

Innovate | Accelerate | Optimise

The MVNO Whitepaper Series from
Mobilise Consulting and Grant Thornton

With new legislation, tax regulation and even calls for an end to billing*, one view on the MVNO market is that operators will need to act quickly to protect market share and profitability. The alternative is to take a more positive stance; whilst it is true that MVNOs will need to adapt, we believe these changes offer opportunities for organisations in the MVNO sector to innovate and shape their business models to take advantage of new routes to profitability.

In this whitepaper – the first in a series of articles created in partnership by Mobilise Consulting and Grant Thornton – we take a look at the role of legislation in powering innovation, and how adhering to regulation designed to free consumers can ultimately benefit MVNOs.

Backed by Mobilise Consulting's MVNO experience and Grant Thornton's expertise in supporting growth and innovation, our whitepaper series aims to motivate, challenge and support MVNO providers to outpace major network operators and deliver the ultimate customer experience.

**See 'Further Reading' on page 6*

Legislation is driving opportunity

Recently introduced legislation designed to stimulate the UK economy offers significant opportunities for the legislative MVNO market.

Here, we provide a summary of each of the changes before diving into the detail on how MVNO's can use these to their commercial advantage.



Roam Like Home

The Legislation

All EU citizens have the right to call, text and consume data when roaming in the EU at the same rates as at home (or as included within their bundles).

The MVNO Opportunity

- To understand and re-structure tariffs to include roaming
- To add new propositions such as WIFI calling and WIFI offload.

Background

Under rules that came into effect in June 2017, EU citizens are entitled to take their mobile plan with them wherever they travel within the EU. For consumers this means the ability to use all-inclusive plans regardless of their EU location; for MVNO's this means reduced revenue from roaming charges.

The opportunity

'Roam Like Home' provides the MVNO community with a compelling reason to re-visit their customer offering and take a look at alternative solutions to placing all of their traffic over the mobile network.

This coincides with maturity in Wi-Fi offload offerings, giving MVNOs the opportunity to capitalise on Wi-Fi aggregators (see the [Mobilise whitepaper 'Levelling the Mobile Playing Field'](#) for greater detail). MVNOs can elect to offload data-intensive traffic to local Wi-Fi regardless of carrier; providing their customers with the superfast experience they expect, without eroding margins.

The Recommendation

We see three key areas that MVNOs should explore as a priority:

Wi-Fi Offload

With millions of secure Wi-Fi hotspots worldwide, managed by hundreds of operators, it is now possible for users (thanks to technology such as Mobilise Hotspots) to enjoy a safe and seamless network connectivity experience whether watching Netflix, Facetiming, or sharing a presentation with their management team via Skype for Business. Given the infrastructure is already there, MVNOs have an immediate opportunity to exceed customer expectations whilst protecting margins.

Over the Top Calling solutions (OTT)

Despite being a class of real-time, 'no-cost to user' communication method that operates over the internet, OTT has proved to be a model that can work commercially. FreedomPop has developed a truly free proposition and yet still makes money – securing over \$109m in funding so far including \$50m in Series C funding. With access to a large high-quality Wi-Fi

network (see above), and the right service and software wrap, MVNOs can offer cost-reducing OTT voice propositions as part of their broader offer, saving consumers money and MVNO's traffic costs.

Multi-IMSI National Roaming

One of the challenges faced by major network operators is lack of service in rural locations or partial 'not spots' that exist along most A and B roads in the UK creating huge customer satisfaction issues and negative brand image – not so for MVNOs. With its Multinet mobile business offering, Gamma has created a 4G service that 'hops' from one carrier network to the next strongest one. This has in part been enabled by the clarity of wholesale roaming costs that the Roam like Home legislation has mandated. Offers such as Multinet have the opportunity to be positioned as premium services for consumers or enterprise customers seeking the best possible coverage.



The Apprenticeship Levy

The Legislation

All organisations with a wage bill greater than £3m are obliged by government to contribute towards a levy to pay for apprenticeship programmes and training.

The MVNO Opportunity

- Bring in fresh talent and invest in up-skilling existing employees
- Specifically attract Gen Y employees and seek their input into business plans for the future.

Background

Introduced in April 2017, the Apprenticeship Levy is part of the UK Government's initiative to help close the productivity gap between the UK and the G7 average by activating 3 million apprenticeships by 2020. Its implementation requires that every employer with a wage bill greater than £3m p/a contributes 0.5% of their pay bill each month as a levy which is used to fund apprenticeship programmes. There will also be changes to the funding of apprenticeships for all employers.

The opportunity

The opportunity here is two-fold – financial and strategic.

Financial:

- There is an annual allowance of £15,000 to offset against payments
- Government will top-up the contribution with an additional 10% of funds which can be accessed through the Digital Apprenticeship Service

- For employers that wish to spend above their levy funds, government will 'co-invest' at 90% of training and assessment costs
- There is currently National Insurance exemption for Employer NIC for 16-25 year old apprentices – a potential saving of 13.8% on their wages.

Strategically

- Introduce fresh talent to your business with new perspectives and a hunger to develop
- Align your levy with your wider skills development and talent retention strategy to ensure you have the skills you need for the future
- Upskill existing employees all the way up to senior management with Masters level qualifications such as the Cranfield MBA.

The Recommendation

Identify Career Paths and Recruitment Strategy

Profiling your organisation is a great first start. Consider which roles could either be fulfilled via an apprentice or which career paths could begin with an apprenticeship. This is a good opportunity to assess where there are gaps – be it in proposition development or customer service.

Analyse Your Team Demographic

You should also have a look at the current make-up of your team – do you have representation across different age ranges or are you over-reliant on one specific demographic?

Conduct a Training Review

Review your current training and development programmes and assess which ones could be aligned to an apprenticeship standard. You should also see if there are gaps in your current offer and whether there is an opportunity to use your levy to fill these all the way from entry level roles to senior management.

Understand the Official Guidelines

You can find advice, guidance and further information at www.grantthornton.co.uk/insights/apprenticeship-levy-what-you-need-to-know



Changes to International Financial Reporting Standards (IFRS) in respect to leasing

The Legislation

New legislation regarding treatment of revenue recognition and leasing will be implemented in two waves: IFRS 15 on 1st January 2018 and IFRS 16 on 1st January 2019.

The MVNO Opportunity

A catalyst to move from SIMO to include handsets which will provide a significant revenue upside in the first year of deployment.

Background

Until now, operators and service providers would have recognised the handset element of a customer's PAYM plan on a monthly rolling basis (i.e. in line with billing). This all changes with IFRS 15 whereby operators and service providers can recognise the full value of the handset up front (at point of sale).

Whilst this doesn't directly impact cash flow, it does provide a welcome EBITDA boost, and is changing the dynamics of the market significantly.

Certain operators (i.e. O2, Virgin Media and Vodafone) have already established fully decoupled service propositions; partly to support customer choice and simplicity, but also to exploit this impending change.

The opportunity

These changes provide an EBITDA boost for MVNOs, as well as an opportunity for a rethink on their overall device strategy.

The Recommendation

With around 70% of the post-paid customer market opting to take handsets, MVNOs should seek to extend their offerings to incorporate the following options for customers alongside SIMO, therefore broadening potential reach:

Creative Financing

Customer selects the handset they want with the option to buy outright via a payment plan of their choosing, or lease alongside / as part of their contract term. Offering customers flexible payments outside of the 12 or 24 month contract cycle has proved extremely effective with Spanish operator SIMYO – it's seen 50% of customers taking flexible finance over a term longer than 24 months – extending tenure and customer lifetime value.

Trade-In

Customer trades in their old device in exchange for a discount. This encourages customers to upgrade when the new handset

they crave becomes available and capitalise on the residual value in their old phone.

Discover where you can differentiate

It is possible to break the current established models of 12 or 24 month contracts. By working more closely with device manufacturers MVNOs could unlock extra opportunities for device to device upgrades. With iPhone users retaining an incredible 92% brand loyalty* an MVNO who has the ability to provide their users with the latest handset as soon as they want it could materially increase their own customer satisfaction.

*Source: Morgan Stanley via <https://www.statista.com/chart/9496/most-iphone-users-never-look-back>

Conclusion

Innovation is not the preserve of developers or engineers, we believe it is an attitude that the most successful of businesses exhibit – from the boardroom to the shop floor, and from incentivising employees through to responding to customer demand. Consumers will actively seek out those organisations that display this attitude when they're looking for their next device or network provider.

What innovation doesn't mean is a slap-dash 'see what sticks' approach. For the Mobilise Consulting and Grant Thornton teams it means combining creative energy with sound business sense, knowledge of the wider market and critical thought.

It is in this spirit that we have created a tailored offering to address a wide range of business needs specific to the MVNO sector that focuses on driving success. This includes an MVNO Strategy Workshop which helps to determine organisational maturity and sets out a plan of action to accelerate and optimise your offering by leveraging the opportunities set out in this whitepaper alongside strategic tax advice such as the best way to utilise R&D tax credits, Share Options and Transfer pricing.

To find out more **[download the details of the workshop](#)** or to book your space contact Hamish White at **hamish.white@mobiliseconsulting.com** or call +44 20 3910 0330.

Further Reading:

We believe in sharing our sources – below you'll find links to where you can find out more about the content included in this whitepaper.

Roam Like at Home Legislation:

<https://ec.europa.eu/digital-single-market/en/roaming>

<http://www.grantthornton.co.uk/insights/mobile-services-a-more-competitive-landscape/>

The Apprenticeship Levy:

www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work

Grant Thornton Apprenticeship Levy Service:

www.grantthornton.co.uk/apprenticeship-levy

IFRS

www.grantthornton.co.uk/insights/ifrs-16-leases--what-you-need-to-know

MVNO Opportunity – Levelling the Mobile Playing Field:

www.mobiliseconsulting.com/levelling-mobile-playing-field

Calls for an end to billing:

www.mobileworldlive.com/featured-content/top-three/telcos-call-for-an-end-to-billing/?utm_campaign=MWL_20170516&utm_medium=email&utm_source=Eloqua

Research and Development (R&D) tax credits:

www.gov.uk/guidance/corporation-tax-research-and-development-rd-relief

Tax and Employee Share Option Schemes:

www.gov.uk/tax-employee-share-schemes

Transfer Pricing – Government Guidelines:

www.gov.uk/guidance/transfer-pricing-transactions-between-connected-companies

FreedomPop funding:

www.rcrwireless.com/20160120/carriers/freedompop-pockets-50m-launches-global-hot-spot-with-free-data



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