



# Multi-Brand Wholesale Strategy

How a multi-brand wholesale strategy can benefit both challenger and market leading operators

Scott McKenzie

March 2010

## Executive summary

*A multi-brand strategy offers growth for both late entrant and market leaders*

### **Slow growth is putting pressure on returns**

In most mature mobile markets growth has stalled and margins have been under pressure for sometime. The industry outlook remains poor with further price deflation and regulatory rate cuts expected. In addition, mobile data traffic is growing rapidly but there is a disconnect between traffic and revenue growth which will change the business model and may put pressure on mobile operator returns.

In emerging markets operators have historically enjoyed high levels of growth but the rate of revenue growth is now beginning to slow. Furthermore, the number of players have increased with new licence awards and some new entrants are struggling to achieve critical mass as the market rate of growth slows.

Market leaders and market challengers in both developed and emerging markets are looking to maintain growth but also to manage carefully the cost base.

### **Network sharing, outsourcing and cost reduction are common responses**

There are a range of strategic initiatives which mobile operators can employ in order to outperform their competitors in this challenging environment: Network sharing and outsourcing are increasingly common and all operators should explore the benefits of such initiatives. As markets mature operators have also been looking to reduce costs through restructuring programmes to ensure their overhead functions are not acting as a drag on profitability. There is a further initiative which few operators have embraced fully which we believe offers the elusive growth that mobile operators seek.

### **A multi-brand wholesale strategy offers growth without significant customer investment**

In this paper, Scott McKenzie, former Chief Strategy Officer for the Dutch operator KPN's international mobile division and former CEO of KPN's mobile wholesale business, explains why a multi-brand wholesale strategy can be the right commercial approach in a mature or maturing market not only for late entrants but also for the leading operators.

KPN, for example, has successfully deployed such a multi-branding wholesale strategy across all its core markets and reaped the benefits. In order to do this KPN became more market driven and radically changed the way it operated. As a result of adopting this strategy KPN has outperformed many of its peers in the markets in which it operates.

A multi-brand strategy is not without its risks however, for example careful customer segmentation is essential to ensure that existing revenues are not cannibalised.

### **Coleago's multi-brand wholesale strategy development process**

At Coleago we have a highly experienced team and a robust two stage process for helping clients develop and implement a multi-branding wholesale commercial strategy.

# Strategies to deal with a mature operating environment and the growth in data

*Many operators have already embraced cost reduction, network sharing and outsourcing but few have exploited fully the benefits of a multi-brand wholesale strategy*

Area	Actions	Rationale
<b>Overheads</b>	Reduce costs especially in overhead functions	Many MNO organisations became flabby during the boom years. With personnel numbers tending to drive many other cost items operators need to review their staffing levels particularly in overhead functions. There is a need to simplify processes and outsource non core activities.
<b>Network and Operations</b>	Network sharing and outsourcing	Although complex to manage, significant cost savings from reduced network capital and operating expenditure can be expected. For network sharing at least a 25% saving on radio access network costs might be expected. We believe that network sharing can deliver more than half of the benefits of a full blown merger while not impacting on retail competition levels thereby avoiding the ire of competition authorities.
<b>Wholesale</b>	Focus on segments and multi-branding. Aggressively pursue wholesale opportunities in parallel with retail. Rationalise own retail footprint	There a number of benefits of a multi-brand wholesale strategy <ul style="list-style-type: none"> <li>● De-commoditise the business and better serve customers with lower subscriber acquisition and retention costs.</li> <li>● Develop mutually beneficial commercial partnerships with other brand and distribution owners.</li> <li>● Deny competitors valuable partnership opportunities.</li> </ul>

# In a maturing environment a multi-brand wholesale strategy is the right commercial approach

*Mobile operators need to more effectively target segments in their markets and pursue wholesale partnerships as a complement to their retail activities*

## Need to focus more on segments

As the mobile industry becomes increasingly mature it will become more important to focus on different customer segments in order to serve them better (by creating customer pull) thereby increasing market share as well as lowering churn and the cost to serve.

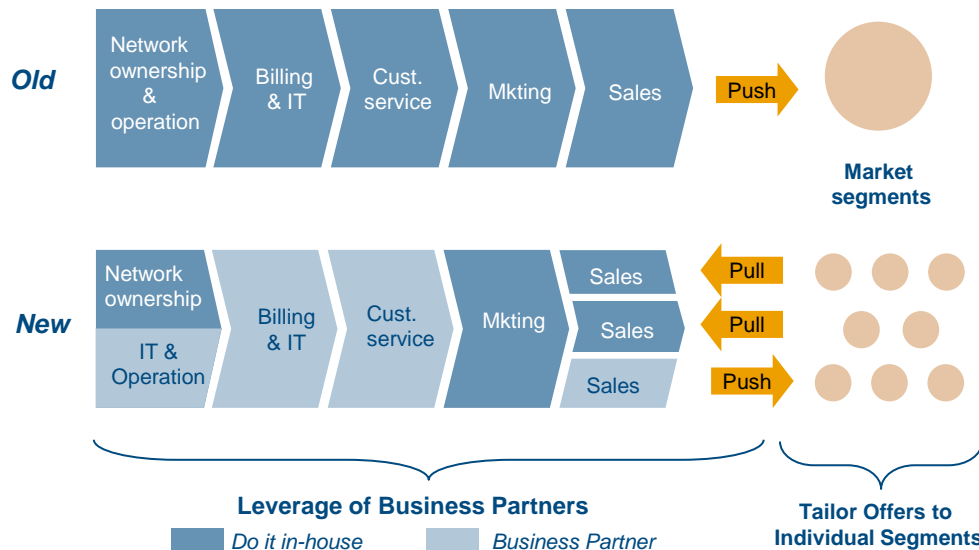
In other mature consumer industries where there is commoditisation, such as Fast Moving Consumer Goods (FMCG), companies have responded by segmenting the market and multi-branding. For example one of the leading FMCG companies Proctor and Gamble has dozens of consumer brands and in the laundry detergent market alone they have more than half a dozen different trademarks. This allows them to price discriminate and also occupy valuable shelf space in distribution outlets.

We believe that given increasing commoditisation in the mobile industry this is how operators will need to respond. The logic of attempting to address an entire population under a single brand must be questioned.

## Wholesale as a complement to retail

A key part of any successful multi-branding strategy is also to look for potential partners with complementary assets (brands, distribution, customer bases etc.) which can be used to tap into underserved segments. For example a number of supermarket chains (e.g. Aldi in Germany, Tesco in the UK) have successfully launched discount mobile propositions using their strong distribution and trusted brands.

Several companies with experience in prepaid calling cards (Ortel, Lebara, Lycamobile etc.) have successfully launched mobile propositions targeting immigrant communities in different countries. In the youth segment Virgin has launched successful mobile services in a number of countries (the UK, France, USA etc.). All of these partnerships delivered much value to the host mobile operators by generating significant wholesale revenues.



Mobile operators need to rethink their retail brand strategy and also set up wholesale business units which can offer the technical capability to rapidly launch mobile partner propositions

Source: KPN

# Multi-branding wholesale is not just a strategy for late entrant mobile operators

*A multi-branding wholesale commercial strategy is also the right choice for leading operators*

### Multi-branding wholesale can also be used by market leaders

Most people in the industry assume that a multi-branding wholesale strategy is really only applicable to later entrants such as the No.3 and No.4 players. From our own experience it is also equally applicable to the lead operators (Nos.1 and 2) who also need to find ways to segment the market and grow their business by increasing their market share.

### Use other brands to target the core segments of other operators

In most mature markets later entrants tend to have a much higher proportion of lower spending prepaid customers in their base. A multi-branding wholesale strategy offers the possibility for leading operators to target these (and other) users without compromising their main retail brands which typically have a premium image associated with them. Differentiated pricing and levels of service can be offered to ensure that there is no impact on the main retail brands. KPN successfully employed this strategy with its Hi and Telfort brands in the Netherlands.

### Signing wholesale partnerships denies others opportunities

By pursuing an aggressive wholesale strategy leading operators can ensure that they deny their competitors potentially valuable partnerships. For example by making sure that all main supermarkets launch mobile propositions on your network ensures that no other mobile player will have access to such extensive distribution in case a proposition takes off. For example O2 in the UK has a successful MVNO joint venture with Tesco which has given it preferential access to the biggest retailer in the UK.

### The risk of cannibalization is exaggerated

We have often heard it said that wholesale deals will simply cannibalise the main retail brands but we have seen precious little evidence of this. As long as a wholesale proposition is sufficiently differentiated and as a rule of thumb it takes two customers from the competitors for every one it takes from the host then it is worth doing. Besides, some internal competition can be good for an organisation!

Market segments (simplified)	Customer needs
<b>Premium</b>	<ul style="list-style-type: none"> <li>• Leading edge coverage</li> <li>• Wireless broadband</li> <li>• Best customer service</li> <li>• Primarily postpaid</li> </ul>
<b>Discount</b>	<ul style="list-style-type: none"> <li>• Basic telephony and texts</li> <li>• Best value tariffs</li> <li>• Convenience</li> <li>• Trusted brand</li> </ul>
<b>Youth</b>	<ul style="list-style-type: none"> <li>• Basic telephony</li> <li>• Large text bundles</li> <li>• Mobile internet on handset</li> <li>• Cool image and handsets</li> <li>• Primarily prepaid</li> </ul>
<b>Ethnic</b>	<ul style="list-style-type: none"> <li>• Basic telephony</li> <li>• Cheap calls to home country</li> <li>• Trusted operator</li> <li>• Convenient distribution</li> <li>• Primarily prepaid</li> </ul>
<b>Online</b>	<ul style="list-style-type: none"> <li>• Basic telephony</li> <li>• Simplicity</li> <li>• Online convenience</li> <li>• Primarily prepaid</li> </ul>
<b>Niche</b>	<ul style="list-style-type: none"> <li>• Various</li> </ul>

## KPN has successfully deployed this strategy in a number of European markets

*KPN in Belgium experienced a dramatic increase in EBITDA resulting from its multi-brand wholesale strategy*

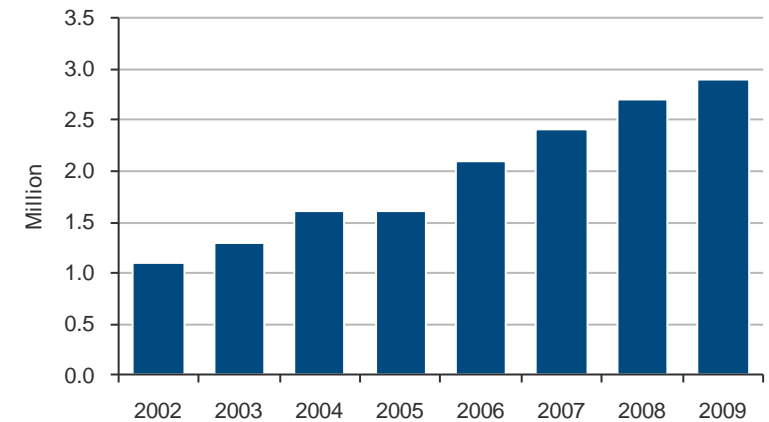
### Early success in the Netherlands

KPN Group the Dutch incumbent which also owns the No.3 mobile operator in Germany and Belgium (E-Plus and BASE respectively) was one of the pioneers of multi-branding and wholesale. A decade ago it realised that in its home country, that its solid KPN brand would not appeal to all segments so it set up a successful youth oriented brand called Hi and pursued an aggressive wholesale strategy signing up Debitel amongst others. In 2005, the company acquired the No.3 mobile operator (Telfort) which had a reputation as a low cost brand. Telfort was also very active in the wholesale market. After the merger, KPN maintained the Telfort retail brand and used it (along with the wholesale business) to compete with the later entrants in the Dutch market.

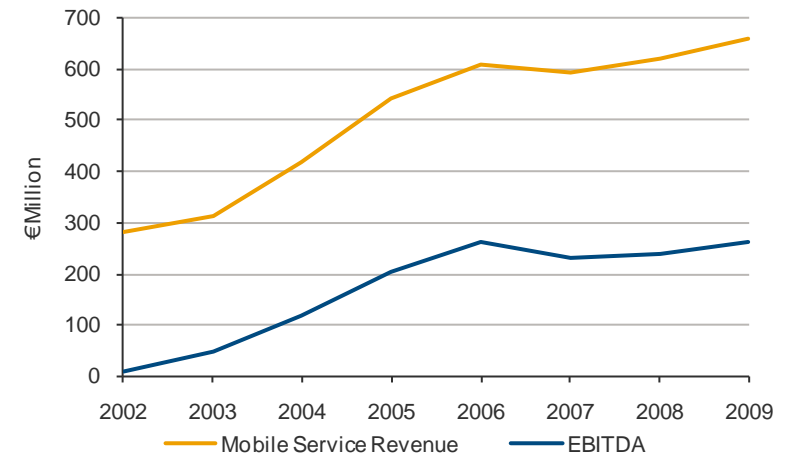
### Turnaround in Belgium

KPN implemented its multi-brand wholesale challenger strategy in Belgium (starting in 2002) and radically turned around its subsidiary BASE which had struggled since its launch in 1999. The results were spectacular with mobile service revenue market share growing from 9 % to 17% (from 2002 to 2009) and EBITDA margin growing from 3% to 33% even despite the impact of recent tough regulated termination rate cuts.

### Base Belgium - Customers



### Base Belgium - Revenue and EBITDA



## KPN's experience in Germany was extremely impressive

*KPN now generates the highest EBITDA margins of all operators in Germany as a result of deploying a wholesale strategy*

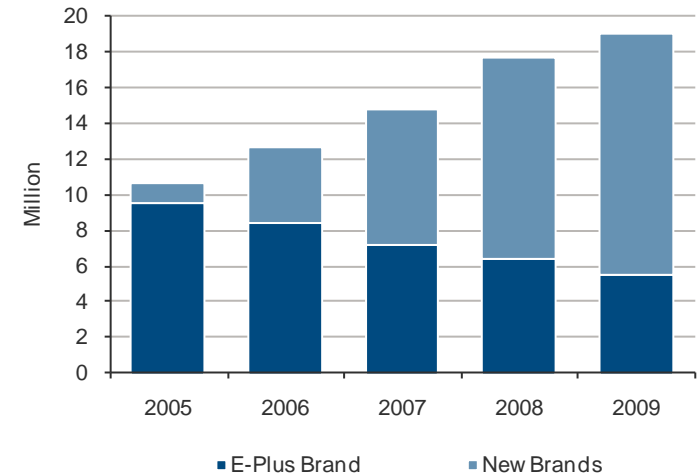
### Turnaround in Germany

In 2005, KPN appointed the management that had successfully turned around Belgium to also manage its German operation E-Plus which had been the laggard of the German mobile market. The new management set about launching a slew of successful new brands such as BASE (the Belgian brand) for flat rate propositions and SIMYO an innovative low cost prepaid service available only online.

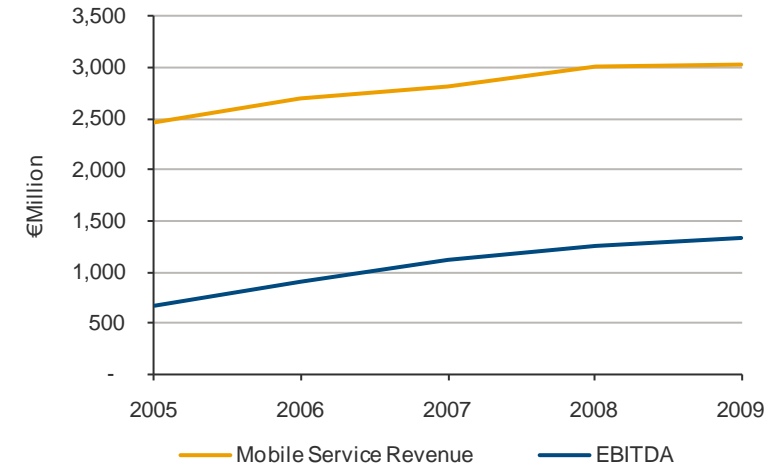
E-Plus also created a Turkish brand Ay Yildiz and targeted Turkish In the wholesale arena they launched a hugely successful prepaid proposition in conjunction with ALDI the supermarket chain which gave E-Plus access to 4000+ distribution outlets. In the immigrant segment they had much success with Ortel Mobile which had also been successful in the Netherlands and Belgium. At the end of 2009 something like 70% of E-Plus's 19 million mobile customers were using one of these new brands

The results were impressive with service revenue market share growing from 12 % to 16% and EBITDA margins rising from 22% to 42% between 2005 and 2009. Absolute EBITDA doubled and percentage margin terms the most profitable of the four German mobile operators.

### E-Plus Germany - Customers



### E-Plus Germany - Revenue and EBITDA



# Flexibility is required to meet the needs of different wholesale customers

*KPN became more market driven and radically changed the way it operated in order to get ahead of its competitors*

### KPN developed multiple retail brands

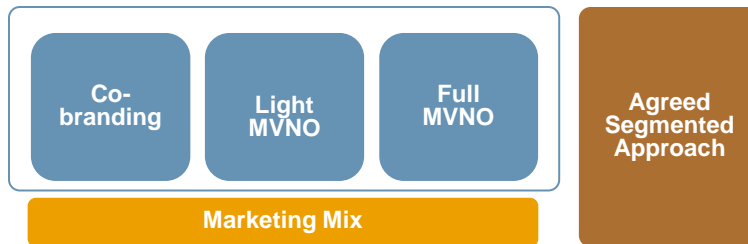
In order to tap different segments KPN developed a number of its own retail brands such as SIMYO in the online segment and Ay Yıldız for addressing Turkish customers.

### KPN adopted a professional approach to wholesale

One of the things that helped KPN succeed against much larger multi-national competitors (e.g. T-Mobile, Vodafone) was that they developed a true cross-border mobile wholesale business unit. This business unit was able to offer important customers operating in multiple countries centralised account management and a single price list and contract covering all three core countries. It was independent of KPN's main retail brands (e.g. KPN, BASE and E-Plus) and which helped give wholesale partners confidence that their interests were being professionally managed. So successful was this business unit that KPN decided to launch its own MVNO/E businesses in Spain and France to offer partners a bigger footprint.

### A range of wholesale models catered for

KPN also ensured that it offered customers a variety of wholesale models to suit their needs. Anything from a simple brand licensing deal all the way through to a full MVNO model could be accommodated depending on the partners technical capabilities.



Leading Portfolio	
Own rands	Partners
	<p>Strong "on-top" distribution</p>
	<p>Unique brand and segment focus</p>
	<p>High street presence</p>

Source: KPN

\* KPN acquired control of Ortel Mobile and Blau during 2008

# Coleago can help you to drive the strategic change with our two phased approach

*We have a robust two stage process for helping clients develop and implement a multi-branding wholesale commercial strategy*

**A well established process is called for**

Making the move to a multi-branding wholesale commercial strategy is a big change for an organisation. Coleago and its consultants have real world experience in developing and executing multi-branding wholesale strategies. We have developed a robust and flexible process that supports clients at each key stage when making the strategic shift.

**Two phased approach**

Coleago recommends a two stage approach where the first phase focuses on developing detailed business and organisational plans and the second phase is focused on implementation and ongoing advice.



## Wholesale projects are lead by Scott McKenzie

*Former Chief Strategy Officer for the Dutch operator KPN's international mobile division and former CEO of KPN's mobile wholesale business*



**Scott McKenzie**

BE, MBA

### Profile

- Scott McKenzie is an experienced consultant with over twenty years background in the telecoms and high technology industries. His areas of expertise span general management, strategic planning, operations, finance and M&A.
- Prior to joining Coleago Scott was the Chief Strategy Officer for the Dutch operator KPN's international mobile division before becoming the CEO of KPN's mobile wholesale business. In this latter role, he was responsible for a €1bn business in five European countries dealing with over forty Mobile Virtual Mobile Network Operators (MVNOs) and brand partners hosted on KPN's networks and platforms. He left KPN in 2008.
- After business school, he spent several years working for the management consultancy Arthur D. Little servicing clients in the telecom industry primarily on strategy, M&A and due diligence assignments. He then spent six years as an equity analyst in the City covering European telecom operators for various investment banks including Société Générale.
- He holds degree in electrical engineering, Melbourne University; MBA Saïd Business School at Oxford University.

### Relevant Projects

- Managed €1bn business in five European countries dealing with over forty Mobile Virtual Mobile Network Operators (MVNOs) and brand partners hosted on KPN's networks and platforms.

## Contact details

*To discuss how a multi-brand wholesale strategy could benefit your business please contact us*

Contact



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# **Coleago Consulting Ltd**

Company presentation and credentials

## A leading boutique telecoms consulting and training firm

*Based in the UK  
Coleago provides  
consulting and  
training services to  
global and regional  
telecoms, media and  
technology players*

### **Trusted partner of global and regional telecoms players and regulators**

Telecoms players around the world trust Coleago to provide insight and advice on key strategic and commercial issues through our broad range of consulting and training services.

### **Experience based consulting approach**

We do not use inexperienced associates or analysts – all our consultants have a minimum of 10 years experience and most have over 15 years, often at board level in operational businesses.

### **Developed and developing market experience**

Coleago has worked with clients in developed markets and also in some of the most challenging emerging markets including the Yemen and the Sudan and we have launched and operated GSM businesses in countries such as Algeria.

### **Advice covering a broad range of technologies**

We have advised clients on wireless, fixed, cable, satellite and fibre based technologies. We have specialist expertise in spectrum valuations and spectrum auctions have participated in more than 50 awards since 1994.

### **Media and technology experience**

We have developed strategies and business plans for media companies, TV channels and web based businesses as well as technology companies.

### **Innovative training services**

Coleago has developed a range of training and management development programmes, including a War Game (business simulation)



# Experienced based consulting approach

*All our consultants have a minimum of 12 years telecoms experience and the majority have more than 20 years in the sector*

### Experienced industry experts

Coleago only recruits and delivers projects with highly experienced industry professionals with a minimum of 10 years experience and the majority have over 15 years, often gained in operational roles at board level in operating companies.

We do not use inexperienced juniors or analysts. Where low level analysis and research is required we outsource these activities to a low cost, specialist research firm based in India.

### Experience based consulting approach

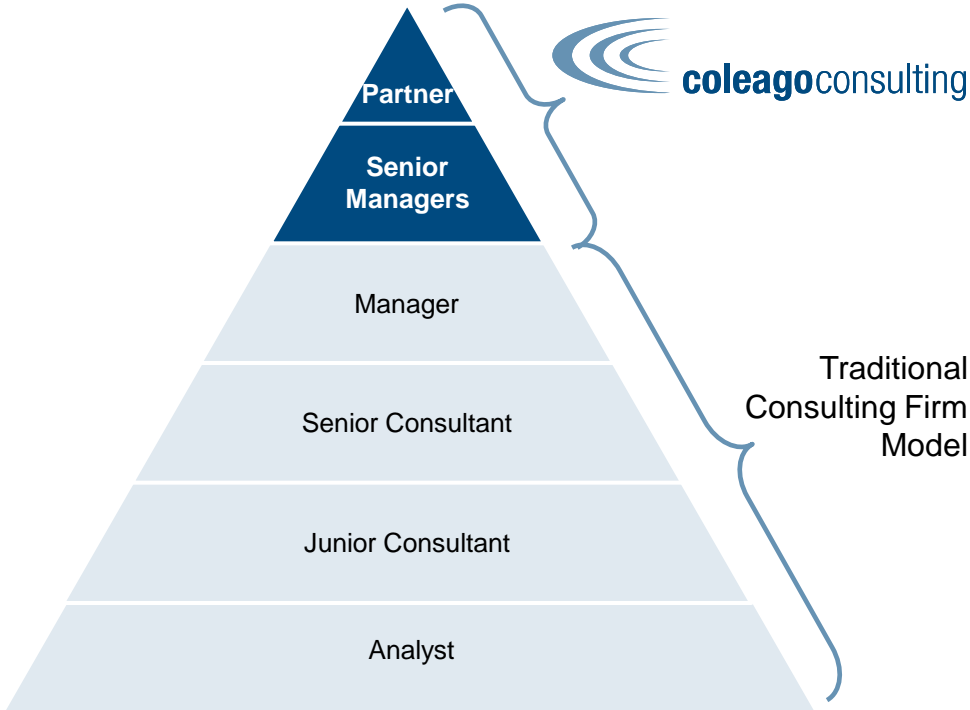
Our insight and advice is therefore based on practical experience and proven processes and methodologies developed over many years. Clients can be confident that their project will be delivered by Partner and Senior Manager level consultants from start to finish and our solutions and recommendations will be credible, relevant, realistic and practical.

### Small, effective teams

Our consultants are highly experienced, multi-skilled and have extensive project management experience. This allows Coleago to deploy smaller teams as we do not require the hierarchy of traditional consultancies to manage large teams of juniors. Clients find our small teams easier to work with and integrate into their own project teams.

### Exceptional value

By eliminating many of the overheads of traditional firms we are able to offer end-to-end partner level consulting at fee rates that provide exceptional value.



# We provide a broad range of consulting services

*We specialise in telecoms business analysis, planning and modelling to ensure that our advice and recommendations deliver increased shareholder value*

<b>Strategy &amp; Business Planning</b>	Strategy Development, Marketing Strategy	War Gaming	Business Planning	Business Modelling
<b>Spectrum and Licences</b>	Spectrum Strategy	Spectrum Valuation for Auctions	Spectrum Auction Bid Strategy	Licence Applications
<b>Marketing &amp; Customer Management</b>	Market Forecasting & Market Planning	Market Segmentation & Customer Insight	Customer Life Time Management	Improving Customer Care
<b>Due Diligence</b>	Commercial Due Diligence	Technical Due Diligence		
<b>Business Transformation &amp; Cost Reduction</b>	Cost Reduction	Restructuring	Turnaround	
<b>Improving Network Performance</b>	Network Audit	Network Sharing	Outsourcing	
<b>Regulation &amp; Interconnect</b>	Interconnect Cost Modelling	Interconnect Agreements and RIO	Regulatory Strategy	Accounting Separation
<b>Digital Content &amp; Media</b>	TV Business Planning	Digital Media Strategy	Digital Content Monetisation	
<b>Fund Raising</b>	Information Memorandum	Equity Fund Raising	Debt Fund Raising	

## We offer an innovative suite of training, development and coaching services

*Our telecoms War Game is a unique and exceptional management development platform and our Dragons' Apprentice offers a new approach to team building*

### Specialist Telecoms Trainers

Our trainers are first and foremost telecoms industry experts who are able to gain the respect of programme participants. They are also outstanding trainers with a passion for their subjects.

### Telecoms Focus

Our programmes are developed exclusively for the telecoms sector and use real life telecoms case studies, examples and benchmarks throughout.

### Bespoke Solutions

We develop bespoke solutions for clients often utilising information about their specific markets to illustrate key points.

### Tailored Deliver

We provide pre-course questionnaires and hold telephone interviews with every participant to ensure that each and every delivery contains the right content delivered at the appropriate level.

### Innovative Programmes

We use simulation tools, role plays and challenging case studies to provide an entertaining and rewarding learning experience.

### War Gaming

Our War Game process is the most realistic simulation of a telecoms market currently being offered and is the closest thing to running a telecoms business after actually running a telecoms business!

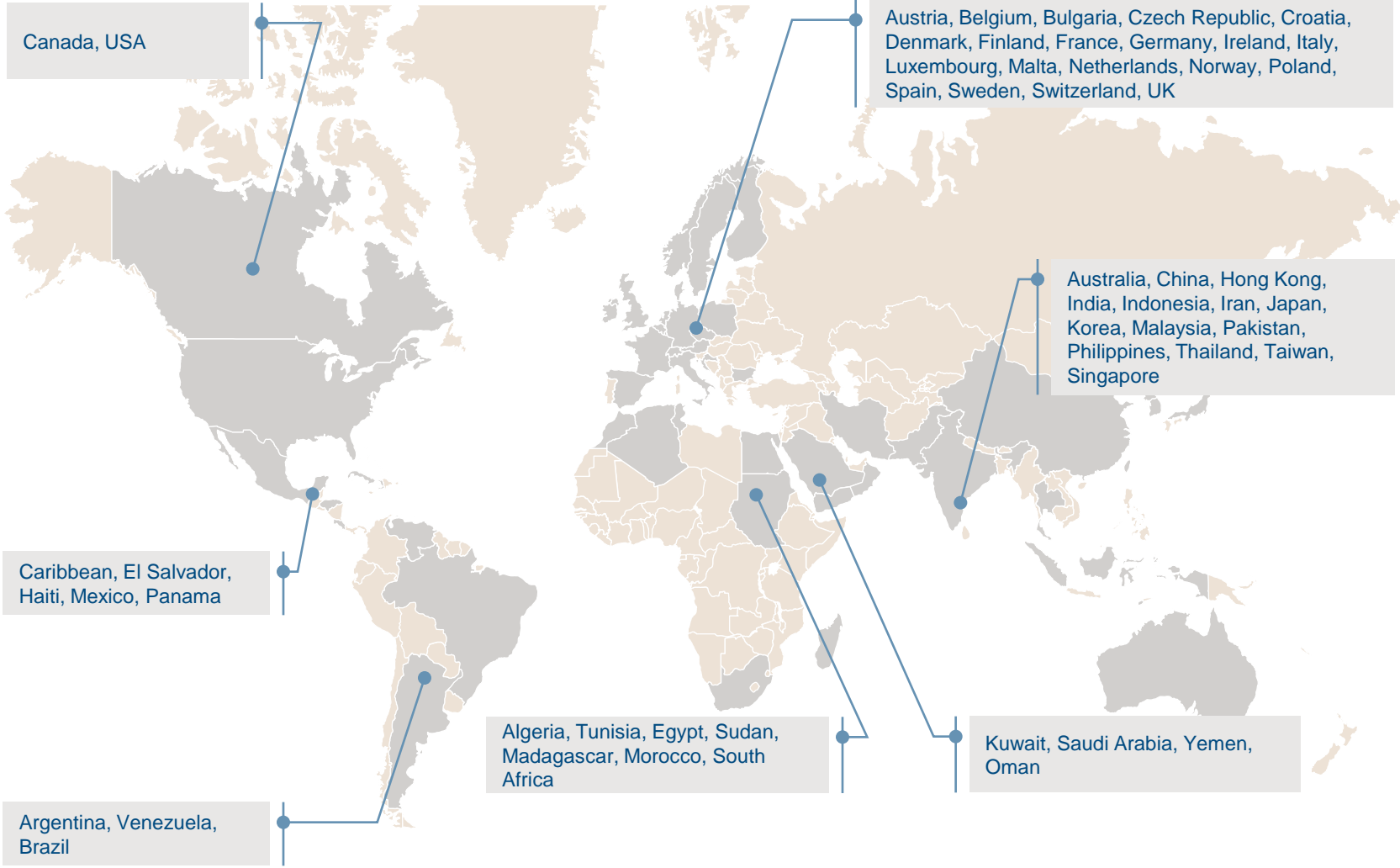


# Coleago has delivered assignments for global operators and smaller players

Our clients include fixed and mobile operators, MVNOs, equipment vendors, regulators and content providers



*We have delivered projects on every continent of the globe*



## Coleago's consultants lead and shape the industry

*Coleago is regularly asked to speak at key telecoms conferences around the world as well as sitting on governmental working groups and industry bodies that shape the future of the industry*

### Some of the papers published by Coleago

**Fears About Debt Levels of Mobile Operators are Misplaced**

*Article, Total Telecom & elsewhere*

**Demand for Mobile Internet Services**

*Article, Total Telecom*

**PMR in Europe**

*Article, Communications International*

**Trends in Mobile Tariffing**

*Article, Telecommunications & Microwave Journal*

**International Accounting Rates**

*Letter, Telecommunications*

**Mobile Networks in Eastern Europe**

*Article, Telecommunications*

**A Cellular Alternative in Eastern Europe?**

*Opinion, Mobile Europe*

**Telecoms in Eastern Europe: Investing for Growth**

*Article, Telecommunications*

**Inter German Telecommunications Integration**

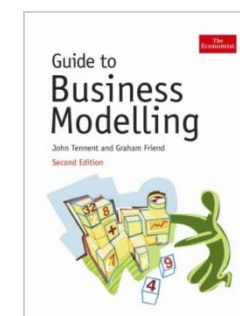
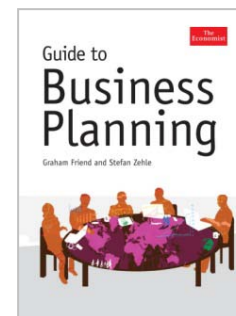
*Article, Communications International*

**GSM Billing**

*Article, Communications International*

### Business texts written by the founders of Coleago

**The Economist**



**Guide to Business Planning named Outstanding Academic Title 2009**

The Guide to Business Planning, a book authored by Graham Friend and Stefan Zehle the Directors of Coleago, which recently appeared in its 2nd edition was named as one of the "Outstanding Academic Titles, 2009 (Business and Economics)" by Choice, the US academic review journal.

Source: Choice, 5th of January 2010  
[www.lib.uwo.ca/news/business/2009/12/23/outstandingacademicitles2009businesseconomics.html](http://www.lib.uwo.ca/news/business/2009/12/23/outstandingacademicitles2009businesseconomics.html)