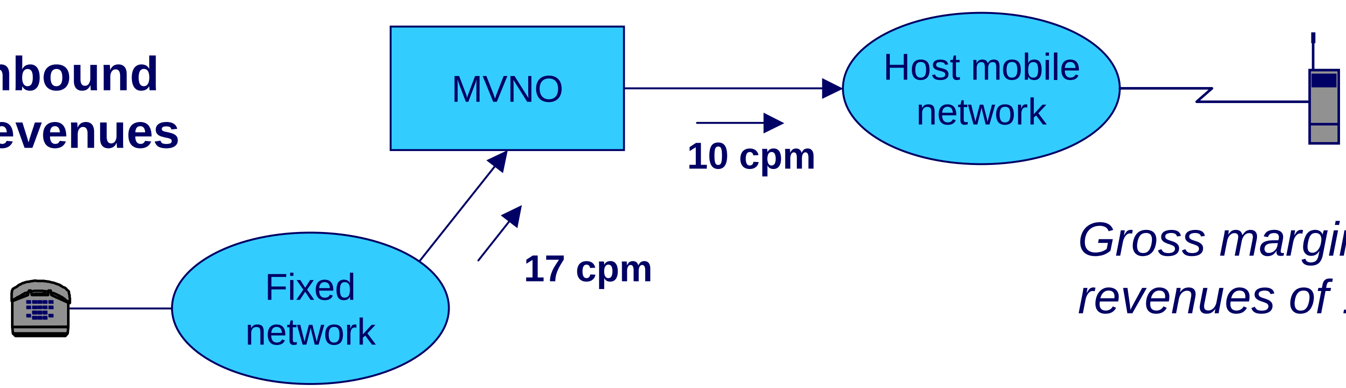
The importance of inbound call revenues

Outbound revenues



Gross margin = 4 cpm on revenues of 15 cpm

Inbound revenues



Gross margin = 7 cpm on revenues of 17 cpm

The growing importance of MVNOs with 3G

- 2G MNOs have resisted MVNOs and national roaming
- 3G MNOs much more open to both
- Why?

- MNOs concerned whether 3G will give adequate ROCE given:
  - *capex on licence fees*
  - *prospective capex on network roll out*
- ***National roaming*** cuts capex for 3G national coverage
- ***MVNOs*** enable improve cash flow for 3G MNO by filling network early
- ***MVNOs*** reduce risk of inadequate 3G revenues:
  - *revenues dependent on innovative value added data services*
  - *revenue failure less likely with multiple service providers*

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Current regulation in support of MVNOs

- Mandatory national roaming a possible route but…
- ….most NRAs restrict national roaming:
  - **to** *stand alone 3G licensees - typically when 20% coverage reached*
  - **from** *2G operators with 3G licences*
- Only Denmark requires 2G MNOs to offer national roaming to MVNOs. But at what price?
- Regulated roaming rates typically > airtime reseller rates

- Current EU framework offers little help
- New EU framework may be better eg:
  - *separate markets for mobile call origination*
  - *CEC recognises need for clarification*

Will IRG report on mobile access (10/01) offer clarification?

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The case ***for*** regulation for MVNOs

- 3G MVNOs lead to more service competition and:
  - *greater innovation*
  - *more chance that 3G will succeed early*
- Without regulatory support 3G MVNOs will not enter the market for the long term:
  - *good negotiated supply conditions possible in short term (while MNOs want to fill their networks) but*
  - *long term MNOs will raise prices to drive MVNOs from the market and take full end user revenues*

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The case ***against*** regulation for MVNOs

- Four or five 3G MNOs per country is enough for strong service competition
- Adequate opportunities for MNOs and MVNOs to negotiate deals
- Regulated supply to MVNOs likely to reduce investment:
  - *danger that NRAs will set supply price too low*
  - *incentives for investment then switch from infrastructure to service*

Are long term stable relationships possible?

MNO

low market share
high licence fee

Win/win

MVNO

strong brand
innovative services
understanding of key end users

- MNO which raises prices and drives its MVNOs out of business not guaranteed to capture their customers

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Regulating for MVNOs - Ovum view

- Strong service competition if all 3G licensees successful
- But how many will succeed?
- Regulating price of supply to MVNOs will:
    - *produce worse deal for MVNOs than negotiation (regulated price too high)* ***OR***
    - *decrease infrastructure investment incentives* ***AND***
    - *reduce chance of MNOs succeeding (regulated price too low)*

Conclusions for discussion

- remove barriers to MVNO entry eg allocation of mobile network codes
- leave MNOs and MVNOs to negotiate supply conditions
- only intervene if clear evidence of market failure