AMERICAS JULY 2004 : ISSUE HIGHLIGHTS

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Setting Sail

As wireless becomes more critical to operators' strategies, MVNO may be the best way in.
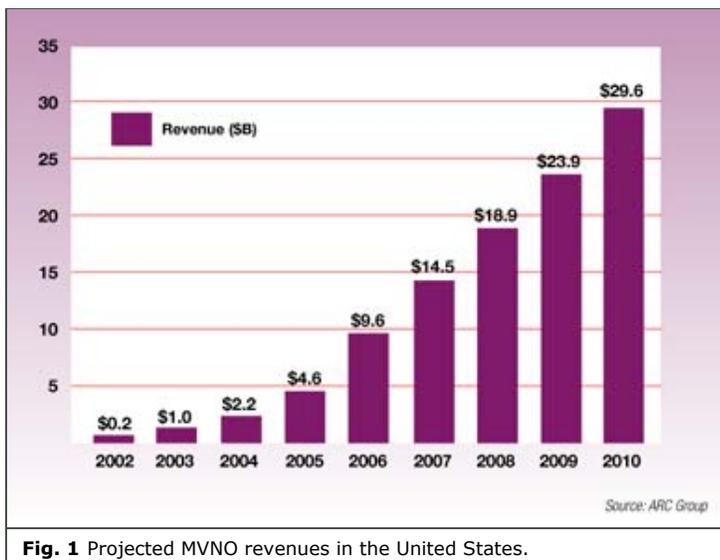
Sean Buckley, Senior Editor

After the acquisition of its wireless arm by Cingular, AT&T effectively found itself without a wireless play. Instead of going through the rigors of building or buying a network, however, Ma Bell is becoming an MVNO (mobile virtual network operator), reselling Sprint PCS's wireless service as part of an integrated bundle that leverages AT&T's brand equity in long-distance and enterprise services.

While this deal pushes AT&T back into the wireless world, on another level it signifies an even bigger trend: Wireless is becoming an offering that providers can't live without. "As of late, the mantra in the wireless industry has been 'consolidation,' and with the announced merger of AT&T Wireless and Cingular that seemed to be the trend," said Todd Harrington, principal analyst, wireless services, Current Analysis, in a recent competitive report. "However, now that AT&T wireless service will be reborn, a new trend could be emerging in the U.S. wireless market — wireline carriers who have either done poorly with and/or divested their wireless ventures that re-enter the market through an MVNO agreement with one of the large network providers. If this trend persists in the United States, it will definitely change the landscape of the wireless market."

The U.S. MVNO opportunity is certainly promising. According to research from ARC Group, projected U.S. MVNO revenues could reach $29.6 billion by 2010 (see *Figure 1*). Taking a cue from European operators such as BT, which has an MVNO agreement with Vodafone, the MVNO concept is beginning to make considerable inroads in the U.S.

Fig. 1 Projected MVNO revenues in the United States.

market. On the heels of the success of Virgin Mobile, which just this year reached the 1.75-million subscriber mark, well-known brands in retail and other non-wireless entities are being attracted to the scene.

Complementary Distribution

As the wireless industry continues to mature, operators will no longer be able to differentiate on price and coverage. In market segments to which traditional wireless carriers can't afford to market services, an MVNO can use its established brand to do so. Seeing the success of Virgin Mobile, Liberty Wireless and Nextel's subsidiary Boost Mobile, other players in the service provider arena (AT&T and Qwest) have joined the movement. From outside the service provider market come new entrants from retail (7-Eleven), content/media (Disney), automotive (OnStar) and affinity group (universities) markets, all using their brand equity to deliver wireless service unique to their target audiences.

"Some things are happening to open up a new opportunity for other brands or other companies to sell wireless service," said Adam Guy, director of the wireless practice at predictive analytics firm Compete, Inc. "The U.S. wireless market is saturating and there's not a lot of new customers for traditional carriers to go after with the same thing. This suggests that someone else can more profitably pursue the frontier of new customers."

The two most talked about MVNO arrangements are the Sprint PCS agreements with Qwest and AT&T (see Carriers Creating Killer Bundles, page 23). While some could argue these arrangements may hurt Sprint, the company sees them as synergistic. "We're focused on looking for opportunities that complement our distribution," said Dave Bottoms, Sprint's vice president of strategic partners. "Qwest is an example of someone that's geographically focused, and the complementary edge there is that they have a great wireline/wireless integration strategy and appeal to a segment of customers Sprint PCS would not be able to appeal to with a product we would not have the capability of addressing."

But not all wireless operators are on board. Verizon Wireless CEO Denny Strigl said at a recent Lehman Brothers conference that his company would not pursue any relationships where another entity would simply resell its service, but rather only create agreements where that entity would "create something new and something different."

Many automotive, content/media and retail outlets are also pursuing some kind of an MVNO strategy. Although content media groups and auto manufacturers have not announced anything formal, retailers and universities are moving fast on this opportunity. The format is similar to the way a credit card company may align itself with a university or religious group, branding the service to appeal to a select group of users. Morrisville State College in New York, for example, has gone so far as replacing student dorm room landline phones with Nextel iDen service. In another example, CampusCell and Telispire have been offering private label wireless service, to Ohio University and San Diego State University, respectively.

For retailers, the MVNO opportunity is equally compelling. While Wal-Mart, which already offers Internet services for $10 per month, is contemplating offering MVNO service, convenience store retailer 7-Eleven has taken the lead. Already a pioneer in selling pre-paid wireline long-distance service for more than 10 years, 7-Eleven sees wireless as just another service to put on its shelves. Through an MVNO arrangement with Cingular, MVNE (mobile virtual network enabler) Ztar Mobile and Nokia (for handsets),

7-Eleven's SpeakOut pre-paid wireless service offers a competitive 20-cents-a-minute service (days, nights and weekends) with a pre-programmed phone.

"Merchandising is really where we like to work with our suppliers, and Ztar Mobile, Cingular and Nokia are all rooting for the same thing: bringing a high-quality product to ma rket that best meets the customer needs," said Kevin Cooper, 7-Eleven's services category manager.

North American MVNO Activity

MVNO	Carrier	Technology	Service Plans*	URL
7-Eleven	Cingular	TDMA	Prepaid	www.7-11.com
9278 Mobile	Sprint	CDMA	Hybrid	www.9278mobile.com
Airlink Mobile	Sprint	CDMA	Hybrid	www.airlinkmobile.com
AirVoice Wireless	AT&T Wireless	TDMA	Prepaid	www.airvoicewireless.com
AT&T	Sprint	CDMA	Postpaid	www.att.com
Boost Mobile**	Nextel	IDEN	Prepaid	www.boostmobile.com
CallPlus Prepaid Cellular	AT&T Wireless	TDMA	Prepaid	www.ecallplus.com
Earthlink	NA*	CDMA	Postpaid	www.earthlink.net
EzLink Plus	Cingular	TDMA	Prepaid	www.ezlinkplus.com
GSR Mobile	Sprint	CDMA	Hybrid	www.gsrmobile.com
Lib erty Wireless	Sprint	CDMA	Hybrid	www.libertywireless.com
Locus Mobile	AT&T Wireless	TDMA	Prepaid	www.locusmobile.com
McLeodUSA	AT&T Wireless	TDMA	Postpaid	www.mcleodusa.com
Omni-Prepaid	Verizon Wireless	CDMA	Prepaid	www.omniprepaid.com
OnStar Personal Calling	Verizon Wireless and other carriers	AMPS, CDMA	Prepaid	www.onstar.com
Qwest	Sprint	CDMA	Postpaid	www.qwest.com
StiMobile	Sprint	CDMA	Prepaid	www.stimobile.com
Telecommunications Systems, Inc.	Cingular Interactive	Mobitex	Postpaid, data	www.telecomsys.com
Tracfone	30 Carriers	CDMA, GSM, TDMA	Prepaid	www.tracfone.com
U Mobile	Sprint	CDMA	Hybrid	www.getumobile.com
Virgin Mobile Canada	Bell Mobility	CDMA	Prepaid	NA
Virgin Mobile USA	Sprint	CDMA	Prepaid	www.virginmobileusa.com

*There is considerable overlap between and among the prepaid, hybrid and postpaid categories so not all MVNOs are strictly one or the other.
**Boost Mobile is not an MVNO or a reseller, but a wholly owned subsidiary of Nextel Communications.

Source: The Yankee Group and Company URLs

Custom Fit

As U.S. wireless penetration exceeds 50 percent, various market segments, including teenagers and ethnic groups, are a ripe opportunity for MVNOs. One of the most talked about opportunities is the youth market. Led by Boost Mobile and Virgin Mobile, these offerings include simple plans that come with the latest phones, applications and youth content. While not exactly an MVNO, Boost Mobile has made a lot of progress, bringing on 132,000 new subscribers in Q1 2004 alone.

Virgin Mobile has been just as effective. To appeal further to this market, the operator has even aligned itself with MTV to develop an MTV-branded phone with an MTV look and feel as well as relevant youth content.

"We saw an underserved market that had distinct needs from its wireless providers, and none of the other wireless carriers resonated strongly from a brand-affinity perspective," said Dan Schulman, CEO of Virgin Mobile. "We realized that slapping a brand on a wireless service would not do the trick as the brand is more about the experience and not the promise of what the brand can be."

While the youth market is certainly compelling, the ethnic market could prove even more lucrative. To serve a widely diverse population that has specific needs in terms of community structure, language and interest, a U.S.-based MVNO play that offers not only competitive long-distance rates, but also customer care and marketing in various languages is a significant opportunity. In addition, the MVNO could offer value-added data services including SMS (short messaging service) and real-time news from users' native countries. AT&T Wireless, for example, through its MVNO partner Locus Telecommunications, has been able to bring multiple ethnic segments into its network that it probably would not have been able to reach on its own.

"The MVNO opportunity is not just the teen market, but an opportunity to target specific affinities or types of people that have a need for something different," said Compete's Guy. "Pre-paid MVNOs are bundling long distance with wireless, and are making it real easy for this user segment, which would include unlimited nights and weekends with a direct speed-dial function to the international IXC."

To be successful, an MVNO has to have the established brand and also maintain the experience without interruption as if it were just another product on its shelf. If done correctly, the benefits to both the brand and user could be rewarding.

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Carriers Creating Killer Bundles

In recent years, there has been a lot of hype over triple play bundles and the killer app. For operators that lack a wireless arm, wireless could be that killer app. SBC, BellSouth and Verizon have all been taking advantage of their wireless arms to bundle in wireless services. The opportunity to integrate a wireless offering as an MVNO is a tantalizing one that's gaining momentum among ILECs, IXCs, CLECs and ISPs.

Arguably, two of the most notable MVNO arrangements are Qwest and AT&T's agreements with Sprint. These opportunities not only create customer stickiness, but also are the first steps in offering a converged wireless/wireline offering.

Through its MVNO arrangement with Sprint, AT&T plans to integrate wireless into its business and consumer bundles, including its OneRate local/long-distance and CallVantage VoIP services. Perhaps most compelling is that the carrier plans to offer an integrated Wi-Fi offering that will allow users to make VoIP calls in their homes or places of business.

Qwest is equally aggressive. After deciding to forgo its initial regional wireless strategy last year in the face of increased demand for nationwide wireless service, Qwest decided its best option was to integrate wireless service into its bundle by becoming an MVNO. To sweeten the deal, the operator's One Number Service enables customers to have their home or office calls routed to their wireless phones with an integrated voice mail product.

"The opportunity we see is to provide our customers with a simpler bundle of services with a way to get their landline, DSL and wireless service from one carrier," said Paul Golden, Qwest's vice president of wireless product management. "Clearly, our strategy is focused on the ability to bundle those services, because our customers would like to see better integration between their wireless and wireline phones. Even though we will be riding on Sprint's wireless network, it's important to recognize that the services and features they are getting are exclusively Qwest services."

Industry pundits also predict cable MSOs could eventually make an MVNO play. Comcast, for example, struck a deal with T-Mobile earlier this year to jointly sell Wi-Fi service throughout Comcast's regions. Although Comcast and other cable operators abandoned earlier wireless resale plans to focus on cable modem services, it's possible they'll revisit them.

"Cable and DSL operators offering a triple play of services — voice, video and data over their broadband networks — are now posing a new set of competitive issues for mobile operators," says

John Darnbrough, senior associate of The Shosteck Group, in the analyst group's latest study, *Wired and Wireless Networks: Two Worlds Coming Together.* "The addition of a wireless element to a wired operator's arsenal will enable it to capture a larger portion of its residential and enterprise customers' telecom bill."

— Sean Buckley

MVNEs Emerge as Back Office Savior

Although mainstream carriers such as AT&T and Qwest have the assets and experience to take on the nuts and bolts of billing and fulfillment, for any non-telecom entity, the ability to even understand nomenclature can be daunting. For those entering the MVNO path, the MVNE (mobile virtual network enabler) is key.

Led by players such as InPhonic, Visage Mobile and Ztar Mobile, the MVNE can take the headaches out of running a wireless service by taking on the duties of maintaining wireless connectivity with a carrier partner, as well as customer care, billing and provisioning functions. Such an arrangement enables the MVNO to focus on its core competency: serving its customer base.

Earlier this year, when 7-Eleven introduced its pre-paid SpeakOut wireless service, it did not go it alone. For the service, which was launched in selected stores, the retailer is using Cingular Wireless' nationwide network infrastructure and MVNE Ztar to manage all the necessary accoutrements of its pre-paid wireless program — including wireless airtime, long distance and customer care. This enables the retailer to offer an out-of-the-box wireless service at its stores.

MVNEs such as InPhonic and Visage Mobile have taken a different approach. Calling itself an "MVNO in a box," Visage Mobile integrates all the necessary back office elements including branding and sales, product, services and making the necessary network connections. Most recently, the company has synched with Convergys to provide outsourced, best-of-breed billing for its customer base.

InPhonic has developed an e-commerce platform that also provides all the necessary back office elements, but has included value-added services such as unified communications and wireless rate plan selection. Serving as an agent channel with all the major wireless carriers, the company has partnered with major B2B sites, including AOL, Yahoo! and MSN, to help such entities resell wireless services to their customer bases. The company even has its own MVNO subsidiary, Liberty Wireless, through which it sells Sprint wireless service.

However you look at it, the MVNE will be one of the many elements that can help ensure the success of an MVNO. "The emergence of the MVNE makes it possible for focused niche market serving parties to reduce the amount of investment required to become an MVNO, because they can pull customer care and back office capabilities together," said Adam Guy, director of Compete's wireless practice. "Now you can launch an MVNO and break even at 200,000 users, for example. When you put an aggregator into the equation, you don't have to make your own deal with each customer care and billing vendor, but aggregate pieces of this from the MVNEs."

— Sean Buckley