

A Bright Future for MVNOs?

In Europe, a number of companies are packaging and reselling carrier airtime under their own brands. These mobile virtual network operators (MVNOs) — including such companies as Virgin Mobile, Sense, and Imagine — have managed to build viable businesses. Now, Virgin Mobile is planning to move into the U.S., sparking debate within the industry as to how well MVNOs can thrive in the U.S. market. The question is, does the MVNO model have as much promise in the U.S. as it has overseas?

GALEN SAYS: No. Don't get me wrong: MVNOs will have their place. But I think the effect will be more muted in the U.S. for several reasons.

First, I believe carriers will recognize the importance of the affinity groups and niche markets that MVNOs would typically target. The U.S. has more carriers — and more potential customers — than the typical European country, so it's easier for them to target clusters of markets rather than try to dominate the entire country through a broad offering. I expect the American carriers to resist the MVNO phenomenon to preserve their own brand strength. The recent AT&T Wireless-AOL Time Warner deal is a good example of that: AOL could have become a perfect MVNO, but instead it chose to partner with a carrier, letting both companies leverage their brands. Credit card companies have already figured that out: A company like First USA has dozens of cards marketed under other organizations' names, such as cards for university alumni or environmental groups. So why not a Pepsi service from Cingular?

Second, I believe that a basic difference between U.S. and European phone service will limit the MVNO opportunity. In Europe, thanks to Subscriber Identity Modules, it's easier to switch carriers. That's one reason that MVNOs make sense there: They can function much like prepaid long distance does in the U.S., letting people jump from one provider or affinity group as they like, or even use more than one.

The U.S. carriers have done a great job of tying everyone into one- and two-year contracts, and they'll jealously guard that market when the MVNOs come calling.

Prepaid *does* make a lot of sense for U.S. MVNOs: Prepaid users tend to have credit problems or are unable to stick to a plan, so they're largely outside the mainstream of U.S. users.

So MVNOs will find a place. It'll just be a limited one in the U.S., confined to niche markets.

MO SAYS: I agree that MVNOs' best prospects lie in niche markets; but in the U.S., niche markets hold huge uptake potential, much more than in Europe, where higher penetration rates across the board have left fewer markets untapped.

Couple that with the fact that U.S. carriers want to grow their revenues without taking new risks, and you've got a strong case for why U.S. MVNOs could actually outprosper their foreign counterparts.

With network build-outs and migration to next-generation technologies, U.S. carriers have such significant infrastructural investments ahead of them that they're doing little to test new data-service options. Instead, they're focused on ensuring the health of their core offering — voice — and dabbling in a one-size-fits-all data-service approach.

But strong, well-branded companies outside of the telecommunications industry *will* be willing to take a risk on the high-potential data-service markets: companies with well-defined demographics that they know how to market to. Picture a Target MVNO with special services for the price-conscious buyer or a Disney MVNO targeting the preteen demographic. Sports, gaming, movies, music,

and fashion are all markets with strong audiences and big-brand vendors that could support targeted services.

So would U.S. carriers ever allow this kind of "coopetition"? Why not? MVNOs can intelligently target segments they understand deeply. If carriers were to target these segments, they'd have to do so via add-ons to a something-for-everyone service. With targeted, well-marketed services and a strong brand, an MVNO can build up a user segment that carriers can't attract — or won't risk trying to attract. And since the MVNO still pays airtime costs back to partnering carriers, they're not competing for carrier revenues — they're opening up a new channel. ■

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