Mobile Operators and Mobile Multimedia

Five Keys to Success
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EXECUTIVE SUMMARY

Once again, the mobile telecom industry is at a crossroads. Voice services, with their very attractive margins, remain the dominant source of revenues. But the pressure on prices is increasing, with flat rates becoming the prevailing tariff scheme and VoIP services threatening the entire voice business model. How long will operators be able to sustain this lucrative service? And once it begins to erode in earnest, what will replace the lost revenues?

A new hope is dawning for mobile operators in the form of the mobile Internet. But it brings both good news and bad news: The good news is that a new mass-market service is emerging that can help make up for the stagnating voice business. The bad news is that, so far, the use of data services—driven primarily by attractive flat-rate data packages—is growing faster than it is adding to the top line.

This has had one unavoidable consequence: Exponentially growing traffic and increasing bandwidth requirements force operators to invest heavily in new infrastructure, but with questionable payback, because subscribers are willing to pay up for services but not for connectivity. The result: The industry’s value pools are increasingly shifting toward content and service providers, putting mobile network operators (MNOs) in a bind. How can they best play in the mobile Internet space and avoid becoming merely the pipes through which the value-added content, applications, and services are shipped?

We believe that MNOs must take into account five critical elements to boost their entry into the mobile Internet and multimedia space: customer segments; experience and propositions; devices; partnering; and monetization.
A RAPIDLY CHANGING ENVIRONMENT

The world we live in is quickly becoming more and more digitized, and the way we work, collaborate, interact, socialize, buy goods and services, and consume media is changing just as quickly. Seamless, superfast broadband enabling a constant flow of information is becoming ubiquitous. The real and the virtual worlds are mingling and spinning off new developments such as augmented reality, telepresence, gesture navigation, and the like. Everything is being connected to the Internet, enabling new technologies such as smart homes, traffic management, e-health, and sophisticated online payment schemes.

Nowhere is this process taking place faster than in the realm of the mobile Internet. Mobile broadband service is expected to reach more than half the population of western European countries, driven by steeply declining prices and an explosion of multimedia offerings such as expanding data services; increasing content streams such as movies, music, games, and other entertainment content; and user-friendly and intuitive devices. At the same time, the very nature of broadband usage is changing dramatically: Demand is shifting from passive consumption of media, information, and services to participatory interaction. As a result, traffic over mobile broadband networks will likely increase as much as 10-fold in the next three to five years.

Taken together, these changes in behavior are transforming the mobile Internet's business landscape. Purveyors of content and services and of mobile devices are pushing hard into the mobile business space, competing with MNOs for customer ownership and to capture an ever-larger share of mobile Internet and multimedia revenues. Following the lead of Apple, some players are putting together end-to-end propositions spanning access, content, and devices in hopes of becoming the new category killer and creating a new paradigm for application success. In short, services are fast becoming the heart of the mobile Internet and multimedia value chain.

Traffic over mobile broadband networks will likely increase as much as 10-fold in the next three to five years.
At present, MNOs hold a central gatekeeper position as infrastructure providers to the mobile Internet. Given the direction the industry is heading in, however, MNOs are at risk of losing that position, and of being marginalized as merely the pipes over which all those revenue-producing services are sent, while a whole assortment of other players capture the industry’s more attractive value pools. Thus, mobile operators must decide what their future role in the mobile Internet will be: Should they merely serve as infrastructure providers to this rapidly growing industry, sitting back and watching their revenues stagnate even as network traffic explodes? Or should they move now to take an active role in shaping the mobile Internet marketplace?

We strongly believe that the mobile Internet will continue to increase its penetration among consumers, and that consumers will be willing to pay for the provision of mobile services. Thus, MNOs have the opportunity to capture a significant part of the pie. To do so, mobile operators must first carefully watch the direction in which consumer demand is driving the mobile Internet, and then pinpoint the real value in this game. We expect that MNOs will follow one of two alternative strategic paths, depending on the direction the mobile Internet takes:

- Premium “on-the-go”: In this scenario, highly mobile consumers will perceive the mobile Internet to be free, and capabilities such as mobile ticketing, mobile payment, and location-based services will become mass-market propositions. At the same time, customers will demand, and be willing to pay for, specific value-adding premium “on-the-go” content and applications. A race to develop successful value-added services will ensue, with many players working to vertically integrate their offerings into end-to-end consumer propositions.

To succeed in this favorable but challenging scenario, MNOs will need to develop a variety of end-to-end propositions and key services, most likely through strategic partnerships, while working to limit the trend toward the standardization and separation of the network access and service layers.
• Internet in the pocket: A great majority of consumers will be highly mobile; as such, they will be looking for the “Internet in the pocket”—the ability to be connected to all the services they need at any time. In addition to core applications such as e-mail and instant messaging, consumers will expect to be able to consume the same media they use at home—TV, video on demand, music, games, and the like—as well as a broad array of mobile services such as social networking, online banking, e-commerce, and auctions. Players that currently lead in providing content for the fixed Internet will have a huge advantage here, as they can simply replicate their fixed strategy for the mobile Internet; however, the competition among these players will be fierce.

Under these conditions, MNOs should plan to compete by developing a winning portfolio of non-exclusive partnerships with content providers and device makers to create a compelling mobile Internet and multimedia environment replicating the fixed Internet experience.

Case Study
SK Telecom

Founded in 1984, South Korea’s SK Telecom began its move into multimedia services early in the game. The effort began in 2002, with the launch of a mobile multimedia and payment service called Moneta. Two years later the company introduced MelOn, a mobile music portal, and in 2005, it launched Loview, a digital photo service.

Today the company offers a broad range of multimedia services as well as services in adjacent markets, including a game portal; premium multimedia such as TV, video, music, and games; a booking service for movie tickets; and a mobile social networking site and blog. And SK Telecom has gone even further, offering a number of convergence services such as satellite-based mobile IPTV, location-based services such as navigation, a customizable mobile portal, and a digital home network service that allows users to access home applications through their mobile phones.

Thanks to its early entry into the mobile multimedia market, SK Telecom has reduced customer churn significantly, while making itself an attractive business partner for commercial services such as mobile payments and credit cards, RFID, and the digital home. Moreover, its expertise in mobile services has enabled it to enter non-core businesses and to expand internationally.

Highly mobile consumers will want the “Internet in the pocket”—the ability to connect to all the services they need at any time.
No matter which scenario ultimately comes to pass, MNOs must begin now to build the internal capabilities and external partnerships necessary to compete. In planning for this effort, we believe, they must address five key elements. Unless all five are present, it is unlikely that an MNO can put a truly successful multimedia strategy in place.

1. Customer segments:
A successful multimedia strategy will depend on understanding the needs and desires of the various customer segments and developing tailored offerings that speak directly to each.

2. Experience and propositions:
A successful multimedia strategy depends heavily on developing attractive, sticky offerings with the right combination of applications, content, and services.

3. Devices:
Key to the success of any multimedia strategy are the usability and design of the devices involved, as well as the customer propositions accessed through those devices.

4. Partnering:
Putting together the many elements of the mobile Internet and multimedia value chain will require decisions about which elements to retain in-house and which to partner for.

5. Monetization:
A successful multimedia strategy for the mobile Internet will depend heavily on identifying the primary sources of revenue along the value chain and devising the best models for capturing that revenue.

Every MNO faces challenges in capturing the value of the mobile Internet and the strategic elements needed to win (see Exhibit 1).

Exhibit 1
MNOs and the Mobile Internet: Challenges and Strategic Key Elements

FIVE KEY ELEMENTS OF A MULTIMEDIA STRATEGY

Source: Booz & Company analysis
1. Customer Segments

**Key Questions**
- Which customer segments are most relevant to MNOs looking to capture value in multimedia, and how do those customers use the mobile Internet?
- What are the key propositions for each relevant segment?
- How can each segment be best addressed? What role do mobile devices play in each segment? Which sales and marketing channels are best suited to each segment?

**Success Factors**
- As multimedia becomes a mass-market phenomenon, segmentation is key to producing the tailored offerings most likely to succeed with customers.
- In general, younger segments, better-educated users, and “prosumers”—professional, business-oriented consumers—have a greater affinity for mobile multimedia; the clear trend is toward needs-based segmentation.
- As the boundaries between mobile and fixed Internet technologies become increasingly blurred, the segmentation approach used for each technology—individuals in the case of the mobile Internet, households in the case of the fixed Internet—must be adjusted.

Customers in western Europe can be segmented into seven groups, from teens to golden agers, and then...
clustered into three larger categories: young individuals, professional couples and families, and older users (see Exhibit 2). Of the seven groups, young professionals, prosumers, and high-content families typically have the highest affinity with mobile multimedia content and services and thus have a greater willingness to spend on both devices and services. Because high-content families have a great deal of interest in content, for both the adults and their children, they typically buy more than one TV, as well as a variety of mobile devices and high-speed broadband access. And because prosumers are typically quite affluent, they, too, consume lots of content and are quite willing to experiment with new technologies.

One company that has successfully targeted particular customer segments to offer combined mobile voice and content services is E-Plus, the German subsidiary of KPN. It has created several “brands,” each of which is designed to attract a specific target group. For example, its VybeMobile, a joint venture with Universal Music, targets the 12- to 20-year-old segment, offering no-frills pricing for voice and text messaging, 10 free music downloads per month, and the option to rent a mobile phone. By turning a commodity into a high-interest service for a specific target group, and by selling the service via appropriate channels, as VybeMobile has through MySpace, E-Plus has gained a significant number of new customers.

Exhibit 2
Customer Profiles for Targeted Multimedia Segmentation

<table>
<thead>
<tr>
<th>Segment &amp; Portion of Population</th>
<th>Young Individuals</th>
<th>Prosumers</th>
<th>Low-Content Families</th>
<th>High-Content Families</th>
<th>Older Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teens (10%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Many still at school</td>
<td>Typically living at home with parents</td>
<td>High use of technology &amp; content, though spend focused on mobile voice/texting</td>
<td>Style- and cost-conscious</td>
<td>Heavily influenced by peer group</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Students or in first job</td>
<td>Usually renting, often with unrelated other singles</td>
<td>Lifestyles make fixed-line investments less likely, though typically use fixed access at work or on campus</td>
<td>Very mobile lifestyle, high mobile consumption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mobile-centric</td>
<td>Interest in latest technology</td>
<td>Low/moderate income</td>
<td>Mobile-centric</td>
</tr>
<tr>
<td>Young Professionals (10%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td></td>
<td>Successful young professionals</td>
<td>Likely to be in an established relationship</td>
<td>Level of affluence drives high content usage &amp; willingness to experiment with technology</td>
<td>Mobile lifestyle, Confident early adopters of technology</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mobile-centric</td>
<td>Interest in latest technology</td>
<td>Low/moderate income</td>
<td>Mobile &amp; fixed</td>
</tr>
<tr>
<td>Prosumers (15%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Younger/working families, typically low social status</td>
<td>Renting/owning, some with welfare assistance</td>
<td>Less interest in technology/on-line content, high consumers of premium TV, especially sports</td>
<td>Cost-conscious</td>
<td>Children may influence broadband purchase</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mobile-centric</td>
<td>Interest in latest technology</td>
<td>Low/moderate income</td>
<td>Fixed &amp; mobile</td>
</tr>
<tr>
<td>Low-Content Families (20%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Middle-class, higher-income families</td>
<td>Likely to have bought home</td>
<td>High interest in content leads to multiscreen, device ownership &amp; high-speed broadband</td>
<td>Family-oriented, with children’s education driving some purchases</td>
<td>Wealth &amp; free time, combined with desire to keep in touch with family members, lead to experimentation with technology</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mobile-centric</td>
<td>Interest in latest technology</td>
<td>Low/moderate income</td>
<td>Fixed &amp; mobile</td>
</tr>
<tr>
<td>High-Content Families (25%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Recent retirees with kids having left home</td>
<td>Likely to own home</td>
<td>High interest in content leads to multiscreen, device ownership &amp; high-speed broadband</td>
<td>Family-oriented, with children’s education driving some purchases</td>
<td>Wealth &amp; free time, combined with desire to keep in touch with family members, lead to experimentation with technology</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mobile-centric</td>
<td>Interest in latest technology</td>
<td>Low/moderate income</td>
<td>Fixed &amp; mobile</td>
</tr>
<tr>
<td>Empty Nesters (10%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>New parents with children’s education driving some purchases</td>
<td>Likely to own home</td>
<td>High interest in content leads to multiscreen, device ownership &amp; high-speed broadband</td>
<td>Family-oriented, with children’s education driving some purchases</td>
<td>Wealth &amp; free time, combined with desire to keep in touch with family members, lead to experimentation with technology</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mobile-centric</td>
<td>Interest in latest technology</td>
<td>Low/moderate income</td>
<td>Fixed &amp; mobile</td>
</tr>
<tr>
<td>Golden Agers (10%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Older, less confident retirees</td>
<td>Living alone/in couples</td>
<td>Fixed voice is principal form of communication</td>
<td>Little interest in learning new technology</td>
<td>Cost-conscious, unwilling to spend much on mobile voice or premium TV</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mobile-centric</td>
<td>Interest in latest technology</td>
<td>Low/moderate income</td>
<td>Fixed &amp; some mobile</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mobile-centric</td>
<td>Interest in latest technology</td>
<td>Low/moderate income</td>
<td>Fixed-centric</td>
</tr>
</tbody>
</table>

Source: Booz & Company analysis
2. Experience and Propositions

Key Questions
- What is the proper role and position for MNOs in the mobile Internet and mobile multimedia game?
- What are the winning multimedia offerings—the “must-have” propositions, content, applications, and services—that MNOs need to offer?

Success Factors
- The success of MNOs in the mobile Internet and mobile multimedia space depends on the right mix of content and applications, usability, and personalization.
- MNOs should leverage their key strategic assets and capabilities: strong brands, customer relationships, user identification and authentication, and micro-billing capabilities, as well as the SIM card as a key enabler for a variety of services.
- Developing a strong offering will allow MNOs to increase average revenue per user (ARPU), improve customer acquisition, and reduce churn.

The second element in any MNO’s mobile multimedia strategy is the offering itself—in effect, the propositions through which the MNO provides users with a successful range of applications, content, and services. From the MNO’s perspective, the objectives are fourfold: to increase the attractiveness of its offering; to generate revenue through the content and services available; to generate additional data traffic—and thus more revenue—by encouraging customers to use the mobile Internet and online services; and to reduce churn by increasing customer stickiness and loyalty. In this context, usability, strong content (i.e., the applications and services), and personalization are key for the success of an operator’s multimedia strategy.

Usability: According to Forrester, users prefer that the mobile Internet and its services look and feel like the standard Internet they have grown accustomed to on their PCs. Jamba, for example, has become one of the most successful mobile portals in Germany, thanks to its well-designed interface and support for mobile commerce via easy micropayment processes.

Strong content: Offering the right content and applications, and offering them in the proper context, is key. Currently, the most popular applications are still the basic e-mail, news, weather, and route-planning services. Yet the trend is clearly toward more sophisticated offerings, including enhanced communication, context-based services such as geotagging, and regional location-based services, as well as social network applications. MNOs looking to reach a broad audience could begin by offering mobile search applications that deliver a satisfying user experience. Coupled with location-based information—either entered by the user or obtained through cellular triangulation or GPS data—mobile search will enable users to get search results for restaurants and other businesses dependent on geographic proximity. Ultimately, data and application revenues can be supplemented by tying results to sponsored links.

However, MNOs that blindly follow the apps trend by opening their own stores and developing proprietary services have not yet been successful in the market. Sustainable and successful strategies should focus on capturing the customer’s attention and loyalty by becoming the entry point for the world of applications, not on capturing revenues from application sales.

Personalization: Allowing users to personalize their preferred mobile Internet service offerings—through mobile por-

MNOs that blindly follow the apps trend by opening their own stores and developing proprietary services have not yet been successful in the market.
tals, for instance—is a valuable tool for generating traffic, increasing stickiness, boosting revenues, and reducing churn. Users who can customize the content and applications available are more likely to be satisfied and increase their usage and less likely to switch carriers. Operators that offer a suite of commonly used, personalizable applications such as calendars and address books, in addition to e-mail and instant messaging, can generate an even stronger bond with customers. That, in turn, opens the way to a variety of revenue sources, including sales of content and information targeted to users’ personalized interests and surfing habits, advertising revenues through targeted ads, and additional income through billing for personalized services.

Thus, operators must develop a well-balanced approach to the multimedia propositions they offer, including a strategy for incorporating mobile services and apps into their offerings. Failing to do so will not only result in loss of revenue potential but also jeopardize their ownership of the customer. This does not mean, however, that operators have to build up the required capabilities from scratch and at high cost. Strategic partnering can offer attractive and competitive solutions for a successful mobile multimedia approach (see “Partnering,” page 12).

### Case Study

**Apple**

Renowned for sleek, innovative hardware such as its Macintosh computers, the iPod, the iPhone, and the recently released iPad, Apple is the first company to succeed in tying its offerings together into a complete “ecosystem,” thanks to proprietary software and services such as iTunes and the iTunes music store. The success of that ecosystem has now given the company a platform from which to launch further efforts to carve out a larger share of the mobile multimedia business.

By opening up the iPhone to third-party application developers, building the resulting App Store around the iTunes ecosystem, and sharing the revenue with developers, Apple has enhanced its ecosystem even beyond music and TV. Early in 2010, Apple also entered the mobile advertising space with the acquisition of Quattro, a large mobile advertising network. Thus, Apple is now in position to participate in the ad revenue game while at the same time being able to standardize the appearance of ads on its devices. And with the introduction of the iPad, Apple is clearly looking to expand its revenue base with new content such as books and magazines.

Apple’s success begins with the popularity of its devices, thanks to attractive design and innovative features; it has sold more than 220 million iPods and 35 million iPhones. Add to that the company’s proprietary software and fully integrated ecosystem, and then combine it with its huge—and growing—content base of music, videos, and applications, and it’s a combination no rival has succeeded in duplicating.
3. Devices

Key Questions
- Which aspects of handset design are required to differentiate an operator from the competition?
- At which multimedia touch points are these design elements required?
- How best can successful design elements be transferred to a new device as well as to devices already in the lineup?

Success Factors
- The ease of use of a device—both the user interface and the services offered—is key to customer acceptance.
- An open operating system offers MNOs content flexibility and independence from handset suppliers.
- Educating consumers on the convenience and value of the mobile Internet can boost revenue.

No mobile Internet strategy can succeed without compelling devices that users want and can use easily. One only needs to consider the extraordinary success of Apple’s iPhone, and the millions of new mobile data customers it is responsible for, to realize just how true this is. Not every MNO, however, has an iPhone in its handset portfolio. The challenge in determining a device strategy lies in choosing the right offerings and the best underlying technology, and then educating consumers on their use and value.

Usability: Like mobile propositions, the popularity of any particular handset is heavily dependent on ease of use and design. Indeed, according to one survey, ease of use is the predominant buying criterion for handsets, followed by design and Internet access (see Exhibit 3). How users perceive ease of use is driven primarily by the device’s navigation simplicity, menu logic, the look of the display, and ease of data and information input.

Currently, however, most handsets available to the average customer offer only the most basic user experience. Moreover, because most MNOs offer a wide selection of very different handsets from many different manufacturers, it is critical that MNOs succeed in developing offerings that work well across multiple devices.

Open operating systems: Achieving the benefits of usable and uniform

Exhibit 3
Ease of Use and Design Top the List of Buying Criteria for Handsets

<table>
<thead>
<tr>
<th>Ease of Use</th>
<th>70%</th>
<th>18%</th>
<th>8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design</td>
<td>46%</td>
<td>35%</td>
<td>8%</td>
</tr>
<tr>
<td>Internet Access</td>
<td>34%</td>
<td>27%</td>
<td>17%</td>
</tr>
<tr>
<td>MP3 Features</td>
<td>14%</td>
<td>33%</td>
<td>11%</td>
</tr>
<tr>
<td>Mobile TV Features</td>
<td>6%</td>
<td>15%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: Booz & Company analysis
propositions across all devices of an MNO’s portfolio is difficult, particularly in an environment in which most devices depend on proprietary operating systems. With open operating systems, such as Google’s Android, the preconfiguration of handsets to include the MNO’s specific propositions and offerings becomes far less complex. The actual “distribution” of software updates can be done by the manufacturer, by a logistics partner in the process of shipping, at the point of sale, or via online or over-the-air downloads.

The multitude of handsets available demands that MNOs develop a plan to maximize the potential of the mobile Internet via a carefully designed and actively promoted mobile Internet proposition that can be used on virtually every device.

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**Case Study**
**Google**

Google, certainly one of the most successful technology companies of the past 10 years, takes in the vast majority of its revenue and earnings from the sale of search-based advertising. Yet its aspirations are clearly greater than that. So it is taking its business in new directions in hopes of capturing a sizable share of the revenues on the mobile Internet.

At the end of 2009, Google acquired AdMob, a mobile advertising network, for $750 million, with the goal of duplicating its Internet advertising success on the mobile Internet. That followed the development of Android, an open-source operating system for mobile devices, released in late 2007, and the ecosystem it has tried to build around it, including the tools to develop add-on applications. Its most recent move, the release of its own mobile device, called Nexus One and based on the Android OS, offers even tighter integration with other Google offerings.

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Google is taking its business in new directions in hopes of capturing a sizable share of the revenues on the mobile Internet.
4. Partnering

**Key Questions**

- Which elements of the mobile value chain should MNOs own, partner for, or drop?
- How should MNOs position themselves with respect to mobile players, such as Nokia and Google, that are new to the services industry?
- What partnership models work best in the multimedia, advertising, and device spaces?

**Success Factors**

- MNOs will typically find themselves engaged in multiple multimedia partnerships, which must be managed as value-generating networks.
- These relationships should not be seen as a fixed value chain but rather as a flexible network.
- To offer customers the necessary variety of mobile apps and services, MNOs must provide access to the innovation network of application developers—as Apple’s success demonstrates so impressively.

In the current mobile environment, no MNO can succeed on its own. The range of content, applications, and services that mobile Internet users are coming to expect is just too wide and varied. Therefore, partnering is a must. In order to put together a complete package of attractive services, however, MNOs will likely need to partner with many different providers and at the same time attract a broad community of developers of new applications. That in turn will put a premium on how MNOs choose their partners and manage the partner relationship. If MNOs hope to derive real value from their partner relationships, they must view them not as a value chain, but as a value-generating network whose many interlocking parts must mesh smoothly and profitably.

Choosing partners on a case-by-case basis requires MNOs to evaluate

---

*Exhibit 4*

**Partner Positioning by Value Potential and Service Relationship Intensity**

<table>
<thead>
<tr>
<th>Partner Value Generation</th>
<th>Service Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certified application partner</td>
<td>Open, standardized, low-touch</td>
</tr>
<tr>
<td>Premium application partner</td>
<td>Controlled, tailored, high-touch</td>
</tr>
<tr>
<td>Strategic application partner</td>
<td></td>
</tr>
</tbody>
</table>

Source: Booz & Company analysis
prospective partners along two axes: their potential for generating value, through higher revenues or increased traffic, for instance; and the relative intensity of the service relationship in terms of commercial and technical collaboration—whether it’s a low-touch, standardized relationship or a highly controlled, technically fully integrated relationship. Depending on their revenue potential and service intensity, potential partners can be sorted into three tiers: certified, premium, and strategic (see Exhibit 4).

Google’s Android operating system offers a relatively low-touch relationship based on open standards and driven by a growing range of content and applications. Apple’s iPhone ecosystem, on the other hand, is a closed, proprietary system dependent on a particular device. Apple allows everybody to develop applications for the iPhone, but it strictly controls which ones are published in its App Store. Despite Apple’s proprietary system and strict control, the unsurpassed popularity and usability of the iPhone attracts a highly innovative, ever-growing developer network. By using “crowdsourcing” as a development tool, Apple has avoided the risk of limited system flexibility.

The decision to work with a particular partner will depend on a variety of criteria, including an understanding of the value proposition the MNO can offer to partners, the kind of audience the MNO hopes to capture through the partner, the revenue model proposed for different partner tiers (flat-rate, usage-based, transaction-based, or another such as advertising), and finally the degree of freedom the MNO is willing to grant to partners in terms of content, design, and quality control. These criteria give rise to a number of critical considerations MNOs must take into account as they prepare their partnering strategy (see Exhibit 5).

Typically, the partnering process consists of three stages—identification, integration, and management. Each stage demands careful preparation.

Exhibit 5
Partner Framework Design Cornerstones

- Partner Models
  - Tailored to lower- or higher-value partner tiers
  - Interaction models: high-touch, partner-specific relationships, or low-touch, highly standardized approaches

- Value Propositions
  - Value chain & service delivery configurations to address different types of partners & different MNO value levers
    - Standard core service stack only
    - Value-added services (billing, CRM)
    - Adjacent offers (marketing, customer insight)

- Service Enabler Infrastructure
  - Comprehensive service enabler portfolio (i.e., portal, rendering/presentation, authentication, rating, charging/payment, DRM, location/presence, etc.)
  - Adjacent SaaS-type platforms (billing, provisioning, CRM, DWH, etc.)

- Partner Operating Model
  - Formal partner selection framework
  - Commercial & technical connection routines tailored to partner model
  - Partner portfolio management & value optimization
  - Enabler of development road map integration

- Partner Certification
  - Differentiated partner certification & qualification procedures
    - Basic, standard certification for lower tiers
    - In-depth, collaborative business model qualification for higher tiers, supported by professional “partner readiness” service

- Partner Promotion
  - Comprehensive promotion strategy aligned to partner models, such as
    - No/viral/page-rank-based promotion of lower partner tiers
    - Cobranded campaigns for higher tiers

Source: Booz & Company analysis
and follow-through if a proper partnering network is to be achieved.

**Identification:** Particular attention should be paid to whether a prospective partner has strong technical capabilities and an adequate degree of compatibility with the MNO’s own technical standards. Identify content and application partners with truly innovative, value-added offerings and adequate financing. Determine, too, if the prospective partner presents any potential legal problems, such as with patents. MNOs should be prepared to provide partners with the guidelines necessary to partner smoothly.

**Integration:** A partner should be given access to the MNO’s platform early in the process to make sure the partner is seamlessly integrated with existing products and services, and to ensure the timely delivery of new products and services. This will also facilitate the smooth payment of both partners in any revenue-sharing agreement. 

**Management:** MNOs must develop a consistent, strong partner management model that will allow them to evaluate each partner’s performance and the value of each new product or service the partner develops. Expanded across every partner, a strong model will also enable the MNO to continuously improve its selection, connection, and management efforts, and to optimize the entire partner portfolio for achieving maximum business value.

Partnering is essential for MNOs since they have neither the expertise nor the resources to organically develop a full-fledged multimedia strategy.

5. **Monetization**

**Key Questions**
- What will be the main sources of revenue for MNOs along the multimedia value chain?
- What revenue models should MNOs rely on, and how can they best leverage their customer base?
- How can operators maintain ownership of the customer and secure future income as new players enter the market?

**Success Factor**
- MNOs should look to premium services, paid content, and advertising as their main sources of multimedia revenue.

The goal of every MNO’s multimedia strategy, of course, is to boost revenues by monetizing the various new services being offered to customers. With so many new non-MNO players joining the game—from device manufacturers to Internet players and content providers—the competition is growing fiercer every day. Therefore, MNOs must develop plans to enter the fray as soon as possible. We believe the great-

**Partnering is essential for MNOs since they have neither the expertise nor the resources to organically develop a full-fledged multimedia strategy.**
The potential for new revenue will come from three main sources: premium services, paid content, and advertising (see Exhibit 6).

With premium services, MNOs can leverage the willingness of customers to pay for a variety of options, including enhanced search within communities such as XING, the German business network, or dating sites. For paid content, MNOs first have to create or partner with respective download environments and platforms. At present, ringtones and games remain the most popular downloaded content. Going forward, however, music and video are expected to show the fastest growth, at about 40 percent each by 2012. Finally, mobile advertising is still a relatively small portion of all online advertising, but it is expected to grow significantly in the next several years. Industry experts are predicting annual growth of about 60 percent, with almost 10 percent of online advertising budgets allocated to mobile ads in 2012. However, to reach these levels, MNOs must develop the ability to personalize mobile advertising to the customer’s usage and location. And the lack of standards needed to measure the efficiency and degree of usage of mobile advertising could further inhibit its growth, as could the high cost to consumers of data usage.

**Exhibit 6**
*Key Revenue Generation Levers for the Mobile Internet*

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>RELEVANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premium Services</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Paid Content</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Advertising</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Listing Fees</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Third-Party Services</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Data Traffic</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Booz & Company analysis
MNOs have a real opportunity to benefit from the rapid growth of the mobile Internet, and from the increasing variety of multimedia content, applications, and services being made available by professional developers and public innovation networks. To do so, however, MNOs must conceive a multimedia strategy that focuses on the needs of relevant consumer segments, embraces attractive customer propositions as well as functional and appealing handsets, and devises the right partner and revenue models.

Finally, MNOs should pay attention to the lessons learned from the companies that are already thriving on the mobile Internet.

- Offer a reasonably broad and complete range of content and services across the value chain, from devices to content to advertising, for instance. That will help in the effort to monetize multimedia on the mobile Internet.
- Size matters. Apple’s installed base of devices and applications currently enjoys a huge advantage over rivals such as Android and other mobile stores—unless and until these platforms also acquire scale.
- When it comes to the user interface on devices and the look and feel of propositions and mobile Web pages, style and usability are key to getting and keeping customers.
- At this stage in the mobile Internet game, MNOs should not be overly discouraged by their current positions. Great strides can be made quickly through the right partnerships and acquisitions.
Endnotes

1 For more detailed insights into how mobile operators can devise a successful mobile apps strategy, please see “Mobile App Stores for Telecom Operators: The Next Battlefield.” http://www.booz.com/global/home/what_we_think/reports_and_white_papers/ic-display/47830484

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