

Public Consultation on:

MVNO/Mobile Reseller – MNO Relationship

5<sup>th</sup> July 2018

## HISTORICAL BACKGROUND

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Oman witnessed the issue of mobile reseller (MR) licenses (Class II) in the year 2008 to six companies as a measure to promote competition in the mobile services market, which at that time had two major network operators viz. Oman Mobile (Omantel) and Nawras (now Ooredoo). The initiative was partly due to restricted availability of spectrum at that time for licensing a third mobile network operator.

One among the six Class II licensees for the mobile resale did not conclude any agreement and chose to surrender their license. There were five mobile resale licensees in the market during 2010 viz. Friendi, Renna, Injaz, Mazoon and Samatel (the corporate names of these entities are different).

Oman Mobile signed agreements with Friendi (May 2009) and Renna (June 2009). Nawras signed agreements with Mazoon and Samatel in September 2009. Nawras entered in to resale agreement with Injaz in January 2010. The agreements were based on reference offers published with prices agreed based on commercial negotiations. TRA endorsed the agreements after exercising modifications on technical and legal texts of the agreements. The range of services offered and price discounts made were left to commercial negotiations between the MNOs and the MRs.

Mazoon and Injaz after incurring substantial losses chose to exit the market and surrendered their licenses (2012 and 2013). Friendi and Renna in spite of their initial years of losses performed reasonably well acquiring significant subscriber base and making profits as well. Samatel was acquired by TeO in 2014 (another licensee in the Telecom Sector) who later took over Renna's operations (in 2016) as well. After acquiring Renna, TeO closed the erstwhile Samatel mobile resale business.

Thus, the current (2018) mobile resale scenario in Oman consists of two entities viz. Friendi and Renna. Together they have a market share of 17% in terms of number of subscribers (2017 statistics).

The presence of resellers in the market have been beneficial both to the network operators and to the consumers. The nimble operational set up of the MVNOs is a contributing factor for their ability to compete in the market and any overburden of resources could upset the margins.

The regulatory framework still permits the introduction of other MVNOs in the market based on their fulfillment to the licensing requirements.

## KEY SUCCESS FACTOR FOR MVNOS

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Forging a win-win agreement with an MNO will play a key part in any MVNO's success. A good contract with a network operator that is easy to renegotiate if it becomes necessary is essential to the success of MVNOS. The mobile player needs to ensure that the final contract is adaptable enough to meet new requirements, amongst which is the need to accommodate data offerings. Based on forecasted traffic patterns and offerings, the MVNO needs to develop a detailed understanding of the impact any wholesale-level variables could have on its business plans. What's more, any wholesale rate agreement should have built-in protections against price-cutting actions by the host operator. For instance, MVNOS need to develop agreements that ensure the effective wholesale rate will be lower than the agreed-on rate or the host's retail rate minus a given percentage. Doing so will prevent the host network from reducing its own retail prices below those it negotiated with the MVNO. One of the choices available to the MVNO is to make sure that its target segments were not on its MNO partner's market opportunities and ensure that any cannibalization risk between the offerings of the two operators is low. It should also confirm that the profit pools associated with targeted segments were sizable enough to accommodate strong MVNO growth while also benefiting the MNO, which could not capture these customers by itself. Beyond this, the company should successfully model the data requirements for its content-rich proposition. Consequently, the virtual operator would be able to structure the contract through a "take or pay" approach that rewards it with lower fees overall if it reaches its targets.

## ISSUES FOR PUBLIC CONSULTATION

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Nearly ten years have passed since the introduction of resellers in the mobile services market. Generally, the successful resellers have been able to offer competition primarily in the prepaid category and particularly in price sensitive segments. The critical success factor for the commercial viability of an MVNO (MR in Oman) is governed by the close relationship with the host MNO. TRA is aware of the operational challenges faced by the resellers (both in the initial phases and in the near maturity phase) and have developed specific provisions within its Access & Interconnection Regulations to address part of these challenges particularly relating to the wholesale price offers with associated terms and conditions. However, it is felt that time has come to take a fresh look at the governance of the relationship between the two entities in order to benefit both the licensees without undermining the expectations and requirements of the consumers.

With the level of maturity in the relationship between the MVNO and the hosting MNO, regulatory intervention may not be needed to the extent it has been taken to through the current A&I regulation and may need to be revised during the upcoming market review.

Moreover, the structural relationship between the MNO and MVNO is built on arm's length principle. This does not permit management control by the host operators other than by means of the negotiated and commercially agreed resale agreement. There are evidences of international practices where the host operators are permitted to have shareholding and management representation in the MVNO. There have been positive outcomes of such a relationship in that the markets that the host operators do not traditionally address are carved out for the MVNO and the price offers by host operators take into account the realities of market conditions without any outside or regulatory intervention.

The current licenses issued to the mobile resellers has a proviso that restricts the owning of shares of the licensee by the host operator.

TRA would like to propose amending this provision permitting a higher percentage of holding of the host operator in the MVNO, in order to foster a long-term relationship paving way for continued and sustained efforts between the entities to support one another.

The thinking behind such a proposal is to sustain the MVNO business on a long-term basis (in line with the government policy to promote SMEs) and incentivize the host network operators to reach out to customer segments that they traditionally ignore for commercial considerations (high overhead costs). The primary intention is to achieve synergies of operations between the entities who right now may be operating with a confrontation perspective and bring them to a supportive relationship and hence a more secure method of ensuring sustenance of the businesses of MVNOs could be through structuring the ownership and management control. Any ideas on the ability of the mobile resellers to sustain, compete and to secure their survival and sustenance would be welcome.

## EMERGING SCENARIO

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As has been mentioned currently there are two mobile network operators and two effective mobile resellers functioning in the market. The third mobile license is expected to be issued soon based on government decision and the competition in the mobile services market could become more intense, in spite of the regulatory oversight available through the provisions of the Access & Interconnection Regulations.

## QUERIES FOR PUBLIC CONSULTATION

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The responses from the stakeholders may be direct, supported with data to the extent possible and detailed to the extent required.

TRA seeks responses to following queries through this consultation process:

1. Do you believe that MVNOs/Mobile Resellers will continue to play a role in the telecom market offering competition to mobile network operators?
2. Do you agree with the proposal from the TRA that:
  - a. The level of regulatory intervention with the relationship between the MNOs and MVNOs shall be reviewed, if so, what is the proposed extent to which this regulatory intervention is to be at;
  - b. A complete review on the cross shareholding between MVNOs and MNOs? Shall the current restriction on shareholding of the host operators in the entity of MVNOs/Mobile Resellers be relaxed in order to achieve better commercial relationship between the two entities? If yes or no, the reasons and their justifications may be highlighted.

*TRA invites responses from the sector stakeholders and the general public to this consultation. Those desirous of providing the response may do so by August 05, 2018 either by email to [telecomlicense@tra.gov.om](mailto:telecomlicense@tra.gov.om) or by mail to:*

*Licensing Department*

*Telecommunications Regulatory Authority*

*P O Box 3555*

*Postal Code 111, A'Seeb*

*Sultanate of Oman*

*Please note that TRA reserves the right to consider the responses appropriately in accordance with the provisions of the Law and public interest.*