The State of Mobile Entertainment

a report by
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The year 2002 may go on record as the most disappointing year in the history of the telecoms sector. Mobile entertainment, however, continues to make strides in its adoption as a value-added service, overcoming many of the obstacles in its quest to becoming a true mass-market set of services, though there are still many issues to be addressed. Mobile entertainment has moved out of the early adopter stage, though many influential players are still sitting on the sidelines, watching to see what happens and assessing whether to invest in mobile entertainment as a core business strategy.

The level of any industry's success is measured by the profitability of the companies that lead it and, taking this criterion, much is still desired before success can be declared. From ring tones, screen savers, games and mobile marketing, the successes of specific titles and services are determined in terms of the number of hits, messages and downloaded titles, but this does not necc-essarily connote that companies are reporting profits.

Encouraging News

One reason to be encouraged about mobile entertainment is that the traditional entertainment industry is engaging. Prior to 2002, most of the traditional entertainment industry was taking a 'wait-and-see' attitude towards the mobile experience. Today, however, major names such as Disney, Sony Corporation, Eidos Interactive Ltd, Sega, Inc., THQ, Inc., The EMI Group, BMG, Viacom International, Inc., and others are now directly entering the mobile space, as well as licensing brands, titles and artists for use in the mobile space. These giants of the entertainment industry are seeing the potential of the industry to extend the reach of their brand and implement their desired business strategy.

A less obvious, yet subtle, reason to note of is increased governmental regulation. Prior to 2002, no government was paying attention to mobile entertainment. Recent proposed regulation on premium short message service (SMS) – the most widely used medium for the delivery of mobile entertainment – can be interpreted as a sign that government is concerned about the type of content that mobile technology is able to deliver to consumers on a mass scale. The reason for this is the success rate of SMS. In Europe alone, an average of 33 SMS messages are sent per subscriber each month. Regulators are concerned that an essential segment of the target audience – those under the age of 18 years – are receiving inappropriate content and/or are manipulated by hidden costs to the consumer.

Moreover, increased regulatory concerns that wireless competitions and prizes may lead to addiction speaks volumes to the kind of complex issues that the mobile entertainment industry will encounter and must contend with.

Issues

On the downside, lack of profit, on-going lack of standardisation for the delivery of content, limitations of handsets, effective marketing and the overall lack of compelling content can be identified as concerns that still need to be addressed.

Mobile Entertainment Business of Today

There are regional differences in the case of mobile entertainment. The Far East, specifically Japan and Korea, is considered to be the leading region for uptake and acceptance of mobile entertainment. Europe is second in acceptance with Scandinavia, the UK and Italy being the most aggressive markets. The US, as far as the overall adoption of mobile services goes, trails when it comes to adoption of mobile entertainment services.

Market analyst reports are still forecasting multi-billion dollar industries for mobile games, mobile music and other forms of mobile entertainment.

The most successful service to date is ring tones. The ability to charge for new ring tones has been accepted and 2001 estimates for European revenues for ring tones were anything from US$600 million to US$1,666 million.

Close behind the success of ring tones are mobile games, which have been reported as generating US$830 million in 2001.

In spite of the vast revenues being generated by mobile entertainment, insufficient amounts of these revenues flow through to the companies that are providing the content and technology.

The Business Model and Value Chain

Operators make money through the use of the network regardless of the content. Content providers are having difficulty calculating the value of the content. Even in Japan, cited as the leader in delivering mobile content, 20% of the content providers are responsible for generating 80% of the revenue. Hence, most of the content providers are not generating profit and are in danger of halting operations.

Mediocre content cannot command separate content fees above the network utilisation fees. There is much discussion about the overall value chain and how revenue should be divided between the industry players. Most insiders advocate dividing all end-user fees among the value chain participants based on a revenue-sharing model. Despite their publicity, the content providers, the innovative start-up companies that created the industry, lack the influence and killer applications to command a reasonable share.

The telecoms industry has not embraced this revenue-sharing premise, nor does it normally operate with such arrangements. Traditionally, telecoms operators are more accustomed to investing in technology, delivering a service and charging for that service in order to create a return on the investment. However, the problem lies in the fact that operators are not currently investing. As the major entertainment companies increasingly participate in the mobile space, the issue arises as to whether they will be strong enough to bring about some of the necessary changes.

The billing on behalf of others, or BOBO, fee structure utilised in Japan, where operators take a fee for billing for content, with the content providers keeping 91% of the content fees, is not sufficient for the content providers to maintain profitability. This could be a result of mediocre content due to the limitations of the media, or possibly what consumers perceive as the 'content' that they are paying for is the cost of the content and the cost of the network combined. If it is assumed that consumers are astute in realising the total cost they pay to derive entertainment value, the issue of whether the cost of mobile entertainment is too expensive for the entertainment value would need to be addressed.

Each month, more appealing content becomes available. However, the media has its limitations and it is only when the content can justify a separate fee structure that the industry will reach mass market. Until then, the contention over the commercial model will continue to prevent companies from investing in mobile entertainment. In order to help market growth, the Mobile Entertainment Forum's (MEF's) commercial initiative works towards a revenue model for the industry. Operators should be thinking about their true cost of delivering incremental network usage and the balance should be distributed through the value chain that creates the incremental usage.

Regulatory Issues

The potential regulation of premium SMS in the UK and other European countries is a major area of concern for mobile entertainment. The Independent Committee for the Supervision of Standards of Telephone Information Services (ICSTIS), along with the Department for Culture, Media and Sport, Gambling and National Lottery Licensing Division, are considering how mobile services are used in the area of lotteries and other competitions. Although this investigation is focused on the use of the media for gambling and prize competitions, a potential outcome could eliminate the ability to use premium-rate SMS for any content. This could be detrimental to the expansion of mobile entertainment in general.

MEF members are collaborating through its regulatory initiative to present a collective position to external bodies and government institutions to institute standards of social responsibility that will also allow for a thriving market.

Consolidation

As the mobile entertainment industry evolves and matures there will be an on-going consolidation in the number of companies engaged in the industry. There have already been closures and mergers, restructuring and changes in direction and focus within the mobile entertainment industry from some companies. This evolution will continue over the next 18 months as the industry stabilises.

Handset Limitations

Handsets in use today have limitations in their ability to deliver a valued user experience for many of the services currently being offered. This is as much a business issue as it is a technical issue and increased investment is necessary for content providers. Acceptance of new handsets has slowed until services are rendered compatible.

The most popular 'smart' handset is based on Java™, specifically the Java™ 2 Platform Micro Edition (J2ME™), and it is projected that there will be 180 million J2ME™ handsets in use by the end of 2002. Competing technologies are BREW and the Microsoft Smartphone. Several handset manufacturers have developed proprietary extensions for J2ME™, resulting in not all services being available in all handsets. Further complicating the technology landscape are the companies that offer graphics enhancers that are embedded in the handsets. This will create more device differences that content developers will need to be aware of and increase their investment.

Merging Telecoms and Entertainment

Creating new services that utilise the entertainment content and make use of telecoms capabilities is key to defining successful services. An example could be using a mobile phone for accessing and listening to music; because of the lack of quality compared with listening to a CD, a better service would be one that utilises communications, i.e. a dedication service in which a customised message and a favourite song is sent to someone for their birthday. Such a service increases network usage and creates a tangible value for the content, allowing for it to be charged separately.

Common Access to Services

There is much focus on looking at voice/data revenue split. A more appropriate way to look at the success of new services is network usage/services revenue relationship. Services should be delivered to end-users in as many ways as the service is suited. Voice is the only universal access, with SMS being second. End-users should be able to decide the way in which they want to use the service.

As new accesses become available, the enhanced user experience results in increased usage of a service. New accesses are slow to be adopted despite the improved experience. Offering services that can take advantage of the improved experience and that are fun, combined with existing access (voice and SMS), increases the rate at which the new accesses are adopted.

Conclusion

Mobile entertainment continues to gain market acceptance. Revenues are being generated today and are growing, though there are still many issues that need to be addressed. Large entertainment companies are creating mobile business units. The slow-down in the telecoms sector puts the early movers at a great advantage as more traditional providers to the operators are holding back investment in new areas and concentrating on their core business.

We can look forward to more consolidation and acquisitions as the general telecoms environment improves. Extending mobile entertainment to include voice-delivered services will provide a bridge for the operators and subscribers to this exciting opportunity. ■