

What does it take to launch a successful MVNO ?



January 2005

Abstract: In this white paper, we will be considering some key questions executive management address in order to launch a successful MVNO.

Publisher: The Besen Group, LLC.
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Oakton, VA 22124 USA
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Prior to founding The Besen Group, Alex developed opportunities with mobile operators in North America and Europe for Mantas (formerly known as Sotas).

Previously, Alex worked at Ericsson with mobile operators on MMS, GPRS, MVNO and UMTS projects in the EMEA (Europe, Middle East and Africa) region. He was also responsible for identifying potential partners and hosting workshops at Ericsson Mobility World (a mobile data laboratory) where developers create, optimize and commercialize mobile applications.

Prior to this position, Alex was a Business Development Manager at T-Mobile USA (formerly known as Omnipoint Communications) where he was responsible for partnerships, joint ventures and provided billing, customer care, marketing and vendor financing solutions to mobile operators.

Alex began his mobile career as a Program Manager with Pocket Communications based in Washington, DC where he managed the company's auction activity for C-block spectrum licenses as well as other activities associated with market research, market segmentation, pricing plans and market distribution strategies.

Alex holds a BS degree in Management from the University of Tampa and MBA from the American University. Alex is fluent in French, Turkish and proficient in Italian. He is an active member of mobile forums and international associations including CTIA and GSM World.

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Definition: There is no exact book definition for MVNOs. The term does not imply a specific network architecture or to a specific mobile technology. It depends on the type of services MVNO will offer in the marketplace.

Definition from Oftel: "An MVNO is an organization that offers mobile subscription and call services to customers but does not have an allocation of spectrum."



Market Overview:

Based on the available market information, there are more than 25 potential MVNOs today in the US alone. Some have already launched their services, some are evaluating their business models, and some do not know what mobile and mobile data strategy they should follow.

As MVNOs enter the mobile market, we will see lower prices for subscribers and the introduction of multiple mobile data applications that will help MVNOs to differentiate themselves from the competition and in return provide higher margins to their financial bottom line.

MVNOs will focus heavily on mobile data services to increase their ARPU by relying on next-generation mobile networks. With the advent of these mobile networks, non-mobile players will also consider entering into the mobile market with the objective of leveraging their brand, attractiveness of their services and controlling their customers.

We expect that once the mobile market is matured and uncompetitive MVNOs are withdrawn or acquired, the remaining players will seek to improve profitability through economies of scale or scope.

Business Model Options for MVNOs:

- | | |
|----------------------------|--|
| Reseller: | Buys bulk airtime from the HNO and resells to target segments |
| Service Provider: | Provides services over the mobile platform |
| Enhanced Service Provider: | Combines the reseller and the service provider business models |
| MVNO: | Owns portion of the mobile network with or without SIM cards depending on choice of mobile technology of the HNO |
| Complete MVNO: | Has more control of the mobile network and enables multi-operator agreements |

Where will MVNOs come from?

- Traditional landline operators planning to add mobile services
- Mobile operators planning to enter into international markets
- Companies with strong brand names
- Companies who could not obtain 3G licenses and 3G Greenfielders
- Companies from telecom, media, and internet industries



Sample HNO Evaluation Criteria for potential MVNOs:

- Large own customer base
- Strong distribution network
- Strong market position
- Low traffic intentions
- Niche market segment
- Economic strength
- Mobile competence
- International reciprocity
- Geographic submarkets
- Initial Public Offering

Sample Strategy Development Workshop for a MVNO:

- Target segments
- Market positioning
- Offering
- Technology
- Customer care
- Distribution

What does it take to launch a successful MVNO?

Based on our hands-on experience, we can share with you how each prospective MVNO should carefully assess its strategy, management team, understanding of mobile networks, and the potential of mobile data services and its business plan.



Key Questions:

- What is the business strategy and what are the launch objectives?
 - Offer bundle communications solution? Go global?
 - Extend the number of services? Create synergies?
 - Is this a new business for the MVNO or an expansion of its current business?
 - Support existing customer base? Leverage brand name value? Differentiation?
- Will the MVNO use a CRM tool? And how?
- What partnerships does the MVNO need to look at?
- What vendors is the MVNO planning to work with?
- Is the MVNO planning to brand its own SIM cards?
- How will the MVNO distribute its service to its customers?
- What market segment does the MVNO planning to target?
- What is the commitment from the executive management?
- What steps should the MVNO take as a part of its strategy?
- Is the MVNO planning to offer roaming services including data?
- What price does the MVNO will pay to the HNO for network access?
- Where does the MVNO want to go with its initiative in the long term?
- Do executive management understand the mobile data market drivers?
- Is the MVNO familiar with handling customer care and billing services?
- How does the MVNO see the operating environment in the near future?
- What price does the MVNO will pay to the MVNE for mobile data services?
- Who is going to issue SIM cards? Is the MVNO familiar with SIM card vendors?
- What mobile data applications is the MVNO planning to offer for its customers?
- Is the MVNO familiar with the life of typical mobile data application? i.e. 2 months
- Does the MVNO understand its customers' profiles, behaviors, and spending patterns?
- What is the hands-on experience of the executive management from the mobile industry?
- Does the MVNO know how to structure revenue sharing arrangements with other players?
- Does the MVNO know how to calculate its ARPU based on minutes, kilobytes, SMS and MMS?
- Does the MVNO understand the different mobile data (infrastructure) enablers? i.e. Wap Gateway
- If the MVNO chooses to host its own mobile data services without the MVNE, is the MVNO familiar with the required infrastructure (Capex), costs (Opex), applications?

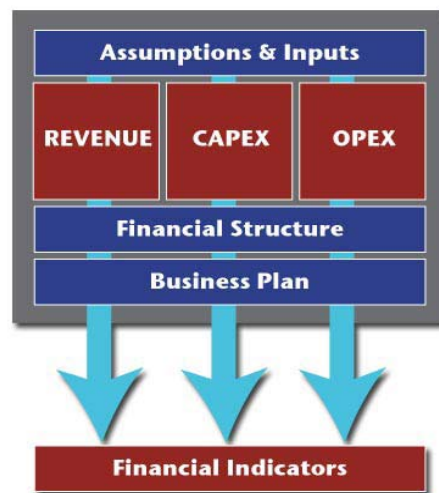
Business Case: The main objectives of the business case are to improve quality of planning and decision-making, reduce the decision risk and more importantly influence or even shape the future of MVNO environment favorably. It is an integrated business-planning model in which revenues, capital and operating expenditures are linked to the financial model.



The traditional values of brand, functionality and quality will be more important for the MVNO than any mobile technology. This is worth bearing in mind, since the benefits of mobile data services may vary greatly by applications area and user segment. As the mobile market is changing from an environment dominated by voice to one where mobile data services are equally as important. This is not an easy transition, as it requires adaptation to new service concepts and new technologies. It also demands cross-industry partnerships and new business models, accompanied by a re-organization of the value chain.

Business Case Structure:

We suggest MVNOs to follow the following business case structure for their decision-making.



Few key questions for the business case:

- What are the effects of different pricing schemes?
- Which mobile data services take the most capacity?
- What are the effects of revenue share arrangements?
- Which mobile data services have the highest contribution?
- How mobile data services and price plans complement each other?
- How mobile data services and price plans capture from each other?

MVNOs who can proactively address these questions and manage their revenues and investments in key functional areas will be successful in this competitive marketplace. They will also maximize their return on investment and shareholder value.

Key Acronyms:

ARPU: Average Revenue Per User
HNO: Host Network Operator
MMS: Multimedia Messaging Service
MVCP: Mobile Virtual Consulting Practice
MVNE: Mobile Virtual Network Enabler
MVNO: Mobile Virtual Network Operator

**Additional Acronyms:**

AMPU: Average Margin Per User
BGW: Billing Gateway
BPS: Bits Per Second
CAD: Confirmed Advertisements Delivered
CCBS: Customer Care Billing System
CDR: Call Detail Record
CPGA: Cost Per Gross Addition
EBITDA: Earnings Before Interest Taxes Depreciation and Amortization
FCF: Free Cash Flow
IRR: Internal Rate of Return
LBS: Location Based Services
MMSC: Multi Media Messaging Center
MOU: Minutes of Use
NPV: Net Present Value
OSS: Operations and Maintenance Sub-System
QoS: Quality of Service
SIM: Subscriber Identity Module
SMS: Short Messaging Service
WACC: Weighted Average Cost of Capital

About The Besen Group

The Besen Group LLC, is an international management consulting practice to the mobile data industry headquartered in the Washington DC area, with representatives in Paris and Tokyo. Its mission is to provide mobile data players with tools, knowledge, and services enabling them to perform optimally in their mobile environment. The Besen Group's competitive edge is based on practical experience with mobile operators, mobile vendors and a mobile data laboratory.

The Besen Group's MVNO service portfolio includes the following services: service benchmarking, market entry evaluation, competitor SWOT analysis, mobile data MVNO seminar, MVNE evaluation and analysis, marketing plan development, business strategy and planning, market and customer segmentation, mobile data revenue identification, partnership and alliance development, service and new product development, custom business case development, host network operator contract negotiation assistance, mobile data application segmentation, handset vendor evaluation and analysis, MVNO network architecture evaluation, project management and RFP preparation, market research and competitive analysis, churn management and revenue assurance and measurement of key performance indicators.

The Besen Group works on a project or retainer basis with mobile operators, vendors, content providers, content aggregators, ASPs, ISPs, MVNOs, MVNEs, VCs and enterprises from all around the world.