Sharing on a small screen

By JT Klepp
President, MoConDi Ltd
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Margins in mobile content retailing are thin, and marketing costs are high. An ever-growing amount of content and services compete for a share of wallets and eyeballs on the small screen. This paper develops the case on how you can effectively increase sales and reduce marketing costs by using peer-to-peer (P2P) recommendation solutions tailored for mobile, which can help grow the consumer base of mobile content as a whole.

Introduction: Effective retailing of mobile content

The content industry has always been concerned with increasing content sales in an effective way. In some markets the carrier portal dominates, while in other markets D2C players rule. All mobile content retailers are concerned with how to expand their consumer base and how to reach the market effectively. The first challenge is in increasing the user base. Studies have shown, for instance, that while many mobile consumers like to play games, few actually download and purchase them. In fact, this situation has stayed consistent over the years, as a survey released in September 2007 by *M:Metrics* shows that in Italy, 20% of subscribers played a native game (i.e., pre-installed on the device) vs. only 8.6% who actually downloaded a game[1].

In most markets, two to three times as many people happily played a game than the amount of people who actually downloaded it.

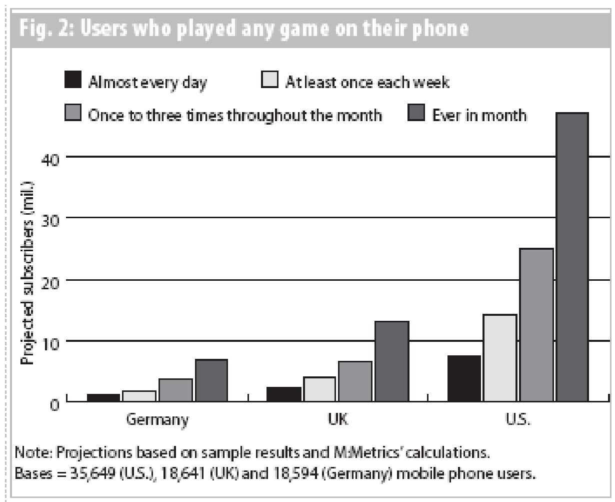

Fig. 2: Users who played any game on their phone

Note: Projections based on sample results and M:Metrics' calculations.
Bases = 35,649 (U.S.), 18,641 (UK) and 18,594 (Germany) mobile phone users.

What is the source of this discrepancy? One would be tempted to think it is pricing and quality, but quality is an elusive and subjective term. Few dispute the popularity of Nokia's "Snake" game, which hit home with the value proposition of most mobile games: killing time. Thus "quality" – which is difficult to define – may not be the key factor. "Snake" is a quite simple game and certainly has a lot fewer features than many of the games in the market. This indicates that quality is not necessarily synonymous with complexity.

Simple games can be more popular than complex games, which means the mobile gamer has different perceptions as to what they define as valuable in a mobile gaming experience. What is an absolute factor in determining the value to the user is price. If the price is too high, the value proposition to the consumer is not very attractive. Many markets have overpriced mobile content in general. However, it is likely that there are many factors that explain the large gap between game players and game downloaders:

[1] "M:Metrics Benchmark Survey", M:Metrics, September 2007

- Price (content price and data charges)
- Game features (time-killer, entertainment, brand, etc.)
- Difficult to access
- Difficult to choose

The last two factors are closely related and have to do with discovery of mobile content. Studies show that finding games through a mobile browser is the dominant way of finding mobile content. In Italy and the U.S., 74% and 80% of users, respectively, prefer to purchase via the mobile browser[2]. In many markets, handsets are not set up correctly for data access, or data charges are so high that users are discouraged from browsing for content. In fact, in some European markets, operators are charging from €0.09-0.25 per page click on the operator's portal. Furthermore, showing catalogs of hundreds of titles – whether games, music or pictures – is a cumbersome method of discovery on a screen the size of a matchbox. All this has contributed to an inability to increase the user base past a few percentage points of the overall subscriber base.

While one challenge is to expand the user base, the other challenge is to increase content sales to the existing users. *Telephia* (2007) noted that positioning on the portal by putting content on the first page resulted in 53% more downloads than content appearing on subsequent pages[3]. And they found that games showcased on "New, Featured, or Best Seller" decks received 90% more downloads. Given that content discovery on mobile portals is cumbersome and that consumers' patience is short, it's no wonder that achieving the long tail of content distribution is difficult.

The cost of advertising

Advertising for mobile content is also a costly exercise; television and online marketing players demand large sums for content sold at a few dollars. Consider, for instance, a TV advert for a piece of content selling for $2 (without a subscription model). Given that in most markets mobile operators take roughly 50% revenue share for just doing the billing, and that at least 50% of the revenue goes to the content owner, it leaves the content retailer with a maximum of $0.50 per piece of content. If they are lucky enough to buy a 30-second advert for $10,000 (we are not exactly talking about a prime time slot on any popular channel here), they would have to sell 20,000 titles to recoup the cost of the ad. In game sales, for instance, that daily volume would have the retailer closing in on some of the largest US operators. No wonder the subscription model has turned out to be the only viable way for retailers using TV advertising.

Online marketing

Online marketing is proving to be a popular model in many markets. However, customer acquisition costs can run up to $20-25 per customer, which means (by using the model above) you either hope they buy at least 100 pieces of content (which is more than most will ever buy in a lifetime), or you have to employ a subscription model to extract revenue beyond what you retail. Doing marketing on the mobile is even more expensive, with CPM rates hovering around $30 or above. Even with a 20% click-through rate, with 10% of the users actually buying (conversion), it

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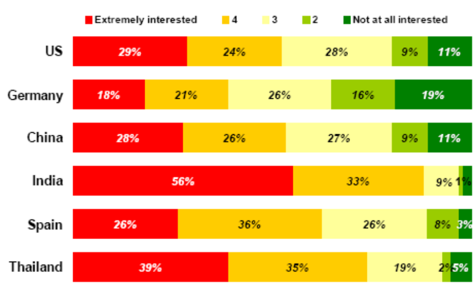
[2] "M:Metrics Benchmark Survey", M:Metrics, November 2007.

[3] "Mobile Game Merchandising", Nielsen Mobile (Telephia), January 2007

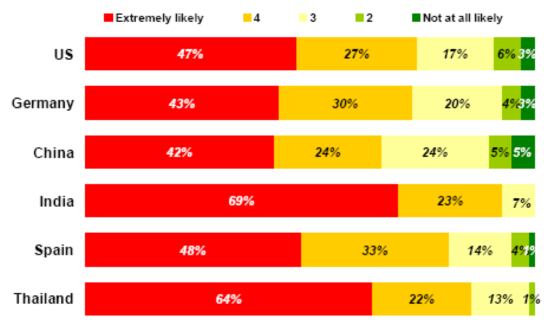
means on straight content sales you only make $5.00 in net revenue, while you spent $30 on the banner. This means that unless you again use a subscription model, you are facing a losing proposition. It is interesting to note, however, that 64.6% of publishers are upbeat on the D2C model[4].

Both mobile operators and D2C retailers have realized that they need to spend money on advertising in order to increase sales. Yet studies by *Nokia* (in 2006) have shown that referrals and viral marketing are the most effective way to distribute content[5].

Would you be interested in sharing a game with a friend?

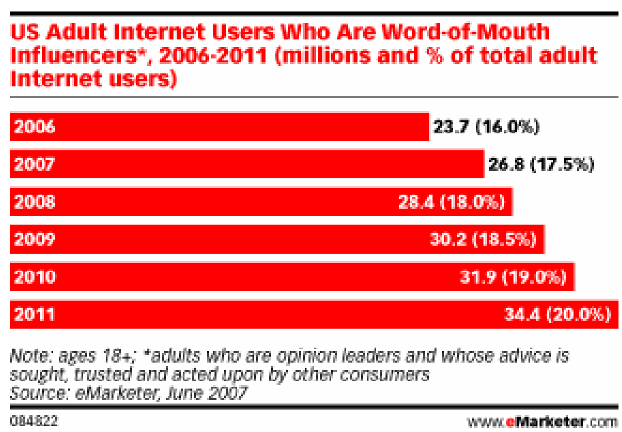


Would you try a demo received from a friend?



The study by Nokia that centered around gaming showed that up to 79% of users would try a game demo if received from a friend. Similar experiences from online retailing shows that word of mouth is the predominant method of discovery, accounting, for instance, for 60% of Netflix rentals[6].

An increasingly connected world is also a major contributing factor to the growth of word-of-mouth marketing. *eMarketer* found that the proportion of 'influencers' online, those whose advice is sought, will continue growing. Although a seven-dollar purchase decision on whether or not to buy a piece of mobile content may not seem like a big decision to make, it is clear that such referrals can have a drastic impact on the amount of content sold. Not only does it solve a big problem of content discovery, it provides a seal of approval for becoming a user of downloadable content.



So the question becomes then, how do you enable referrals as an effective retailing method of mobile content, and what effect does that have on sales revenue and on marketing costs?

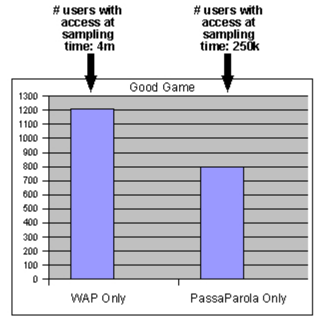
[4] "The Netsize Guide", Netsize, 2008

[5] "Evolution of Mobile Gaming", Nokia, 2006

[6] "The Long Tail", Anderson, C., Hyperion, July 2006. Also see http://longtail.com

The P2P advantage

My company, MoConDi, is on the forefront of experimenting with P2P distribution solutions, having launched our MeYou™ solution in 2006. MeYou™ (branded as PassaParola™ in Italy) is an easy-to-use mobile phone application, which provides the ability to distribute a vast range of mobile content and services to end users. MeYou™ has been active in 3 Italy since September 2006. In that time period, over 800,000 users, out of a subscriber base of 7 million users, have downloaded the application, representing a staggering 12% penetration. The application had only been marketed through banner ads on the portal of 3 Italy, and had provided users with an easy-to-use interface to browse, buy, or recommend content to friends.

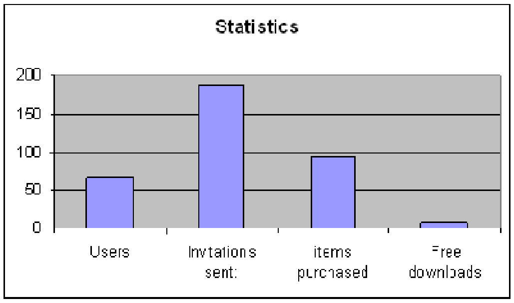


Furthermore, we conducted an experiment with two games that were producing the same amount of downloads (see figure) when presented on a WAP portal. We then changed the location, so that one game was promoted on the WAP site only, to which potentially all of the 4 million subscribers had access at the time, and one game was promoted in the MeYou™ application only, to which only 250,000 users had access at the time. The results show that on a per-user-with-access basis, MeYou™ was 11 times more effective in selling content (i.e. 250,000 potential users bought 800 titles, while 4 million potential users bought 1,200)[7].

Proven commercial effects

The success of MeYou™ cannot be ignored. Our experiences have shown that users prefer the usability of the client. It is also more efficient in content sales due to P2P recommendations, and our statistics show that it can significantly increase revenues and reduce marketing costs.

- For the top 20% active users, content ARPU (the monthly spend on content per user) has gone up by 100%. Driven by the chance to get free content, the active users not only recommend heavily to their friends, they also buy more content themselves.
- Users send a large amount of recommendations, which results in a significant purchase rate and subsequently reduced marketing costs. The figure to the right (scale is changed for confidentiality reasons) shows that using free content to incentivize referrals and purchases is the most cost-effective marketing vehicle by far. One of our clients, as a result of the increased effectiveness in selling, decided to reduce their monthly marketing budget by a six-figure U.S. dollar amount.



7 Granted, the 250k users had already at least downloaded an application, and so are more sophisticated than the general mobile user; but the user base consisted of 3G subscribers, where the majority had downloaded a piece of content, thus making the difference significant.

- In our current user base, we have a track record of increasing content ARPU by 33%

- Early indications showed a staggering amount of purchases based on recommendations. Our purchase rate was 24% in the initial months of the service[8]. This can be compared to MMS campaigns where the purchase rate is significantly lower. In our own experience, we have had purchase rates of less than 1%; and even though claims are made of the above 5% response rates on MMS campaigns, and certainly claims of click-through rates are high, there are, to my knowledge, no studies claiming any significant purchase rates on MMS campaigns for promotions of mobile content[9].

Estimating the value of P2P

While our numbers are encouraging, it is not a straightforward exercise to determine the value of P2P in a mobile context. While one can probably estimate the value of gaining a new customer, that customer will also refer others; hence each customer has an associated referral value. If a new customer (customer B) would not have joined without the referral from a friend (customer A), this is a "type-one" referral, and the value of the referrer includes the value of the new customer. If customer B would have become a customer anyway ("type-two" referral), one should only count the savings in acquisitions cost when calculating the value for customer A.

Interestingly, research has shown that the most eager advocates are not necessarily the customers who purchase the most products. In a study done on the value of referrals in a telecom company, the best referrers had very low purchasing values[10]. This means that in any P2P scheme, you cannot rely on your best customers to advocate your products on your behalf; rather you need to provide incentives for the most eager referrers to start promoting your products. With our MeYou™ solution, we have built in a points system where referrers get points when customers purchase based on their referrals. We use this points system to award them with free content; but, in principle, you can award them with multiple prizes.

To maximize the value of customer purchasing and referrals, you need to take another step to ensure that you provide the correct incentives to users. To do this, you need to segment your user base in terms of which users provide you with the most referrals and which users are your most eager in terms of purchases:

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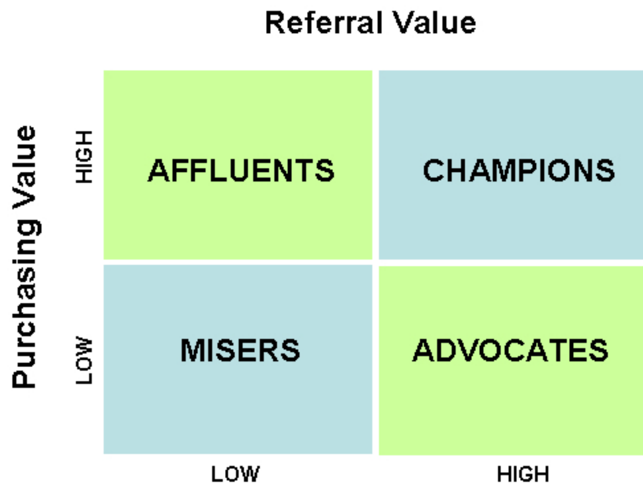
[8] Our recommendation rate went down in subsequent months, as we discovered an unwanted effect of the service: Users used the application to send free messages to each other, rather than actually recommending content. But the fact that users went to this great length to save money for messaging by using our application is yet another testament to the usability of MeYou™.

[9] "Three Ways to Market on Mobile", iMedia Connection, August 2006

[10] "How valuable is word of mouth?" Harvard Business Review, October 2007



'Affluents' are those customers who purchase a lot of products, but do not necessarily refer a lot to their friends. This group would clearly be incentivized to refer products by receiving, for instance, more mobile content. 'Advocates', who refer a lot of their friends, but do not necessarily buy a lot of products, may benefit by receiving cross-promotional products (i.e., they may not be big mobile gamers, but like ringtones) and by receiving discounts on products, all designed to not only keep them referring, but also to increase their purchases. With 'misers', moving them in any direction would improve value; for instance, by targeting them with extra discounts for referrals or further cross-promotion to other products, they may move to another customer segment.

The "hidden" benefits

Few service providers of mobile content are at the stage where such dedicated targeting and CRM analysis is in place, as few have yet to deploy both successful CRM solutions and P2P targeting solutions. However, as our experience shows, providing basic incentives for sharing can have drastic effects on sales revenue and on customer acquisition costs.

On the small screen, there is an additional benefit to consider as well. We have found that users have been so satisfied with the MeYou™ client, that the majority of users (60%) prefer using the client to browsing on a mobile site. This effect cannot be ignored, as research has shown that most mobile sites are poorly designed. For instance, with U.S. operators, users need to click 17 times or more to purchase a game[11]. As Peggy Anne Salz recognized, on-device-portals are much better suited to provide a purchasing experience on mobile, evidenced by our own users preference for MeYou™ over WAP[12]. There are a number of advantages, such as the ability to interact with the device (fetching the phone book to pick friends you want to refer to, triggering the sending of a message etc), improved formatting capabilities to get past the hierarchical structure of WAP sites, ability to cache content, etc.

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[11] "Cingular Trails Mobile Portal Leaders Sprint and Verizon Wireless by 20 Index Points", Strategy Analytics, May 2007

[12] "Making Them An Offer They Can't Refuse: The Pivotal Role Of Mobile Search And Content Discovery In Content-Selling Strategies", Peggy Anne Salz, www.msearchgroove.com, May 2007

The P2P promise

The mobile content market as a whole will benefit by expanding the user base of mobile content. Poor navigation capabilities, high costs with low margins for many industry players, high costs for the end users in terms of both time to discover and retrieve, as well as the price and data charges paid and general ignorance of what is available is leading to an entire industry not realizing its full potential. P2P referrals are generally acknowledged as the preferred method of content purchase and may hold the keys to unlocking profits for the entire mobile industry if done right.

For more info, see www.meyou.com and www.mocondi.com.

About the Author:

JT Klepp has extensive experience in strategic development and consulting in the wireless, technology, e-commerce and banking sectors. Currently President for MoConDi Ltd, he has built a thriving content distribution company to be a global leader in 3G entertainment content, with 500+ content partnerships and customers in over 30 countries. JT is recognized as a leader in the field and is an active participant in industry forums, as well as having appeared on CNBC to speak about mobile gaming. As a Director of Business Development for The Mobile Media Company, he was responsible for setting up content relationships for the Company's wireless platform offerings and opening up Greenfield operations internationally. JT also began e-business start-ups in the healthcare sector and oil spill control industry and has held senior consulting positions with Ernst & Young in e-commerce and corporate finance as well as Andersen Consulting (now Accenture). He has a Master's in Business Administration from the University of California, Berkeley, and a Bachelor's degree in Business Administration, Finance and Accounting from Texas A&M University.