MOBILE VIRTUAL NETWORK OPERATORS IN EMERGING ASIA–PACIFIC: OPPORTUNITIES, COMPETITION AND REGULATION

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About this report

This report assesses the prospects for mobile virtual network operators (MVNOs) in four countries in the emerging Asia-Pacific (EMAP) region. It focuses on the market segments that MVNOs can target, the competition that they may face from mobile operators, and the regulatory and wholesale environments in which they may operate. The report also provides recommendations and insights for MVNOs, mobile network operators (MNOs) and regulatory bodies in these countries.

This report is based on our understanding of some of the larger markets in the EMAP region, our analysis of MVNOs in Europe and North America, and our in-house expertise. ¹

Key questions answered in this report

- Which segments provide the best opportunity for MVNOs in China, Indonesia, Malaysia and Thailand, and to what extent are MNOs likely to pose a threat in these segments?
- How did MNOs respond when MVNOs entered the market?
- How conducive are the regulatory and wholesale environments to the arrival and growth of MVNOs?
- What conditions are imposed during the MVNO licensing process, and what mechanisms are available to mediate commercial relationships between MNOs and MVNOs?

Geographical coverage

Emerging Asia-Pacific (EMAP):
- China
- Indonesia
- Malaysia
- Thailand

Who needs to read this report

- CxO staff at organisations that are considering launching MVNO services in the emerging APAC region.
- Senior managers in MNO strategy teams that need to make decisions about their response to MVNOs.
- National regulators that want to understand how MVNOs are licensed and regulated in the region.

¹ For further details, see Analysys Mason’s MVNO market analysis: status update, emerging opportunities and outlook for Europe. Available at www.analysysmason.com/MVNO-2014.
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Executive summary

**MVNOs have a chance to succeed in the emerging APAC (EMAP) region, but the attractiveness of the opportunity varies significantly across market segments. This report covers the MVNO opportunity in four countries including Malaysia, which offers the best prospects for long-term sustainable success, and Indonesia, which offers the least potential.**

Some traditional MVNO niches, such as the immigrant market, are absent in a number of EMAP markets. No-frills MVNOs are more likely to have better growth potential and have already achieved success in Malaysia. Internet players also have the ability to offer differentiated MVNO propositions.

The attitude of host network operators is crucial for MVNOs. It is noteworthy that the success of MVNOs in Malaysia is strongly tied to the support of host operator Celcom. In other markets such as Thailand, host operators have lacked the ability to provide the requisite support to MVNOs.

Basic building blocks to aid the entry of MVNOs – such as low mobile termination rates (MTRs) and mobile number portability (MNP) – are available in some EMAP markets. There is a general will for markets to open up. However, some regulators, such as in Malaysia, have encouraged the allocation of spectrum to new entrant MNOs, whereas other regulators, such as those in China, have concentrated on the introduction of MVNOs. Regulated wholesale rates for MVNOs are rare worldwide, and do not exist in the EMAP region.
**MVNOs are already operating successfully in EMAP, which proves that MVNOs are not simply a developed market phenomenon**

Mobile service revenue growth is slowing in EMAP markets and competition is intense. Therefore, MNOs are assessing whether hosting MVNOs will allow them to exploit new areas of growth. Similarly, potential MVNOs are examining whether they can make viable business cases in EMAP. All stakeholders face the challenge of identifying the most profitable niches.

MVNOs have attracted increased attention in the EMAP region over the last couple of years and a number of successful players have emerged. Candidate MVNOs and potential host operators need to understand the various opportunities available in different markets, as well as any lessons that can be learned from the successes and failures of existing MVNOs in EMAP.

Stakeholders must identify the most promising MVNO niches. For example, this could involve launching postpaid no-frills MVNOs with lower-than-postpaid-market average ARPUs.

This report assesses the opportunities for MVNOs to find attractive niches in four countries: Malaysia, Thailand, China and Indonesia. These markets have different stages of maturity with regard to MVNOs. We begin with Malaysia because MVNOs have successfully launched there. By contrast, MVNOs have yet to make an impact in Thailand, although interest in launches remains high there. In China, MVNOs have started to make an impact in recent months, whilst in Indonesia, MVNOs have yet to launch.

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**Figure 2: Recent MVNO-related developments in emerging Asia-Pacific**

- **INDONESIA**
  - **August 2014**: The Ministry of Communications and Information Technology began discussions on plans to formally introduce MVNOs.

- **CHINA**
  - **August 2015**: MVNOs accounted for 10 million active SIMs, which was a significant increase from 2.1 million at the end of 2014.

- **THAILAND**
  - **September 2015**: Supermarket chain Tesco Lotus was reported to be planning an MVNO launch in 2016, with CAT Telecom hosting the MVNO in a 50:50 joint venture.

- **MALAYSIA**
  - **October 2015**: redONE had 700,000 subscribers and Tune Talk reached about 1.5 million, compared with a market total of 44.2 million at end of 2Q 2015, as reported by the regulator.

Source: Analysys Mason

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We analyse the prospects for MVNOs in four countries using three measurements

MVNOs can only thrive where they can target market segments that have unmet needs, where MNOs are receptive and where regulatory and wholesale regimes are conducive to their arrival – and survival.

This report assesses the prospects for MVNOs in four selected markets in EMAP by focusing on three areas.

**Market and segment opportunities:** MVNOs often specialise in market segments that MNOs do not – or cannot – address, such as immigrants, young people\(^1\) or people with particular income levels. In this report, we examine some of the segments that are of interest to MVNOs in the region.

**Competition from MNOs:** MVNOs will struggle in countries where MNOs are aggressively targeting the same market segments that MVNOs traditionally serve. MVNO success also depends on whether MNOs regard MVNOs as an opportunity or a threat.

**Regulatory and wholesale environment:** The regulatory environment and wholesale market are both vital to the entrance and survival of MVNOs. Regulators provide licensing frameworks, but in countries with established competitive dynamics, regulators may need to mediate commercial relationships in order to ensure that MVNOs retain the ability to compete on price.

For more details on the assessment criteria, see the appendix.

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\(^1\) In this report, we broadly define the youth segment as 24 years or younger.
Recommendations

1. In order to achieve sustainable long-term success, MVNOs must do more than simply compete on price.
   ARPU levels in the EMAP region are already low, compared with other ARPU levels worldwide. Therefore, MVNOs competing at the bottom end of the market will struggle to generate profitable business models. MVNOs should focus on synergies with their existing businesses. For example, MVNOs can offer reward schemes in collaboration with other companies within their wider group. Ecommerce retailers may also have credit information on potential subscribers, which could allow them to offer high handset subsidies and attract higher value customers.

2. MVNO candidates should investigate the potential for launching no-frills postpaid ARPUs.
   The significant growth in market share for redONE Network in Malaysia highlights how no-frills MVNOs that cater to the bottom end of the postpaid market with SIM only offers can be successful. MNOs should also consider hosting such MVNOs because this could reduce the risk of the host operator cannibalising the MNOs own postpaid revenue if it were to launch a cheaper postpaid proposition. Other markets in the EMAP region, including Thailand, similar conditions to those that have allowed redONE’s success in Malaysia.

3. Companies interested in becoming MVNOs have to ensure that they have the backing of a committed host network operator.
   The success of MVNOs in Malaysia is in no small part due to the support of Celcom as a host operator. Celcom’s support extends to holding equity stakes in some of the MVNOs it hosts. Receiving attractive wholesale terms in price-sensitive markets is fundamental and is a necessary – though not sufficient – condition for the success of MVNOs in EMAP.
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About the author

Stephen Wilson (Principal Analyst) contributes research to our Fixed Networks research programme. He joined Analysys Mason as a Senior Analyst in November 2012, having previously worked for Informa Telecoms & Media. Stephen has more than 5 years of experience covering the telecoms industry and specialises in analysing fixed broadband access technologies and strategies, as well as developments in European telecoms markets across fixed and mobile sectors. He has produced reports on DSL acceleration technologies as well as regular updates on European markets, notably in Central and Eastern Europe. Stephen is a graduate in Politics, Philosophy and Economics from St Catherine's College, Oxford University.
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