

## Adult Content on Mobile Imposes Rights and Duties on Mobile Operators

a report by

**François Thénoz**

*Director, Marketing Strategy, Orange France*



François Thénoz is Director of Marketing Strategy, Orange France, having joined what was then the Mobile Division of France Télécom, now Orange France, in 1997. The Marketing Strategy Department is responsible for the delivery of market vision and marketing orientations for Orange France's strategic plan. He also heads the Orange worldwide competitive intelligence department. He initially joined the France Télécom Group in 1994 and worked for three years as strategic marketing manager for the small-office/home-office/small and medium-sized enterprise markets. Mr Thénoz earned an MBA in marketing and finance from the University of California in 1978.

This article covers a controversial subject that must be addressed as an important new issue for mobile operators. Having inundated premium-rate fixed-line telephone numbers and now the Internet, adult content providers are now turning their attentions towards the mobile market.

An exclusive agreement has recently been signed between a major adult content provider and a European mobile operator, which has clearly decided to provide adult content for its 3G UMTS™ launch. A German mobile operator is also offering this type of service. In Japan, however, adult services for mobile phones are hidden on sites that are prudishly entitled 'non-official', while Europe appears to be circumventing the 'discreet' phase and is adopting the more explicit exposure from the outset.

### Positioning of Adult Content

Adult content service players and providers have always succeeded in positioning themselves in desirable markets ahead of their competitors. They know how to use new technologies to maximum advantage – but only if the business model is profitable. The content material and creativity are not awaiting larger handset displays and chat, dating and premium services are already available. While premium short message service (SMS) and WAP remain prominent, providers are attempting to stimulate interest by offering extremely 'explicit' downloads to the mobile display and it appears likely that photographs and short videos will very quickly find a market.

### The Mobile Market – The Last Frontier for Adult Content

The emergence in the 1980s of home video encouraged both production (lower costs) and distribution of adult products. Video clubs were progressively joined by direct broadcasting pay-television channels to the home (cable, satellite and even radio television) and now 'pay-per-view'. The induced effects of this progressive overexposure to adult content has been a steady increase of social acceptance of this type of content, thus enabling both

traditional media and the advertising industry to make greater use of adult material. The Internet heralded a new era for adult content providers, since the Web offers ideal conditions for explosion of production.

The new interactive media have, in parallel with its broad distribution, modified and condensed the consumption models of adult content. The Internet has pushed this interactivity even further, providing chat, e-mail, use of Webcams, multimedia players, etc.

### The Profitable Internet Market

Adult services include a broad variety of products and services, from erotic messaging to the production of professional or amateur content. Its distribution is becoming much more widespread in traditional media and often accompanies the launch of the new communication technologies. The global adult services market is thought to be worth US\$50 billion annually and is starting to spread to the mobile market. Currently, the mobile adult market mainly concerns synchronous and asynchronous communication services.

The major adult content providers are not yet present in the mobile market as the present terminal capacities are still too limited (one-colour screens, storage capacity, etc.). These providers are awaiting deployment of new services that will allow them to exploit their prime material first – the image.

The business model is now viable and profitable on the Web; European consumers spent €1.8 billion in 2001 for this type of content (74% of all paid-for content) and the operating margin of adult sites is around 50% to 60%.

For the time being, the American mobile adult services market is focusing primarily on the personal digital assistant screen, although the US is not the only country adopting this approach. In the mobile market, operators are progressively revealing their strategies.

### Operator Responsibility

The arrival of adult content via mobile now obligates

operators to face up to their responsibilities. With the consumption trend being towards hard-core content, mobile operators will be required to position themselves clearly on these services, either restricting themselves solely to transport revenues, or promoting clearly identified ranges of services. All of this raises the issues of ethics, brand equity, reinforcement of legal services and surveillance of usages.

The major issue here is whether or not to participate in such a market. The additional traffic generated is attractive but will impact on the operator's brand image. Other issues include: how far flirting, chat and erotic person-to-person messaging should be allowed to go; how much filtering of content on mobile phones should be imposed to protect children; and measures that are needed for confronting spamming, which is already plaguing mobile users in Japan. Mobile operators must quickly prepare to address these new issues.

Other than their obvious appeal, adult content services also help to create awareness of ways in which the mobile phone can potentially be utilised, and help to win acceptance of paid services.

**First Players are 'Small' Players**

The world of adult content is dominated by a few major players. At this stage, however, it can be observed that these major players are leaving the way open in the mobile sector for start-ups and new entrants. Since they are not yet familiar with the mobile world, they prefer to allow their smaller rivals to act as pioneers and explore a sector in which everything is still to be conceived and designed.

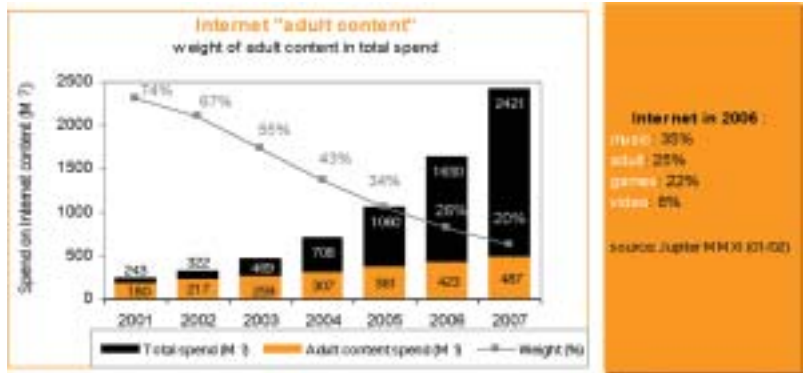
These major player are, however, testing the market. They are exploiting all of the capacities and functionalities of today's handsets – chat, SMS, premium SMS, WAP, location, etc. – emulating the business models and premium charging per transaction or by-the-minute found on the Web. GPRS and UMTS will enable more effective distribution of their content than is possible with Global System for Mobile communications.

To date, operators have chosen to delegate content production and aggregation to independent companies. Some content is self-produced (chat, messaging) and, for this reason, a few small intermediate players have emerged, some from the mobile industry, others from elsewhere.

When content becomes a determinant and discriminating factor, these players should have been bypassed by operators and market leaders; however, for the moment, this is not the case.

On the one hand, providers not yet familiar with the

**Figure 1: Total Expenditure of Internet Adult Content**



mobile business and who wish to limit the financial risks form partnerships with these intermediaries who have relationships with the operators. On the other hand, operators have a voluntary strategy not to develop this type of service on their own, since it could damage their brand image. They therefore leave this task to third parties and adopt payback-type systems.

The present configuration of the market and its players is such that intermediates could become indispensable players during the start-up of 2.5G and 3G services.

**The Five Main Issues**

Faced with adult content and services, each operator must address the following five issues:

1. whether the provider should develop its own services or make partnerships;
2. revenues that can be expected from these services;
3. the consequences in terms of internal organisation, for example, reinforcement of the legal department, adaptation of the information system, etc.;
4. if the provider decides to opt out of this segment, whether being a driving force in the market implies any risks; and
5. how the mobile operator should arrange to provide restricted access to protect children.

Some mobile operators will appear to have opted to be a simple transporter. Others will focus on a way to differentiate their positioning. In all cases, mobile operators have to take these new services seriously to provide ethical and restricted usage. Mobile operators have had the privilege of providing an essential communication tool – voice – in the hand of every customer. They now have the duty of that privilege concerning adult content and, once again, the role of the SIM card for authentication, digital rights management and identification management will prove to be key. ■