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Reinventing the MVNO: From Mobile discounter to DSP

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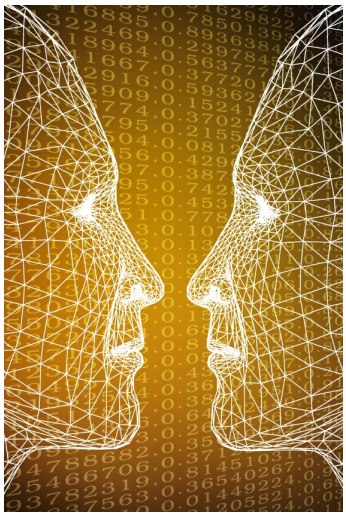

MVNOs are reinventing themselves, changing from mobile discounters to digital service providers (DSPs). They are having to adapt to survive in the digital era, where consumers know what content they want, and the ways in which they want to consume that content. It has changed dramatically. The participation economy has seen passive users transform into engaged participants, and in response, businesses are trying to adopt agile business models and approaches that can instantly respond to what customers value and at the speeds customers demand.

For today's MVNOs, the market is primarily defined by brutal price competition. Margins are becoming tighter and the cost of acquiring new customers is higher. Most MVNOs are somewhat similar to one another, forced to compete on price with little to differentiate them. To avoid this becoming a dead-end, many MVNOs need to rethink their strategies, and to differentiate themselves through customer orientation rather than price. In short, they need an agile approach in order to survive.

Understanding the MVNO Customer

To stand out from the crowd, MVNOs have to really understand what their customers value. If they embrace what it is about their products that subscribers value, and for what they may pay a premium, then it's possible the "cheaper is best" approach may no longer apply, and new monetization opportunities may emerge.

MVNOs need to move away from their traditional ways of doing business, as they are currently riding a downward spiral, where high churn rates translate into higher spend on customer acquisition, all along failing to grow to compensate for that spend. Margins are consequently squeezed.

Another issue is that, for the most part, MVNOs are not innovating: they continue to follow the outdated business models they inherited or copied from mobile operators, such as using equipment subsidies to lock customers into long-term contracts.

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Adopting an Agile Approach

Because MVNOs are ostensibly online businesses, they should look to innovative with the business models and solutions characterizing the digital world.

Online businesses typically use agile innovation, starting with a minimally viable product that they test with customers to gauge whether or not they value it. If they do, they then create a pricing model through "value-based pricing," which sets pricing according to customer value. This is an improvement over traditional cost-plus pricing models in which the cost of infrastructure and product development are factored in more than customer value.

Because online businesses compete on what customers value and customer service expectations, there is a more iterative way of building a customer base — first, having them try something, and if they like it, build on it; if it fails, change it and try it again.

In comparison with traditional telcos, Gartner has found that OTT players have made this approach work for them, launching more than twice as many products than operators in one year.

Some examples of interesting MVNO models are emerging, as with the United Kingdom's Giffgaff, which has a payback scheme that incentivizes its members to get involved in promoting its product and building its community in return for points, which twice a year are converted to cash, top-up credit, or a donation to charity. Also interesting is Suop Mobile in Spain, the first MVNO to be completely managed by its members.

Both Giffgaff and Suop operate more like online businesses than traditional telcos, and to be successful, MVNOs need to embrace this style of customer engagement.

Two years ago, iD Mobile entered a saturated market. New subscribers could only be won by taking them away from competitors. With minimal marketing spend, iD Mobile has since become the fastest growing U.K. MVNO ever, boasting more than 500,000 subscribers. iD Mobile succeeded because it took the time, prior to launch, to gather feedback from hundreds of thousands of customers in what were then nationwide Carphone Warehouse stores. By putting time and energy into learning what customers did and did not like, iD Mobile transformed its look and feel based on what its customers said. It also transformed all of its offerings, based on information derived from communicating with its customers. iD Mobile did not stop there, as it also created a simple, easy-to-use app from which customers control their accounts and track usage, change tariffs, and add bolt-ons on demand. The app also gives iD Mobile the ability to directly contact customers and build one-to-one, proactive relationships via more than 50 trigger points, 30 decision points and 30 notification parameters.

This app has helped iD Mobile build a completely different relationship with its customer than that which typifies other MVNO-subscriber relationships.

This agile approach favors the value-based pricing model, as opposed to the cost-based model that operators typically follow, and as a consequence, iD Mobile understands what customers value and it capitalizes on that understanding.

Strategies to Adopt

There is plenty to learn from the examples of giffgaff, Suop and iD Mobile. MVNOs have more freedom to adopt an agile approach because they are not subject to the same levels of internal governance as traditional telcos. In order to differentiate themselves from the competition — to grow and retain their customer base — there are a number of strategies that MVNOs can adopt.

The first step is to ensure that the business is as efficient as possible by getting costs under control. Wholesale accounts for 50-60 percent of an MVNO’s costs, while subscriber acquisition accounts for 15 percent. Using the insight from predictive analytics to understand customer behavior, MVNOs can optimize the cost of their wholesale contracts, and through wholesale optimization, churn prediction and fraud reduction, they can personalize services to customers and reduce costs.

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Secondly, MVNOs can move customers from prepaid to postpaid by offering them a differentiated experience: an app that the family can share and services that go beyond mobile. Adopting an agile approach, MVNOs should focus on providing an outstanding customer experience, rather than just copying what other operators do. To accomplish this, they need to truly understand their customer base and create propositions that customers value, such as creating their own tariffs and separating hardware from plans, moving away from subsidized handsets and lengthy binding contracts.

By creating a plethora of differentiated pricing methods, including sponsored data, micro bundles, shared data, and hybrid pre-paid/post-paid options, MVNOs can give customers greater flexibility tailored to what they need and want.

MVNOs need to create an “on-demand” experience and make it easier for customers to buy connectivity when they need it, and — whether they use it or not — share it easily with friends and family, as well as allowing it to be carried over to the next month.

It is much more expensive to acquire new customers than it is to retain existing customers, so reducing churn is critical to success. MVNOs need to create sticky propositions and experiences by adding additional services like broadband, fixed line and family sharing, including multi-SIM deals and OTT partnerships.

Understanding what customers value and upselling and cross-selling to them can account for up to 30 percent of e-commerce revenues, according to Forrester Research.

Customers are also less likely to churn if they can buy multiple services and add-ons, which also increases their lifetime value for the MVNO. Add-ons purchased through an app will also dramatically reduce customer care costs. Identifying customers who might be small-business or home office workers, and tailoring offers for both their work and home lives, is another way to retain and serve an underserved niche. Analytics should also be employed to identify and target customers who are likely to churn so that offers can be proactively offered to stave off that churn.

Finally, if MVNOs can reduce their reliance on the MNO’s workstack, they can be better equipped to create their products and pricing around customer needs, and to differentiate themselves from the rest of the market. Having their own BSS means they can sell products that are more than just mobile, such as broadband, fixed line, and more. And, they can control their own prices and processes, including acquiring and retaining customers.

Successfully Selling Connectivity

MVNOs target a very specific segment so selling purely mobile services, which they cannot control, is not a sustainable business practice. The future of MVNOs is not in selling hardware, nor is it about being mobile, but rather about selling connectivity. It’s about the online experience of buying data and sharing it with friends and family, and about the services customers can access using that connectivity — whether that’s 4G, broadband, WiFi hotspots, IPTV streaming, music streaming packages or various other OTT partner services.

A study by McKinsey & Company in 2014 found that consumers value mobile connectivity over and above what they pay for it, to the tune of €250 billion per year (approximately $295 billion USD), and no doubt this will have increased again over the past three years. But while consumers value mobile connectivity, fierce price competition among operators has pushed prices down enough that the value of connectivity to customers is much higher than what they actually spend on it.

A value-based pricing approach would help to close this huge value gap and provide a more profitable resource of revenue for MVNOs.

The Bottomline for MVNOs

To grow profitably and succeed, MVNOs need to be smarter. They need to behave less like telcos using legacy business models and behave more like disruptive online businesses taking an agile

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approach to business and innovation.

They need to find out what their customer base values and create sticky propositions that reflect what they find.

They also need autonomy from MNOs so that they can make their own decisions around pricing and services, and about how to optimize their business models. Then, they can differentiate on experience and offerings, as with real-time apps, build-your-own tariffs, family sharing and other compelling offers that move subscribers beyond just mobile and onto a more meaningful experience.

With access to analytics, strategic thinking, and a real-time VNO platform, MVNOs can break free of the old model of static, one-size-fits-all services, and instead take a flexible, agile, dynamic approach that is guided by customer values. There is a world of opportunity awaiting MVNOs that prepare and take the steps to be innovative, daring, and truly disruptive.