

Rethinking MVNO and MVNE Economics (The Future of Mobile Virtual Models)

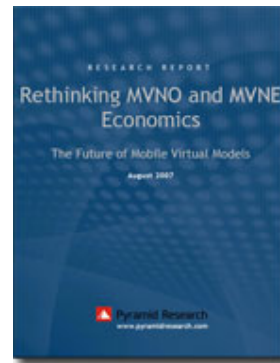
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Overview

Recent news about MVNOs has not been encouraging. The failures of Mobile ESPN and Amp'd Mobile in the US as well as easyMobile, Ten Mobile, and scores of others in Europe have raised some fresh questions about the viability of the MVNO business model.

Pyramid Research's new report, *Rethinking MVNO and MVNE Economics: The Future of Mobile Virtual Models*, provides an in-depth examination of the economic factors behind the failure of many MVNO models and the successes of others. Indeed, the picture is not all negative: the gloom and doom predictions regarding the MVNO market fail to acknowledge that the global MVNO subscriber base grew by 24% in 2006, to reach 84m users. There are profitable MVNO operations, from Virgin Mobile and Tesco Mobile in the UK to TracFone in the US. Moreover, interest in becoming an MVNO has not faded away by any means; the list of the companies exploring the MVNO opportunity continues to include big names from a range of markets.

Nonetheless, the MVNO model does have some major, practical pitfalls. Building on an extensive analysis of MVNO profitability and overall performance to date, this report outlines what works and what does not work with today's MVNO business models. The report deconstructs MVNO economics, provides insights into the MNO business case for hosting MVNOs, and reviews the MVNE model and its role in making the MVNO model work. Ultimately, *Rethinking MVNO and MVNE Economics: The Future of Mobile Virtual Models* provides a glimpse into who will succeed, and who will not.

Key questions answered

- What are the economic realities of the MVNO business? How do the key margin indicators compare among the prepaid MVNOs, cost-heavy MVNOs, and traditional mobile players?
- Can MVNOs make money? What have been the key drivers of profitability—or lack thereof?
- Does the MVNO model make sense for content providers?
- How should the MVNO model evolve to be successful?
- What is the business case for an MNO to host MVNOs? How has the entry of MVNOs affected mobile markets?
- What are the ingredients for successful MNO-MVNO partnerships?
- How have MNOs prevented cannibalization of their revenues after partnering with MVNOs?

- Do MVNOs need MVNEs? How is the MVNE role evolving to make the MVNO model work?

Executive summary

The MVNO business has never been as good an opportunity as the initial hype would have had you believe, but in our view, it is not as hopeless as the negative publicity of the past year suggests. A review of the performance of MVNOs over the past five years yields a number of salient lessons on the business model, and provides enough material to establish what work and what does not appear to work.

Key points from the research and analysis are as follows:

- The MVNO model is not a bust. New players should learn from the mistakes of past players and flush out the excesses of the business model. Successful MVNO models are primarily built around cost-control. In a way, the MVNO model is coming full circle.
- At the root of the failure of MVNOs lie an overly optimistic assessment of demand, an unrealistic revenue model, a demanding cost structure, a lack of preparedness in the back-office, and an absence of a meaningful service differentiation.
- The cost-heavy MVNO model is not optimal for content providers; they have a better shot at success by pursuing a lighter model. We are also skeptical about ad-based models.
- The MVNO impact on mobile markets has been significant to the degree of MVNOs leading to MNOs exiting the market. In building partnerships, MNOs should be wary of MVNOs that are looking to differentiate on the pricing front only.
- A solid case can be made for MNOs hosting MVNOs: getting into non-core markets and optimizing network utilization are key advantages. In addition, the value of a wholesale subscriber is often higher than that of a retail customer.
- The future of the niche branded MVNO will largely hinge on the ability of enablers to support it. The MVNE space will see its own shakeout. The model is evolving toward pure outsourcing, and we do expect that more MNOs will start offering services traditionally provided by MVNEs.

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