

# Exploiting the Mobile Market

## Key questions software executives need to answer if they are to take advantage of this emerging space

---

by Nilofer Merchant, Principal | Rubicon Consulting, Inc.  
with John Hagedorn | Independent Consultant

These days it seems that every third article in business and trade publications contains the word “Mobile.” It might be about mobile devices, mobile content or mobile commerce, but definitely the “M” word shows up. For several years now, we have been hearing about “mobility” and how it is going to rock our world, like the Internet or fancy coffee drinks. So far, mobility has been more hype than reality for those of us based in the US. Strong momentum in Japan, Korea and Europe, plus growing interest in North America, prompted us to explore the mobile market and what it might mean for our software audience in 2006.

### ◦ What is the mobile market?

Ask two people, “What is the mobile market?” and you are likely to get three definitions—a sure sign this is still an *early* market.

Gartner and IDC track the “mobile market” in ways that serve their desire to sell research reports. Gartner defines the mobile market as everything from notebook PCs to cell phones, which is not very useful if you are a software executive, trying to determine what action is needed on your part to take advantage of this market.

Our clients are software solutions providers, so we define the opportunity here in that context. We propose that software executives think of the mobile market as consisting of two key segments:

- Tools that support the creation of rich content for display on mobile devices. Think Adobe, Macromedia, Sonic, Discreet and Apple.
- Electronic aggregation / publishing tools that enable mobile content distribution and interaction. This category ranges from Yahoo! and Google to Amazon.com, Electronic Arts, newspapers and entertainment companies such as Sony.

### ◦ What is fueling the mobile market?

IDC points out that spending on mobile technology will far exceed general IT spending over the coming year and, with a projected annual growth rate of 20%, the gap will only widen. Even if you think the mobile market is over-hyped, you still have to admit that it is big, and will drive a sizable portion of both consumer and enterprise spending.

What will drive the market for mobile devices and services? *New content and commerce applications!* To date, applications have been limited mostly to data browsing, email and media

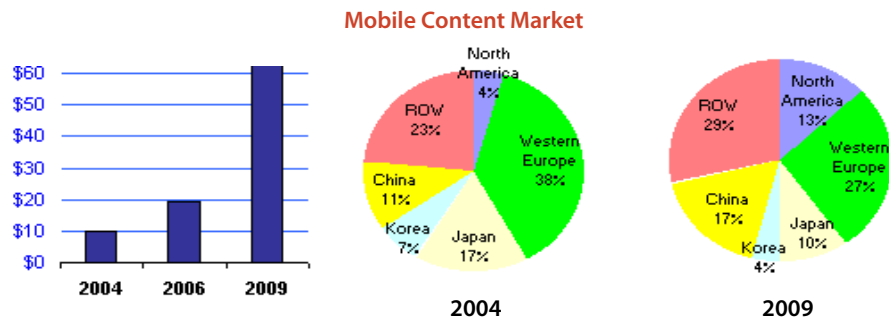
viewing. We expect interactive applications will drive the next stage of growth, including content and commerce.

- The benefits of being able to work anywhere, at any time is driving corporate IT to deploy and support Blackberry and Treo devices alongside traditional PCs.
- Advertising, games and gambling will drive consumer usage to the next level. The more personal the content, the more value people associate with it.

#### ◦ How BIG is the mobile content market?

Because Gartner, IDC and Jupiter have a stake in hyping the market, we wanted to reality check their forecasts. We discussed the mobile content market with John Hagedorn, a CFO-turned-consultant who spent a month building a model sizing the market by application and geography and estimating the potential share of it available to software vendors other than content developers. After examining the model's metrics and methodology, we concluded that its dollar sizing was conservative and that its transaction volume forecasts would be useful in developing pricing schemes. We obtained the use of this model for the benefit of Rubicon clients.

The model forecasts mobile content growing from \$19 billion in 2006 to \$64 billion in 2009. The North American share is expected to grow from 4% in 2006 to 13% in 2009.



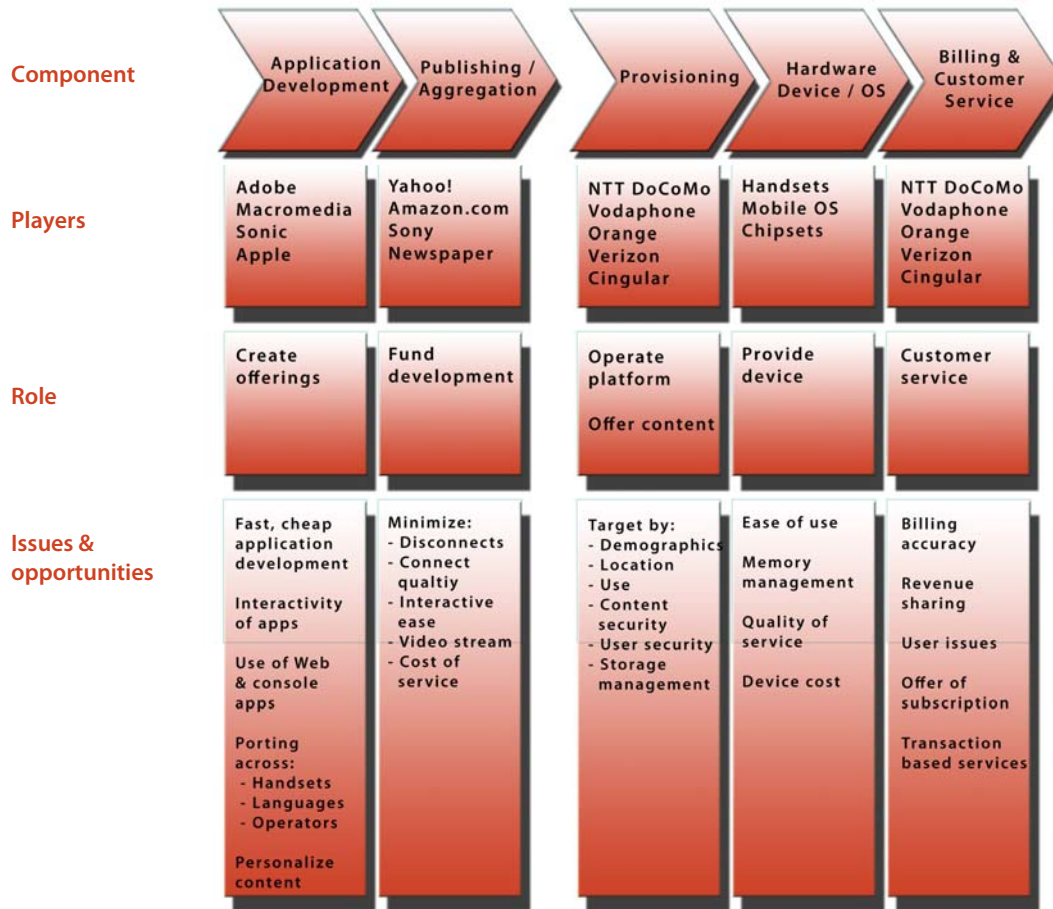
These figures are for the overall market for content billed by network operators. How much of this market applies to you, depends on which segment you sell to.

- If you sell to content authors or distributors, your market is developer desktops, and the value of your offering is constrained by the value your customers add to the content created.
- If you sell a platform for all mobile devices (OS or UI), you likely have a big opportunity, and not just a theoretical opportunity given the disappointment of Java and other alternatives.

The other big question is: how much of the mobile market is incremental? Mobility might allow users to do something new, or it could allow them to do something they currently do in a new way or location. Thus, mobility offers the opportunity of attracting new customers, but at the risk of displacing existing customers. The important point is: understand which parts of the market are truly incremental to your company and which parts are not. As with any market sizing, make sure the one you use offers a detailed rationalization around usage.

Another critical analysis is to understand the value chain associated with the mobile market. For the purposes of this article and audience, we focus on the first two components of the value chain.

## The Mobile Market Value Chain



### ◦ Key questions for software executives

1. **Is the market for mobile content an opportunity, a threat or both to your company?** Don't operate out of fear, but don't assume that your loyal customers will remain loyal if something better comes along—and remember, they are the judge of what is better, not your engineering staff. While you may see the mobile content market as a way to extend your applications and services, potential competitors may view mobility as a disruptive technology that allows them to displace your offer.

Driven by the fear of missing out, Adobe, Symantec, FileMaker, and other PC software companies rolled out mobile clients a few years back when PDAs were hot. Most of these clients cost too much and provided too little return. Against this backdrop, these companies are likely to demand a far better understanding of the market before they again commit significant resources. However, the fear of missing out is still there. The issue challenging our clients is figuring out the appropriate response. Doing nothing is always an option, but tuning out is not.

Furthermore, the segments driving the biggest share of mobile content growth are historically lopsidedly male. As these segments enter the mainstream, female usage

will climb rapidly, with rates of growth far exceeding male usage. Focusing on not-yet-established, but rapidly growing markets offers even upstart providers the potential to dominate specific market segments.

## **2. Will business sense honed in PC software serve you well in the mobile market?**

The market analysts all agree: mobile devices, content and services are a bigger deal in Europe, Japan and Korea than in the US. The danger is that US-based executives overlook the market for mobile content because few of their friends and neighbors are big users. The US is used to exporting technology and trends, but the mobile market is operating in reverse, and likely to blindsides executives that are used to watching for trends in Gen X or Gen Y at the mall. Infrastructure is the lifeblood of mobile content, and the market in the US is hobbled by the combination of a suffocating regulatory environment and an enormous existing, undepreciated investment in copper infrastructure. Consequently, non-US markets may represent more opportunity in the near term.

Two additional areas where a PC software mindset may not help are:

- The issue of piracy—long the bane of software executives—may be entirely different. China has been a bust for software sales, but mobile services may change the fundamental economics of piracy.
- We believe that the user psychology and motivation for using a handheld device is going to be quite different than for a PC. There is a good chance of being led astray if one depends on instincts and business practices developed for the PC software market.

## **3. What will be the successful business models for software providers in the mobile market?**

While start-up CEOs like to say this market is unlike anything in the past, it is not really true. A review of history tells us a lot of what to look for in terms of business models.

“Internet-like” revenue share business models driven by usage are attractive to content owners, but the big players may not want to share. While the sale of content may leverage revenue sharing and the like, sales of tools to traditional software authors and content publishers are not likely to look that different. The same payment models as for web-based content and tools will hold, although the subscription model will be much stronger in the US due to the way its carriers control network access. Ultimately, that did not work well for AOL, and it probably will not be for US carriers over the long haul.

Today, US wireless carriers use control of their networks to limit competing services while imposing monopoly rents. The impact on innovation and adoption in the US market is what you would expect in such an environment. In Europe and Japan, where options extend far beyond the carriers, consumers have a broader array of innovative service offerings, and adoption is much higher. This goes a long ways towards explaining geographic differences and outlook for the mobile content market.

While the questions above are specifically directed at software executives, the following questions apply to a broad set of companies looking at the mobile market.

**4. What unique mobile problems do you have technology to solve?**

First understand the problem and how it is like and how it is different from that of your web and PC based applications. Then determine which solutions address the largest markets and add the most value relative to the engineering and marketing required.

**5. Should you make or buy the unique mobile technology that you do not have?**

More than 100 private software companies have been funded in the last 5 years to address the mobile market with specific technology and there are about a fifth that many public companies in the market. In 2004 and 2005 there were over 40 M&A deals among these companies. Public companies with currency and marketing channels should avoid NIH in assessing the buy opportunity.

**6. Who are the logical technology partners for developing the right solution?**

If you are developing interactivity enhancers you may want to work with mobile chipset vendors. If you are developing security suites, you may want to work with fingerprint recognition systems vendors. If you want your software to work across many platforms you may need to collaborate with the OS developers. If you are creating authoring tools you may want to work with animation studios.

**7. Who are the best channel partners to get your solutions to market?**

Will you sell authoring tools direct to content developers and go through content publishers? Will the web portals that sell PC software represent good channels for mobile content? Will your tools be sold as download options or part of subscriptions by carriers and portals? Should your server software be bundled with hardware used to store, target, deliver, bill and service mobile content?

◦ **How Rubicon can help**

Don't let 2006 go by without answering these questions about the mobile market. There is no one right answer for software companies regarding this market, so it will require some mental calisthenics. This is where Rubicon can help. We can facilitate a working session with key members of your team to explore these and other issues so that you have a plan. We add insights, a structure for a productive session, and real world data. Your team contributes their knowledge and expertise, with the result being a plan you can use... to win markets.

◦ **About Rubicon**

Rubicon provides go-to-market consulting for global high-tech software/solutions firms. We are trusted advisors to firms seeking to transform their visions into strategies, strategies into plans, and plans into results.

Practices include New Market Entry, Segmentation, Pricing, Channel, and Regional Optimization.

John Hagedorn is a retired technology company CFO with 35 years experience ranging from large enterprises such as Intel to venture funded startups and young public companies. Since 2000 he has consulted for 23 startups, helping them size markets, plan financials, source capital, license technology, cut burn rates, and structure partnerships. John is a graduate of Yale and Harvard Business School.