

Mobile Opportunities Beyond Ring Tones, Wallpapers and Games

Mobile Music and Video Services Will Increase Revenues and Customer Loyalty

As mobile handset manufacturers launch “music phones” and mobile operators increase their network capacities, mobile application service providers (Mobile ASPs) are preparing to offer applications and services harnessing these emerging consumer demands.

Current mobile entertainment content such as ring tones, wallpapers and Java-games have, and will continue for some time, to enjoy strong interest from consumers and investors. Such content will also create sizable revenues for Mobile ASPs, mobile operators and investors. With the emergence of 3G networks, MP3 streaming and download, Mobile TV and MP3 phones, the mobile content and entertainment industry is now facing a variety of new challenges. Shrinking margins, as well as the increased involvement of content owners, are forcing mobile entertainment platform and service providers to adjust and innovate to regain the revenues now required by content owners. Formerly successful revenue models such as content subscriptions offered by Jamster and numerous others are under harsh scrutiny. As a result of these new restrictions set by mobile operators and the increased visibility of content owners, mobile application service providers serving mass media and the mobile entertainment industry are now looking to mobile music and video as the new growth opportunity.

Supporting Technologies

At this point, it should be no secret that all Mobile Operators of rank, as well as all leading handset manufacturers are in some shape or form launching their own mobile music offerings. On the technology side, Apple and its iTunes collaboration with Motorola, SonyEricsson's release of a Mobile Walkman, Nokia's launch of the n-series phones and Samsung's P735 are just a few of the recently covered examples where mobile phones equipped with MP3 players, cameras (still & video) as well as laptop-grade memory are arriving on the market just three years after being introduced. On the mobile operator side, Europe maintains its lead as both 2.5 and 3G networks are more widely deployed and most successful operators are offering some form of rich media service including Mobile TV, MP3 and video chat. The United States is quickly gaining ground however, primarily through the offerings of Mobile TV as discussed in earlier papers. With regard to mobile music offerings, Cingular is rumored to be interested in Motorola/Apple's offering and Verizon is rapidly moving to fill this gap by hiring and designing its own offerings. In addition, Sprint's announcements regarding its EV-DO network upgrades are supporting the notion of rapid deployment of music services.

As MVNOs (Mobile Virtual Network Operators) launch in the North American market (Amp'ed, Earthlink/ KN Telecom, ESPN, Disney), much of the focus will be on rich media experiences and premium content. As U.S. mobile operators, content owners and service providers are developing business models for full-featured mobile music

offerings, third-party service providers will seek to fill this application void. Mobile entertainment companies supporting Premium SMS billing and WAP push for multiple applications, including streaming media and larger file downloads, will seek to build relationships with recording and movie companies to build branded offerings. In addition, the branded MVNOs who will drive this adoption of entertainment-centric services, will further enhance the deployment and revenue-growth of U.S. mobile consumption of entertainment.

US Market & Consumer Trends

From the outset, the U.S. mobile market has been very fragmented. There are dozens of local and regional operators who account for approximately twenty percent of the market (nearly 30 million end-users). Recently, however, the trend has been toward mergers and consolidation. Since 1999, a series of mergers have taken place among eight of the larger wireless carriers and which have culminated in the creation of three industry giants: Cingular, Verizon Wireless and Sprint. At the same time, the other principal carriers have opted to forge relationships with smaller operators that go beyond simple roaming agreements to ensure a much closer level of inter-carrier cooperation.

In the United States, different technologies and standards for mobile phones coexist. Verizon and Sprint use CDMA networks. Cingular (including AT&T) and T-Mobile each use GSM networks. Nextel uses iDEN technology developed by Motorola. These different technologies have all taken different routes towards 3G, but each operator has put some kind of 2.5G solutions in place. All of these providers are now working hard to develop their own 3G offerings. Verizon and Sprint are making large investments to deploy CDMA 2000 1x EVDO, Cingular has launched GPRS and tests both UMTS and WCDMA (HSPDA) technologies with a commercial launch planned in 2006, and in July 2004, AT&T Wireless (now Cingular) announced the coming launch of its high-speed data services based on W-CDMA. Normal ...

US mobile market at a glance:

- The mobile penetration rate in the United States reached 59% in 2004 with almost 168 million subscribers.
- The American telecom market represents 20% of the worldwide market in revenue and 12% of the number of subscribers.
- Currently, Cingular dominates the US market with over 40%. Verizon Wireless is second with a 25% share. There are three other main operators: Sprint PCS (13.2%), T-Mobile (8.6%) and Nextel (Soon to be Sprint) (8.6%).
- The first MVNO to offer services in the United States, Virgin Mobile USA, was launched in the summer of 2002 using Sprint PCS networks. Other noteworthy MVNOs include Boost Mobile, ESPN, Amp'd, Disney and Earthlink.
- The majority of US mobile end-users are postpaid users. Prepaid services are mainly marketed to customers with bad credit ratings or who are too young to sign a contract.
- Customers are using their phones four times as much as ten years ago, yet the average monthly mobile phone bill fell from US\$60 to around US\$50.

A recent study published by M:Metrics (www.mmetrics.com) shows that approximately 58 percent of the total US mobile phone user base is using their phone for more than

talking. As the US market adopted Premium billing, consumers are willingly spending more and more time on their mobile phones.

- 22.4 Million (12.9% of total population) people have downloaded a ringtone. While the majority of these consumers are between 13-24 years old, those over 25 still account for 45% of the total amount of downloads.
- 10.8 Million (6.2%) people have downloaded graphics and 5.7 Million (3.3%) people have downloaded a mobile game.
- 65 Million (37.4%) people are sending or receiving text messages.
- 52% of subscribers between 25-34 year of age sent or received text messages in the previous month, while 37% of those questioned between the ages of 25-44 communicated via SMS.
- Among the youngest users (13-24 years old), 68% sent or received SMS messages in the previous month.
- In addition, 14.5 Million (8.5%) people receive SMS alerts, a market currently dominated by bulk broadcast, free to the user.

I argue that despite the size of these numbers, the U.S. mobile subscriber base is still an untapped market. For example, worldwide, twice as many people own a mobile phone as are buying a newspaper. More people now send and receive SMS than send email. In certain European markets, mobile commerce has surpassed e-commerce. Therefore, in terms of ownership, the mobile phone is one of the most owned personal communication tools available on the market today. In terms of usage, benefits and services, the mobile phone remains a technology revolution in its infancy.

Meeting the Demand

According to a new survey from the Yankee Group, 71% of U.S. teens want MP3 players on their cell phones. Other popular features include camera phones (70%), presence location (61%), Streaming TV (61%), video clips (57%), and mobile games (54%). Where family share plans have been the primary driver of “mobilizing” the U.S. youth segment, prepaid services and MVNOs are the two driving forces behind the growing U.S. mobile youth market. New ventures building on established business models and proven technologies will find ways to explore this opportunity. With the growing awareness of CRM integration and mobile community design, branded social commerce networks built on relationship, loyalty and social identity will increase revenues and average revenue per user.

Most international mobile application service providers that currently offer binary storefronts have, or are developing, support for streaming media. Where Truetones forced a shift from dealing with aggregators to dealing directly with content owners, profit margins are getting thinner and the increased demand for complex services continues to grow. Mobile service companies that currently focus on content and marketing will be forced to become more product-focused mobile ASPs, being responsible for design, packaging, content distribution and re-distribution, and customer care. The winners in this new market place will be those companies that are successful in securing and maximizing revenues through global distribution eco-systems, together with proven technologies on flexible application gateways enabling long-term growth. Mobile ASPs that are able to create joint ventures between media/technology and service providers

will beat out content and marketing companies when serving this emerging mobile multi-media opportunity.

The successful Mobile ASPs who currently are flying below the Merger-mania radar and collect sizable revenues from service customization, integration and service hosting, could conceivably spur a “third” wave of mobile company mergers. Look for the next wave of buyouts and mergers to come from these platform and service extension providers out of Europe, currently serving mass media and content producers that seek to launch and sell branded rich media solutions/portals.