

Sosh, NRJ Mobile, B&YOU, Virgin Mobile, Red, La Poste Mobile

Impact of operator sub-brands on MVNO businesses



MVNOs were once the challengers typically differentiating through targeted segmentation or price – or both. With the emergence of MNO sub-brands one could fear for what happens to MVNOs in a market?

We look at the developments in France over the last 3 years to see what happened to MVNOs when all three MNOs launched their own sub-brand during the second half of 2011 in preparation for the announced launch of Free's mobile network.

History

MVNOs have traditionally challenged the mobile network operators (MNOs) through targeting narrow, well-defined segments or through sheer price competition with the lower price point supported by a “lean and mean” organisational model relying on online presence and efficient customer service. MNOs normally don’t see a big need to fight back – if an MVNO is perceived as a real threat it has often been the case that an MNO has acquired such an MVNO. Examples of this are:

- Virgin in USA acquired by Sprint in 2009 at 483 MUSD for 5,2 million subscribers
- Onfone in Denmark acquired by TDC in 2011 at around 300 MDKK for 170 thousand subscribers
- Simyo in Spain acquired by Orange in 2012 at around 30 MEUR for 380 thousand subscribers

In France though, a slightly different chain of events took place. MVNOs had existed for some time when Free announced that it would launch its own mobile network, which it eventually did in January 2012.

The three MNOs, Orange, SFR and Bouygues, all launched their own sub-brand in the period leading up to Free’s network launch:

- Bouygues launched B&YOU July 2011
- Orange launched Sosh October 2011
- SFR launched Red in October 2011

tefficient has previously looked at the French market and the impact of Free's launch¹. The previous analysis did not consider MVNOs though.

¹ See tefficient’s analysis “Free liberates France – a second time?” from May 2012 [here](#)

Subscription development

Based on the French regulator ARCEP's² quarterly statistics, the graph below shows the cumulative subscription development for MNOs and MVNOs over the past 3 years.

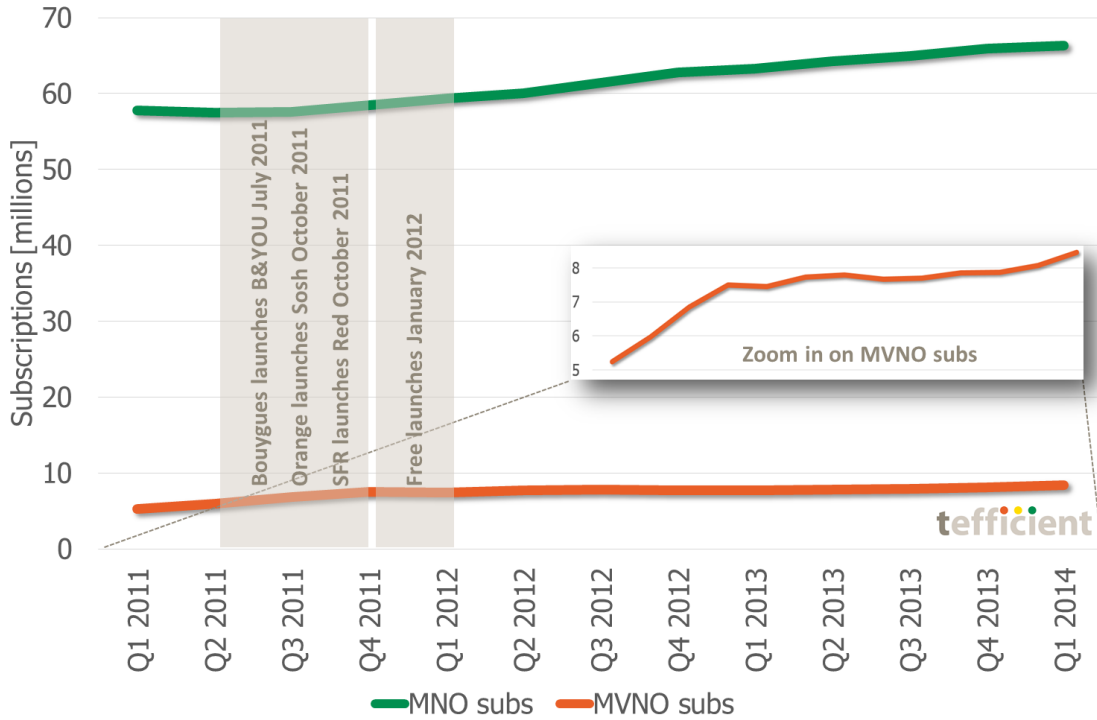


Figure 1. MNO and MVNO subscription development in France since 2011

From Figure 1 it is clear that starting from the period where Orange, SFR and Bouygues launched their sub-brands Sosh, Red and B&YOU - intended to combat the imminent launch of Free - the number of MVNO subscriptions stabilised after a period of constant growth. Instead of continuing to support the MVNO growth path from first half of 2011, potential MVNO customers seem to have developed a preference for the sub-brands of the larger MNOs and subsequently also for Free starting early 2012. Figure 2 shows the subscription development for the no-frills MNO brands.

² ARCEP = Autorité de régulation des communications électroniques et des postes

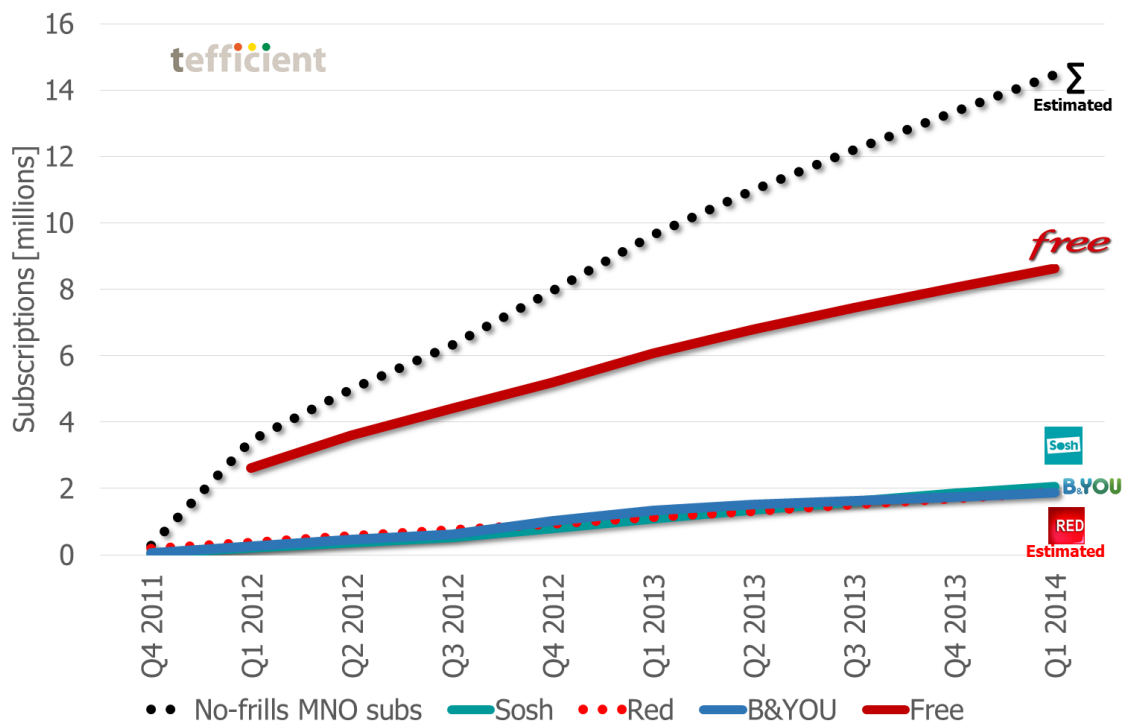


Figure 2. No –frills MNO brands subscription development in France since 2011

Figure 2 shows that Sosh, Red³ and B&YOU have grown at roughly the same pace into now having around 2 million subscribers each whereas Free has grown faster and now has more than 8,5 million subscribers on its mobile network.

Comparing Figures 1 and 2 makes it clear that the average Frenchman now prefers to become a customer of an MNO sub-brand rather than an MVNO brand.

³ The number of Red subscriptions is estimated linearly based on “more than 1,7 million” at end of 2013

Contract subscription development

The launch of the no-frills sub-brands and Free brought with it another change in the French mobile market. There was suddenly an alternative to the traditional contract (post-paid) subscriptions, which were bound for a long period, offering convenience of non-commitment and tariff bundles with voice, messaging and data.

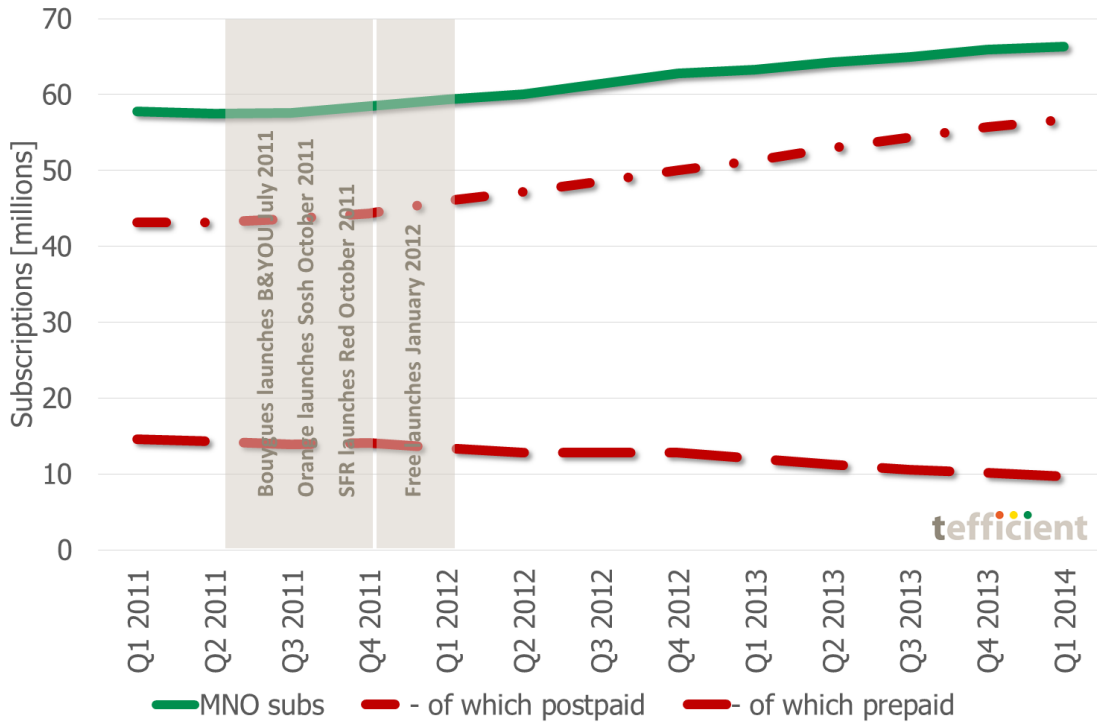


Figure 3. MNO post-paid and prepaid subscription development in France since 2011

As can be seen from Figure 3 the emergence of contracts without commitment⁴ changed the balance between post-paid and prepaid subscribers in France. Prepaid has declined since end of 2011 and the post-paid growth has driven the overall MNO subscriber growth in France.

⁴ Technically it's a one month pre-paid subscription

MVNO subscriber types

ARCEP also releases information about the type of subscribers – business or consumer - MNOs and MVNOs have. There’s no surprise in the split of MNO customers between business and consumer (not plotted) but there’s a clear difference to MVNO customers, which is shown in Figure 4.

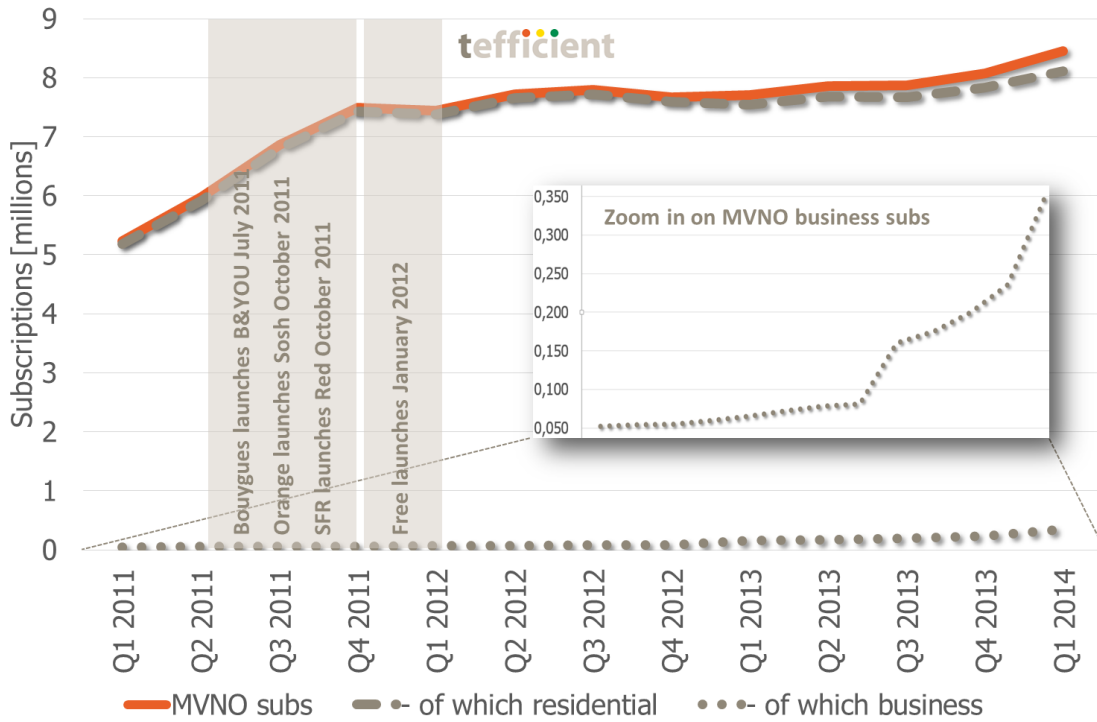


Figure 4. MVNO customers split development in business and consumer (residential) in France since 2011

Figure 4 shows that the vast majority of MVNO customers are consumer customers and this has not changed over the last three years. Although this might indicate that MVNOs are not targeting business customers effectively, the zoom in on the MVNO business subscription graph reveals that the business segment has increased in importance to MVNOs starting second half of 2012. This might be due to the focus shift towards consumers in the French market at large, which has left parts of the business segment available to be picked up by MVNOs.

MVNOs strike back

In the current situation in France with MVNO subscriber stabilisation and MNO sub-brand growth success, what can the MVNOs do to take part in the growth of mobile subscriptions?

One MVNO who doesn't seem to have thrown in the towel is Virgin Mobile in France. Virgin's Sir Richard Branson made one of his not-so-unusual-anymore marketing stunts in Paris in September 2013 to launch Virgin Mobile's latest attack on the no-frills offerings in France.



Regardless of the impact of this particular marketing event, the no-frills mobile fight in France is clearly evolving around pricing with the no-frills brands finding ways to decrease prices or include more at the same price. It should be noted that at the time of writing this, there are rumours of a sale of 46% of Virgin Mobile in France – SFR and Bouygues are rumoured to be interested.

While not specific to France – it doesn't actually cover French mobile customers – a recent whitepaper from WDS called "Mobile Loyalty Audit 2014" ([link](#)) has some interesting findings about MVNO customers. One finding is that MVNO customers are no more price conscious than MNO customers are while another finding show that MVNO customers are considerably better promoters of the brand at NPS (Net Promoter Score) of +18 compared to an average of +5 for all mobile operators. Combining this with other findings from the whitepaper, it shows that MVNOs have more loyal customers than MNOs and these customers remain with the MVNO for several years. This should give MVNOs the upper hand vs MNOs in terms of retention costs, which together with acquisition costs makes up the single largest OPEX component for a typical mobile operator in a mature market.

Conclusion

Based on the market situation in France, we can conclude that a large-scale introduction of sub-brands – in France introduced to fence off the expected launch of price-challenging MNO Free - stops the growth of MVNO subscriptions. The development in France indicates that MVNOs has a space in the market but sub-brands have taken over the growth, likely driven by the attractiveness of the bigger MNO brands that are behind the sub-brands. MVNOs seem to have found a growth segment, and although the numbers are still comparatively small, the steep growth of MVNO business subscribers may point to a new focus area for MVNOs.

MNOs in markets where MVNOs have some significance should consider creating no-frills sub-brands based on the example in France. This may result in some cannibalisation into the MNOs' own-brand subscriber bases, but the benefits of this might outweigh the apparent downside due to lower OPEX of subscribers on no-frills sub-brands, especially if a large share are SOWO (SIM Only Web Only).