MVNO Insights in the GCC

Impact of COVID-19

Opportunities, Trends, and Recommendations

June 2020

MEDiTARI

Foreword

- It has been more than 20 years since the launch of Virgin Mobile in the United Kingdom, the first true MVNO in the world. Over this period, the industry has reached a respectable level of maturity, with around 1,300 MVNOs serving approximately 250 million subscribers in more than 70 markets worldwide*.
- The success of the MVNO model varies across markets, with an average of 70 players per market* in developed economies compared to 3 brands or less per GCC market.
- The GCC region's MVNO space has witnessed a resurgence in the recent months with more than 5 new licenses being offered by telecom regulators in 2 key markets.
- The restrictions associated with the ongoing COVID-19 pandemic are transforming the world. While the telecommunications sector is not immune to its impact, service providers played a crucial role in keeping people connected and businesses functioning. For the sector's stakeholders (MVNOs, MNOs, Regulators and Investors), understanding the difference between short-term risks and long-term trends is a multi-million-dollar equation.
- The aim of this Report is to help navigate this challenge by clarifying the current market landscape, understanding the current opportunities, and generating a set of recommendations for all stakeholders in the MVNO sector.

*Source: Optiva - Driving success for MVNOs: a competitive framework, May 2019

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Executive Summary

The MVNO space in the GCC is ripe and COVID-19 only makes the opportunity more interesting

The Opportunity

Blue(r) Oceans

- The GCC region maintains a relatively higher ARPU compared to global markets, while presenting an MVNO landscape which is much less crowded.
- There remains certain untapped segments, both in terms of spending ability and demographic with relatively lower mobile penetration than mature-segments presenting an opportunity for niche MVNOs.

Relatively Limited COVID-19 Impact

- Accelerated customer demand for Digitization and requirements for adjacent services, while it raised customer expectations from digital experiences.
- While the telecom sector was less impacted compared to other sectors, there will be a need for higher investments in 5G infrastructure to meet increased demand. Changes in consumer behavior open new digitization opportunities.

Ways to Capture it

Reach for the Low Hanging Fruits

- Develop partnerships both with MNOs who can see MVNOs as an extension of their reach into certain segments, as well as with other partners from the digital ecosystem to provide a superior customer experience.
- Explore the relatively untapped B2B and adjacent sectors (leveraging technology advancements) and look for niche segments within the youth demographic.

Benefit from Favorable Regulatory Climate

- Partner with agile growth specialists with local experiences for faster execution (licenses , launch , GTM, CRM, operations) in order to actively participate in the ongoing MVNO licensing processes in KSA and Kuwait.
- Positive outcomes of new licenses in addition to encouraging MVNO results in KSA & Oman will lead to economies of scale as other GCC markets follow suit.

GCC MVNO Landscape

MVNO and Brand License Landscape in the GCC

Oman was the first market to officially license and witness the launch of MVNOs in the GCC region in 2009. To date, it remains the leading market with the highest MVNO subscribers share at 15%.

Saudi Arabia followed suit closely by gradually starting the licensing process in 2011 and culminating with the launch of 2 MVNOs in 2014.

Kuwait opened the door for MVNOs with a process launched in the second half of 2019, and **Saudi Arabia** joined with a second wave of license applications in the beginning of 2020.

Branded Services

In addition to being the first MVNO to launch in Saudi Arabia, **Virgin Mobile** was also the first to enter the market in Qatar and the UAE as a branded service under Qtel (Ooredoo) and EITC (du).

As a response to **Virgin Mobile** in the UAE, Etisalat launched **Swyp**, a youth-oriented brand. In KSA, STC developed the **Jawwy** sub-brand as an offering to digital natives and Zain launched **Yaqoot**.

Friendi, which was the first MVNO in the region, also launched as a sub-brand in Saudi Arabia, first under Zain and later under **Virgin Mobile**. Eventually **Friendi** merged with **Virgin Mobile** in 2012.

MVNO and Brand License Landscape in the GCC

KSA

Virgin mobile

LEBARA ليبارا

11% MVNO Subs Mkt Share

RFA for 2 MVNO Licenses

FRIENDI mobile

Jawwy

ياقوت Yaqoot

Sub-Brands

Kuwait

RFA for 3 MVNO Licenses

UAE

Virgin mobile

swyp

Sub-Brands

Oman

FRIENDI mobile

renna mobile

Red Bull MOBILE

15% MVNO Subs Mkt Share

GCC MVNO Sector Chronology

JUL 2008 Oman Telecom Regulations Authority (TRA) issues 5 MVNO Licenses

APR 2009 FRiENDi Mobile launches in Oman as the first MVNO in the region

MAY 2009 Majan Telecommunications Company launches Renna Mobile as the second MVNO in Oman

MAY 2010 Virgin Mobile launches in Qatar as a branded service of Qtel (Ooredoo)

AUG 2010 Samatel launches as the third MVNO in Oman

JAN 2011 Zain KSA launches Friendi Mobile as a branded package

JUN 2011 ictQatar, the Telecom Regulator in Qatar, orders Qtel to shut down the Virgin Mobile branded service in Qatar

AUG 2011 Qtel shuts down the Virgin Mobile branded service in Qatar following ictQatar instructions

NOV 2011 KSA Ministry of Communications and Information Technology (MCIT) announces plans to award MVNO Licenses in 2012

APR 2012 KSA Communications and Information Technology Commission (CITC) starts the MVNO licensing process with a public consultation

MAY 2013 CITC Announces that 5 consortiums submitted applications for the MVNO licenses

APR 2014 CITC awards two MVNO licenses to Lebara Mobile and Virgin Mobile

SEP 2014 Virgin Mobile launches as the first MVNO in Saudi Arabia and launches Friendi as a sub-brand in partnership with STC

DEC 2014 Lebara Mobile launches MVNO services in Saudi Arabia over the Mobily network

JUL 2015 CITC re-tenders the 3rd MVNO license to be hosted by Zain Saudi Arabia, however no License was awarded at the end of the process

MAY 2016 STC launches a sub-brand called Jawwy as part of a new effort to target digital natives in the Kingdom of Saudi Arabia

JAN 2017 Samatel announces shutting down its Mobile services in Oman

SEP 2017 Virgin Mobile launches as a branded service of EITC (du) and Etisalat launches new mobile service SWYP targeting youngsters in the UAE

OCT 2018 CITC issues the rules and conditions for the provision of IoT-VNO services in the Kingdom of Saudi Arabia

APR 2019 Red Bull Mobile commences operations in Oman under the MVNO license of Majan Telecommunications Company

AUG 2019 Communication and Information Technology Regulatory Authority (CITRA) of Kuwait issues a Request For Applications for MVNO licenses

JAN 2020 CITC opens the door to 2 new MVNO licenses in Saudi Arabia. The deadline for applications is (extended to) August 2020

MAR 2020 CITC grants two IoT-VNO licenses to Dawiyat and Machines Talk

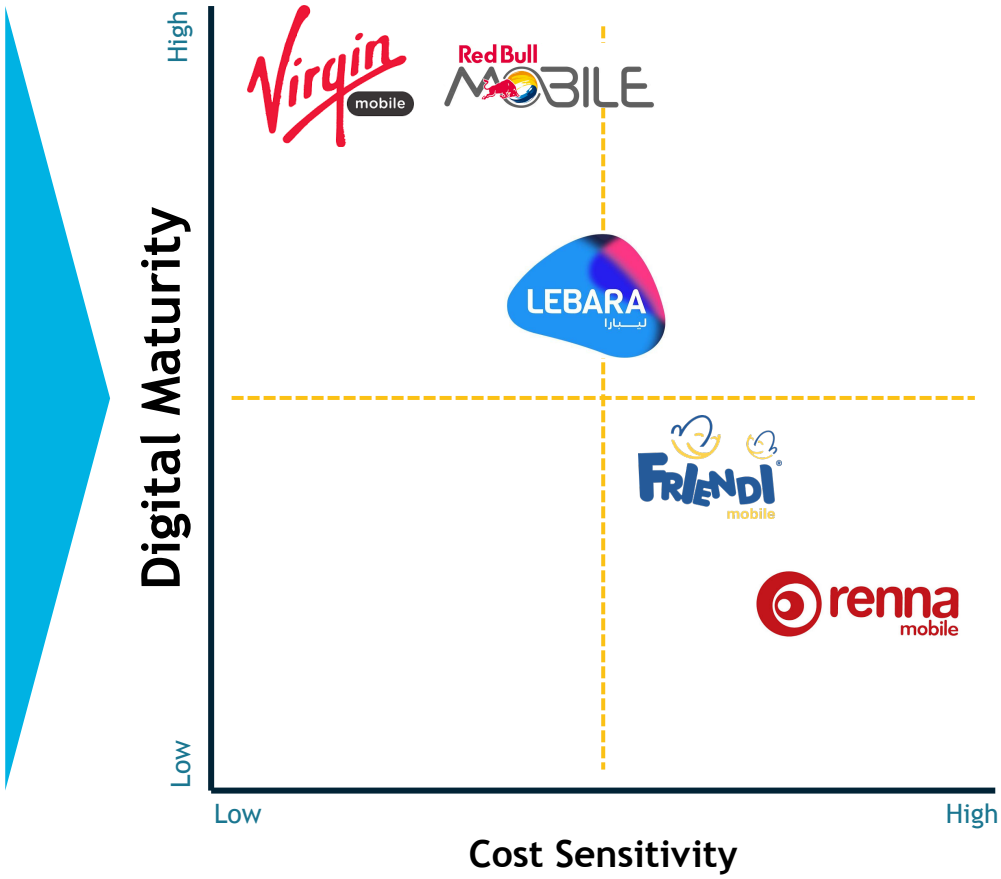
International MVNO Brands Operating in the GCC

	Red Bull Mobile	LEBARA	Virgin mobile
Global Markets	3	10	13
Presence in the Region Since	2019	2014	2009*
Sultanate of Oman	2019		2009*
Kingdom of Saudi Arabia		2014	2014
United Arab Emirates			2017

* Based on the 2012 merger with Friendi Group which was established in 2009

Positioning of MVNOs in the GCC

MVNOs in the GCC have positioned themselves across two axes, Digital Maturity and Cost Sensitivity



- International MVNOs in the GCC have predominantly focused on the core segments they target globally.
- The expat blue-collar segment, due to its size and specific needs, is an important target for MVNOs such as **Lebara** in Saudi Arabia, **Renna** in Oman, and **Friendi** in both markets.
- The youth segment in the GCC is vibrant and holds significant growth potential. It remains the core focus of MVNOs such as **Virgin Mobile** and **Red Bull Mobile,** in addition to the MNOs themselves through sub-brands such as **Jawwy** and **Yaqoot** in KSA as well as **Swyp** in the UAE.
- MVNOs have recently increased impetus and focus on diversifying their target segments. **Lebara** have globally been trying to expand into the digital natives' segment in addition to their core focus in the expat blue-collar segment.

Impact of the Covid-19 Pandemic Restrictions

Impact on Customers' Behavior and Demand

COVID-19 Pandemic Restrictions

1 Increased Demand for Digitization

Users are learning to "do things remotely" and are relying on connectivity in ways they have not done before:

- Whether working from home, video conferencing with family and friends, ecommerce, or accessing a variety of services online, the overall rise in digitization highlights the importance of telecom services.
- We expect this increase in demand to sustain beyond the current restrictions, as a combination of new personal and social habits as well as changes in the ways of doing business remotely.

2 Higher Expectations on Digital Experiences

Users are going through a (re)discovery phase when it comes to telecom services and expect the same level of seamlessness and quality experiences as they do from internet age digital services such as the FAANGs (Facebook, Apple, Amazon, Netflix, and Google).

3 Requirement for Adjacent Services

As consumers get used to a wider range of digitally delivered activities, they require telecom operators to bundle additional services with their main broadband offering, allowing them to have better control and a seamless experience. These would include education, health, financial services, and security (to name a few).

Impact on the Telecom Sector

COVID-19 Pandemic Restrictions

1 Less Impact Compared to Other Sectors

The economic impact is severe for all. However, the telecom sector has been relatively shielded - especially outside of the business and travel segments - due to the prevailing importance of connectivity and the need for reliable broadband services.

While demand dropped for mobile broadband, office connectivity, and international roaming, there was a strengthening of the residential broadband market, where consumers experienced a surge in their need for video streaming due to distance learning and video conferencing.

2 Change in Consumer Behaviour Opens Future Opportunities

Consumers are changing their behavior, materializing in increased usage of digital services and higher expectations. Telecom operators that leverage new technologies to provide better experience stand to gain a disproportionate advantage compared to their competitors.

3 Higher Investments in 5G to Meet Increased Demand

Higher demand for data will require telecom operators to accelerate their investment in 5G networks in order to deploy higher capacity rapidly, provide for mission critical services, and enable the business case for massively connected experiences through IoT devices.

MVNO Executive Survey Results

We ran a survey among our GCC MVNO contacts during the period of April 30, 2020 to May 20, 2020.

We received responses from 4 MVNOs in 2 markets.

Impact of COVID-19

Most respondents have estimated a 25% drop in demand for their services, and a similar reduction in revenue estimates for the March/April 2020 period compared to January/February 2020, backed by a slight drop in selling prices.

Respondents have reported varying staff shortage levels, however minimal fall in productivity (except one). Most have not laid off any employees, while one respondent reported a 10% staff reduction.

About the Respondents

2 Full MVNOs and 2 Light MVNOs, serving a variety of segments including youth, blue collar expats, and others.

3 of the respondents have less than 150 employees.

3 reported revenues exceeding $20 MUSD in 2019.

Data is the main Revenue Driver, followed by Local Voice, then International Voice.

Planned Action

Most of the respondents planned to introduce changes to the services they offered, while some reported they plan to change their business model, others indicated plans to change their target segments.

Few MVNOs suggested they would decrease their marketing spending by up to 50%.

Most MVNOs expect a speedy business recovery within 1-2 weeks once restrictions have been lifted, while the rest expect a slower recovery within 4 weeks or more.

Only one respondent indicated the possibility of staff layoffs.

SWOT Analysis

SWOT Analysis of the MVNO Sector in the GCC

STRENGTHS

- Ability to focus on niche segments to provide targeted services
- Regulators open for MVNOs to challenge incumbent operators and bring competition
- Fewer concentrated cities with large population making retail management relatively easy
- Better utilization and monetization of MNO radio spectrum, license, and infrastructure
- Strong buying power

WEAKNESSES

- MVNO licenses are not widely promoted by regulators in the region
- Customer readiness to accept niche products versus going for plain vanilla
- Lack of maturity of the IoT space
- Cost of retail setup in the region is high compared to global peers
- Requires extensive market study on the target segment

OPPORTUNITIES

- Less crowded MVNO space in the GCC
- High ARPUs compared to other global markets
- Certain target segments have relatively lower mobile penetration than mature segments
- Ability to explore the untapped mid-to-high ARPU segment
- Unexplored segments in B2C and B2B such as Gaming, IoT & M2M, Cloud PBX, etc.

THREATS

- Intense competition from well established and deep pocketed MNO players
- Ongoing licensing processes are experiencing delays due to COVID-19
- Launch delays due to MNO resistance
- Technology dependency on MNO infrastructure and capabilities
- Availability of MVNO-specific talent in the region

Opportunities and Recommendations

Our Message to Regulators (1/2)

Opportunities and Recommended Actions

License MVNOs

- **MVNO licensing will benefit consumers and network operators alike**
- Introduction of MVNOs remains a strong tool to stabilize the market after the situation fades away through increasing accessibility and affordability of niche market segments as well as efficient use of operators' network resources.
- Review MVNO licensing to allow for flexibility in technology obligations, including enabling the licensing of stand alone MVNEs for an aggregation environment for MNOs and wholesale providers.

Safeguard Competition

- **MNVO – MNO agreements should be approved by regulators to safeguard competition***
- Verify MNO's bargain power has not been abused, including caps on subscriber and market share.
- Equality in access to new technologies (e.g. 5G).

Promote Value

- **Promote MVNO opportunities as early as possible**
- Investors should be aware of the opportunity from changes occurring in consumer behaviour and new demands.
- Demonstrate interest and market servicing abilities to regulators.

*Precedence to this approach is the typical requirement for interconnection agreements between operators to be reviewed / approved by the regulator

Our Message to Regulators (2/2)
Other Considerations

Renewed Market Demand

As a result of COVID-19, emerging changes to how people do business, make purchases, and socialize through leveraging communications relights the focus on regulators' responsibilities.

Common to regulators' mandates are ensuring accessible and affordable communications, market competition, and enabling sector investment.

Opportunity for Market Models

New business and social practices increase reliance on telecommunications networks and demand for relevant digital speeds and services.

Rising demand may encourage operators to aggressively compete for greater market share.

Opportunity to Abuse Market Power

Risk of anti-competitive behavior by larger players asserting their market power to capture the increased communications traffic and undermine smaller competitors' viability.

Opportunity to Attract New Investment

Rising demand will attract operators to serve the profitable customer segments. This risks creating or increasing disparities in services between the high-end and low-end consumer segments.

Unchecked abuse of power may distort the marketplace:

- Disparities in communications affordability increased
- Dilutes achieving the maximum benefits of competition externalities
- Innovation and investment weakened in the long-run

- Undermines government's sector policy objectives
- Exercising anti-competitive behaviour also tests regulators' willingness to intervene; if unchecked, it encourages further strengthening of power
- Challenges industry and marketplace long-term growth and achievements*

* Country WEF ICT Ranking may also decline as a result

Our Message to MVNOs

Opportunities and Recommended Actions

Go Digital

- **Digitalize your offering:**
- As physical distancing measures are in place, making it difficult for customers to visit the operator outlets, MVNOs must offer a fully digital customer experience, giving their users the flexibility to customize their packages and have full control on their budget remotely.
- The rise in adoption of digital services by consumers opens the door for MVNOs to partner with such service providers and offer a hybrid experience to certain customer segments.

Broaden Your Horizon

- **Address adjacent segments:**
- Look beyond the segments currently served by the key MVNO players in the region as 5G, IoT, AI, Blockchain, and VR open the door for developing new segments that are best served through these technologies, such as financial services, healthcare, education, and more.

Our Message to MVNOs

Opportunities and Recommended Actions

Drive for Efficiency

Efficient operations provide direct benefits to operators & indirectly to the rest of the ecosystem

- Developing efficiencies through digitization of interactions, as well as simplification of products and services, leads to addressing modern customer needs and cater for a better user experience.
- There is clear value to MNOS in partnering with MVNOS, including savings across various cost elements, such as SAC and SRC. In parallel, we emphasize that MVNOs remain a key factor monetizing the MVNOs network assets and supporting income diversification.
- MVNOs bring agility in addressing specific segments, their costs of acquisition and retention are lower compared to MNOs, allowing net addition of new customers at a very low cost.

Rethink Partnerships

Evaluate partnerships to recoup extensive network investments during the coming period

- Partnerships should center around new services and use cases that have come to light due to COVID-19, e.g. telehealth and digital learning. MNOs can bundle such MVNO services with their own offerings.
- MNOs target customers that they are best suited to serve, and let MVNOs build value propositions for niche segments, which they are in a better position to serve by virtue of being more agile, lean and focused.
- Effectively addressing the needs of the corporate sector requires complex integration of emerging technologies with traditional networks. MNOs face challenges as their ecosystems are too slow and rigid; partnering with MVNOs can bring the necessary agility and flexibility.

The Ultimate MVNO Checklist

Market Segment	Commercial Contract	Autonomy	Technology
Identify a clear and addressable target segment	Sign commercially flexible MNO agreement with long term commitment	Require autonomy of targeting the defined segment	Invest in the best-in-class technology platform
Include both telco services & non-telco value-added services	Negotiate favorable rates across Voice, SMS, and Data services	Guarantee flexibility of introducing new products & services without approvals	Implement a digital engagement platform
Provide flexibility by offering Postpaid, Prepaid & Hybrid packages	Ensure access to the latest tech from VoLTE to IoT, 5G, & beyond	Invest in your own services platform	Setup interfaces across telco and non-telco ecosystems

Glossary of Terms

ARPU	Average Revenue Per User
CITC	Communications and Information Technology Commission
CITRA	Communications and Information Technology Regulatory Authority
FAANGs	Facebook, Apple, Amazon, Netflix, and Google
GCC	Gulf Cooperation Council
IoT	Internet of Things
IoT-VNO	Internet of Things – Virtual Network Operator
MCIT	Ministry of Communications and Information Technology
MNO	Mobile Network Operator
MVNE	Mobile Virtual Network Enabler
MVNO	Mobile Virtual Network Operator
RFA	Request For Application
SAC	Subscriber Acquisition Cost
SRC	Subscriber Retention Cost
SWOT	Strengths, Weaknesses, Opportunities and Threats
TRA	Telecom Regulatory Authority

About this Report

This Report was commissioned by **Jawraa**, a veteran of the MVNO space in the Arab World.

All insights and recommendations are based on a focus group of industry experts working with information publicly available at the time of publishing in addition to the findings from a survey of executives at the key MVNOs operating in the GCC region.

For a more thorough analysis and bespoke engagement, please contact us directly at info@jawraa.com or hello@meditari.com.

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He advises on regulatory affairs, strategy, market competition and intellectual property assets. His work has taken him on extended assignments across EMEA and Asia. With his rounded operational and advisory background, Jonathan brings experienced understanding about regulated environments and how to leverage practices for competitive benefits.

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About Us

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About Meditari

We are Meditari, a Digital Advisory Network leveraging the know-how of our global network of partners and advisors to offer our clients trustworthy advice in the Strategy, Technology and Innovation domains across the internet and telecommunications space.

Headquartered in Dubai, United Arab Emirates - we bridge between global innovation and local opportunities through our deep understanding of the technology space, as well as our strong knowledge of the Middle East and Africa markets.

For more info, contact us at hello@meditari.com

JAWRAA

About Jawraa

Jawraa is a leading Digital Transformation partner for the Government, Educational and Corporate sectors and a pioneer of the MVNO business model across the Arab World.

Headquartered in Riyadh, Saudi Arabia – we are a customer-oriented firm having strong long-term relationships with international technology leaders. Our track record shows that our success is tied to the success of our Customers and the deep understanding of our Clients' needs in order to provide the best solutions for the requirements and budget.

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