

Understanding the Digital World

Telecom Player & Markets



# Light operators

Maturing, and putting on weight

M14505IN1A – August 2014

- This document is a part of our "Telecom Player & Markets" category which, in 2014, includes:
  - Two datasets in Excel, updated twice yearly
  - A state-of-the-art report in PowerPoint, updated twice yearly
  - Five market reports in Word, each with its synopsis in PowerPoint
  - Preferred access to our lead Telecom Strategies analysts

**Author: Christoph PENNINGS**, Head of Regulation Practice



Christoph joined IDATE in 2008 as senior consultant and is today in charge of IDATE's Regulation Practice. Christoph has extensive expertise in analysing regulatory matters of fixed and mobile markets. He has been in the lead for client studies for operators in Europe and Northern Africa and has authored multiclient reports on NGA regulation and network outsourcing. Christoph formerly worked as telecoms analyst for McKinsey & Company. He holds a Master's degree in Economics from Maastricht University, the Netherlands.

[c.pennings@idate.org](mailto:c.pennings@idate.org)

**Contributor**

**Carole MANERO**, Research & Project Manager

# Contents

<b>1. Executive Summary .....</b>	<b>7</b>
<b>2. Methodology &amp; definitions .....</b>	<b>8</b>
2.1. General methodology of IDATE's reports .....	8
2.2. Definition of light operators .....	9
<b>3. Light operators and regulation.....</b>	<b>10</b>
3.1. Regulation of significant market power .....	10
3.1.1. Fixed .....	10
3.1.2. Mobile.....	12
3.2. Licensing obligations .....	14
3.3. Consolidation .....	14
3.4. Roaming.....	15
3.5. Net neutrality .....	16
<b>4. Light operators in the mobile market.....</b>	<b>18</b>
4.1. The MVNO phenomenon.....	18
4.1.1. In Europe.....	19
4.1.2. In the USA.....	19
4.1.3. In Latin America .....	19
4.1.4. In Asia .....	20
4.2. The essentials of the MVNO business.....	20
4.2.1. MVNO is the business of (better) segmentation .....	20
4.2.2. MVNO positioning in the mobile value chain .....	20
4.2.3. MNOs need and 'like' MVNOs, but are very cautious in signing a contract with one.....	22
4.3. The challenges for MVNOs .....	24
4.3.1. Competition .....	25
4.3.2. Limited telecom expertise from non-telecom players .....	25
4.3.3. A fragile business model .....	25
4.3.4. Lack of broadband-oriented MVNOs .....	25
4.3.5. A wealthy business for investors .....	26
4.3.6. Value proposition and destruction of value.....	26
4.3.7. Network capacity .....	27
4.4. The wholesale/ network-sharing business .....	27
4.4.1. The wholesale mobile business case essentials .....	27
4.4.2. Essentials of network-sharing agreements.....	29
4.4.3. Wholesale/network sharing: the same business case in the end .....	30
4.4.4. The challenges for wholesale players and network-sharing partners.....	30
4.5. Insights and evolution .....	33
<b>5. Light operators in the fixed market.....</b>	<b>35</b>
5.1. Fibre unbundling challenge opens opportunity for light operators .....	35
5.2. Open access networks .....	36
5.2.1. Network structure .....	36
5.2.2. Service providers on open access networks .....	37

<b>6. Others</b> .....	<b>42</b>
<b>6.1. OTTs</b> .....	<b>42</b>
<b>6.2. Wifi</b> .....	<b>43</b>

## Tables & Figures

Table 1:	Infrastructure, by type of mobile service provider .....	21
Table 2:	Selection of MVNO transactions .....	26

\*\*\*

Figure 1:	Non-MNO-branded mobile offers .....	7
Figure 2:	UK fixed call volume share, 2007-2012 .....	10
Figure 3:	Wholesale bitstream options .....	11
Figure 4:	DSL market shares, 2006-2012 .....	12
Figure 5:	Alternative operator DSL lines, EU-27, 2006 & 2012 .....	12
Figure 6:	Status of market analyses, first round, in 2008 .....	13
Figure 7:	Alternative roaming providers .....	15
Figure 8:	Regulation in the Netherlands .....	17
Figure 9:	MVNO and reseller market share in selective European countries, 2007-2013 .....	19
Figure 10:	Non-MNO-branded mobile offers .....	21
Figure 11:	Telenet mobile subscribers since launch, 2006-2013 .....	23
Figure 12:	Virgin Media's mobile subscribers (thousands) and mobile revenues, 2007-2013 .....	24
Figure 13:	LightSquared spectrum is adjacent to GPS spectrum .....	31
Figure 14:	Three layers NBN .....	36
Figure 15:	Service providers in Amsterdam .....	38
Figure 16:	Helden van nu plans .....	38
Figure 17:	Trined.nl e-health .....	39
Figure 18:	Singapore fibre plans .....	40
Figure 19:	Myrepublic fibre plans .....	40
Figure 20:	FTTH market shares in Singapore, end 2013 .....	40
Figure 21:	Swedish fibre market shares .....	41
Figure 22:	Bredband2 subscribers and revenues .....	41
Figure 23:	Examples of major OTT initiatives .....	42
Figure 24:	Consolidation of OTT communications services .....	43
Figure 25:	Examples of major Wifi initiatives .....	43
Figure 26:	Fon Wifi router .....	44
Figure 27:	Fon telco deals and users .....	45

## List of operators covered in the report

- Bredband2
- Crown Fibre Holdings
- Dish
- Fon
- LightSquared
- MVS Comunicaciones
- Myrepublic
- NBN Singapore
- Telenet
- Virgin Media
- Yota

## 2. Methodology & definitions

### 2.1. General methodology of IDATE's reports

The methods employed by IDATE's teams of analysts and consultants are based on an approach that combines:

- research and validation of data collected in the field;
- the application of classic industry and market analysis tools: segmentation, competition analysis, strategic strengths, modelling, assessment and forecasts...;
- the expertise of specialists who contribute their own analytical capabilities and those of their network of market analysts.

More specifically, the tools employed by IDATE's teams are as follows:

#### **1/ A multi-disciplinary team of full-time consultants, specialised by sector of activity**

IDATE's analyses are performed primarily by our in-house consultants, and very occasionally by freelance market analysts. This approach allows us to capitalise on our pool of expertise through teamwork, sharing knowledge, ideas, contacts, viewpoints and key data. Each report is drafted by a team of specialists, overseen by senior consultants with a proven track record in their field.

#### **2/ Primary and secondary research**

IDATE reports and databases are compiled based on primary data obtained from one-on-one interviews with the sector's decision-makers, and on secondary data which is established by cross-referencing public sources and external databases.

#### **3/ An integrated information centre sustained by a number of tools and proprietary databases**

Over the past 30 years, IDATE has established working and data organization methods and proprietary databases that trace the central chapters in the history of our sectors of expertise.

- **Companies:** IDATE's in-house data service tracks the latest news and events to come out of the top telecom, Internet and media industry companies around the globe. Innovative firms and start-ups are monitored by the market experts in the different "Practices".
- **Markets:** IDATE's databases are derived from rigorous processing of fundamental economic variables (GDP, investments, exchange rates, demographics, etc.) and their relation to decisive sector-specific and national elements (capex, national market dynamics, etc.).
- **Technologies:** IDATE's organization by Practice provides us with an efficient means of tracking innovation. IDATE's engineers ensure in-depth understanding of the changing shape of products and services and of the latest innovations in the marketplace.

#### **4/ Contents of the published reports**

Each IDATE market report details the structures and issues at play in the market being examined, the decisive forces (technologies, regulation, consumption) and the players involved. Particular emphasis is given to market assessments and forecasts, as part of the central premise. All market reports are laid out in a clear and concise manner, and illustrated with tables and graphs of key market data and trends.

The process of drafting of a market report includes the following stages:

- analysis of the information available in the in-house databases, and review of analyses performed in the recent past;
- based on a preliminary segmentation and assessment of the market, and as part of an validated interview guide, analysts conduct interviews that enable them to validate working hypotheses;

- a market model is then established, making it possible to test the hypotheses that have an impact on the market's development, and validated by a new round of interviews;
- and, finally, the report's conclusions are debated with the team responsible for the project and with expert consultants from the various fields involved;
- a final proofreading and editing/revision process, prior to the production of the final version of the report which is delivered to the client.

## 2.2. Definition of light operators

There is no single definition of what exactly a 'light operator' is. For this report we shall consider different types of players as light operators. They all have in common that they do not own a fully-fledged telecommunications network. Instead they only own a limited set of assets and rely on wholesale offers by third parties to reach their clients. The depth of the infrastructure owned by light operators may vary significantly, ranging from pure resellers to operators rolling out substantial backbone networks. Light operators are active in fixed and mobile markets and can also adopt a sort of hybrid positioning as service providers on Wifi networks offering nomadic access at different fixed locations.

Although individual light operators have rarely become leading operators in their respective markets –with some notable exceptions such as Virgin Mobile in the UK- collectively, they have had a huge impact on communications markets. Light operators have fuelled competition in otherwise static markets and contributed to making communications services ever more affordable for users. They have developed new market segments by catering to niches that were not targeted by established players before, such as ethnic groups. Light operators have brought innovative business models to the market and their low-cost and no-frills approaches have been largely adopted by other players in it.

Asset-light players have benefited not only from clever marketing strategies and low barriers to entry because of the relatively low capex-intensive nature of their business model. They have also benefited from regulatory obligations imposed on network operators. This holds true especially for operators being active under the common European regulatory regime with its far-reaching ex-ante regulation. Obligations to grant light operators access to the network can also be found in numerous mobile licenses, thus even if the license-holder is not a dominant player, it will have to make capacity available at reasonable terms to light players. Network operators were also happy to open their infrastructures to light operators on purely commercial terms. The capacity sold to light players helps in improving network utilisation and wholesale revenues generated can at least compensate for some of the revenue loss caused by lower prices or reduced market share in the retail segment.

However, the story of light operators is not necessarily one of uninterrupted success. Light operators mostly operate in a low-cost/ low-margin model. As prices for voice, messaging and broadband services have generally decreased significantly over time and bundles with abundant or unlimited voice and text services have become rather common in the market, the traditional light operator model has come under significant pressure and numerous players have exited the market or have been acquired by their host operators.

Yet this trend does not mean that the light operator model is bound to disappear. Where new fibre and LTE networks are being deployed new wholesale access options arise. Regulation and anti-trust measures in a consolidating market are also creating business opportunities for light operators. Other light players keep focusing on their traditional strengths by identifying new niches and catering to them with targeted services. Therefore, while light operators may have lost some of the momentum they had a few years ago, they will continue to play a role on the market while going through their own process of transformation.