

## Media Companies Using SMS To Create New Revenues

Text messaging in general, and Premium SMS (PSMS) more specifically, provide media and entertainment organizations a channel for direct audience interaction. US based Reality TV, record artists, and marketers are hard at work to prime a rapidly growing market of SMS and PSMS. While marketing and “free to the user” programs have characterized this early phase of the US SMS market, premium SMS billing is increasingly moving into focus. Advanced SMS markets in Europe and Asia have all followed this early-stage pattern. Premium billing and person-to-application service installations provide lateral touch-points and SMS, with its unique characteristics, provides entertainment outlets with a direct, flexible and affordable marketing interaction channel when targeting younger audiences.

US based entertainment industry and large cross-media companies are now looking toward SMS as a means to increase loyalty, interaction and revenues. While these billion dollar revenues are real and on-going in countries across Europe and Asia, the US is still behind in terms of consumer funded campaigns and services, large deployments and long term strategy for this channel.

In the mobile application and service industry, a rapidly growing and ever changing market where short program and service life cycles are the norm, relationships rather than custom built solutions have started to gain importance and have earned the confidence of content owners and publishers alike.

Looking forward, the marketing and media dense US market is on the verge of adopting large scale SMS, creating focus on proven business models and applications.

As investors are assessing this market opportunity, Gerbsman Partners, by sharing this document, hopes to expose some of the larger US SMS market opportunities and industry trends for the coming 6-12 months.

### *Key Market Trends:*

- Media companies are in the process of selecting vendors for Premium and non-premium SMS solutions. Radio, TV, Print and Web are all suited to incorporate SMS, and Media companies are looking toward Europe and Asia for proven business models and applications.
- US originated SMS companies have had a hard time keeping up with European and Asian managed service providers. Previously required legacy connections have been costly and are draining US messaging providers. Lean running ASP-focused messaging specialists are increasingly moving into the US market and are focusing on long-range partnerships and multiple application deployments.
- Mergers and Acquisitions are frequent. Mobilss, Proteus, 9 Squared, Ztango and Telenor Media Interactive are just a few of the leading US SMS companies swept up by foreign investors. With dozens more on the market, Media companies that have or

plan to purchase interactive divisions will look toward SMS ASPs to enhance offerings.

## **Introduction**

While being among the most widely penetrated consumer technologies available today, SMS is still an emerging market in the United States. Although traffic volumes are increasing and services are maturing, one-off campaigns and situational entertainment are the extent of current SMS customer offerings. In addition, success so far has been with services tailored to young adults and marketing driven products or services. For future success, however, careful planning and long-term service commitments must be considered when launching Premium SMS services.

Lessons learned in Europe and Asia have shown that content sales (Ring tones, Wallpapers, Java Games and in certain cases sport and team related scores and alerts) produce the majority of revenues. As a purchased item, content is downloaded to the handset in a one-time purchase though successful services have nurtured recurring purchases through customized WAP interfaces where subscribers and returning customers are recognized, simplifying purchase and selections.

The US market remains tightly controlled by the mobile operators (Verizon, Sprint/Nextel, and Alltel), who choose to limit third-party content providers' ability to sell content through the value chain. It will take time before the US market discontinues its "walled garden" philosophy where telecoms are content distributors and phone operators simultaneously. Due to this culture of control and restriction, several US-specific opportunities remain unexploited. Whereas conservative mobile operators restrict content sale and transactions, the media and entertainment industries have successfully launched European or Asian (or both) mobile content initiatives and are prepared to undertake a US SMS content offering.

Early successes of mobile java games, ring tones and wallpapers through the mobile operator portal indicate sustainable business models and large growth potentials. As the entertainment industry is proactively licensing its content properties to game developers, real revenues have established profitability, leading to the Jamdat Mobile, a leading US mobile game publisher, IPO in 2004. Sorrent, THQ and EA have also been able to capitalize on mobile Java games.

PSMS became commercially available by mid-2004 and a whole new range of services are being launched – primarily outside specific operator customer Web and WAP portals. Cingular (including AT&T) and T-mobile have adopted an open network philosophy, enabling third-party content and service access, and have adopted a pro-service attitude toward premium SMS applications. Both Verizon and Sprint are likely considering opening their networks to outside content providers, as this increases revenues. Example: A ring tone sold from a third-party content provider will cost the end customer an average of \$1.99. Mobile operators will keep 60-80 cents for handling the transaction, and will not be responsible for content, delivery or quality. The remaining margin of \$1.20 – \$1.40 is passed through to the content providers.

While waiting for PSMS to mature, US media and entertainment companies have started to learn from early successes and are taking a good look at long term strategies in

maximizing returns. Hollywood is an expert in entertainment and content creation and partnerships are forged to transfer this into the mobile channel.

Media companies have paid attention to the fact that 70% of European broadcasters are deploying SMS to TV channels where users pay to communicate via the screen. Strange as it may seem, almost all European countries have dedicated channels during night programming to offer real time chat or MMS boards where users pay between \$0.50 - \$0.99 per message, depending on message and format (text or MMS). As a TV centric market, fueled by billions of dollars in marketing, SMS to TV provides advertisers with a very “sticky” medium where users tend to spend 30-45 minutes focusing on one screen.

In relation to these chat services, which can be defined as person-to-application services, dating shows are gaining popularity as the basis for creating games for viewers in a mobile text messaging environment. Most popular is dating and flirt applications based on broadcasted top-shows such as Eliminate and Blind Date.

## **Emerging market opportunities**

### **Record labels**

Record companies are today using mobile marketing to introduce a mobile dialog between the artists and their fans. Record releases are supported and promoted through fan “lists” and voters are asked to participate in quizzes for unique, artist-specific prizes. Hillary Duff, Queen Latifah and Madonna are some of the youth targeted artists who used mobile marketing to launch new records and provide upgraded concert seating, and also used mobile quizzes to reward fans with unique PC graphics.

With ring tones and wallpapers being responsible for new and sizable incomes for artists and labels alike, relationships and long term mobile strategies are necessary to continue capitalization on the early adopter. As mobile service companies are learning what services work and what business models make sense, mobile communities and supporting technologies are seen as potentially lucrative solutions.

### *Applications relevant to industry:*

- Mobile community services
- Fan club SMS lists providing inside access to specific information.
- Fan club lists enabling direct sale of merchandise and music. (Ring tones or CDs)
- Unique “portal” environments based on J2ME, where fans can socialize and chat with each other.
- In-venue SMS competitions enabling the ever growing premium club subscribers to receive messages from specific artists. As each message is billed to the end user, on-going activities to increase the community and list activity will generate sizable revenues.

### **Broadcasting and Cable companies**

European media broadcasters have used SMS in existing and new programming for the last 2 years, but US based Media companies have yet to implement this technology on a larger scale. During 2004, American TV shows supported by SMS like American Idol

and Survivor All-star, provided broadcasters and media companies an early indication of what possibilities PSMS services have to offer. As SMS integration has been introduced and new shows/episodes are premiering this spring, success will depend on each production's ability to bring the voters back and nurture the community with carefully planned marketing, ease of use, and user benefits/rewards. As these early successes of in-program SMS interaction indicate, votes and quizzes represent a sizable opportunity aside from the obvious marketing and loyalty benefits of a direct dialog with each viewer/voter. If the content in itself is valuable enough and the prize offered to the winner attractive, voters have been willing to pay \$0.50 - \$1 per vote/quiz.

The strategy of invitation to play for prizes “not available anywhere else”, has been proven to generate large revenues for the Big Brother production across several local markets in both Europe and Asia. SMS vote and quiz services are easy to deploy and integrate but have their limitations. Best results of SMS participation are created in conjunction with larger, widely publicized and marketed “live” events as seen with the American Idol final and Survivor All-Star final viewers' choice show.

In June 2004, McKinsey Global Institute claimed that 70% of European broadcasters are currently deploying PSMS interaction via in-program votes, quizzes or purchases, or consumer-to-application services such as chat boards, multi-player games and MMS services. PSMS in the United States has successfully proven its functionality, and usage of PSMS services is doubling each month. Over approximately 2 million PSMS messages were billed in September 2004 across networks. This figure has caught the attention of US media companies who in turn initiated a vendor selection process, supporting their overall consumer touch-point strategy. Early market indications show that Mobile services and Premium messaging will be used to integrate communication across all owned media including TV, Radio, Print and Web.

With good success and sizable revenues coming in, European Broadcasters have started to look beyond the traditional in-programming votes and quizzes, and have incorporated Text-to-TV applications such as multi-player games, chat boards, and MMS flirts where TV viewers are asked to either send chat messages or pictures from their phone to given TV channels for community viewings and debates.

Chat/ Flirt services are often deployed with moderators leading and stimulating dialogs and revenues. The latest breed of applications also makes it possible to launch SMS services extending TV shows such as (Elimidate, Blind Date, etc.) out to viewers and could generate off-air revenues for these productions and their owners.

*Applications to focus on:*

- Person-to-application
- Text chat applications- Often self-maintained and broadcast during nighttime and off-prime time to increase revenues.
- MMS – Chat based MMS application where users have both the option to text regular messages onto the screen, as well as having the ability to upload MMS pictures for a higher fee.
- Multi-player games – Viewers control soccer players, space ships or other similar game environments by sending text messages to an application. These games

create the attractive “stickiness” where users spend extended time in front of the TV screen and enable marketers to expose brands and products properly.

- In-program Votes and Quizzes – primarily targeted toward reality TV, where users are asked to decide upon content and control the outcome. Big Brother in the UK brings in large revenues on top of advertising by charging per vote.

## **Conclusion**

The rapidly growing PSMS and mobile entertainment markets, with built-in business models of direct revenues, provide a content extension for media and entertainment companies. Being a direct 1-to-1 medium, traveling in the pocket of all cell phone users, mobile games and text messaging have enormous potential proven in both Asia and Europe.

Where the US has traditionally lagged in unified standards and collaboration between mobile networks, today’s unified standards and aggressive growth prove that the US is quickly becoming a very hot market for SMS and mobile entertainment. Billing and short code services are already working but a few hurdles remain to fully adopt an “open” business landscape, where outside providers of content can sell to all US networks.

In this maturing market, the responsibility for continued growth and success shifts from technical capability to the media's commitment to deploy and integrate this technology. Early successes in the US market indicate a large demand for user interaction.

Progressive media companies, having realized the potential, are in the process of selecting SMS service providers. Supported by an active mergers and acquisitions market, the US embraces the PSMS markets with full force. Service providers focused on managed messaging and mobile services will be in high demand in the coming 6-12 months while the US fully incorporates the profitable and loyalty driving technologies of SMS and mobile applications.