IoT MVNOs need to address the threats to their business

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The original IoT MVNO model worked well and was stable while the market was relatively small and nascent. However, the two pillars of the IoT MVNO offer – low prices and more support than MNOs offer[1] – are now under threat. IoT MVNOs need to sharpen up their offer if they are to survive and thrive.

The model used by MVNOs to sell IoT connectivity is simple. They buy connectivity wholesale from a mobile operator, add some value (for example, by providing pre- and post-sales support) and sell it to customers. Their focus has typically been on customers that want a few thousand connections at most; MNOs have not been interested in addressing this market directly. MVNOs have won business by being cheaper than MNOs for low-volume contracts and by adding some value that MNOs are unwilling or unable to offer.

The MVNO cost advantage is under threat

MVNOs' price advantage is being eroded for two reasons.

- **The retail price that MNOs are charging for IoT capacity is falling rapidly.** IoT connectivity has long commanded a premium over smartphone connectivity, especially for devices that only require low data volumes. However, this premium is shrinking; MNOs are rapidly lowering their IoT connectivity prices (by as much as 30–40% per year in some cases) as they compete to win or renew deals. The scope for MVNOs to offer lower retail prices than MNOs is therefore diminishing.

- **MVNOs are finding it increasingly difficult to access low-cost connectivity deals.** MVNOs have often bought connectivity indirectly, and have gained access to domestic connectivity through international operators with competitive roaming agreements. This arrangement has given IoT MVNOs access to better prices than they would get directly from a domestic MNO. However, underlying contracts between domestic MNOs and international operators are often created for smartphones and typically exclude (explicitly or not) IoT devices. For example, the agreement may not allow devices to permanently roam, which would affect some IoT devices. This exclusion was not enforced when volumes were low, but as volumes increase, more MNOs are paying attention to IoT devices roaming on their networks. In some cases, MNOs are only allowing continued access upon payment of a monthly surcharge. These extra fees reduce or eliminate any pricing benefit that MVNOs used to have.

In short, MVNOs that have previously won business purely on price may no longer have that advantage.

1 Extra support can include pre-sales support (for example, helping select a SIM or understanding different connectivity offerings) and ongoing support (in particular, resolving connectivity problems when they arise).

The IoT MVNO sales model is changing

IoT MVNOs' second strength was their consultative sales model. MVNOs worked closely with customers to help them to define requirements and select the best solution. This model involved extra costs for MVNOs, but was necessary because many customers needed this additional support.

However, the market is changing. Customers have more experience in buying connectivity and need less support. Buying connectivity has also become simpler, and companies such as 1NCE sell IoT SIMs on their websites. 1NCE offers pre- and post-sales support for customers that need it, but the aim is to be predominantly self-service. Its recent agreements with AWS that make cloud integrations easier will also add to its appeal to developers (an important target market).

The simpler sales model has been a success; 1NCE sold more than 5 million connections in its first 2 years of operation. No other MVNO has added more SIMs in this time organically. Even some large MNOs added fewer IoT SIMs in the same period of time (for example, Orange added 4 million IoT SIMs between the end of 2018 and 2020).

MVNOs can respond in a number of ways

IoT MVNOs need to respond to these changes in the market. Competing on price does not look like an attractive option for most. Even if they can get access to competitive wholesale deals (and this is getting harder), MNOs' retail prices are falling. MNOs will also undercut MVNOs when necessary (for example, to win the largest contracts, such as with car companies).

Copying 1NCE's self-service model could be an option for some MVNOs. The key to this strategy is to bulk up and gain scale so that fixed costs can be spread across a large customer base and the MVNO can negotiate better capacity deals. MVNOs that adopt this strategy must invest in new features, such as cloud integrations and security, so that they can compete on more than just the retail price of connectivity.

Another option is to focus on a vertical market. KORE Wireless is taking this approach. Its most recent acquisition (of Integron in December 2019) has given it expertise in the healthcare sector. It is planning to make further investments and acquisitions in this segment. KORE Wireless is targeting USD300 million of revenue from healthcare by 2025, according to its recently announced listing.

Finally, there remains a market for MVNOs to sell to customers that have complex needs and want additional support. These customers have bespoke requirements that cannot be managed through a self-service model, but they are too small to attract the interest of the MNOs. However, their requirements are changing. MVNOs need to be able to address questions concerning quality, security, hardware, cloud integration and international roaming rather than relying on sales of domestic connectivity contracts. MVNOs adopting this strategy will become less like connectivity providers and more like IoT consultants or even small systems integrators.

None of this is happening in isolation. MNOs are also taking some of the steps outlined above. It has taken longer than we expected, but they are starting to offer more self-service features and one-off pricing options, such as providing a multi-year contract for an upfront fee. They are also working more closely with some of the MVNOs (Deutsche Telekom is a shareholder in 1NCE and TELUS recently invested in Eseye) and are incorporating some of the technology developed by MVNOs into their own offers. As with MVNOs in the consumer market, IoT MVNOs need to offer something that MNOs cannot or will not.

Analysys Mason has over a decade of experience helping investors, MNOs, MVNOs and end customers to understand the IoT market. We have also published a number of articles and reports on this topic. Please contact Tom Rebbeck if you would like to discuss this topic further.