

## Mobile social networking firms fight for pocket space

By Sarah Reedy

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### **Despite little revenue potential and many barriers to overcome, the mobile social networking market is luring hundreds of startups**

The social networking phenomenon, given credence by Web giants MySpace and Facebook, has taken hold of the mobile market, and every company wants a piece of the action. As heavily funded startups begin to crowd the space already occupied by PC veterans and software makers, the need to both define and refine the market is becoming clearer.

Although catalyzed by the popularity of online social communities, the mobile social networking industry is essentially as old as mobile phones themselves. Some might argue that mobile phone owners “network” every time they make a phone call, even more so if they opt to text. Yet SMS capabilities alone are no longer making the cut. Being a true mobile social networking company requires more than offering the ability to send text messages, said Jill Aldort, wireless senior analyst with the Yankee Group. In her definition, it takes the ability to post a personal profile complete with photos and message contacts, form groups around common themes and post comments and feedback to the entire group. When put in this context, the market narrows to two kinds of companies: those taking a fixed-Internet presence mobile and those with the lofty ambition of starting a mobile community from the bottom up.

“Where it becomes more crowded are any number of little start-up companies who are trying to create a community from scratch within the mobile environment,” Aldort said. “There are a million companies out there, and I think the big challenge that they have, even more so than this overcrowding phenomenon, is how to create a brand name from scratch, especially when they are up against a MySpace or a Facebook--someone that already has a very significant and strongly loyal following.”

With more than 110 million monthly active users, MySpace remains the largest social network in North America, although Facebook is catching up with more than 60 million active users, a number which has doubled every six months since its inception. Furthermore, according to M:Metrics, MySpace’s is the most popular mobile site, with 3.7 million users in the U.S., despite its exclusive carrier relationships with Helio and AT&T. Facebook comes in second place with two million U.S. users and third place goes to YouTube at 901,000 mobile users. As Aldort pointed out, the common demoninator for the top three contenders is a fixed-Internet presence that preceded their mobile versions.

Not everyone, least of all the purely mobile social networking companies, agrees with Aldort. Fred Ghahramani, founder of almost-eight-year-old mobile community company AirG, said that in most markets, the people using data services heavily aren’t even Internet users. As an example, he cited the case of mobile IM. Over the past seven years, carriers on a global basis fought to get mobile IM running, making deals with AOL, Yahoo, MSN and others, yet despite the money spent on the infrastructure, mobile users still prefer SMS to any mobile IM client.

“Migrating customers from the Internet to the mobile experience isn’t necessary; it still seems forced,” Ghahramani said. “Mobile is a unique platform, and you can still build a mobile presence by targeting only the users on the mobile platform and giving them a unique value proposition.”

While these startups can hardly argue MySpace and Facebook’s success, vendors that don’t recognize the uniqueness of mobility inevitably will be left behind. Take for example YouTube, which last week made the move to complete mobility, offering any user with a 3G handset access to watch videos as well as upload videos of their own. As the third most popular mobile site, this news had the potential to be extremely significant; however, the service did not even work upon its launch. Fixed-Internet social sites need to take into account the environment they are in – of small screens, cramped keyboards and restrictive search options – before they make the leap.

"We need to see those that really understand mobile and don't just think of it as a PC," said Andy Bovingdon, vice president of marketing for mobile content company Bango. "The ones where they tried to carry a PC community across to mobile, they are not bad – it fills a gap, but will it live purely for its mobile presence? Probably not – it lives just as an extension to its PC presence."

Bango's Web site, wap.com, as well as its stake in other Web sites in the form of a Bango button, allows users to publish Web content from images to wallpapers, music and podcasts on their mobile phone, and then share that content with other Bango subscribers. According to Bovingdon, the mobile sites that are typically the most successful are the ones that have a niche and a simple focus, such as Flickr's photo sharing site. Finding a niche might become obligatory as real estate for these mobile companies in the North American mobile market becomes scarcer and start-ups begin to be pushed into one direction or another.

"Where their niche is really going to fit in is perhaps not necessarily in the U.S. market, where we are a very PC focused environment, but in more developing countries where the consumer's first entry into the Internet is through their mobile phone, not their PC," Aldort said. "For them, MySpace or Facebook perhaps is not on the radar screen, but an AirG might be more compelling for them, since it's basically all they have access to."

AirG, which has a presence on every major U.S. carrier's network, including Sprint, AT&T, Verizon and T-Mobile, counts on both its international and non-PC users to keep the service viable. These are the consumers that don't view mobile handsets as a way to network "on-the-go," rather it is their primary platform.

"Sixty percent of users in the U.S. don't have a PC or they share a PC," Ghahramani said. "Who is this user? It is not a 'white collar worker.' It is someone who works at Starbucks as a night security guard – the people who power America, not people who are working office jobs... They look at it as a way to get away, escapism five minutes at a time. Lack of PC ownership or lack of access to a PC is a primary driver to using data services."

While the number of mobile phone owners is significantly more than PC owners, according to Yankee Group research, three quarters of teens and young adults are accessing social networks on their PCs, but only about 15% of them are accessing the same or other networks on their mobile phones. This could be because many mobile social networks require a monthly subscription or pay-per-use fee. Granted, this may only be a price tag of \$2 to \$3, but when coupled with all the other mobile data applications available, it is enough to bring the total mobile data price tag to more than \$12, which studies have found is the maximum amount most mobile users are willing to tack on each month.

The fees are assuming a company can even get on a mobile carrier's deck. Carrier relationships have been sited as an important factor in a mobile social network company's success, yet most of these start-ups are not able to attach themselves to a carrier. The reason for this is largely a matter of space – there is simply not enough room on a crowded home screen for a carrier to endorse several different companies. Luckily for startups, this will be less of an issue going forward, Aldort said.

"[Carrier relationships are] becoming less and less necessary," Aldort said. "We are starting to see more and more WAP-based sites from Facebook and even MySpace, so once you get to that level, you don't actually need a relationship with a carrier anymore. The user experience might not be as rich as if you had a downloadable client application, but it's available to the mass-market lowest common denominator subscriber because you just need a WAP browser on your phone."

In fact, carrier relationships may actually be a disservice to the customer, as they often breed exclusivity, Aldort said. Rather than a proprietary agreement, she said the key to success for mobile social networking companies is a global presence – across carriers, handsets and across the world. "A community is only as valuable as its size," she said.

AirG's Ghahramani agreed that scale is the first and foremost priority of mobile social networking companies. As he said, these communities are all about meeting new people and making interesting friends, and no one wants to go to a nightclub or bar with no one it. It doesn't matter how nice the upholstery or the furniture is. That doesn't mean scale is an easy goal to accomplish, however.

"Because of the fragmentation in the mobile world, we've built up this network globally, and that has been the hardest part – really weaving together across technologies and then across all the different networks globally to get that scale," Ghahramani said.

One market sector that believes strongly in the market's potential to scale is venture capitalists. Upwards of 100 of these start-ups are backed by some form of investors. Just last month, Juice Wireless, maker of the mobile community JuiceCaster, received its latest round of \$6 million in funding. Yet despite the capital flowing in, the return on investment is not a guarantee. Most operator revenue, about 80%, still comes from voice.

“The wireless carriers are really going to have to chase after every revenue stream they possibly can with mobile social networking,” Aldort said. “We’ve done a rough back-of-the-napkin estimate on what revenues the carriers sort of brought in with mobile social networking, and we had that approaching \$600 million, so it’s a pretty small market at this time.”

The majority of this \$600 million was from monthly subscription services – a \$2.99 per customer per month revenue stream that may become void as more services become lumped in to the monthly data plan of the carrier. If this proves to be the case, advertising-based business models – a format Ghahramani said AirG is experimenting with – may become more of the norm. From his perspective as a software company, regardless of the means of achieving profitability, the mobile market has the potential to be a multimillion-dollar enterprise.

“In our software world, this is going to be as big as games, if not bigger,” Ghahramani said. “In many networks, it is already bigger than games, so the potential is definitely there. For carriers, the potential is there, but it might not be as big of a level of materiality. It might just be another application.”

Ghahramani is not alone in his optimism. Many in the industry – analysts, vendors and carriers alike – are quick to jump on the mobile social networking bandwagon. It’s an undeniably popular topic right now, and most are hopeful there’s potential to take social networks on the go. Why is this? Aldort said it might just be because they don’t know any better yet.

“It is a very sexy and hot topic, and it’s hard to ignore all the relative success that social networking has had in the fixed Internet world,” Aldort said. “It is a very mainstream concept; it just hasn’t translated well over to the mobile phone at this point.”