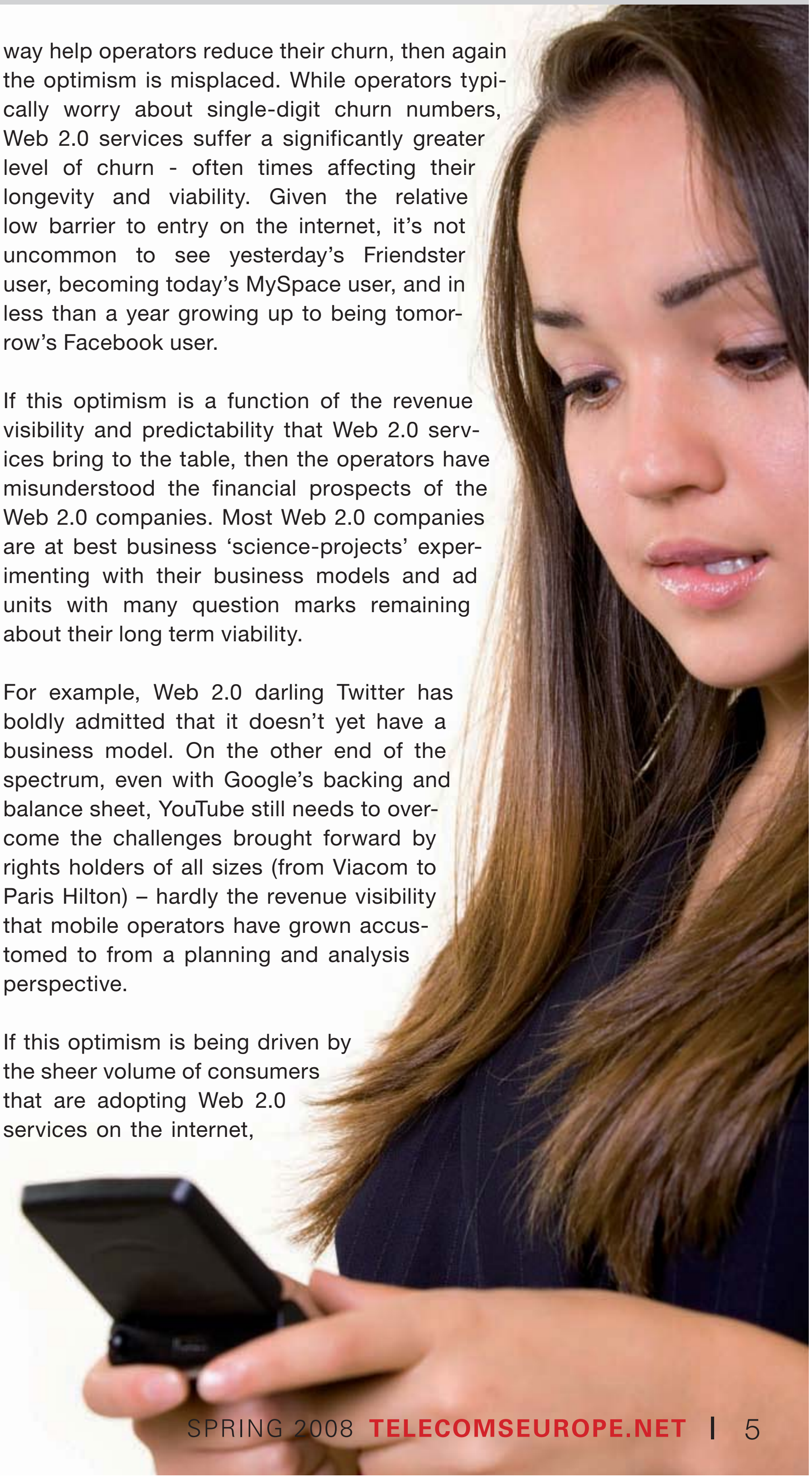
Forget Web 2.0, where's SMS 2.0?

Maybe it's human nature to think that the grass is greener on the other side. Or maybe the volume of press and analyst attention given to Web 2.0 has given operator executives and mobile data entrepreneurs some sort of insecurity complex. But can hype and optimism really replace a solid P&L story, asks Frederick Ghahramani.



Last month I was fortunate enough to be invited to a private roundtable of operator executives and entrepreneurs asked to share their ideas and opinions on the opportunities and challenges facing the mobile data industry. Now it's a very rare day when these two constituencies can agree on anything, so imagine my surprise when both camps reached a consensus on the positive impacts that Web 2.0 services will have on non-voice revenues.

The operators expressed their envy and excitement about the pace of innovation and consumer adoption of Web 2.0 services on the internet, and with certainty predicted good fortunes and optimism for the entire value chain when these Web 2.0 services have been migrated to mobile.

Indeed this group isn't alone in its optimism for this "Web 2.0 to Mobile" migration strategy. It seems not a month went by in 2007 without an announcement by a handset vendor, a mobile operator, a media company, or hundreds of entrepreneurial software startups, investing in technical and marketing initiatives and ultimately clamoring to align themselves with one of the Web 2.0 superstars.

Okay I admit it. I just don't get it. Perhaps I'm slow because I'm Canadian, but I just don't understand the business rationale or source of optimism related to this "Web 2.0 to Mobile" migration strategy.

If this optimism is being driven by the scale of revenues that Web 2.0 companies generate from advertising on the internet, and how this can in some shape or form lead to a new revenue stream for mobile operators, then the operators have misunderstood the revenue scale potential. Indeed most tier-1 mobile operators generate more annual revenues from mobile games, than Web 2.0 companies like Facebook and Flickr generate from advertising from their entire global audiences online.

If this optimism is caused by the so-called stickiness of Web 2.0 services, and how this can in some way help operators reduce their churn, then again the optimism is misplaced. While operators typically worry about single-digit churn numbers, Web 2.0 services suffer a significantly greater level of churn - often times affecting their longevity and viability. Given the relative low barrier to entry on the internet, it's not uncommon to see yesterday's Friendster user, becoming today's MySpace user, and in less than a year growing up to being tomorrow's Facebook user.

If this optimism is a function of the revenue visibility and predictability that Web 2.0 services bring to the table, then the operators have misunderstood the financial prospects of the Web 2.0 companies. Most Web 2.0 companies are at best business 'science-projects' experimenting with their business models and ad units with many question marks remaining about their long term viability.

For example, Web 2.0 darling Twitter has boldly admitted that it doesn't yet have a business model. On the other end of the spectrum, even with Google's backing and balance sheet, YouTube still needs to overcome the challenges brought forward by rights holders of all sizes (from Viacom to Paris Hilton) – hardly the revenue visibility that mobile operators have grown accustomed to from a planning and analysis perspective.

If this optimism is being driven by the sheer volume of consumers that are adopting Web 2.0 services on the internet, and how this scale of consumer adoption can somehow be migrated to mobile, then the operators have fundamentally misunderstood the economics of Web 2.0 services. The single biggest customer facing value proposition in the Web 2.0 world is simply - "everything is free". Or more accurately: "everything that used to cost money is now free".

So forget about buying that Blackaddar DVD, or that hot new single from Nas. Forget about paying a hosting company like AT&T or Orange for some web space to promote your band, or buying a premium Webshots account to host your extensive collection of photos. Forget about buying a premium membership to an online dating site like Match or Meetic or Lavalife, or paying for premium access to business networking sites like LinkedIn or Spoke, or for resume hunting services like Monster or HotJobs.

This is the brave new Web 2.0 world, so put your credit card away and simply surf to the appropriate Web 2.0 company, be it Facebook, Youtube, MySpace, Flickr, or many others and get all of the above services and value for completely free. With this 'everything is free' value proposition, it's no wonder consumers have adopted these services so quickly – but is it really fair to call these consumers "customers"? Are they not simply "users"? And didn't Napster have many of these same type of "users"?

Let's take stock of what mobile operators are really trying to do when executing on this Web 2.0 to Mobile migration strategy. They are attempting to court a group of fickle consumers that have been conditioned to receive every single service and piece of content for completely free. They hope to execute on this strategy by partnering with the top Web 2.0 companies that typically lack a viable long-term business model, or predictable and visible revenue streams, and who are victims of tremendous churn unless they continuously give free services and content to their consumers users.

How can this possibly be a source of optimism or excitement for mobile operators?

Maybe it's human nature to think that the grass is greener on the other side. Or maybe the volume of press and analyst attention that the Web 2.0 crowd receives has given operator executives and mobile data entrepreneurs some sort of insecurity complex, but the way I see things, no amount of hype and optimism can replace a solid P&L story – and we have plenty of recent P&L history to help us formulate our projected P&L.

It took SMS 15 years to evolve to being the single biggest source of non-voice revenue for mobile operators globally. Over that 15 year period, consumers had countless alternative options for peer-to-peer mobile messaging over wireless data. Many of these alternative options – such as mobile email and mobile IM, were services that were migrated from the internet (or Web 1.0).

And yet, even though Hotmail and Yahoo and AOL had hundreds of millions of online users exchanging emails and instant messages daily, the internet giants hardly made a material impact on the mobile data revenues of operators in the same way as SMS – a uniquely mobile services that was marketed with the understanding that the mobile data user has different needs and motivations than the online user.

Similarly, it's taken nearly 8 years for mobile games to reach their current scale and traction with consumers. Depending on the market, games are anywhere between the #5 to #10 largest bucket of non-voice revenues for mobile operators.

At the nexus of the mobile gaming industry, analysts, handset vendors, operators and hundreds of entrepreneurial software start-ups predicted that the successful games of the future would be fully connected, immersive, and graphically rich games that converged with online counterparts such as Ultima Online or other popular massively multiplayer online role playing games. 8 years later, the most popular games on the mobile platform are Bowling and Tetris – uniquely mobile services that were built with an understanding that the mobile data user has different needs and motivations than the online user.

The lesson that I've learned from mobile games and SMS, is that the DNA of the mobile consumer is materially different than the DNA of the Web 2.0 user. When presented with an effective, concise, and fair value proposition, mobile consumers are willing to be pay a premium for services, and unlike Web 2.0 users, tariff-avoidance doesn't ever need to work its way into the business model or value proposition. In fact, given years of consumer conditioning, most consumers view tariff avoidance schemes with great distrust and skepticism.

The second and more important lesson that I've learned from the evolution of mobile games and SMS, is that building a service ground-up and exclusively for the mobile platform can make a material impact on the mobile data revenues of operators – in fact, time and time again, the perceived market advantage and momentum of adoption of online services has rarely translated into an advantage on the mobile platform – we saw this in mobile email, mobile IM, and mobile games.

So as you walk the floor at the upcoming 3GSM congress in Barcelona, and run into new and innovative services and applications, ask yourself – do they take advantage of the unique nature of the mobile platform? Are they built with an understanding of the mobile consumer? Do they craft a concise value proposition to the consumer? And ultimately, do they have the potential to be SMS 2.0?

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