

# All eyes are on Rakuten Mobile's MNO launch, but it remains to be seen if its model will be successful

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Rakuten Mobile is a subsidiary of the e-commerce, fintech and media company Rakuten, and has been an MVNO in Japan since October 2014. It has 2.3 million subscribers as of March 2020, making it the largest MVNO in its market. Rakuten Mobile announced that it will launch a new service as an MNO on 8 April 2020. In this comment, we consider the details of Rakuten Mobile's launch and outline what the telecoms industry may learn from it.

## Rakuten Mobile has announced plans to launch as a new MNO in Japan

Rakuten Mobile will offer a single plan ('Un-Limit') for JPY2980 (USD28) per month, including unlimited data in areas where it has its own network and 2GB per month in domestic roaming areas on KDDI's network. Once the 2GB limit has been reached, speeds will either be reduced to 128kbit/s or customers can buy additional data for JPY500 (USD4.7) per GB. Voice and messaging will be free using Rakuten's own RCS application, Link (including domestic calls and SMS to non-Link users), but calls made without Link will be charged for. Rakuten Mobile will use its existing loyalty scheme and clients who activate Link will receive JPY3300 (USD31) worth of Rakuten Points that can be used to make purchases on Rakuten's shopping website. The Un-Limit plan will be free of charge for the first year for the first 3 million subscribers.

By the time of the launch, Rakuten Mobile will have outdoor coverage in Tokyo, Nagoya and Osaka, which together have a population of over 13 million. Rakuten Mobile plans to build nationwide coverage by March 2026, but until then, it has a domestic roaming agreement with KDDI to provide services in areas where it has not yet deployed its own network.

## Rakuten Mobile will be cheaper than its competitors, but it may struggle to offer good coverage and quality of service

The Japanese government has been promoting competition in the mobile market for years by urging operators to reduce their prices and offer unlocked devices. They have also encouraged the entry of a fourth MNO in order to foster competition and make mobile services more-affordable. In response, the three MNOs introduced cheaper plans in 2019.

Rakuten Mobile's Un-Limit plan (JPY2980 (USD28)) is still significantly cheaper than NTT DOCOMO's 30GB plan (JPY6980 (USD66)), for example, and is generally cheaper than competitors' comparable high-end plans. As such, the Rakuten Mobile's proposition is attractive for residents living in the newcomer's coverage areas. However, this is not the case for those living outside these coverage areas, and the national roaming allowance that forces customers to keep track of their usage with respect to their location is not customer-friendly. Rakuten Mobile's success as an MNO will therefore depend on its ability to rapidly expand its coverage and to offer a sufficiently good quality of service. The Un-Limit plan should also appeal to Rakuten

Mobile's MVNO clients because the closest existing option costs JPY2480 (USD23) per month and comes with only 6GB of data, but again this is only valid where the network is available. Rakuten Mobile will stop taking new MVNO subscribers following its launch as an MNO.

## Other operators can learn from Rakuten Mobile's model, but it is not fully replicable

Rakuten Mobile's launch as an MNO can provide learnings, particularly for new entrants, but also for established operators that are transforming and virtualising their networks.

### Only a new entrant can build such lean networks and operations

Rakuten Mobile claims that its costs are far below the industry average because its fully virtualised cloud-native network and largely automated operations lead to a reduction in equipment and site costs, as well as in the number of staff required to operate and maintain the network. In total, this results in a cost reduction (compared to the average) of up to 40%.

Observers will be keen to see both the performance and reliability of cloud-native and open vRAN on a large-scale network and if the savings are indeed realised. However, Rakuten Mobile's model will only be partially replicable by others and will depend on a number of factors such as the individual operator's status, progress in terms of virtualisation and automation, assets, internal capabilities and support from vendors.

### Tariff affordability and simplicity will not necessarily have the same effect everywhere

Making data more-affordable and offering generous allowances is a common new-entrant strategy. However, doing so not only means lower margins, but also that the operator must build sufficient capacity to absorb the traffic. Rakuten Mobile said that test users consumed an average of 15GB of data per month, which was 3.7 times the national average.

Another element of Rakuten Mobile's proposition is hyper-simplification. The Japanese market was certainly in need of more-affordable tariffs and simplification, but operators in many countries have already simplified their offerings. Rakuten Mobile's single plan is extreme in terms of its simplicity, and many operators will find it useful to continue to offer different options to address different market segments.

### Rakuten Mobile is part of a big group with financial weight, a strong brand and a large user base

Rakuten Mobile is part of a large, diversified group with strong financial resources. This enables the operator to focus on building its customer base at the expense of short-term profitability, as was the case for Reliance Jio when it entered the Indian market. Rakuten Mobile made an operating loss in 2019 and the situation is not expected to improve dramatically in 2020 because the operator needs to invest in a network that is being used for free for 1 year by 3 million customers. Rakuten Mobile's launch as an MNO will lead to some MVNO revenue cannibalisation because some MVNO customers are expected to take advantage of the 1-year-free promotion. Not all new entrants have the luxury to focus on the long term.

Rakuten is building a greenfield network, but it is not a new operator. It has more than 2 million customers and a strong retail presence with 594 mobile shops as of January 2020. It also has an established brand and vast user base across different businesses that it can tap into including 46 million users of the mobile payment app Rakuten Pay and 19 million Rakuten credit card holders (as of January 2020). The company has a cross-use

ratio (Rakuten members that have utilised two or more Rakuten services during the past 12 months) of 72% as of 4Q 2019, and Rakuten's points system is key to building loyalty across its businesses.

Operators will find inspiration in Rakuten, just as Rakuten borrowed from Jio for its model, network and even leadership (Rakuten's CTO is a former Jio executive). To quote Dish's Chairman, Rakuten provides "a really good template," but its model should not be seen as a magic formula to solve all of the telecoms industry's problems.