

MVNO's: the future is global ethnic brands...

Its time for mobile network operators to start looking for partnerships that will enable them to drive incremental revenue streams, if they are to keep pace with their competitors in today's mobile market.

Lycatel is one of the world's fastest growing telecommunications brands.

The brand specialises in offering prepaid telephony solutions to the ethnic expatriate and diaspora communities globally.

Lycatel has grown to become Europe's largest prepaid international calling card brand and is on target to achieve its mission to become global market leader in 2008.

The growth trajectory of the brand has been based around using market forces to build a market competitive position, says Lycatel CEO Milind Kangle.

"A thorough understanding of the underlying cost structure required to drive economies of scale in calling card operations has enabled us to set a benchmark business model for the industry," says Kangle. "We originate and terminate over 1.5 billion minutes of voice traffic per month, interconnect with over 170 international carriers and complete over 2.4 million voice calls per day. We have managed to harness market forces, the bargaining power of suppliers and customers and the threat of new market entrants, and use those forces to enhance our competitive position."

Lycamobile is our most important strategic move yet, into the mobile virtual network operator (MVNO) sector

Unburdened by the sort of legacy infrastructure that drags down an incumbent telecoms operator, Lycatel has been able to leverage a low cost base to develop the market in sectors that most MNO and retail fixed line providers can not penetrate successfully.

With its focus on ethnic migrant communities around the world, Lycatel certainly operates in a major growth sector. There are now some 191 million migrants worldwide, up from 176 million in 2000, according to the United Nations' Trends in Migrant Stock report. Migrants now compose three percent of the global population, with 32 million foreign-born residents in Europe alone, and still growing largely due to EU expansion. "Our customers have a need to call internationally whilst

managing their monthly budgets through prepaid solutions", says Kangle.

"Our focus on niche prepaid markets has enabled us to compete successfully with innovative products serving the needs of ethnic customer segments, by providing great value voice propositions, this has enabled us to grow our market share rapidly " says Kangle.

Lycatel is now looking to extend its position in European prepaid services around the world. The brand is also expanding with new residential services, an e-commerce portal, an extension of its wholesale business, and entry into the established North American market, as well as the emerging markets of Eastern Europe, and the Middle East.

"Lycamobile is our most important strategic move yet, into the mobile virtual network operator (MVNO) sector – a logical extension of the Lycatel brand's distribution strengths, its buying power and its experience in the expatriate and ethnic segments", says Kangle.

Kangle says Lycamobile is on mission to become the leading global prepaid international MVNO, with ambitious plans for acquiring mobile customers over the next five years. He is looking in that period to acquire five million European mobile customers from 25 million European calling card users, as well as two million US mobile customers from 35 million US card users. He also aims to cross-sell to Lycatel's current base of seven million calling card users and take international caller customers from competing international MVNO's.

There is already proof that the Lycamobile model is headed for success. Early rollouts in the Netherlands and Belgium have already scored notable success. Following hosting agreements in the Netherlands and in Belgium; Lycamobile has already activated 400,000 Dutch users since June 2006, and generates over 30 million mobile minutes per month.

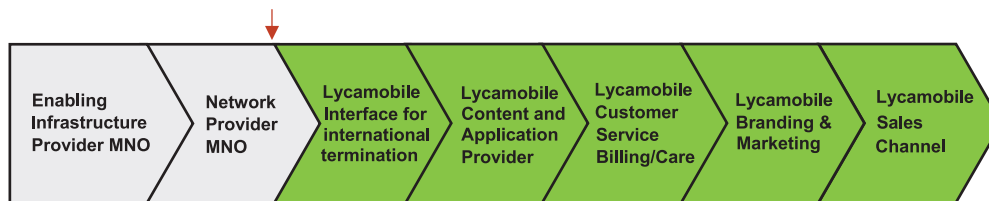
For the Belgian market, Lycamobile has achieved 150,000 new users since only June 2007 and is on target to increase its subscriber base to over 1 million subscribers in 2008.

This has been achieved by leveraging existing distribution and complemented by a broadening into a number of different retail multiples, such as petrol station chains like Shell, Texaco and BP, major supermarkets and other high profile retailers.

Kangle says building on existing wholesale partnerships in markets

LYCAMOBILE MOBILE VALUE CHAIN

Lycamobile has a proven interface between the MNO network and the International Termination network



The solution we use is a combination of an MVNO and International Termination model that will generate margin for both parties

Source: Lycamobile

THE FUTURE IS PREPAID

The prepaid part of the mobile market, where Lycamobile has built its reputation, is increasingly becoming the key to the mobile sector.

According to recent figures, there were over 1.1 billion prepaid mobile customers globally, accounting for 58 per cent of the mobile subscriber base. According to analyst brand Informa's Telecoms and Media forecasts, by end 2010 the proportion of prepaid subscribers will rise to 65 per cent.

Some 80 percent of mobile net additions over the past 12 months were for prepaid options, and 50 per cent of mobile operators have indicated that prepaid subscribers account for between 85 and 100 per cent of the total. Another third put this range between 70 and 85 per cent.

Lycamobile is well on its way to becoming the leading global prepaid international MVNO, and to acquire seven million mobile customers over the next five years by targeting calling card users throughout the world, as well as by cross-selling to its current base of users and by taking international customers from competing mobile networks. ■

all over the world is part of the Lycamobile strategy.

"Lycamobile leverages partnerships with over 170 global telecommunications carriers, and a growing base of over seven million customers," he says. He believes that by forming direct relationships with incumbent telcos in growth markets like Nigeria, Ghana and Pakistan, markets by no means over served by other international players, means Lycamobile has been able to offer a high degree of quality of service to customers which has led to a widening of the customer base and even greater leverage with suppliers over price.

In particular, Kangle believes Lycamobile may be well positioned to provide a partnership solution to mobile network operators (MNOs) as part of their growth strategies

In a fast changing mobile telephony market, many MNOs are looking for opportunities to increase profitability, and are uncertain what the future holds for them in an increasingly competitive space.

Most are battling to hold up revenues from their existing base of customers, and in a world where ownership of infrastructure is no longer the key to success; they are up against any number of rivals in the search for new customers.

The arrival of IP, and services based on unlicensed wireless networks, will continue to fundamentally change the mobile landscape

Furthermore, mobile customers are hungry for a new generation of services, which many MNO's may not be ideally suited to provide. "The world's mobile network operators need to look for the right type of partnership in what is becoming a challenging market," says Kangle.

"Regulation is affecting what they can charge for roaming and for mobile termination rates (MTR), while the benefits of so-called 'spectrum ownership' that has allowed them to control the marketplace will diminish over the next five years," he points out.

Kangle adds that the arrival of IP, and services based on unlicensed wireless networks, will continue to fundamentally change the mobile landscape, and says that as barriers to entry into the mobile market

come down, price competition can only intensify.

“For MNOs to preserve profitability, they need both to cut costs and to develop new revenue streams,” he says. “Cost cutting means reining in acquisition costs, relying more and more on IP-based technology, and looking to outsource all or part of their network.”

MNOs can generate new revenue from developing more coherent wholesale strategies, and from deploying innovative pricing strategies to take more traffic away from fixed networks.

Counter intuitive as it may seem to a traditional mobile operator, working in partnership with the right kind of MVNO partner could well provide the key to managing this transition, says Kangle. He believes, echoing the words of many of the independent analysts who study the sector, that it's time for MNOs to stop regarding MVNOs simply

MNOs looking for a successful MVNO partner will need to look for signs of a strong brand and the ability to transpose this brand into new markets

as retail competition and to find ways of making partnerships with them based around the imperative of doing more business at lower overall cost.

“The rationale for MNOs to find partnerships with MVNOs is clear,” says Kangle. “In this way, they can successfully penetrate niche markets effectively, and they can leverage their existing assets to increase revenues, through better distribution and a widening of the customer base. And they can get a better yield from existing networks and improve profits, as well as increase their competitiveness without the need for additional capital investment.”

But not all MVNOs are alike, necessitating care when choosing a partner, warns Kangle. Lycamobile, with its interface between the MNO network and the international termination network, its globally recognized brand and its extensive distribution channel, is in a different category to an MVNO which is simply a well known consumer brand name with no value added potential, simply reselling another brand's services, he says.

MNOs looking for a successful MVNO partner to help tackle tomorrow's market will need to look for signs of a strong brand, and most importantly the ability to transpose this brand into new markets, says Kangle. “It is the ability to use their brand in markets which the MNO cannot reach that genuinely adds value to the partnership”, he adds.

“A successful MVNO needs access to wide distribution,” he adds. “They must already have a strong existing customer base, the financial capacity for expansion, be customer and service-oriented, and have the ability to innovate on both pricing and services.”

Many mobile network operators are now seeing the benefits of opening up their networks to MVNOs, and are already looking to MVNO partners to expand their business. In this changing landscape, Kangle says the Lycamobile brand is well positioned, offering both stability

and a track record of unbroken growth.

The next part of Kangle's plan is to position Lycamobile not simply as an MVNO, but as a mobile virtual network aggregator (MVNA). By providing services wholesale to other MVNOs, letting them identify and target niches as Lycamobile has already successfully done, then the brand can be part of the next big trend on mobile service provision.

“We are offering services and core competencies that can be tailored to segments and services, providing a design and development offer, as well as pre-integrated turnkey back-office systems and a mobile data platform,” says Kangle. “We have the ability to provide brands, such as a large bank, which do not have the appetite to invest in the infrastructure required to run a successful mobile business, a pre-negotiated wholesale voice and data capacity, allowing them to concentrate on their core business”. ■

SOME FACTS ABOUT LYCATEL

- > Lycatel is Europe's largest prepaid international calling card brand and the world's fastest growing international MVNO
- > Serves over seven million customers with calling products every month
- > Has created a niche among ethnic customers making international calls
- > Interconnects with over 170 specialist carriers for international termination
- > Originates and terminates over 1.5 billion minutes of voice traffic per month, and completes over 2.4 million voice calls per day
- > Has established a distributed call centre model with over 100 call centre agents in India and Europe, servicing customers in over 20 languages
- > Making ongoing investment to create the optimal switching environment, including Huawei TDM/VOIP Soft Switches with over 6,000 E1s
- > Has a management team with telecom, financial, distribution, technology and marketing experience
- > Financial performance has enabled major investment in mobile growth
- > Is now diversifying by developing prepaid carrier-to-carrier wholesale, prepaid residential and prepaid international mobile businesses

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