MVNOs World Congress

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Turning a wholesale agreement into a long-term partnership: Key clauses for success

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Developing a long-term partnership with an MNO

Prepared for: MVNOs World Congress Masterclasses

By: Graystone Strategy

Introduction to your course leaders

Telecoms professionals with over 60 years combined experience in telecoms and MVNO

James Gray – Managing Director Graystone Strategy

James is an experienced commentator and advisor in the MVNO and telecoms industry with over 30 years experience working in commercial and marketing C-level roles at operators and MVNOs.

He has worked with MVNOs globally including clients in Kenya, Somalia, Mexico, Greece, Nigeria as well as the UK, Channel Islands and Ireland. Recently James has worked with a retail MVNO that has been licensed as part of a regulatory remedy to a merger of network operators.

James is a Fellow of the Chartered Institute of Marketing & The Institute of Direct and Digital Marketing.

Erick O'Connor – Associate Director Graystone Strategy

Erick is an experienced advisor to companies and governments on commercial and telecoms strategy.

He previously held senior management positions at Motorola's global GSM Infrastructure group as well as at Inktomi. In 2002 co-founded and raised funding for DotDash, the first pan-European MVNO to address corporate customers. Recently Erick has worked as an advisor to HM Government on the Emergency Services Network in the UK..

Erick holds an MBA from the University of Bath and a BSc (Hons) from City University in Electrical & Electronic Engineering.

Graystone Strategy has global experience

Working with clients across the telecoms ecosystem

Today's masterclass will give you insights on the following areas

To better target today's session please let us know a bit about you

Agenda

- The four different wholesale strategies
- Wholesale pricing models
- Key costs from your MNO
- Critical contractual clauses for a successful partnership

- Your name?
- Your company and your role
- Your MVNO journey so far.

Wholesale strategies differ by market and MNO

Globally we have seen four specific approaches by MNOs

Regulated

The regulator has determined that MNOs must support wholesale.

Access and commercials are determined by the regulator.

MNOs are likely to do the minimum required to abide with regulators guidance as they are not embracing wholesale as an opportunity.

You may find that there are large license fees and restrictive technical models

Defensive

Typically adopted by a market leader who needs to give the appearance open to wholesale.

Defensive operators will not price aggressively as they do not want their revenues to be eroded.

Prisoners' dilemma often comes into play here so make sure you approach all operators.

Selective

Often adopted by MNOs seeking to grow revenues and monetise capacity.

Selective commercial criteria must be achieved to secure a deal.

Partnerships tend to be with "best in class" brands or highly differentiated propositions.

Aggressive

Entirely open to wholesale with a defined strategy.

Range of technical models and commercial options.

Aggregators are prevalent and barriers to market entry are low. Challenger MNOs tends to adopt this approach first.

There are types of wholesale pricing you may be offered

Not all MNOs will have all these models in their portfolio

Retail Minus	Units	Bundles	Capacity
Used in markets where retail rates are changing significantly. Allows the MNO to peg wholesale tariffs to retail value, the MVNO then decides how much to mark up. Often favoured in regulated or emerging markets as it is simple to execute	Most common mechanic with A-leg/ B leg charging. MVNO pays an agreed rate per unit, usually with volume declining commercials. Dependent on set up host MNO may share or retain interconnect revenues.	Bundles can either be large volume wholesale bundles with a time limit or per subscriber bundles that can be re-sold by the MVNO at a margin. Typically, the MNO takes the risk on per subscriber bundles making this an effective model for non telecom savvy MVNOs.	Used by regulators to drive competition if MNOs have merged. MVNO buys percentage increments of network capacity for a fixed fee. When a capacity ceiling is breached more capacity must be bought. Capacity measured in Erlangs, messages per second and GB.
Benefits Removes the need for benchmarking assuming new retail tariffs are matched. Gives MVNOs confidence they can compete if -% is realistic.	**Benefits** Simple wholesale model. Allows the MVNO flexibility on tariff structures and taking 'breakage" margin.	**Benefits** Enables unlimited /high data offers. Still the opportunity to get breakage margins if you can disconnect retail and wholesale bundles and arbitrage.	**Benefits** Delivers significant flexibility for the MVNO and a commercial model more aligned with network economics.
Risks MNO does not respond to market changes quick enough. Tracks market so true tariff innovation can be difficult in this model.	**Risks** MVNO takes all the utilisation risk. With data growth this carries a large risk. Difficult to deliver unlimited propositions cost effectively.	**Risks** Likely to deliver lower margins as MNO taking risk and may be pegged to MNO retail pricing.	**Risks** Infrastructure heavy for the MVNO, so increased CAPEX costs. The capacity model is not widely available.

How the models work

Worked examples only, the margins are not guaranteed

Retail-Minus

Traffic GM: 16.6%

MNO

$7.50
-25% Wholesale Pricing

MVNO

"$10.00"
(200 mins. 100 texts, 2GB data)
MNO Benchmarked Retail Pricing

$9.00
(200 min, 200 texts, 2GB data)
MVNO Retail Pricing

Units

Traffic GM: 32.0%

MNO

$6.12
(120 mins, 75 texts, 1.8GB utilisation)

MVNO

2c$/minute 4c$/text, 40c$/GB
MNO Wholesale Unit Pricing

$9.00
(200 min, 200 texts, 2GB data)
MVNO Retail Pricing

Bundles

Traffic GM: 33.3%

200 mins
100 texts
2GB

$6.00
(voice + text + data bundle)

MVNO

$1 voice, $1.50 text, $3.50 data
MNO Wholesale Bundle Pricing

$9.00
(200 min, 200 texts, 2GB data)
MVNO Retail Pricing

Capacity

Traffic GM: 50.0%

MNO

$225,000
(based on BH usage: utilisation)

50,000 users

MVNO

$10,000 (per 2,000 erl), $10,000 (per 0.5m texts), $15,000/Gbps
MNO Wholesale Bundle Pricing

$9.00 ($450,000)
(200 min, 200 texts, 2GB data)
MVNO Retail Pricing

What charges should you expect in your contracts 1/ 3

Either with an MNO or MVNA/E

Set up and change fees	• Up front integration or set up fees. • A table of rates for resources when change requests are made • Set up fees can sometimes be negotiated away, refunded based on performance targets, amortised over the contract period or replaced with a higher MRG.
Platform Fees	• Monthly charges or license fees for access to platforms • BSS / OSS, Porting environments • Reporting and monitoring services and so on • In some cases, these fees are wrapped up into wholesale rates if you have a direct operator agreement
Subscriber hosting fees	• Usually, monthly fees for hosting each subscriber or active SIM / IMSI (for IOT) • A definition of subscriber active status is required for this • Aim to only pay for 30-day active subscribers- many MVNOs have fallen foul of incurring charges for subscribers no longer generating revenues

What charges should you expect in your contracts 2/3

Either with an MNO or MVNA/E

SIM Fees	• Costs for ordering SIM cards both physical and E-SIM • You may be offered SIM packaging services with a range of formats • IMSI range fees for IoT normally a charge for a block of IMSIs • Costs for blocks of number ranges (either from MNO, MVNA or regulator)
Usage fees	• Fees for use of products, voice, text, data, roaming etc either as bundles or units. • Interconnect charges and share of interconnect revenues • Any premium services fees based on QoS or access to new technologies • Costs for premium services, voting, car parking, gambling
Capacity Fees	• Only relevant to capacity model • Typical annual fees for access to agreed capacity • Rate card showing additional fees if capacity is breached

What charges should you expect in your contracts 3/3

Either with an MNO or MVNA/E

Minimum Revenue	• Minimum revenue guarantee (MRG) or commitment (MRC) • Sets a minimum amount of wholesale revenue you must pay the MNO • Typically phased to increase annually over the 5-year period • Operators will expect payment of any shortfalls
Exit fees	• Agreed set of fees relating to termination • Sets out a rate card for resources required if an MVNO terminates • The aim of this is to ensure that reasonable costs are agreed now
Other costs	• Increasingly we are seeing inflationary price rises being "baked in" to contracts • API or access costs for using additional network services • Managed service fees if the MNO manages customer care, website, handset logistics etc.

We asked a top Telco lawyer for key "watch outs" for MVNOs

Based on a long career of negotiating contracts for MVNOs and MNOs

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In over 30 years of practising telecoms law globally, there are two specific areas where I find that "standard" MVNO agreements are found lacking and where we spend time negotiating and drafting clauses to give MVNOs protection.

Price review mechanisms to ensure that rates are adjusted in line with market shifts in retail pricing. It's complicated by fact that it inevitably involves an analysis of retail trends, where rates depend on usage patterns, and applying that at a wholesale level. MVNOs need to ensure the mechanism is binding, rather than a mere commitment to review.

Access to new technologies, MNOs understandably seek to retain ability to differentiate between MVNO subscribers and their own customers. Striking the right balance can be crucial to an MVNOs ability to compete.

Angus Finnegan Managing Director at ALC Digital Law

Yor contract negotiation will take many week

If you have prepared appropriately, you will achieve better outcomes

Remember: The people that you are meeting negotiate wholesale contracts as their day job. They will be highly experienced, well prepared and will have heard all the commercial and legal arguments before. You must treat the process with the care and respect that it deserves. The outcome will define the success or failure of your MVNO

Understand your counterpart
Meet face to face, get to know them and try and establish a professional rapport- it will help when things get tough!

Have a negotiation strategy
Structure your meetings, have a plan of what you want to achieve in each engagement and prepare accordingly

Know what you need to win
Have clarity on what parts of the commercial or technical negotiation are critical to your success. Have red lines.

Be prepared to trade
Prepare a list of concessions to trade with your counterpart to achieve your aims. Always trade never give.

Business model
Take time out to plug concessions into your business model and verify they are valuable before accepting them.

Get professional support
Invest in professional support from telecoms lawyers and consultants who have experience negotiating MVNOs

Ensure you have a BATNA
If you have to walk away be clear on what your Best Alternative to a Negotiated Agreement is. Have a Plan B

10 critical clauses to negotiate into your MVNO contract

These are the areas that we see get overlooked or removed most frequently

Time to Market

- Set a clear timeline for the development and launch of the MVNO
- This includes technical readiness for testing and commercial readiness for launch
- The MVNO must launch x days after commercial readiness is achieved
- This is a mechanism that ensure all parties are ready at the expected time

Duration and Exclusivity

- Typically, no shorter than 3 years, 5 years is preferable in order to get ROI
- Longer contracts should have a mutual mid point break clause.
- The MNO will usually insist on exclusivity unless the market has fragmented coverage
- If exclusivity is in place MVNOs may seek a concession on services not offered by the operator or dual running if you move hosts

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Regular price reviews

- Consumer pricing changes regularly, price reviews ensure that your wholesale pricing is reviewed to ensure you remain competitive for the term.
- Annual reviews are recommended with the opportunity for extraordinary reviews if there is a significant event such as a price crash or new competitor.

Independent benchmarking

- If price reviews cannot be agreed, you need an independent bench marker.
- The bench markers decision should be final in terms of gauging if whole pricing needs to be updated to maintain competitiveness
- It's good practice to agree the bench marking methodology, timelines and the independent organisation (like Graystone Strategy) that will undertake the review in the contract.

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Non-discriminatory access

- This clause is important to ensure you get the same QoS as the host network.
- This also includes access to new technologies at the same time as host retail customers
- MNOs may attempt charge premiums for access to 5G etc. This should be avoided.
- The key premise of this clause is that MVNO customers experience the same level of service as an MNOs retail customer.

Service Management

- Aligned to "Non-discriminatory access" MVNO faults should be fixed with the same priority as faults for retail customers
- Typically, you will agree a matrix of services, faults, priorities and break fix times, ideally this will align with the same matrix used by retail service management
- This should be supported with an escalation matrix for when deadlines are breached
- Service credits can add "teeth" to this schedule but are difficult to negotiate

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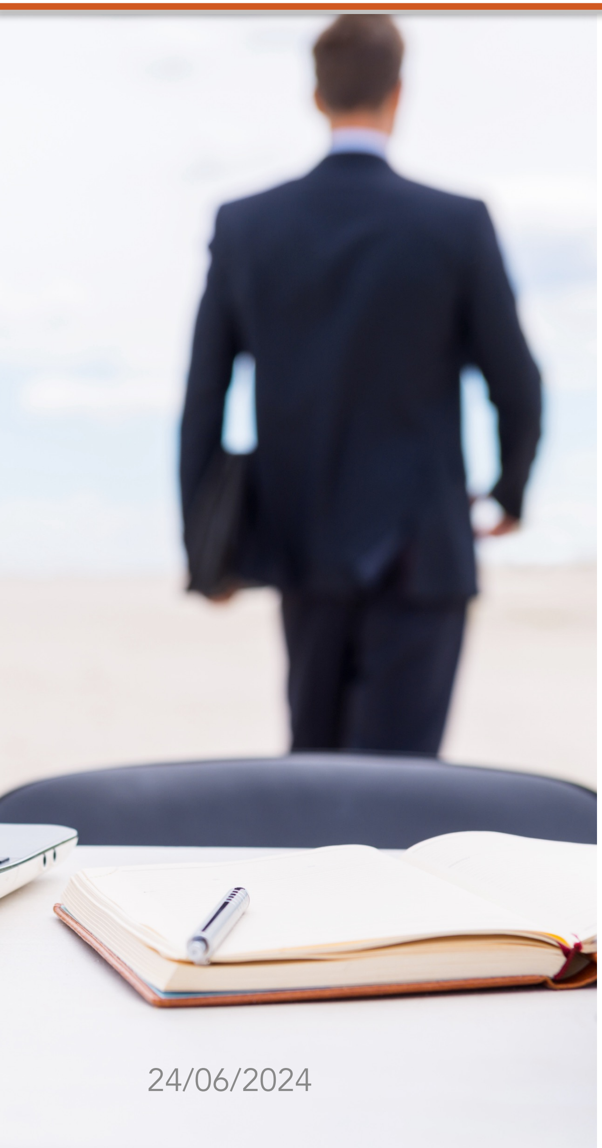

Escalation and arbitration

- Things won' always go right, dispute resolution and regular governance is critical
- Agree regular review meetings and escalation paths if agreement can't be reached
- Consider an independent dispute resolution service or experience arbitrator, do not use the regulator as your first point of escalation, they are the last resort.

Orderly exit

- It is good practice to agree what an orderly exit will look like before it is needed!
- This will include how subs are migrated to a new provider, areas of effort and responsibility if an exit is agreed.
- Set out a baseline for resources and tasks and agree costs now, to stop price gauging when the MNO has nothing to lose.
- Have a period of dual running to allow a managed movement of customers

More than just training

We offer an end-to-end consultancy service for our clients

- MNO engagement & negotiations
- Business & commercial strategy
- Ideation & proposition development
- Customer research & segmentation
- MVNO board advisory
- Go to market & project delivery
- Technology & procurement strategy
- Business planning & modelling

Please take 2 minutes to give us feedback.

This allows us to continually improve our course content and delivery.

2-minute course evaluation survey

Thank you for your feedback and participation.

Graystone Strategy
150 Minories, London,
0207-7846-0276

www.graystonestrategy.com