

# MVNO

## The Next Big Reseller Opportunity

### *The Gold Rush Is On*

By David Grigg

**Question:** How can I offer cell phone services if I don't own wireless spectrum and I'm not an agent of a wireless carrier?

**Answer:** Become a MVNO.

#### **'Okay, what's a MVNO?'**

MVNO 101, or the term 'wireless reseller' is soooo 1980s.

A few years ago the telecom industry, never shy about creating and proliferating new terminology, mothballed the term cellular, replacing it with wireless or mobile. Continuing the trend, 'wireless reseller' -- the term for a cellular wholesaler, was subsequently replaced with the acronym 'MVNO'. A MVNO, or 'Mobile Virtual Network Operator', purchases wireless services from an underlying network operator at wholesale, reselling them through their own distribution channels. They don't own the network, hence the moniker 'virtual operator'.

If you're into word associations, carrier/MVNO is the telecom equivalent of airline/tour operator. MVNOs uniquely brand their services and optionally bundle content, data services and web browsing with their voice offerings. Other than owning and maintaining a wireless network, MVNOs perform all the functions of a wireless operator -- they develop and manage the relationship with the customer and they outsource or maintain front and back office support systems, including customer care, rating and billing, web self-care, IVR, AR, payment processing, and POS (point of sale) systems. They're also responsible for calculating, collecting, and

remitting taxes to the myriad of federal, state, and local tax authorities.

#### **'And I should become a MVNO because...?'**

It can be a very lucrative business for anyone able to successfully market wireless services. Margins are healthy, especially for prepaid models, and initial capital requirements are now relatively low, enabling a rapid ROI. Unlike other telecom sectors, MVNOs are gaining traction on Wall Street. InPhonic (INPC), with their Liberty Wireless MVNO as an enterprise cornerstone, proved it could attract sizable funding. Venture capitalists invested \$56 million in the firm in June 2003 after an initial round of \$19 million in 2001. In Nov. 2004, InPhonic raised a little over \$100 million in its IPO.

'All right, you got my attention. So how do I become a MVNO?'

First a little history.

#### **MVNO channel overcoming a rocky start**

Until November 2002, U.S. regulators required carriers to offer wholesale programs, and MVNOs, or cellular resellers as they were originally known, have been around as long as there's been cellular service. In the mid to late 80s there were only two cellular licensees per major U.S. market. Many of these A and B-channel carriers, depending on who built



their network first, were actually resellers of the other channel until they built their own networks. WorldCom Wireless, the most noteworthy reseller of the 90s, grew to the nation's largest primarily by acquiring many of the smaller resellers.

Prior to the introduction of digital service in the mid 90s, traffic on many carrier networks was nearing capacity. Resellers were often the carrier's largest customers, yet were competing for the same customers as the operators. Carriers questioned why they should offer discounts to resellers who would only load customers on their nearly full networks at reduced prices.

The mindset of 'why should we care about resellers?' became commonplace. For much of their early history operators made their wholesale pricing structure nearly identical to their retail structure, preventing MVNOs from offering innovative pricing; there was little to distinguish the retail offers of MVNOs from those of the wireless carriers, and that's just what the carriers wanted it. Throw in a couple of reseller bankruptcies (the WorldCom debacle is still in the news today) and you begin to understand why the carrier/reseller relationship never really blossomed. An uneasy alliance would be a generous description.

**U.S. MVNOs are finally coming into their own... well maybe**

In the mid 90's, a couple of developments effectively opened up the reseller channel. The launch of Sprint PCS and Cingular Wireless brought a fresh, non-jaded carrier perspective. Along with their improved collaborative attitude, they offered more innovative wholesale pricing. Cingular and Sprint's more enlightened approach to MVNOs continues to this day. Sprint's wholesale strategy is certainly paying off. According to Wireless Week, as of Q3 2004, Sprint had 2.8 million wholesale subscribers with wholesale revenues of \$100 million. Although regulators no longer mandate the wholesale channel, the number of MVNOs continues to grow, and MVNOs are contributing an increasingly higher percentage of total wireless subscribers.

**Europe leads the way, or not your father's MVNO**

The solid MVNO success enjoyed in Europe finally found its way across the pond thanks to Virgin Mobile USA. Virgin is credited for opening up prepaid for MVNOs when they brought their successful European MVNO prepaid model stateside, striking a strategic partnership with Sprint. This alliance resulted in the creation of new interfaces for network usage, provisioning, and SMS (2.5G) gateways. In addition to Virgin Mobile, MVNOs such as Qwest, 7-Eleven's Speakout Wireless, Boost Mobile, Liberty Wireless, AT&T Mobility,

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and others are proving the value of the channel. Also known as tier 2 and 3 distribution channels, MVNOs tend to be closer to their subscribers than many tier 1 channels

(major carriers), responding faster to the wants and needs of the newest generation of cell phone users. They combine unique branding and distribution with creative pricing, and some, including Virgin, offer innovative, trendy/hip content, much of it tailored to very specific customer segments or niche markets.

**Gatekeeper mindset, or getting their blessing can be the toughest part**

Carriers protect their network and brand identity with a vigor that would make a mother hen cluck with envy. Despite the success of Virgin, Boost, Speakout, and other

notables, U.S. carriers are still reluctant to put out the welcome mat for every MVNO wannabe that comes knocking on their door. They understandably insist on evaluating the impact every offering has on their network and their brand – they want to ensure their reputation isn't hurt by network traffic spikes or poor customer service from an underlying MVNO, and that there's adequate funding to sustain and grow the business. Most carrier/MVNO contracts preclude sub-MVNO type relationships – relationships where they aren't directly in the approval loop bestowing their blessing on each and every branding solution.

U.S. carriers also look to avoid what has happened in Europe, where an abundance of MVNO low cost discounters are putting downward pressure on prices. U.S. carriers are not particularly eager to add new customers if they're not going to be big spenders, more so if they're nearing network capacity. Rather than provide an option for consumers to buy their services at a lower price, they prefer to pry open the wallets of existing customers, getting them to spend more for extra services such as sending photos and videos. Don't expect carriers to open their arms and embrace a MVNO business plan based primarily on



price; that strategy could get you the cold shoulder. A few wireless carriers will, however, warm to MVNOs that add value in terms of customized content, or offer a market segment, or bring a distribution channel carriers are unable or unwilling to tap on their own. This is providing your new adds are sizable enough to command attention.

For all the successes of Virgin, Qwest, Speakout Wireless, Boost Mobile, Liberty Wireless and others, some carriers remain jaded by a handful of over-promising, under-performing, smaller MVNOs. Carriers have set a high bar for entry by requiring significantly high subscriber commitments or sizable minimum monthly MOU (Minutes of Use). You'll need to be well-funded and able meet the carrier's LOC (Letter of Credit) requirements. Carriers want some assurance you'll be around for a

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long time. Since a smaller MVNO requires the same investment and overhead from a carrier as a large one, you may not be worth it unless you can bring in a healthy number of subscribers.

During contract negotiations with the carriers you'll need top-notch professional skills, not only to obtain a favorable wholesale deal but also to demonstrate your ability to be a good long-term partner. Many MVNOs engage marketing consultants and other professionals to help craft and refine their branding, marketing strategy, and business case to (1) make themselves attractive to potential funding partners, and (2) generate as much enthusiasm from carriers as possible.

**(Editor's note: Our series on MVNOs continues next month with 'De-**

**veloping your MVNO business case'. How to attract funding for your MNVO will be one of several topics covered.)**

**Carriers adopt different MVNO strategies, if they have one at all**

Unless you're a Virgin or ESPN/Disney type MVNO, are you forever destined to be the poor step-child of wireless? It depends on (a) what you bring to the table and (b) how much pressure the carriers are under to show growth. When presenting to the carriers, you'll need to put on your best sales hat to put forth a well crafted business plan that (1) adds value with a creative offer, (2) doesn't depend solely on discount pricing, and (3) adds incremental subscribers, avoiding cannibalizing existing customers or directly competing for the same customer as the carrier. You'll also need to prove adequate financial backing and be able to insure a good customer experience through quality customer care.

Prepaid wireless services are the hot ticket, and will clearly be the centerpieces of most new MVNOs. Recognizing this, Sprint and Cingular have each responded by enabling a prepaid platform. Both carriers actually offer two MVNO platforms — one with near-real-time usage, and another in conjunction with a third party provider supporting a call path/mid-call teardown solution. Your pricing model will determine what platform is right for you. MVNO platform options will be covered in more detail in an upcoming issue.

**What makes a good wholesale contract?**

Your wholesale contract can mean the difference between success and failure — this goes without saying. This author doesn't profess expertise in the legal or fiduciary aspects of contract negotiation, but there are some basics that are essential. Per FCC regs, carrier wholesale pricing needs to be the same for identical MVNO pro-

grams. If you're creative in crafting your program, you may discover some wiggle room for rates and other contract elements such as activation/deactivation fees, letter of credit requirements, long distance options, data/content, or other terms.

You'll want access to automated provisioning on the carrier network, and for prepaid, at least two additional pieces are essential — near-real-time or real-time-usage, and minimal or nil wholesale MRCs (monthly recurring charges). Since most fees, including wholesale activation and deactivation charges, come directly off your bottom line, anything that reduces these fees improves your profitability. Long distance options can also make a difference. The ability to redirect long distance traffic opens up a potential profit center through lower wholesale LD rates such as VoIP.

In dealing with carriers, your attitude matters. Keep in mind the relationship between a carrier and a MVNO is delicate. Getting a favorable deal is critical, but taking a hard-line stance in your contract negotiations will likely be counterproductive. After all, you're attempting to demonstrate you'll be a good long-term partner. And don't expect speedy negotiations; carriers are slow and deliberate, rarely displaying a sense of immediacy.

So you're well on you're your way to signing a wholesale contract. Now what?

**'MVNO-in-a-box', or 'Plug sales engine in here'**

Creating the infrastructure to support your new MNVO is when you really need help. Fortunately that help is available in the form of one of the newer telecom acronyms — MVNE. What's an MVNE? A Mobile Virtual Network (Operator) Enabler; a provider of an integrated suite of support systems and solutions designed specifically for MVNOs. The expanded acronym 'MVNO-in-a-box' (what else would

you expect from an acronym crazy industry?), is a bundled platform offered by some MVNEs. It's a readymade turnkey type solution that typically includes automated interfaces to carrier's provisioning system, real-time or near-real-time usage, gateways for SMS and content, as well as the usual telco back-office systems and services.

Until recently it took considerable IT resources and significant capital to build the underlying MVNO infrastructure. With the advent of MVNEs, that's no longer the case. Now you provide the carrier contract, your business rules, your marketing, your sales and distribution channels, and the MVNE takes it from there, creating an automated solution with minimal human touch points. MVNEs minimize upfront costs and shorten time to market. Sprint and Cingular can provide the names of MVNEs able to support MVNOs for their networks. More about MVNEs will appear in an upcoming issue.

As demonstrated by Virgin, Boost, InPhonic and several others, a MVNO can be a lucrative business; it doesn't require a king's ransom to enter an exclusive market. Combine this benefit with healthy margins and you have the recipe for a handsome and rapid ROI. Name another telecom sector that can make the same claim!

Stay tuned, more to come. Our series on MVNOs continues in upcoming issues. 'Developing your MVNO business case' appears in our next issue. 'What's a MVNE, and what can it do for me?' appears in two months.

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