

## Mobile phone resellers forced to take stock

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Mobile phone service resellers in the US are coming under increasing pressure to differentiate their products from the established carriers in order to survive, with doubts increasing over the viability of the model.

Mobile virtual network operators, which buy wholesale capacity from established mobile carriers and then resell branded mobile services, saw their latest victim last week when Walt Disney pulled the plug on its second resale business.

The US entertainment group said customers liked the service, which was sold on its ability to allow parents to locate their child via global positioning satellite technology, but that it was having problems persuading large retailers to carry the handsets. "The MVNO model has proven, as we've seen with other companies this past year, to be a difficult proposition in the hyper-competitive US mobile phone market," Steve Wadsworth, president of the Walt Disney Internet Group, says, echoing the sentiments of many industry analysts.

Disney is not the first casualty among MVNOs, which buy wholesale capacity from established mobile carriers and then resell branded mobile services.

Amp'd Mobile, another US-based MVNO serving the youth market with a post-paid service, filed for Chapter 11 bankruptcy protection in June after spending \$350m of start-up funding. And SK Telecom, the Korean mobile operator, last month injected \$270m into Helio, its US joint venture with Earthlink, to keep that MVNO afloat.

Meanwhile, Disney's latest move comes a year after it closed its Mobile ESPN service, which, like Disney Mobile, purchased network capacity from Sprint Nextel, the third-largest US mobile operator. It targeted sports fans but ran up losses estimated to be about \$135m in just eight months of operations. So is the MVNO model fatally flawed? At least one operator is betting otherwise. Virgin Mobile US, the most successful of a slew of MVNOs that have launched over the past few years, last week filed for an initial public offering of up to \$467.5m.

Virgin Mobile, which had 4.83m customers at the end of June, up from 4.57m at the end of 2006, is a joint venture of Sprint Nextel and Richard Branson's Virgin Group. The IPO would float 42.8 per cent of the venture.

The company made a profit of \$26.5m on revenue of \$666.9m in the six months to June 30, having recorded a net loss of \$36.7m on revenue of \$1.1bn for the whole of 2006. Like Helio, Virgin Mobile, which has been operating since July 2002, targets the youth market, with a distinctive pre-paid service that includes youth-orientated content. However, having an established mobile carrier as a partner rather than simply a supplier in addition to the Virgin brand may give Virgin Mobile an edge.

"Successful MVNOs must distinguish themselves sufficiently from the large mobile carriers in order to survive," Chris Dippon, an economic and regulatory expert in the communications sector with NERA Economic Consulting, says. "They must carry a strong brand and have existing distribution channels."

Mr Dippon, author of numerous articles on the business model, believes that MVNOs that do not meet these conditions face an uncertain future.

He says the MVNO "gold rush" started after Virgin Mobile USA's initial success, with many new MVNOs entering the market in the past three years. It is comparable to the "local competition gold rush" in the late 1990s where phone companies sprung up en masse - companies with little or no infrastructure, like MVNOs.

Disney Mobile does not offer sufficient product differentiation when compared to existing mobile providers. "A cute phone is not sufficient to compete against Verizon Wireless, AT&T, Sprint Nextel and T-Mobile

USA," Mr Dippon says.

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