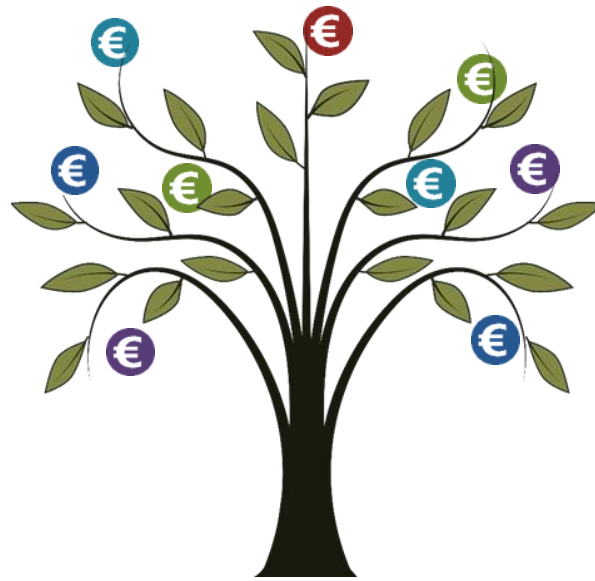


# MVNO OPPORTUNITIES AND STRATEGIES



Part of the **Service Provider 2020** series

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## Introduction by Amdocs

Mobile Virtual Network Operators (MVNOs) have made an enormous impact on our industry since their introduction over a decade ago. And while many first-generation MVNOs focused primarily on discounting in the effort to gain market share, such a strategy no longer delivers sustained results. Today, it is becoming increasingly clear that low price on its own does not create the differentiation that allows MVNOs to build a profitable customer base and grow their revenue. So what other options are available to these companies to remain viable and to succeed?

To gain a better understanding of our customers' needs and requirements, Amdocs Optima commissioned Telesperience to perform a comprehensive study of MVNO market trends, dynamics, strategies and opportunities. To begin with, interviewing top executives from 50 MVNOs, Telesperience validated that the findings published in their "MVNO Market Review 2015-2016" still hold true one year on, confirming the diligence of MVNOs in executing on their own strategies. What did change however, is that in accordance with the evolving industry environment, a number of important global market trends have emerged, shedding new light on the focus and aspirations of MVNOs.

With MVNOs further increasing their focus on customer experience, the research found that these companies are feeling the crunch. In order to gain a competitive advantage, they want to differentiate their business more, while keeping their costs down via operational efficiency, flexibility and adopting lean strategies. To achieve this, they are reaching out to the MVNE and vendor market for help.

Amdocs Optima is a new digital commerce and customer management platform that rapidly and securely monetizes any product or service. Serving MVN<sub>x</sub> and midsize communication businesses, as well as cross-vertical subscription-based digital enterprises of any size, Amdocs Optima is an open platform that can be deployed on premise or in the cloud to support the entire business lifecycle.

We believe the needs of MVNOs uncovered by the research resonate well with Amdocs Optima. Our rich experience, knowhow and expertise, combined with the right business model and managed services, are here to support your strategy and execution.

I hope you find the research findings interesting and useful. For more information and to learn how Amdocs Optima can power your profitable growth, please [contact us](#) or visit [www.AmdocsOptima.com](http://www.AmdocsOptima.com).

Sincerely,

Yael Shatzky  
Head of Marketing, Amdocs Optima



# 1. MANAGEMENT SUMMARY

Mobile Virtual Network Operators (MVNOs) are a common feature in competitive and saturated markets, and many regulators are now using them in order to boost competition and further their own goals for consumer and business markets. Yet this is a relatively under-researched sector. To remedy this, Telesperience conducted a seminal study amongst MVNOs<sup>1</sup> in late 2015 to gauge their views on their prospects and strategies, as well as where they intended to invest going forward.

This study revealed that MVNOs were bullish about their future, with 83% forecasting strong organic growth. Telesperience cautioned, however, that for them to achieve anything like the growth rates they anticipated – which at 23% per annum were far higher than the norm for most mature mobile markets – they would need to implement highly effective new strategies to move beyond the discounting tactics they have employed to gain market entry.

This report looks at market activity and strategies that MVNOs have employed during 2016, updating key data from our previous report and summarising our view of winning strategies MVNOs are using to build market share. In addition to the industry data we collect from MVNO announcements, we also surveyed 50 MVNOs to refresh previous data points collected and provide trend analysis against our previous data, and spoke to a range of industry players – including those working in MVNOs, senior staff in host MNOs and the European Commission.

- The MVNO market continues to be highly active with 71 new entrants and timetabled announcements of entry since the start of 2016 (see *Section 2*) and 20 exits.
- The largest number of entrants and exits are still in EMEA, which accounts for 54% of new entrants and 85% of exits.
- Regulation is opening up new markets for MVNO activity and encouraging more market entry (see *Section 3*). But in the EU in particular regulation poses key questions about how the market will develop – particularly due to the EU’s attitude to competition and impending roaming regulation. How the European market will function if the UK leaves the EU (so-called Brexit) is another uncertainty, since customers are likely to expect the UK to be included within European offers.
- Key market trends in 2016 include a new wave of cablecos and fixed line operators looking to add mobility to their offering or create mobile offers through adopting an MVNO strategy, as well as financial services such as mobile wallets, payments and transfer services being added to existing MVNO offers and creating a market entry opportunity for financial services companies.
- Organic customer growth is still seen as the most common growth mechanism open to MVNOs – with 88% now saying this is a key mechanism compared to 83% in our 2015 study.
- Basic discounting has begun to drop in importance to MVNOs as a differentiator (down 8%), with pricing innovation increasing in perceived importance (up 10%). This represents a shift towards targeted offers, more sophisticated pricing strategies and the advent of new business models.

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<sup>1</sup> See MVNO Market Review 2015-2016 or contact your [Amdocs representative](#) to request a copy.

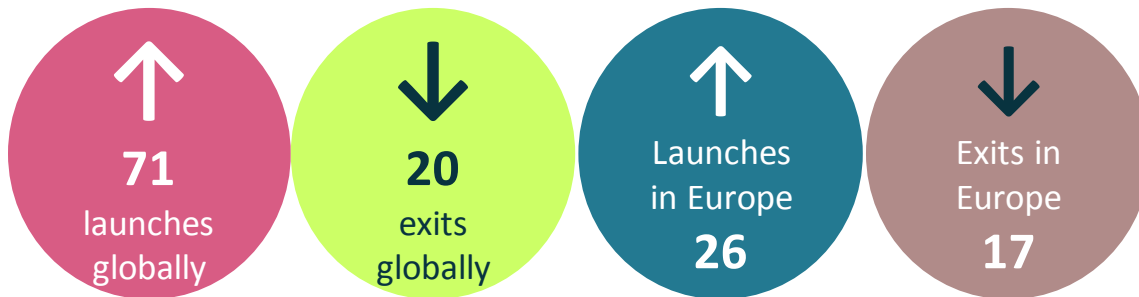
## 2. MARKET ACTIVITY

The MVNO market has not been static since Telesperience conducted its study in late 2015. Although the market got off to a relatively sedate start in early 2016, activity in the sector quickly speeded up. A full summary of market activity can be found in *Appendix 1*, but highlights of market activity between January and August 2016 include:

- Globally 71 new MVNO entrants or imminent launches and 20 exits
- In EMEA 38 new MVNO entrants or imminent launches and 17 exits
- In APAC 10 new entrants or imminent launches and 1 exit
- In North America 14 new entrants or imminent launches and 2 exits<sup>2</sup>
- In LATAM 9 new entrants or imminent launches and 0 exits.

As shown in *Figure 1*, EMEA continues to account for the majority of global MVNO market activity – both in terms of exits (85%) and new entrants (54%). If we analyse this data further, we can see that 26 of the 38 launches (68%) in EMEA are in Europe, with this area also accounting for 100% of regional exits (17 out of 17). New players are experimenting with novel niches or strategies in this area, and new entrant MNOs are entering Eastern European markets such as Serbia, Slovakia and the Czech Republic. Drilling down still further, we can observe that Spain (4) and Serbia (3) experienced the most launches over this period; while the UK (3) and Germany (3) experienced the most exits.

Figure 1 Key data on market activity



Source: Telesperience 2016

In contrast, Eastern Europe accounts for 9 launches (24% of total EMEA launches) and no exits, and Africa will see 11 launches (29% of regional total) and no exits. The Middle East sector of the EMEA region has not been particularly active this year with regards to MVNO activity, with just one planned launch announced to date. The oligopolistic markets of many Middle Eastern countries create significant barriers to entry for MVNOs. While minimum price floors mean that new entrant MVNOs cannot gain market entry based on price competition.

<sup>2</sup> Mexico is included within North America

The mature markets of Western Europe may be challenging from a competitive viewpoint but there are still opportunities for new and existing MVNOs. Success requires them to compete on factors other than just discounting, which offers only limited differentiation and is a hard model to sustain. MVNOs such as Sainsbury's Mobile and Post Office Mobile (both active in the UK market) have been high-profile exits this year, with both companies citing their inability to create or sustain a competitive but differentiating offer, and thereby attract sufficient customers to make themselves viable, as key reasons for their exits.

In these highly competitive markets, MVNOs are thus employing strategies other than just basic discounting to gain market entry or boost their market share (see *Section 5*). But while price competition might have run out of steam as a competitive differentiator in Western European markets, it continues to be a useful tool to gain market entry and build market share in those countries that have relatively high pricing – such as can be found in some Latin American markets. It is notable that LATAM is seeing increased MVNO activity, driven by a range of regulatory actions (see *Section 3*) aimed at boosting the sector by reducing barriers to entry, with the goal of stimulating competition and thereby reducing retail prices.

### 3. REGULATORY ENVIRONMENT

Regulation has a key role to play in terms of enabling and boosting the MVNO market or slowing its development. For example, where regulators mandate equal access to new technology such as 4G (eg in France), this ensures that MVNOs are not disadvantaged over their MNO rivals. Where it is not mandated (eg in the UK), MNOs are able to delay the rollout of new technology to MVNOs undermining their potential – which has been the cause of both comment and complaint.

Many regulators perceive that MVNOs can boost competition through their discounting strategies, resulting in lower consumer pricing. However, this will only be delivered if the MVNO is able to sustain a low price point through efficiency, low wholesale prices and economies of scale. This latter factor depends on the MVNO being able to attract sufficient customers, which it is likely only to be able to sustain if it utilises additional differentiating strategies.

Telesperience would argue that regulators need to revisit their view of the role that MVNOs play in a market by recognising that the benefits they bring can range far beyond lower pricing. Critically, MVNOs also introduce new products, services, technologies and business models. Thus MVNOs have a frequently-overlooked role to play: that of acting as a mechanism for stimulating innovation and introducing disruptive technologies and business models.

It is important that regulators recognise that if there are no or few active MVNOs in their market, innovation cycles are likely to be slower than they would otherwise be, as MNOs usually cannot innovate at the speed of MVNOs and often don't have the inclination to do so. Thus it is in the national interest to encourage a healthy MVNO sector within a market and ensure that MNOs are treating these companies fairly – both to stimulate more efficiency and lower pricing but also to encourage faster technical, commercial and service innovation.

One challenge in creating a healthy MVNO sector is that MVNOs are being negatively affected by rising use of data, since they must pay wholesale for this, which can affect their competitiveness against MNOs that have fixed cost structures and are more able to absorb rising data levels from consumers. Regulators need to consider how they will address this issue which will continue to squeeze MVNOs and could turn out to be catastrophic in the EU if retail roaming charges are abolished without sufficient reform of wholesale roaming charges.

### 3.1 Recent European regulation and regulatory action

Europe is home to two-thirds of the world's MVNOs, so the market is very active and is driven by an MVNO-friendly stance from regulators. Regulators in Europe are currently on an agenda to abolish roaming charges, maintain sufficient competition in markets that are consolidating, and deal with the effects of Brexit.

The European Commission has outlined its position on MVNOs generally to Telesperience as follows:

“The EC views EU MVNOs as important players offering diversified mobile services to end users, and playing a crucial role in making mobile retail markets more competitive. The wholesale market for mobile call origination, which allows MVNOs to gain access to MNOs' resources, was recommended for ex ante regulation across the EU until 2007, when it was excluded from the Commission's Recommendation on Relevant Markets, as the Commission found that overall the market tended naturally towards effective competition. The Commission noted that the gradual introduction of MVNOs brought more competition to the market, and that competitive markets deliver voluntary wholesale access as a natural outcome. On the other hand, the regulatory framework provides national regulators tools to intervene if specific local circumstances arose.”

#### EU Regulatory Framework

The European Commission is expected to adopt a proposal for the review of the EU's Regulatory Framework for electronic communications, last reviewed in 2009. All areas of the Framework are being evaluated and reviewed, and all areas of the Framework have at least a degree of relevance, directly or indirectly, for MVNOs. A public consultation was held in 2015 and several MVNOs replied<sup>3</sup>. European Commission experts stated to Telesperience that: “Overall, the objective of the reform is to provide the sector with a pro-competitive regulatory environment which incentives investments in new networks and technologies. Investments in new networks should also induce more dynamics in the market by making more network capacity available”.

#### Roaming regulations and MVNOs

Despite continued action in the roaming market, wholesale roaming prices are still perceived to be too high, with a timetable for the abolition of roaming charges by mid-2017. A consultation by the EC found very different “perceptions” on how the wholesale market for roaming services is working, with MVNO Europe (an interest group for European MVNOs) arguing that significant wholesale price cuts are required, as prices are still far higher than domestic wholesale prices.

When the EC announced its proposed cuts to wholesale prices in June 2016, MVNO Europe countered that the price cuts did not go far enough. Innocenzo Genna, VP of MVNO Europe commented: “Various mobile operators will not be able to cancel roaming charges as foreseen and they will be forced to use the exceptions permitting them to continue to apply roaming surcharges to recover their costs. This scenario will also favour an increase of mobile tariffs in general because the wholesale market will be less competitive”.

The current EC proposals allow operators to apply a “fair use” policy – the details of which are still being fleshed out. The aim is to cushion the effect of removing roaming charges which could result in European consumers shopping across the continent – outside their own domestic market - for the cheapest tariff. Without a cap, all European operators would compete against one another on price. The proposal therefore includes a cap to

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<sup>3</sup> A synopsis of the consultation can be found at: <https://ec.europa.eu/digital-single-market/en/news/full-synopsis-report-public-consultation-evaluation-and-review-regulatory-framework-electronic>.

prevent this from happening by limiting the number of minutes, megabytes of data and texts that you can use while roaming outside your home country.

### **3 UK's acquisition of O2 is declined**

The EC declined to permit 3 UK to acquire the UK assets of O2. The EC gave three main reasons: a reduction in competition leading to higher retail pricing, the effect on UK infrastructure given that the merged entity would be part of both MNL and Beacon, and the effect on MVNOs to compete.

The EC noted that reducing the number of host mobile networks would weaken MVNOs negotiating position to obtain favourable wholesale rates. It said that its investigation “showed that UK mobile virtual operators – including the well-known ones, such as Virgin Media – have difficulty competing on data (large data packages in particular) and on innovation (eg 4G services and newest technologies) because of dependence on the wholesale access conditions offered by their host mobile network operator.”

### **Brexit leaves considerable uncertainty**

Until negotiations begin for the UK to exit the EU it is not clear how “Brexit” will affect the telecoms market for MVNOs. For example, it is now not known whether the UK will adhere to the timetable for the abolition of roaming charges in Europe. The size and composition of the UK market will continue to make it influential within Europe because of the large number of UK-based roamers in Europe as well as the significant numbers of European travellers who roam in the UK.

It is possible that the UK regulator, Ofcom, will still mandate a reduction in wholesale roaming charges, or that commercial agreements could result in the same end. UK-based MNOs such as 3 UK have been vocal in their support for the abolition of roaming premiums and recently added another tranche of countries to their own Feel at Home tariff.

This factor should be a cause of concern for any MVNO wishing to operate in the UK as well as those European MVNOs wishing to include the UK in their packages. A European premium-free roaming package that does not include the UK would be far less attractive to many retail and business travellers.

Beyond roaming, ethnic MVNOs targeting diaspora communities in the UK should be concerned as there is uncertainty over whether recent European immigrants will be permitted to stay, or will wish to stay, in the UK post-Brexit – which could affect their business.

### **Access to new technology**

The EC has noted that MVNOs can sometimes struggle to get access to new technologies, as MNOs are slow to roll out access to their MVNO customers. Their comments, based on their own investigations, suggests that both the EC and national regulators should ensure that MNOs provide access to new technologies within a specified timeframe of it becoming available.

## **3.3 Global regulation and regulatory action**

Regulators globally are also attempting to stimulate the MVNO sector. For example:

- Key to encouraging more and stronger MVNOs in the US market is introducing more network level competition. To this end, the FCC's auction of refarmed 600MHz spectrum, freed up from broadcasters is an important step. However, the broadcasters are seeking a steep price (\$86 billion clearing price for 12MHz of the 600MHz spectrum) for their spectrum, with uncertainty over

whether the telecoms industry will bid anywhere near this sum. US analysts have argued that the clearing price will have to decrease, a process that is likely to take months to resolve.

- In Iran the regulator intends to issue 19 MVNO licences and has received applications from a mixture of fixed line telcos, domestic banks and international operators, with around 50 companies applying
- In Indonesia the regulator has expressed its interest in implementing a legal framework to encourage the MVNO sector and plans to adopt revised rules
- In Macedonia the regulator is seeking to boost the MVNO sector to encourage competition after a round of network operator consolidation
- The Indian regulator has authorised unified licence virtual network operators (UL VNOs) which encompass mobile, internet access, fixed line and VSAT access. These licences will be offered on a 10-year basis to Indian companies. A number of companies have already expressed interest including Oxigen, DataWind, and Aeris Communications. The latter is said to be working with car manufacturers such as Tata to embed its connectivity solutions and aims to launch India's first M2M MVNO
- Argentina has amended its MVNO licensing in order to remove barriers to market entry. MNOs now have 120 calendar days to submit reference offers and they must ensure that MVNOs are provided with the same quality of service (QoS) that the MNO delivers to its own customers
- Brasil's regulator has amended its MVNO regulation with a view to stimulating MVNO growth. The revisions concern geographical limitations, technical implementation and pricing
- The Czech regulator has ordered MNOs to lower wholesale prices to MVNOs in order to enable more competitive offers
- Italy's competition authority has mandated that the country's post office must sell SIM cards of all mobile service providers rather than just those of its own MVNO unit to remove the distribution advantage that the company possesses.

## 4. EIGHT KEY MARKET TRENDS

Telesperience has observed eight key market trends that are having an impact on the composition of the MVNO market and upon MVNO success.

### **Trend 1: Banking enablement, mobile money and payment services**

Banks and insurers are utilising connectivity to enable e-commerce, e-banking, mobile money, payment services and more. There are signs that in certain markets the financial services industry is replacing retailers as a compelling new source of MVNOs. These companies don't view themselves as competitors to MNOs or MVNOs but instead see the mobile channel as an enabler of their core business activities, and a means of positioning themselves more strategically within their own value chain.

There are a wide range of opportunities for these players, including for insurance companies to begin to benefit from the data derived from connected devices, as well as for banks to deliver mobile money and mobile payment

services. An example of a bank taking this route is First National Bank (FNB) in South Africa which launched FNB Connect in 2015. The service launched with prepaid and contract offerings and allows FNB customers to access electronic banking platforms, such as online banking, the FNB app, cellphone banking and eWallet without incurring any data charges. FNB's eWallet service is one of the largest bank-led mobile money solutions in Africa with R33 billion having been sent to eWallets since their launch to over 6.7 million people.

Kenya's Equity Bank Group meanwhile announced it will introduce its Equitel-branded MVNO service to all markets in which it currently operates. The company's CEO announced it is partnering with unnamed telcos in Uganda, Tanzania, Rwanda, South Sudan and the Democratic Republic of Congo (DRC) to facilitate additional launches. And Australian bank Macquarie has stated it is investing RM40 million in XOXMobile (Malaysia), which will fuel the company's expansion into the Philippines, Indonesia and Thailand in the next three years.

Demonstrating the importance of mobile wallet and payment services in the MVNO market, mobile wallet enabler Unified Signal announced in May 2016 that it had acquired US MVNOs Puppy Wireless and DataJack. "Both the MVNO and mobile wallet marketplace has really taken off over the last couple of years," commented Unified Signal's CEO Paris Holt at the time of the acquisition. "Our strategy of supporting internally owned and operated MVNOs was a natural progression. Our strategy is to launch as many MVNOs in the US as possible and help them grow to their fullest potential and then eventually acquire those MVNO customers. This creates a great liquidity event for our clients as well as a great way for Unified Signal to generate additional revenue and profitability. We are hoping to find additional MVNOs in the coming months and add them into the fold. Our goal is to acquire 100,000 customers this year alone, which is in addition to growth from our internally owned and operated MVNO called MyTime Wireless which was just recently launched earlier in the year".

MVNOs have likewise recognised the potential of mobile wallet and money transfer services and many offer these services, or have partnered with banks to offer them. Lycamobile, for example, added a new mobile transfer service in December 2015. Lycaremit enables users to transfer cash via a smartphone to 50+ countries, with beneficiaries able to collect money via mobile wallets, banks or cash collection points.

## **Trend 2: Cable companies and fixed line operators adding mobile services**

Utilising an MVNO approach to add mobile services to a fixed line or cable company's offering is not a new model, with Virgin Mobile (UK) being one of the first MVNOs to launch, enabling its parent company Virgin Media to offer cable, content and mobile services. However, the pressure to become truly multi-technology, along with the opportunities provided by new technological approaches, has meant cablecos and fixed line operators are increasingly looking at utilising an MVNO model as one way of adding mobile to their multi-play offering. Various strategies can be utilised including a pure MVNO offering or, more compellingly, a strategy that combines cellular with the cableco or fixed line operator's WiFi capabilities. This helps them decrease costs and increase performance for both themselves and their customers.

A major driver here is the cablecos home territory of video and content services, with customers wanting these services delivered anytime and anyplace – even when away from home. This requires cablecos and fixed line players to add mobility or risk losing customers to MNOs that are going multiplay by adding content services.

Fixed line operators and cablecos have one key card here to play: they are sitting on a gold mine of WiFi hotspots that could be utilised far more strategically. US cablecos, for example, have deployed more than 500,000 public hotspots and have millions more homespots. European cablecos are in a similar position. WiFi has quickly become not just an offload option but the main data access method in the US and Europe. The opportunity

therefore is to provide seamless broadband connectivity wherever a customer is, by combining homespots, public hotspots and cellular services. Voice-over-WiFi can then be added as an option.

This year has seen a number of interesting moves into mobility by fixed line and cablecos. Italy's Fastweb, for example, is buying the largest MVNO in Italy, Poste Mobile, to add to its offerings. While in the US, Comcast is rumoured to be in the process of launching an offering based on Verizon and its own WiFi footprint. Charter Communications is likewise rumoured to be taking similar steps. And in May 2016, Polish Cableco Vectra launched its MVNO offering using Play's network. While Dutch cableco Delta terminated its previous MVNO arrangements with KPN in May 2016 but has been reported to be ready to re-enter the market with a new MVNO offering based on T-Mobile's network.

However, while there does seem to be some new impetus to this model – particularly for cablecos and fixed line operators with large WiFi footprints – an alternative strategy is for fixed operators or cablecos to buy or merge with an MNO (for example, a strategy taken by BT when it purchased EE).

### **Trend 3: Market consolidation**

Market consolidation is also a key trend and is occurring in three main ways:

- Market exits – with reabsorption of customers by MNOs or others
- Sub-brands being reabsorbed
- Strategic M&A to acquire customers.

There were around 260 MNO sub-brands in 2015 according to the GSMA. However, rather than rolling out new sub-brands, some MNOs are re-jigging their branding strategy and reabsorbing their own sub-brands. For example, in February 2016, Telefonica Deutschland announced that it was closing the sub-brands Base and E-Plus and moving them both to its O2 offering. It will be interesting to observe whether more MNOs reabsorb sub-brands that are loss-making or only marginally profitable in a move to decrease their own costs. A related variant is that some MNOs have benefitted from hosted MVNOs going out of business by acquiring their customer bases as direct customers.

In the case of Virgin Mobile France, its owner Altice decided to merge this and its cable business Numericable with its SFR business, rebranding its converged offering as SFR. This is a cost-cutting exercise as well as a rebrand, with Altice closing Virgin Mobile stores. However, it should be noted that customers are not being automatically migrated, with those wanting to move to SFR's Red tariff being sent a new SIM and new contract.

Growth through M&A is another strategy open to ambitious MVNOs. Such a strategy may be purely speculative – for example, buying a customer base cheaply from a distressed competitor – but increasingly is being driven by more strategic considerations. Cablecos and fixed line operators are buying MVNOs to extend their offerings, and established MVNOs are buying competitors to quickly scale their customer base. Since there are few new customers in many MVNO markets, buying a customer base can be a quick way to access a new niche or to scale up. For example, in January 2016 Amaysim bought rival MVNO Vaya for A\$70 million.

#### **Trend 4: Increasing internationalisation**

MVNOs are seeing success by operating in multiple markets to enable roaming, traveller or tourist services, or to target diaspora communities. Some IoT use cases also require internationalised operations. MVNOs either target travellers with cheaper roaming services<sup>4</sup> using this model or enable cheaper international calling.

Lycamobile, which offers cheap international calling to its subscribers, has launched new operations this year in Macedonia. Several other MVNOs have either launched operations in additional countries or announced their intentions to do so (eg Ringo Mobile, Mundio Mobile, Soracom and Equitel). An interesting development in this sector is the tie up between MVNOs targeting diaspora communities or travellers, and other companies seeking to target these customers. Insurance provider Allianz, for example, recently partnered with Lebara to launch a free second medical opinion service to the MVNO's migrant customer base. The company stated that the collaboration with Lebara enables it to target customers they may not otherwise be able to access.

#### **Trend 5: Market growth in LATAM, APAC and Africa**

As market conditions become more favourable to the MVNO model and regulators begin to promote it to drive up competition, more new entrants are springing up in these markets. Regulators will have to pay close attention to ensure fair competition between MNOs and MVNOs if they wish to encourage this sector. As we revealed, the first 8 months of 2016 have seen 9 new entrants in LATAM, 10 in APAC and 11 in Africa. Telesperience believes that this trend will accelerate as these markets are still underserved by MVNOs but conditions are becoming far more hospitable to them.

#### **Trend 6: Growth in the B2B sector**

This sector includes services aimed at large enterprises, SMEs and IoT offerings, and there is considerable scope for further growth in this area. Good examples of this type of expansion include Soracom, an IoT-focused MVNO, which has announced expansion into Singapore and says it is interested in operating in other Asian markets; while Gamma in the UK has launched IQ Business aimed at small businesses.

However, other interesting B2B moves include large companies offering MVNO services to their own employees – as Gazprom did in January 2016 – and MVNO Shebang being acquired in 2015 by Personal Group who intend to use its offering to combine airtime with other features within employee benefits packages.

#### **Trend 7: MVNOs launching new disruptive products and business models**

In our last report we found that the two most popular new services to rollout were new technologies (4G or WiFi) with 33% of MVNOs saying they intended to roll these out by 2017, and new applications which 42% of MVNOs said they would launch. The evidence is that MVNOs have been rolling out 4G offerings steadily over the last 8 months. For example, the Australian market has seen a flurry of announcements as MNOs made 4G available to MVNO customers. In April 2016, Telstra made 4G available to AldiMobile, Woolworths, Telechoice and Better Life, while Vodafone announced in June 2016 it was opening up 4G to Macquarie Telecom, Lebara, Pivotal Prepaid, Hello Mobile and Go Talk. Kogan Mobile and TPG Mobile already had access to the Vodafone 4G network.

Some companies are using more radical technical approaches to differentiate, however. This innovation is about freeing the MVNO to innovate more than if it were tied to MNO models. This can be as simple as using effective platforms to refresh and innovate offers or can involve an entirely new operating model. For example, OTT services such as virtual numbers mean that MVNOs are free to become completely virtual – not even

<sup>4</sup> See Section 3 on the Regulatory Environment for more on the effects of EU Roaming Regulations on MVNOs.

requiring a SIM card. Mega brands such as Google are now moving into Europe (via its agreement with 3) to offer a new approach. Google's Fi is extraordinarily cheap but also offers simplicity (\$10 a gigabyte) and key twists. One commercial innovation is that any unused data allowance is credited back to your account, and Fi is able to roam automatically onto available WiFi networks to save data (calls continue uninterrupted as the data moves from WiFi to cellular and vice versa).

MVNOs are also now experimenting with new business models which move beyond simple discounting. One extreme is represented by FreedomPoP, which offers a limited range of services for free – betting that most customers will need to upgrade to paid-for services.

Anywhere SIM meanwhile aims to solve another problem – that of network availability. It offers a SIM with a UK number attached that allows customers to roam across Europe (inter-country roaming) as well as on three UK networks (intra-country roaming) – this latter twist is designed to help customers avoid so-called 'not spots'<sup>5</sup>. Anywhere SIM's model is targeted at an underserved group – that is, over 65s with low usage.

Meanwhile, Dixons Carphone's iD launched with the concept of bringing back a one-year contract.

### **Trend 8: More targeted offers**

It is usually argued that the purpose of MVNOs is to target underserved or distinct niches in the market, and that they are better able to do so than larger MNOs. However, there has always been a balance between creating a targeted offer and identifying a niche that is sufficiently large to deliver enough revenue to make addressing it worthwhile. More generic MVNOs have increasingly struggled, though, to sufficiently differentiate their offering, so better targeting will become ever more vital going forward.

There have already been some interesting examples of MVNOs utilising this strategy in the market during 2016. Ringo Mobile, for example, is launching ethnic MVNO services aimed at the African diaspora across Western Europe, and RWG Mobile has created an offering targeted at Welsh language speakers in Wales. Extreme Mobile took a different approach by combining its knowledge of a particular sector - customers who participate in extreme sports – and targeting these people along with allied services such as an insurance package aimed at their needs.

## **5. MVNO GROWTH DRIVERS**

### **5.1 How MVNOs expect to grow**

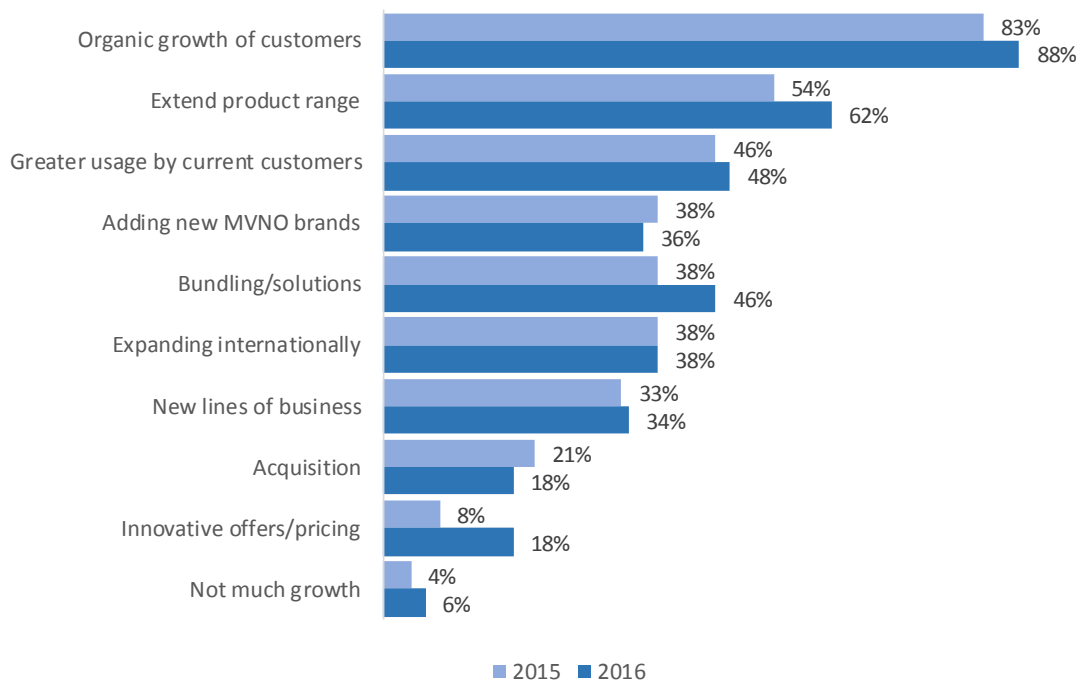
In our 2015 study we asked MVNOs how they intended to fuel their growth. At that time, organic growth of customers was perceived by 83% of MVNOs as their primary growth driver. In order to see whether this was still perceived to be so important we asked MVNOs again in August 2016 where their growth would derive from and compared the findings to our 2015 study. Even more MVNOs (88%) identified organic growth as a key driver for their business in 2016 and, as can be seen from *Figure 2*, certain growth factors are perceived to have increased in importance since 2015, while others have become relatively less important.

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<sup>5</sup> Not spots are geographical areas not covered by a mobile signal. Typically, these areas vary by network as their location will be determined by where the MNO's masts are placed. By enabling intra-country roaming, customers can utilise whichever network has the best signal for their location, thereby eliminating the impact of not spots and increasing network availability.

- **Increasing in importance:** organic customer growth (+5%), extending product ranges (+8%), bundling and solutions (+8%), and better pricing strategies in the form of innovative pricing and offers (+10%)
- **Decreasing in importance:** some factors marginally declined in importance acquisition (-3%), greater usage by current customers (-2%), adding new MVNO brands (-2%). However, these declines do not indicate a strong trend
- **Same level of importance:** expanding internationally (0%), adding new lines of business (+1%).

Figure 2 How MVNOs expect to grow, 2015-2016 compared to 2016-2017



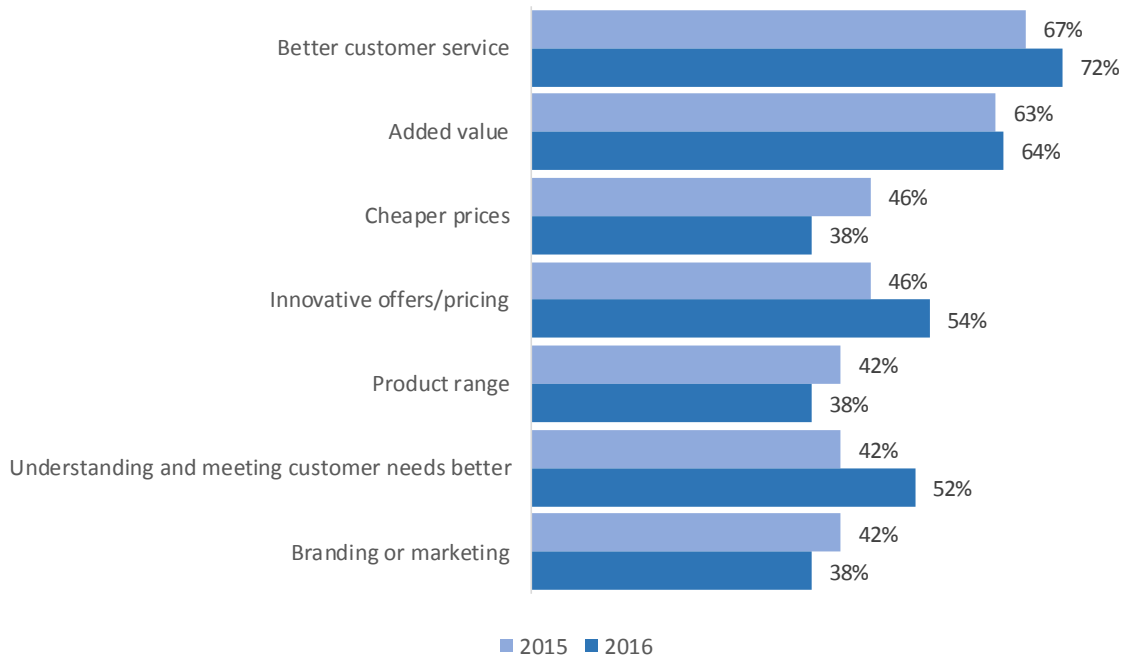
Source: Telesperience 2016

Note: The data collected in 2015 was from a sample of 100 MVNOs; the sample size in 2016 was 50 MVNOs. The chart shows the percentage of MVNOs who cited this factor as important to their growth strategy in 2017-18.

In 2015 MVNOs were quite clear about what they perceived to be their key differentiators in the market. As can be seen by Figure 3, some of the factors identified in 2015 have become even more important in 2016:

- **More differentiating:** better customer service (+5%), innovative offers and pricing (+8%), and understanding customer needs (+10%)
- **Less differentiating:** cheaper pricing (-8%), product range -4%), and branding and marketing (-4%)
- **As differentiating:** adding value (+1%).

Figure 3 Key differentiators for MVNOs 2015-16 compared to 2016-7



Source: Telesperience 2016

Note: The data collected in 2015 was from a sample of 100 MVNOs; the sample size in 2016 was 50 MVNOs. The chart compares the percentage of MVNOs who cited each factor as a top three differentiator for their business

## 5.2 Customer growth

Our research has revealed that MVNOs are bullish about their opportunities, with the average growth rate they are forecasting being 23% per year between 2015 and 2017 (or 45% over the period). Customer growth remains the primary means that MVNOs perceive they will grow. The question is how will they attract more customers and retain existing ones?

Telesperience believes that a simple discounting or reseller model for MVNOs only has a limited window of opportunity, as it adds little value to customers other than a price-competitive offer which is usually quickly matched by other players. In competitive markets such as Europe, MVNOs are folding because they have failed to attract sufficient customers through a simple discounting strategy. In contrast, successful MVNOs combine a competitive offer with other differentiating factors.

Discounting can offer a compelling market entry strategy in certain localities though (for example, in some LATAM markets), but evidence is mounting that in mature, competitive markets such as Europe the window of opportunity for this model is closing fast – making it increasingly difficult to sustain. The US market and some Eastern European markets may still have sufficient margins to keep discounting as a viable strategy for some time, but the opportunity is closely aligned to retail margins (ie is there sufficient margin to discount) and

operational efficiency levels (ie can operational costs be reduced to sustain discounting). MVNOs seem to agree with the view that discounting alone is becoming less effective, as the perceived importance of low pricing as a differentiator decreased from 46% of MVNOs in 2015 to 38% in 2016 (see *Figure 3*).

In essence, there are two key ways in which MVNOs can expand through customer growth – namely by selling more to existing customers and by adding more customers to their user base while retaining existing customers.

For those wishing to sell more services to existing customers the prerequisites for success are to ensure the customer is happy with existing services provided and the customer care received. In addition, the MVNO needs to understand the wider needs of the customer, in order to target additional products at them. There is much scope for MVNOs to focus on this aspect, creating unique experiences that are designed for the segment being targeted. This is an area where MVNOs can effectively compete against MNOs, adding a level of customer-centricity that many MNOs struggle to deliver because their processes and systems are not designed to support niche offerings, or to focus on delivering specialised packages of services, or to evolve offerings quickly. This is because MNOs' traditional business focus is about volume, not about velocity or variety, and while this may be changing the advantage still lies with the MVNO.

Several high-profile brands have failed as MVNOs because they did not understand the customer sector they were targeting sufficiently, or failed to deliver a differentiating offer to this sector. For example, retailers may have the advantages of a mechanism to enable them to sell effectively to their customers (bricks-and-mortar stores plus an online presence), a wider motivation to sell mobility to the customer (to deliver a continuous channel and build a deeper relationship), as well as the advantages of being able to leverage between their core business and mobility, and to exploit the data they have on these customers to deliver better targeting of services. However, high-profile retail MVNO failures have demonstrated that not all retailers understand their customers' wider needs or lives, are not sufficiently adept at profiling and targeting them with offers, or don't have a sufficiently strong branding or relationship with the customer to make their offering successful. In other words, it is not a given that retailers can make a success of the MVNO model.

A successful strategy means that MVNOs must deliver more relevant services to their customers – either by addressing a highly niche market or by delivering true personalisation based on the individual's interests or needs. In such a scenario the MVNO is able to identify a strong user need that is common enough to create a sufficiently large community of users, and then design an offering around that need. For example, this is what ethnic MVNOs do by providing services in a specific language or targeting a diaspora community. However, the key factor could be another passion of the end user – whether that's a sport they are involved in, a hobby, or a club they belong to. What's required though is for this activity to have specific needs that can be addressed through additional value-added services – whether this is networking with others, bundled benefits (such as insurance), gaining access to content or knowledge, or exclusive offers or convenient purchasing of necessary equipment.

In order to sell more products to a customer though, the MVNO not only needs to understand the customer's needs but must have the ability to onboard customers efficiently (through online channels and self-service), provide, promote and fulfil relevant products and services, as well as utilise an effective selling mechanism that recommends or promotes additional products without alienating the customer.

These cross-selling and upselling opportunities are not limited to the B2C space. Some customers may have business needs as well as consumer needs, and business customers also have expectations that are often not being met. Being able to deliver a better experience to business customers is highly differentiating since many

network operators have a very low, even negative, net promoter score<sup>6</sup> and have not explored the potential of differentiation through customer experience.

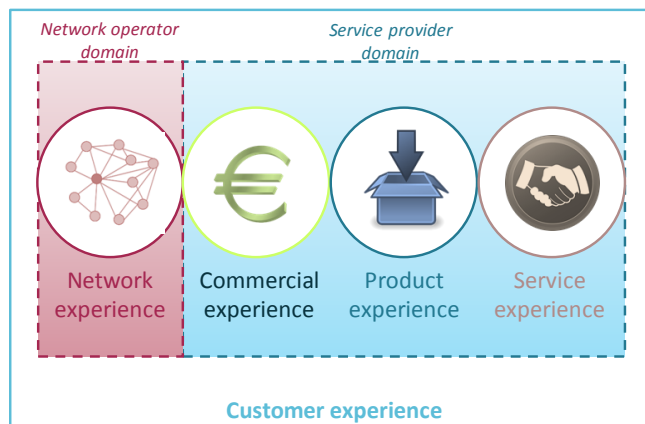
Attracting new customers to the MVNO brand is also challenging. Since MVNOs are a factor of markets with high levels of penetration, virtually all new prospects are likely to be the customer of another MVNO or MNO. Thus the MVNO needs to find some differentiating element that overcomes customer inertia. Initially this could be lower pricing, but it is unlikely that this will be sustainable in the long term as MNOs often control the wholesale pricing, pricing floors may be applicable, or competition may become unsustainable. Markets will therefore eventually reach a point at which low pricing is no longer differentiating or profitable.

One growth area for low-priced MVNOs though are the pockets of people who have not yet adopted mobile services even in highly penetrated markets – often because they can't afford to do so. This is where better packaging and pricing strategies combined with efficiency and technical innovation can deliver much lower priced offers that appeal to the budget-conscious.

### 5.3 Using customer experience factors to differentiate

Fifty-two percent of MVNOs now see meeting customer needs better as a key differentiating factor in their offer (Figure 3). Thus when looking beyond low pricing, there are four main factors that can be used to deliver a better experience to their customers. But, as shown in Figure 4, since network quality is not necessarily something MVNOs have control over (at best, they can match the quality offered by the network provider themselves), to survive and prosper MVNOs need to focus on optimising three key areas of customer experience: namely the service, product and commercial experience they deliver. This, in turn, will deliver a better customer experience and ultimately customer growth.

Figure 4 MVNOs can differentiate their offering in three key areas



Source: Telesperience 2016

<sup>6</sup> A net promoter score (NPS) is a methodology developed by Bain & Company which is widely used as a proxy to measure customer satisfaction. The method relies on the willingness of the customer to recommend the brand to their friends or relatives, which results in a score. The company can then measure whether its performance results in this score rising or falling. For more information see: [https://en.wikipedia.org/wiki/Net\\_Promoter](https://en.wikipedia.org/wiki/Net_Promoter)

## Delivering a better product experience

This means finding a compelling combination of products and regularly refreshing the product range. The types of products that an MVNO can offer to a community of interest or closed user group is far beyond basic or even advanced telecoms services and includes:

- content and games
- social technology and networking, community-specific languages
- financial services products such as insurance, mobile money and mobile payment services
- physical goods relevant to the niche being addressed

MNOs often struggle to create partnerships to deliver this type of rich offering to their customers, as they are not adept at managing non-telecoms goods and services. They have had some success with offering content, but their offering tends to be broadly-based rather than the type of niche content which would appeal to a community of interest. This type of rich product offering requires the MVNO to have a deep understanding of the customer, be able to source products that would appeal to the target audience and manage ongoing third-party supplier relationships as well as the relationship with the customer.

In order to differentiate through the product experience, MVNOs need to be able to launch new products quickly and reliably, and refresh their product portfolio regularly. A key source of new revenue is the ability to target the customer niche they are addressing with specially designed products by third-parties. This requires them to become far more adept at partnership management and open up to third-party and even customer-sourced innovation.

## Creating a better commercial experience

In terms of the commercial experience, MVNOs need to pay more attention not just to low pricing but to appealing and appropriate pricing. Customers do not buy an MVNO offering because it is from an MVNO, but rather because they find the offer appealing. Thus a better commercial experience begins with identifying a pricing strategy that is appropriate to the niche being addressed. An effective pricing strategy should enable the MVNO to effectively exploit this niche while still remaining profitable.

Whether the MVNO has decided to strip back their offering and keep packages simple, or create more personalised and complex offers, MVNOs will need to deliver accurate and clear billing and charging, and be able to deal with any problems, enquiries or complaints as quickly and efficiently as possible. To do this requires them to have efficient systems and processes combined with reliable data.

Another important part of the commercial experience is to lower barriers to sale by making it easier for customers to buy. This may seem obvious - making it easy for customers may appear a no-brainer - however, customers often struggle to find what they actually need from their service provider and to buy that quickly and easily. They may find offers confusing or the number of choices overwhelming, or they may be dissatisfied by the length of time taken to deliver an ordered service. Currently there are still considerable sales barriers – particularly in the B2B sector – which need to be overcome. This provides yet another opportunity for MVNOs to differentiate against their rivals, simply by concentrating on making it easy for customers to buy from them.

## Exploring a new approach to the service experience

Often customer service is seen as simply a necessary cost to an MVNO business. Better support for customers can be truly differentiating though and MVNOs should view it as an essential investment. This is because it is important to retain existing customers in order to fuel net expansion, but also because customer service does not

have to be a reactive cost centre but can become a proactive experience hub – creating stickier relationships with customers, gaining customer feedback and suggestions, and cross-selling and upselling new products. By taking a more holistic view to customer service it can be transformed from a cost centre into an opportunity centre, enabling more positive customer interactions that benefit both MVNO and customer alike.

It’s important to note that customer service does not always need to be delivered by staff directly – an important element is to have effective self-service portals delivering customer self-care. Moreover, in the future a range of powerful new technologies will be delivered to create more efficient, personal and effective care, and MVNOs must ensure they do not miss the opportunities these technologies provide. These include more powerful AIs, the blending of bots and humans in support channels, and far more effective gathering and use of data to identify new ideas, new selling opportunities and the proclivity of customers to buy.

## 6. SUMMARY

The MVNO sector still has considerable growth potential across world regions, but only if MVNOs become far cannier in their approach. Some strategies are now less likely to work – discounting and horizontal offers aimed at large customer segments, for example. Other strategies are becoming ever-more compelling – such as more targeted offers, wider product offerings, pricing innovation and better service experiences. Successful MVNOs are paying attention to delivering an experience that is not just excellent in the mobile market, but is an excellent experience when judged against any market vertical. Underpinning all of this is the ability to free the MVNO business to innovate commercially, in terms of products and service – delivering a differentiating and refreshing customer experience.

## 7. APPENDIX A: EXAMPLES OF MVNO MARKET ACTIVITY JANUARY 2016 TO AUGUST 2016

Company	Network partner	Entry or Exit	Notes
<b>January 2016</b>			
WiFi Balearas/Fibwi	Orange Spain	Entry	MVNO launched to add to its fibre-optic broadband, pay-TV and VoIP services on Ibiza and Mallorca
Bibob	Telenor Denmark	Exit	Telenor is shutting down its sub-brand
Gazprom	Megafon	Entry	MVNO for its employees
The Mobile by Sainsbury's	JV with Vodafone	Exit	Sainsbury's rumoured to be looking to relaunch with a different network partner
<b>February 2016</b>			
Get (TDC)		Entry	Announced plans to launch an MVNO in Norway as part of its multiplay offering
Sugar Mobile (Ice Wireless)	Reciprocal roaming agreements with large Canadian carriers	Entry	A facilities based MVNO which targets rural areas in Canada.
Mast Mobile	Spirent	Entry	MVNO which allows customers to have two numbers – one for work and one for personal usage
Ringo Mobile		Entry	Announced plans to enter the Senegalese market. Also has stated aims to enter Spain, Greece and France, where a large African diaspora is present
Base and E-Plus	Telefonica Deutschland	Exit	Telefonica announced it was discontinuing its two sub-brands and would be moving the customers to O2
PTel Mobile (USA)	T-Mobile	Exit	Unsustainable price competition blamed
Juro	Slovak Telecom	Entry	New sub-brand of Slovak Telecom

ADAC Prepaid		Exit	German MVNO - subscribers were encouraged to move to blau.de
<b>March 2016</b>			
White Space Co/Penguin SIM		Entry	New Thai MVNO
Easycall	Unnamed	Exit	Regulator warned that Hong-Kong based Easycall's wholesale partner had terminated their access agreement
<b>April 2016</b>			
IZI Mobil		Exit	The largest MVNO in Bosnia & Herzegovina announced it would cease trading in May 2016. Despite being the largest MVNO it failed to attract sufficient subscribers
LINE		Entry	Announced plans to launch in Japan during 2016
CTExcel (China Telecom)		Entry	Announced plans to launch in Australia during 2016
Scratch Wireless	Sprint		WiFi-first service provider. Stopped selling services to new customers and began a major redesign of offering
Weex	Movistar	Entry	Youth-oriented MVNO launched in Mexico.
Smart World Japan	NTT Communications	Entry	PLDT has partnered with NTT to target Filipinos living in Japan
<b>May 2016</b>			
Club Mobil		Exit	Dutch company blamed problems with creating a competitive offer
Boksel	Cell C/Vodacom	Entry	South African MVNO targeted at Afrikaans speakers
Tello	Sprint	Entry	US-based MVNO which seeks to differentiate through its rate plans and 'customer-first' approach
Circles.Life (Liberty Wireless)	M1	Entry	Singaporean MVNO that seeks to create a fully digital, automated experience.
Bayern Munich	Telekom Deutschland	Entry	German MVNO offering both prepaid and postpaid plans targeted at fans of Bayern Munich
OMG Mobile		Entry	Australian MVNO targeted at the youth sector
Correios (Brasil)	EUTV/Surf Telecom	Entry	Expected to launch Q1 2017. The company announced it had selected its network partner
Virgin Mobile France	SFR	Exit	Customers are being migrated to SFR
MegaM/Me2	Telekom Slovenije	Entry	MVNO aimed at corporate customers in Slovenia
Mundio Mobile	VIP Mobile	Entry	Serbian regulator RATEL has authorised market entry. Expected to launch Sept 2016
Post Office Mobile (UK)		Exit	Blamed lack of marketing budget and over-competitive market
Delta	KPN	Exit (re-entry)	The company is rumoured to be relaunching an offering using T-Mobile Netherlands
<b>June 2016</b>			
Buenocell, Inacom, Neus Mobile, Quickly Phone	Telcel	Entry	In Mexico Telcel has announced a number of new MVNO deals. Telcel also said that Maxcom will move its operations from Movistar where it currently supports an underperforming MVNO
M6 Mobile	Orange France	Exit	JV between M6 and Orange France will be closed June 2016
Chill Telecom	Telus	Entry	Has recruited pre-launch subscribers, launch rumoured to be Q4 2016
Sema Mobile	Airtel Kenya	Entry	Focuses on closed user groups
Maxcom	Telcel	Entry	Two MVNOs planned to launch in Q4 2016. One is wholly Maxcom owned and the other is a JV with Soriana (a supermarket chain)
Veek	TIM Brasil	Entry	Prepaid offer is planned with customers paid for referrals
Soracom International	To be confirmed	Entry	IoT MVNO Soracom received SGD5.7 million to establish a subsidiary in Singapore
Media-Saturn Holdings	3 Austria	Entry	Entry into Austrian market
<b>July 2016</b>			
Comtal		Entry	Plans to launch MVNO services alongside DSL and WiMAX in Algeria

## MVNO Opportunities and Strategies

IQ Business	Gamma/All UK networks	Entry	Business offering aimed at small businesses
Amotel	TTCL	Entry	Full commercial launch of offering targeting rural users in Tanzania
Tismi		Entry	Granted a licence in Iceland
Globaltel (Serbia)	VIP Mobile	Entry	Was granted licence by RATEL, rumoured to be launching in Sept 2016
Mundio Mobile/Vectone	To be confirmed	Entry	Is launching in Czech Republic
Globe Telecom		Exit	Is closing operations in UK, Spain and Italy – blaming the competitive landscape in Europe
BT Brasil	Datora Mobile	Entry	Granted licence by Brazilian regulator
Virgin Mobile Peru	Movistar	Entry	OSIPTEL has granted the company a 20 year licence. Virgin is to invest \$30 million
Always Tecnologia	EUTV/Surf Telecom	Entry	Granted licence by Brazilian regulator
HKBN	MOUs signed with SmartTone and China Mobile	Entry	Granted a licence to operate in Hong Kong of Office of Communications Authority. Expects to launch in Autumn 2016
Hip Hop Global Mobile (USA)		Entry	Is slated to have an Autumn 2016 launch
RWG Mobile	3 UK	Entry	Wales-focused MVNO delivered in the Welsh language
FreedomPop Spain		Entry	This takes FreedomPop footprint to three countries. 100,000 customers signed up for beta service
Viva Mobile	Africom	Entry	Given clearance by POTRAZ to launch
Comcast Mobile	Verizon	Entry	Has created a new division and is rumoured to be in test mode
Equitel	Various	Entry	Is looking to duplicate the success it had in Kenya by entering other African markets – namely, Uganda, Tanzania, Rwanda, South Sudan and the Democratic Republic of Congo (DRC)
LycaMobile Macedonia	Undisclosed	Entry	Becomes the 21 <sup>st</sup> country Lyca operates in
<b>August 2016</b>			
Virgin Mobile Argentina	To be confirmed	Entry	Licence granted by ENACOM for market entry in Argentina
Charter Communications	Verizon	Entry	Is rumoured to be in talks to use Verizon network – possible model is to use a WiFi-first strategy given the number of WiFi hotspots the company owns
Delta	T-Mobile	Entry	Dutch utility group Delta is poised to re-enter the market basing its new operations on T-Mobile
Rostelecom	Tele2 Russia	Entry	Announced testing of services would commence
Comunicaciones DIME	Tigo Columbia	Entry	Announced intention to launch
Wir Mobil	Telefonica Deutschland	Exit	Will close operations by 7 Oct 2016
Cabovisao “Nowo” (Portugal)		Entry	Was awarded a licence in November 2015 and is poised to launch a new MVNO offering – rumoured to be Sept 2016
Lebara Mobile SA	Mobily	Entry	Is rumoured to be launching an MVNE offering which it will make available to regional players in Saudi Arabia
Mundio Mobile (Vectone Mobile)		Entry	Will launch an ethnic MVNO in Italy by end of 2016. It is also rumoured to be launching offerings in Serbia, Cyprus and Switzerland
Blue Wireless (Singapore)	Singtel, StarHub, M1	Entry	Targetting small businesses in areas without fibre connectivity
Simpati Mobile	Movistar	Entry	Is launching a female-focused MVNO in Mexico
Bildconnect	Telefonica/O2	Entry	Launched with 3 tariffs, offering LTD. Bild already offers Bild Mobile on Vodafone
ILJ	NTT DoCoMo	Entry	First full MVNO in Japan, scheduled to launch 2017

Source: Telesperience 2016

In addition to these, there are a number of other rumoured activities occurring. For example:

- India's BNSL has commented that it is actively preparing a VNO framework
- There are continuing rumours of a Sky MVNO offering in the UK based on the O2 network. The latest rumours suggest a late 2016 or early 2017 entry but it should be noted that such rumours have been circulating since 2014
- MTN in South African has commented that a large, unnamed financial services company intends to launch an MVNO offering on its network
- Chinese MVNO Snail Mobile has stated that it intends to enter the Indian market, alongside the US and Africa
- Russian bank Sberbank has advanced its plan to enter the MVNO market by forming a subsidiary named SB-Telecom and is now said to be negotiating with potential network hosts including Tele2 Russia (T2 Mobile) and Mobile TeleSystems (MTS)
- Both AT&T and Virgin are said to be looking to re-enter India as MVNOs.

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