

Silicon Valley regains its faith in the small-screen web

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Eric Schmidt, chief executive of Google, has taken to reciting the latest mantra of Silicon Valley. Asked recently what the next big opportunities would be for the search company, he echoed a word that seems suddenly to be on everyone's lips: "Mobile, mobile, mobile."

The new enthusiasm of the Valley's internet leaders echoes the hopes of media companies around the world, which are coming to see mobile handsets as vehicles for their own ambitions to grab the attention of more people, in more places and for more time.

This week's launch of Apple's iPhone has become a lightning rod for this latest burst of interest in mobile media consumption and internet access. Even if it remains a niche product sold in only small quantities, such is the power of Apple's brand and presumed prowess in consumer technology that some see the iPhone as a catalyst for an entire industry.

"I am 100 per cent convinced it will be the change agent" for the mobile internet, says Marco Boerries, the executive in charge of Yahoo's efforts to go mobile. Just as the Macintosh computer pioneered a new user interface that brought personal computing to the masses, so the iPhone will trigger a breakthrough in mobile computing, he adds.

The early history of the mobile internet, however, suggests that it would pay to be cautious. Eight years after NTT DoCoMo's low-speed i-mode service first demonstrated there was a market for mobile internet access, and seven years after the auctions of "3G" spectrum touched off investment mania in Europe, more fortunes have been lost than made.

"The whole [mobile] industry in the last eight years has spent hundreds of billions of dollars to buy bandwidth, upgrade networks and subsidise handsets," says Mr Boerries. "And what do people do? The same things they did eight years ago."

That may be an exaggeration, but it is true that years of hype about the mobile internet have yielded little. Hopes that the habits of avid Japanese and South Korean mobile consumers would spill over to the rest of the world have not been fulfilled, and few services have turned into mass-market hits.

Ringtones provided a brief, but not lasting, flurry. Mobile games bring in €1.6bn (£1.1bn, \$2.1bn) but that market is slowing and will reach only €2bn globally by 2011, according to Screen Digest, a research firm. Consumers never took to e-mailing pictures around from their cameraphones, something that mobile operators hoped would generate strong demand for mobile data services.

Other new services may face a similar fate. Downloading music direct to mobile handsets is likely to become only a €1.5bn market by 2011, predicts Screen Digest, as consumers take the cheaper route of "side-loading" songs onto mobiles from PCs.

Aside from SMS messaging (or "texting"), this has left an anaemic mobile data industry. In Europe, most carriers earn just \$1-\$2 a month per subscriber from these data services, according to Analysys Research (they earn another \$3-\$12 a month from texting). This is a mirror image of Japan, where carriers charge according to the amount of data they ship rather than by the message (text messages use little bandwidth).

What is worse, growth in wireless data revenues has largely evaporated. "Things have looked fairly flat for a lot of operators over the last couple of years," including in the advanced markets of Japan and South Korea, says Alastair Brydon, at Analysys.

The arrival of the iPhone may be one catalyst, but it will take far more to transform today's feeble mobile internet industry. Top of the list are services that work well enough on a small handset to draw a mass audience and new business models and forms of advertising capable of sustaining a substantial industry.

To some extent, the fortunes of the mobile industry are likely to continue to rest heavily on communication services. Just as texting has been the bright spot in recent years, mobile e-mail looks set to become a big new market. Beyond this, hopes rest broadly on two things.

One is that browsing from small handsets will finally become a worthwhile experience. Starting with WAP and continuing with the slow browsers and the unappealing "walled gardens" of services created by mobile operators, the technologies and services have been far from easy to use.

The big internet companies have contributed to this record. Early services, such as mobile search, were nothing more than copies of PC applications, admits Mr Boerries. Companies such as Yahoo and Google are racing to design services that are better suited to mobile phones, where space is at a premium and keyboards hard to use.

A partial change in strategy by mobile operators may help to stimulate this drive to create more suitable services. Starting in Europe, mobile operators are moving away from their walled gardens, giving users greater access to other internet services (though, fearful of being reduced to the position of nothing more than low-margin data carriers, most are treading carefully). They are also dropping their pay-by-the-bit pricing plans and applying flat-rate monthly charges for data, something that could encourage users to browse the mobile web more freely.

The other big hope is that the handset is about to become a form of portable television. Mobile television emerged in South Korea, but in recent months the first services in Europe to broadcast to handsets have attracted considerable interest. It is too early, though, to say whether such services will become big money-earners.

Current hopes rest heavily on the emergence of a mobile advertising business. Just as the early wired internet moved from being a subscription-based business to one relying largely on advertising, the same is now set to happen in the mobile world, says Jonathan Bulkeley, a former head of AOL in the UK and now head of mobile commerce company Scanbuy.

With the mobile advertising market worth less than \$1bn last year, it may seem a stretch to think that this can become the foundation for a thriving industry. Yet the same might have been said of internet advertising in the mid-1990s.

AOL earned only \$1 a year for each of its users in 1994, says Mr Bulkeley; by 2000, that had risen to \$40. "In mobile, it's like 1995 on the internet," he says.

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