

# *Wireless Entertainment in the United States*

---

Gerbsman Partners 2003

## About this report

Gerbsman Partners decided late in 2002 to expand its international business model to focus on and to develop "Domain Expertise" in the worldwide Wireless and Technology market. Early research made clear to us that three areas of significant interest stood out among the wireless offerings out there – Premium SMS, WiFi and Wireless Entertainment. As a part our commitment, we have spent the first half of 2003 visiting market leaders in each of these segments in the US, Europe and Israel. These interviews, conversations and findings serve as the foundation for this White Paper. Gerbsman Partners is committed to continuing its efforts in wireless and is offering assistance to understand, navigate and execute business related to these three themes.

## Executive Summary

As wireless entertainment enters its second phase in United States, exciting things are to be found on the horizon. Carriers continued support and efforts to promote mobile entertainment have brought real revenues for several companies. In the face of network upgrades to 2.5/3G, the increase in the mobile phone's accommodation of more complex graphics and faster downloads, and the billing systems which revenue share agreements are establishing, we have come to see a rapidly expanding market. As expected, large media and content companies such as Sony, Disney and others, have begun to invest in wireless content, start-ups have shown ability to tap into the carrier revenues and gained their share – the US is ready to embrace wireless in a big way.

Key indicators show that the US consumer is buying games online. Analysts predict a "booming" market that will grow ten-fold in the coming three years. Selected data shows rapid growth and strong belief.

- Sprint PCS reported they have sold more than 10 million ring tones and screen savers over the last 11 months.
- Verizon Wireless reports they sell about 2 million BREW applications a month.
- The Themis Group expects wireless game revenues to reach a total of \$660 million in North America by 2006.

The evident growth and early stage of the US wireless entertainment market do provide an excellent opportunity to enter and gain significant market shares early and with lower levels of investments.

# Wireless gaming in United States

## Market status

The Wireless Gaming market as an Industry is in its infancy; console and PC based games still lead the way in terms of revenue and usage, but initial reports and Industry efforts paint a very positive picture for wireless. Operators have released figures far exceeding expectations. For quite some time analysts have been very positive on wireless gaming and predicting significant growth.

- In May 2003, Sprint announced that it had sold "close to two million single and multiplayer games" since their August 2002 launch.
- In late April 2003, Verizon announced that consumers had downloaded 8.5 million mobile entertainment applications, and that 3.2 million handsets (roughly 10% of its overall market) were capable of downloading mobile content.
- JAMDAT announced that five of its games had sold more than 100,000 copies through Verizon's network.
- In the same month, In-Fusio, a French mobile game publisher, announced that it had registered more than 2 million mobile gamers for its service, an increase of 15% since February 2003.
- Only 4% of the total mobile population has downloaded a game with their phone.
- Mobile gaming accounts for 3% of the total revenue from mobile services.

## Statistics

With all the groups reporting statistics for this industry, the following numbers say something interesting to those eyeing the market. Strategy Analytics predicts the mobile game market will grow to \$7 billion by 2008. The ARC Group sees the number of worldwide mobile game users growing from 196 million in 2002 to 667 million in 2005. Informa Media Group explains that the mobile gaming segment of the total videogames industry will account for 12% of the overall \$30 billion market by 2006. In addition to these various forecasts, industry insiders all indicate a faster than expected growth. Some collected projections of total revenue from mobile gaming offer a very positive picture, showing market growth from roughly \$.8B this year to \$3.6B by 2006 (Informa) and \$4.4B by 2007 (Ovum). The amount of wireless gamers today is roughly 7 million in the United States. IDC predicts a ten-fold growth in five years (71.2M).

## US market dynamics

Compared to others, the US understandably offers a very large market with 50% penetration, accounting for over 145 million mobile users. Obviously, the wireless gaming market appeals to a limited portion of the consumer base. However, with the increasing popularity of mobile phones, people increasingly use their phones for personal entertainment. This is a very significant shift, considering the past when users utilized mobile services strictly 'in case of emergency,' for fear of paying high rates. This is still true to a certain extent, but the advancement of flat rates and bundle minute plans offers affordable, far more attractive solutions.

Japan is a big influence on the US market. NTT DoCoMo exemplifies this best, having bought a 16% stake in AT&T wireless a couple of years ago. iMode is also the role model for AT&T's mMode - AT&T's mobile portal offering. European companies have

started to enter this market; Vodafone, T-Mobile and game companies like Aspiro and In-fusio all have local stakes with some success. Vodafone owns parts of Verizon, the largest operators in the US and T-mobile bought Voicestream, re-launching as T-Mobile last year. Aspiro, an application and service provider has been present in the AT&T network since launch, and digital bridges have been active on the US market since inception.

As the traditional console game publishers like THQ, Sega, EA and others, as well as Hollywood, call the US their home, the stakes in this market are high. THQ has attacked this challenge through forming a wholly owned subsidiary, THQ wireless.

The market has proven to bring revenue streams for games offered through operator portals such as Brew and mLife, among others. This is similar to what Vodafone did with Vodafone Live. Jamdat, mForma and THQ Wireless have all shown relatively good revenues and are launching very advanced games for the US market.

Traditionally, Digital Bridges (an English company), as well as several others, have taken the lead; now that WAP games seem to have been skipped over in the US, the field for Java-based entertainment has been opened for other players as well.

In the discussion of wireless gaming with a European or Asian mindset, messaging is very much a focus as Premium SMS services offer continuous and non-time sensitive "light" versions of games. This is not the case in the US where gaming is J2ME (java) and J2ME only! Looking at figures released, only approximately 10 percent have purchased a game from their phone, though 90 percent have SMS enabled phones. A study from the UK on wireless entertainment says that 90% of UK revenues from data services are messaging related.

## **Carriers and networks**

BREW vs. J2ME vs. Sprint vs. Nextel vs. ...

The US market is complex and segmented. Several network standards compete for the consumer; GSM, CDMA and iDEN are the three networks offered. Verizon, Sprint and Alltel, among the biggest of carriers, offer CDMA. GSM is offered by AT&T, Cingular and T-Mobile. The lone iDEN provider is Nextel with 10 million subscribers. On top of this, 3 additional subgroups exist in terms of software standards and programming language.

- **CDMA BREW (C++)** More on BREW later in this article
  - Verizon 33 million subscribers
  - Alltel 1 million subscribers
  - KDDI (Japan), Telsp (Brazil), China Unicom (China)
- **CDMA Java**
  - Sprint 13 million subscribers – launched Sprint Vision 2002. Offers a large data network branded as 3G. Offers end-to-end billing and download system for Sprint only.
- **GSM/J2ME**
  - AT&T 20 million subscribers – Launched 2001. Has over 200 games available through its portal, mMode. Supports wireless gaming through a variety of channels including its members magazine, online and print advertising etc. Has taken a lead. Supports J2ME.

- Cingular 22 million subscribers. Launched wireless gaming late in 2002. Has enjoyed some success with no marketing. Waiting to see what happens before they spend big money on marketing. J2ME
- T-mobile 10 million subscribers - Launched its mobile gaming (J2ME) late Q2 this year. Chose only to contract with 6 publishers to display and offer games on their platform. Fastest growing operator in the US. Represents 30% of US SMS market.
- **IDEN**
  - Nextel 12 million subscribers

Contrary to European markets, this offers a very complex and difficult situation. Operational questions of what market segment to concentrate on could make or break a game launch. The different groups also offer different support functions. Brew is the one entity offering a one-stop shop for easy access, but keeping with a strongly controlled environment. Qualcomm owns the Brew system and makes all decisions on access and support. Introduced early 2001, Brew claims to have sold 31 million downloads so far - worldwide.

For additional information regarding carrier, networks and subscribers, please contact Gerbsman Partners to receive a copy of "Premium SMS in the United States."

### **Challenges for the US market**

Although the US market is enormous compared to many others, in some aspects it is like its European cousin. Capturing the whole market is very complex and requires multiple versions of the same software in order to capture market share. Core issues include:

- Multiple carriers – each with their own billing system, Distribution system and business model
- Multiple platforms – Java (J2ME), C++, BREW, Symbian, PocketPC and Palm. Morpheus etc... What to develop and for which system is a big question.
- Multiple devices – 7 BREW, 30 J2ME and multiple others.

### **Game publishing value chain**

2 years into its lifecycle, the US mobile entertainment and games industry have begun forming a value chain. Publishers like Jamdat and Mforma as well as Gameloft, are publishing games for multiple carriers. These companies license games from core developers (Nuvo Studios and Handy Games), as well as fund the development of new games.

Independent developer/publishers like Sorrent and Morpheme (a division of super-developer Argonaut) are providing great games built upon exclusive content licenses. Traditional videogame (PC and Console) publishers have also entered the mobile market, led by Sega Mobile and THQ Wireless. Electronic Arts, Activision, Microsoft Studios and Atari have licensed their content for mobile games. Japanese videogame companies, including Bandai, Namco, Taito, Dwango all have expanded into the US.

With the nature of the medium, small screens and menu based offerings, brand name and brand recognition have proven to be crucial to sell content. In a few cases

Carriers have successfully co-promoted games to its customers, AT&T and Tony Hawk Skateboarding, Cingular and Charlie's Angels etc.

## **The Future**

New handsets are being launched in Q4 2003, most notably Nokia's N-Gage device, as well as in 2004, with Sony's PCP concept due out mid next year. This will certainly improve the mobile gaming experience. Memory expansion technologies, 3D engines and processing power all contribute to enhance the experience.

As the mass market becomes more aware of mobile games, the companies and developers continue to offer better games and viable business opportunities. Matthew Bellows, editing publisher at Wireless Gaming Review says "But as in all other creative media, it's only after the first generation of work that things really get interesting."

He continues "As the technology and the tools, not to mention the financial reward, for developing wireless games improve, so too will the originality and creativity we can all enjoy. This industry has reached its escape velocity. The best in wireless games is yet to come."

## **Conclusions**

The US market offers a large and homogenous market; one language and similar cultures cover the most of the population. Also, it offers several ways of entering the market; smaller carriers are hungry for new ways to differentiate and are keen to accept outside help as well as the culture of outsourced mobile solutions. The limited experience with mobile entertainment also offers a large opportunity, not only referring to the scale - 140M+ does own a mobile phone (50% of the total population), but experienced gained in other markets will bring credibility.

As larger carriers and service providers are strongly pushing marketing towards the consumers, the opportunity to gain help and form alliances might make the decision to enter the US market somewhat less risky. Unlike the conventional wisdom in the late 90's - hosted solutions and partnerships will enable outside companies to gain exposure on the US market for a minimal investment.

## **About Gerbsman Partners**

As a result of Gerbsman Partners' 23 years of maximizing enterprise value and specific domain expertise in technology related intellectual property, we have developed an established, proven and responsive distribution channel for our clients. Our channel reaches International and US institutional investors, venture capital funds, investment bankers, lawyers and accountants, as well as leveraging Gerbsman Partners' direct relationships with major wireless and technology companies.

Gerbsman Partners, supported by its International Board of Intellectual Capital, has been involved in over \$1 billion of transactions worldwide and has assisted in M&A, restructuring, licensing, partnership and capital formation for numerous companies and their Intellectual Property.

Our international business and technical team, which includes European and Israeli based sales and technical personnel, looks forward to earning the right to be a resource to you.

Please visit Gerbsman Partners updated web site [www.gerbsmanpartners.com](http://www.gerbsmanpartners.com) for additional information about us.

Additional White Papers can be found at:

- Premium SMS: [www.gerbsmanpartners.com/premiumsmswp.pdf](http://www.gerbsmanpartners.com/premiumsmswp.pdf)
- WiFi: [www.gerbsmanpartners.com/wifiwp.pdf](http://www.gerbsmanpartners.com/wifiwp.pdf)

For additional information, please call or email:

Steven R. Gerbsman  
+1 415 456 0628  
[steve@gerbsmanpartners.com](mailto:steve@gerbsmanpartners.com)

Jason Gerbsman  
+1 646 326 9716  
[jason@gerbsmanpartners.com](mailto:jason@gerbsmanpartners.com)

Gunnar Ostergren  
+1 415 205 5700  
[gunnar@gerbsmanpartners.com](mailto:gunnar@gerbsmanpartners.com)

Motti Abramovitz  
+972 54 774 762  
[motti@gerbsmanpartners.com](mailto:motti@gerbsmanpartners.com)

Patric Carlsson  
+1 415 244 5018  
[patric@gerbsmanpartners.com](mailto:patric@gerbsmanpartners.com)