

Mobile User-Generated Content and Web 2.0



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Understanding the Web 2.0 phenomenon as it transitions to the handset and the impact which user-generated content on the mobile phone will have on the industry

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Executive Summary

The user-generated content (UGC) market is one of the most dynamic and rapidly changing sectors in the web economy and companies like MySpace, Facebook and Second Life have grown to become major web brands commanding huge valuations. With handset penetration far exceeding that of internet penetration, along with the phone's multimedia, connected and location-aware capabilities, mobile operators, UGC service providers, as well as hardware and platform vendors, have been quick to see the huge potential of mobile Web 2.0 services. While early handset-based UGC offerings were simple 'remote control' applications enabling users to access their profile and their messages when on the move, true mobile UGC is much more than simply a mobile conduit for web-based user-generated content.

UGC underpins the Web 2.0 phenomenon and several different products and services fall under the umbrella term of 'user-generated content', such as blogging and social networking communities. In essence, anything that is created by the general public for the consumption of the general public can be categorised as user-generated content: be it a short video, photograph or even just a simple text profile.

This report presents an in-depth analysis of the user-generated content transition to mobile. The technology and market drivers fuelling the development, deployment and uptake of phone-based UGC services are discussed, and the challenges and opportunities which this new market presents to operators, services providers and platform vendors are examined. The regulation and privacy issues which arise when UGC goes mobile are also investigated, and the potential revenue models are scrutinized.

The report identifies and discusses the fundamental advantages which mobile UGC has over the desktop-based web. The phone travels everywhere with its owner and most have integrated cameras, making the handset perfect for capturing spontaneous and location-specific user-generated material, such as photos and video. Location content can be further enriched by leveraging capabilities such as GPS, Cell-ID and short-range wireless technologies like Bluetooth. Importantly, the mobile operator billing relationship with the subscriber means services can be effectively charged for without requiring credit card registration.

An overview of key factors which are driving UGC and the Web 2.0 experience on mobile phones is presented. These include the growth of multimedia handsets; dual-mode Wi-Fi devices; 3G and 3.5G network upgrades which are delivering a faster mobile internet experience; the gradual adoption of flat-rate data plans; and advances towards interoperability being made by several UGC sites. Widgets are also improving the accessibility and ease of use for many UGC services, and the availability of intelligent advertising platforms capable of pushing targeted, personalised and relevant promotions is pointing the way towards viable revenue models.

The key technologies which are driving mobile UGC are also discussed. Instant messaging, presence and one-click IP upload of services is proving of vital importance. Companies like ShoZu have developed handset clients that enable fast and efficient upload of photos to social networking sites which are superseding MMS. Bluetooth

has enabled a number of short-range social features particularly relevant to the dating environment and GPS enriches mobile content and can boost the effectiveness of advertising.

The report identifies three principle sources of revenue for mobile UGC: ad-supported, subscription based and transactional. Both operators and service providers are experimenting with all three approaches. The advertising-funded model has not been proved with fixed Web 2.0 and it is questionable how effectively it can be ported to mobile. A more sophisticated approach is required and some service providers are employing techniques, such as 'relevance', to ensure mobile advertising matches the profile and context of the user being targeted. At the moment, transactional revenues are supported by premium-rate SMS and MMS services, primarily through chat and date applications, however, revenues from users purchasing products and services over their handset will increase substantially over time. ARCchart believes that subscription-based mobile 2.0 will lose some ground as transactional and ad-funded models become more popular, although some service providers will be able to adopt a 'freemium' model, where a basic entry level is free while enhanced services are charged for.

ARCchart segments the current mobile UGC market into four categories: Social Networking and Virtual Worlds (e.g. Facebook and Second Life); Multimedia Sharing (e.g. SeeMeTV and YouTube); Blogging (Twitter and Jaiku); and Chat & Date services (e.g. Flirtomatic). Of these, ARCchart estimates that chat & date is the largest segment in revenue terms, valued at \$366 million in 2007, or 52% of the overall mobile UGC market. Total revenues for mobile user-generated content for 2007 are estimated to be just over \$700 million and ARCchart forecasts that this will grow to reach \$6.6 billion by 2012.

Many UGC providers are now increasingly offering a blend of services across the four category areas and some of the most integrated players – including MySpace and Facebook - offer elements of all four. Most players continue to specialize in two or three segments, but we believe that convergence will quickly see integration of the three key services (social networking, multimedia sharing and chat & date) become the de facto offering for most providers.

An increasingly important aspect of Web 2.0 is regulation and privacy and these concerns become more acute with mobile. User-generated content has always relied on openness and ease of use to achieve the wide level of take-up needed for success, but this very fact has made UGC open to abuse and therefore threatened by regulators. The industry has responded by adopting self-regulatory practices to try to prevent abuses but more needs to be done. Operators and service providers must be seen to be doing more to prevent the abuse of minors while at the same time maintaining an air of openness to prevent a mass exodus of users to less regulated sites.

The report identifies the challenges facing each of the key players in the mobile UGC industry – operators, service providers and platform companies – and recommends strategies for securing a strong foothold in the market. As operators move to flat-rate data tariffs they risk becoming data pipes. To avoid this, mobile operators need to concentrate on areas where they can maintain an advantage, such as the billing relationship they have with the subscriber. Service providers in the UGC space are primarily coming from a fixed-line web environment looking to extend their influence in the mobile arena. For handset vendors like Nokia and Motorola, building more intelligence into the handset is just the latest in a long-running battle with mobile operators for control of the subscriber. In addition, handset vendors can build consumer brand loyalty by building sub-brands – such as the Nokia's Lifeblog. Software and platform providers need to have several routes to market for their solutions, but a direct to consumer offering can help build new revenue streams and can act as a proof of concept for the business model.

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