



Mobile Virtual Network Operators:  
Convergence in action

Is an MVNO right for you?

“Convergence is on the way. We are moving into a world where more and more of what we do and what we produce is going to be delivered in alternative fashions, or through the Internet.”

— *Dick Parsons, Chairman/CEO, Time Warner*<sup>1</sup>

In the 1990s, many analysts predicted that convergence would reinvent the technology, media and telecommunications industries. But, with the dot-com crumble, most of the convergence promises of that decade failed to come to fruition.

Today, convergence is back – this time boasting real world examples of the powerful effect it will have on the technology, media and telecommunications industries. Some of the best examples of the convergence of cross-industry products and services have emerged in the wireless space. The Mobile Virtual Network Operator (MVNO) is one example.

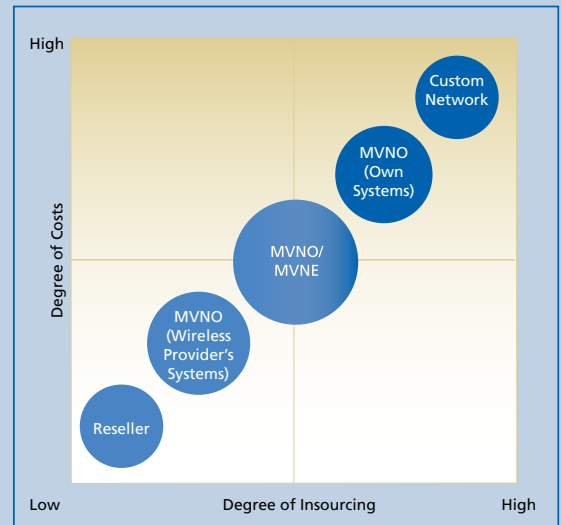
An MVNO purchases wholesale airtime on an existing wireless network and provides its own branded wireless communications services to end-users.

For companies like ESPN, Disney and Virgin USA, an MVNO wireless strategy provides new channels for extending their brand and generating new revenue streams. Although the MVNO model may be appropriate for many companies, it is not the answer for everyone. Your company's core competencies and your brand's position in the market will help determine which wireless service model is right for you.

# MVNO fundamentals

## What's driving MVNO growth and why should you consider it?

In a nutshell, an MVNO is a company that offers a set of branded wireless services, built as an "overlay" on a wireless network owned and operated by a network operator (wireless carrier) partner.



### MVNOs are being driven by three key factors:

Market Opportunity	Technology Evolution	Competitive Dynamics
<p>\$10-12 billion revenue projected by 2008 due to:</p> <ul style="list-style-type: none"> <li>• Opportunities for customer acquisition by non-wireless companies based on their existing core competencies such as content, brand extensions or efficient distribution channels</li> <li>• Opportunities to capture non-consuming wireless customers through niche, targeted offerings</li> </ul>	<p>Maturing of 3G (high-speed wireless networks) enabling media/entertainment offers</p> <p>Emerging integration technologies such as IMS (IP Multimedia Systems) which support integration of voice and data products</p>	<p>Slowing growth of the overall wireless market – thus making wholesale an attractive revenue source to the wireless carriers</p> <p>Consolidation of mega wireless carriers creating a need for differentiation</p> <p>Competitive pressure to continue to invest in improving the network</p>

The type of business model to adopt and the level of investment required to set up an MVNO depends on the degree of in-house control desired over the range of services (products) offered and the business and customer operations infrastructure. To that end, there is a new class of outsourcing companies that have emerged to support MVNOs. These outsourcers are called MVNEs (MVNO Enablers) and they provide a range of operations support functions to an MVNO. Most MVNOs employ a hybrid model where some support functions are outsourced and others are managed in-house.

# Is an MVNO right for you?

As products, services and organizations converge, there is increasing potential to deliver value to niche markets, especially within the wireless space. The digitization of content, advances in wireless 3G technology and slowing growth of the overall wireless market are a few of the factors driving companies to MVNOs. But, is an MVNO wireless strategy right for you?

Before jumping in, here are the top ten questions you should consider.

## 1. Should you become an MVNO or access mobile customers through another mobile content channel?

Significant "beachfront property" still exists for large-scale MVNOs, and the potential for mobile content overall is still in its infancy. However, the MVNO model is not right for everyone. In fact, channel conflict, partner conflict or market positioning could argue for other forms of mobile content delivery. The market for large-scale, content-based or lifestyle MVNOs is likely to become self limiting at some point due to offering overlap and compressed margins.

## 2. What are the core elements of growth and profitability that will drive your business case?

The concept of re-selling or re-branding wireless service has been in place since the early 1990s with limited success. To succeed as an MVNO today, some combination of compelling mobile content, advanced applications, brand affinity, and/or low-cost distribution channel is required to offset limited margins available on basic voice services. Developing your value proposition is the biggest decision that will drive the remaining aspects of MVNO implementation planning.

3.

### Are your strategic partnerships designed to meet your business objective?

Strategic partnerships will likely cover supplementary or primary content and applications as well as the underlying technical support infrastructure. Distribution partnerships are especially important for early consideration as they can make or break the cost-to-acquire customers and volume portions of the business model. The underlying carrier and Mobile Virtual Network Enabler (MVNE) agreements are often taken for granted; however significant latitude exists to tailor these agreements to the needs of the business model.

4.

### How will you manage the creation of ongoing content and applications if you are a content MVNO?

The market for basic mobile content is already in place via licensed content available through existing wireless carriers. However, as the Internet model has demonstrated, the refreshing of content drives a larger part of audience loyalty than the content itself, and as such, will force content-based MVNOs to address content creation more thoroughly than the current approach. This will include three major threads:

- Content Development Lifecycle Management
- Content Channel Management
- Mobile Content Themes

5.

### Where will you find knowledgeable staff to support the business?

Despite the potential for MVNE support, your business model will likely require experienced staff familiar with the operational and competitive issues associated with the wireless telephony marketplace. Numerous key decisions are necessary to create a viable human capital sourcing strategy, including the geographic locations for your operations, staffing mix, outsourcing options, and key responsibility policies.

6.

### What is the right level of investment to support your mobile offering?

A realistic investment model will be essential to creating and validating the business plan. Building the investment model will require knowledge of wireless business economics. It is also critical that this model reflect the likely start-up, roll-out, and operational steady-state aspects of the business with sufficient realism to prevent major mid-stream corrections. Significant industry experience already exists that will allow sound modeling and scenario planning across all of the necessary investment spectrum and can be leveraged to create a strong business plan.

### On what basis will you differentiate your offer and create sustainable competitive barriers to entry?

7.

The history of mobile application and content has to date produced relatively few services with significant competitive barriers to entry. Push-to-Talk, a two-way communication feature that works much like “walkie talkie,” is one of the few examples where significant competitive advantage has been maintained over a meaningful period of time. The opportunity exists for many content and application-based MVNOs to establish such a barrier, but only if significant forethought is directed toward product design and scenario planning.

### Which technology architecture is right for your MVNO?

8.

The perfect business model will fail unless you have the right systems and processes in place to support your value proposition on a sustainable basis. For example, a content-rich MVNO has unique technology requirements for such functions as how content is loaded onto the platform, how customers download content from the network and how content rights are protected. Numerous options exist for the underlying data/content architecture and this is one of the areas that is most likely to be specifically tailored to the needs of an individual MVNO. There is no one-size fits all answer; however, an effective option can almost always be developed.

9.

### How will you acquire the necessary infrastructure?

An MVNO must provide the same services as a wireless carrier. That includes everything from logistics to handset distribution to customer contact centers. Most MVNOs don’t have the internal resources to supply all of the operations and support infrastructure. They typically employ a hybrid model in which infrastructure support is split between in-house systems and those of strategic partners, such as an MVNE. MVNEs, which specialize in providing infrastructure and related services to MVNOs, offer the flexibility to leverage best-in-class solutions; however they require significant management and tailoring from the perspective of the MVNO. In the case of a re-branding-based MVNO, an MVNE combination can supply a relatively large portion of the services, with increased tailoring required as the content/application-rich end of the spectrum is reached.

10.

### Is your business model sustainable and profitable?

The importance of understanding the cost and revenue structures that make your MVNO into a profitable venture sounds obvious, but requires careful modeling and scenario planning. The two most critical metrics in the wireless industry are cost per gross add (CPGA) and cash cost per user (CCPU). The CPGA includes expenses such as handset subsidies, marketing costs and credit check costs. The CCPU consists of the average amount paid monthly out-of-pocket to your wireless carrier for each customer. This includes marketing as well as information technology and network upgrades. While an MVNO offers the opportunity to tap new markets, increase wallet-share and ultimately drive profitable revenue from mobile content, a realistic view of the basic economics of wireless telephony are essential to an MVNO no matter how compelling the brand, content or distribution channel.

## Creating an MVNO that delivers

A successful MVNO offers distinctive value propositions to highly focused target markets.

Three examples:

### **Virgin Mobile**

**Parent Company:** Virgin USA

**Market:** 18-24 year-olds on a budget

**Value propositions:**

- A prepaid plan
- Youth-oriented content
- Edgy marketing, such as offering “Super Model” and “Party Animal” handsets

**Network:** Sprint/Nextel

### **Speak Out Wireless**

**Parent Company:** 7-Eleven

**Market:** Budget-conscious consumers

**Value propositions:**

- An out-of-the-box, prepaid service
- Easy billing

**Network:** Cingular

### **Mobile ESPN**

**Parent Company:** ESPN

**Market:** Sports fans, early technology adopters

**Value propositions:**

- Competitive rates
- Sports content that includes game commentary and streaming video clips
- A marketing plan that reinforces sports fans' loyalty

**Network:** Sprint/Nextel

“Mobile ESPN has defined a new wireless category, and with that, we are positioning the service and our marketing around the idea that life will never get in the way of sports again.”

— *Manish Jha, Senior Vice President, Mobile ESPN<sup>2</sup>*

<sup>2</sup>“Phone service planned with fans in mind,” The Kansas City Star, September 28, 2005.

# The market opportunity is significant

The market opportunity for MVNOs is significant. Traditional wireless carriers have penetrated nearly 60 percent of the U.S. market leaving approximately 30 million consumers without wireless service. Additionally, a significant number of current subscribers would “churn” if offered services, content, superior customer service, or price that more suited their needs. Highlighted below are some of the reasons why MVNOs are attractive to several different industries.



# Time is of the essence

Whether you opt for an MVNO, a traditional licensed-content model, or another mobile content approach, there is still time to gain and maintain the early-mover advantage. But only if you move quickly. The mobile content space is getting crowded. Mass-market MVNOs are targeting overlapping demographics. Meanwhile, the wireless carriers, could eventually shy away from supporting the MVNO model due to cannibalization concerns.

Successfully implementing the right mobile content strategy for your business relies heavily on your ability to leverage your core competencies, develop strategic partnerships and implement a sustainable and profitable business model. MVNOs are not right for everyone.

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right for you?

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For additional information on MVNOs, or to discuss your mobile content needs in greater depth, please call on us.

**Tony Kern**

US Deputy Managing Partner, Technology, Media & Telecommunications  
Americas Managing Partner, Media and Entertainment  
Deloitte & Touche LLP  
McLean, Virginia  
+ 1 703 251 4270  
akern@deloitte.com

**Donna Epps**

National Regulatory Consulting Leader  
Technology, Media & Telecommunications Practice  
Deloitte & Touche LLP  
Dallas, Texas  
+ 1 214 840 7363  
depps@deloitte.com

**Mark Litwin**

Senior Manager  
Deloitte Consulting LLP  
Irving, Texas  
+ 1 469 417 3338  
mlitwin@deloitte.com

**Carol Matthey**

Director  
Deloitte & Touche LLP  
McLean, Virginia  
+ 1 703 251 3730  
cmatthey@deloitte.com

**Craig Wigginton**

Deputy National Managing Partner, Telecommunications  
Deloitte & Touche LLP  
New York, New York  
+ 1 212 436 3222  
cwigginton@deloitte.com

**Jim Nason**

Tax Managing Partner, Telecommunications  
Deloitte Tax LLP  
Parsippany, New Jersey  
+ 1 973 683 7478  
jnason@deloitte.com

**Ajit Prabhu**

Principal  
Technology, Media & Telecommunications Practice  
Deloitte Consulting LLP  
Summit, New Jersey  
+ 1 908 673 5310  
amprabhu@deloitte.com

**Vince Shaw**

Director  
Deloitte Consulting LLP  
McLean, Virginia  
+ 1 703 251 3712  
vshaw@deloitte.com

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