WHITE PAPER

Creating a More Engaging Mobile Experience

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IDC OPINION

IDC believes that a new class of data services called *engaging mobile experiences* is emerging in the marketplace, clearly differentiated from the mobile experience we have known for several years now. New mobile operator services featuring enhanced graphics and expressive animation are leading this new trend.

This trend will make mobile data services more desirable to consumers by providing a much better customer experience, benefiting mobile operators, device OEMs, and developers alike. This new class of data services will drive the viral adoption of mobile products and services, especially within the youth and young adult market.

IN THIS WHITE PAPER

This IDC white paper explores the emergence of new mobile experiences that are occurring in the marketplace, outlines recent developments that point to this phenomenon, and provides challenges and opportunities for operators that move in this direction. This new experience can be illustrated by two major operator service launches:

☑ NTT DoCoMo's i-channel service, which is driving higher average revenue per user (ARPU) among traditionally low ARPU subscribers

☑ Verizon Wireless' use of Flash-enabled applications and handsets in its Get It Now service

This new emerging experience also seeks to solve some of the larger issues facing the mobile market today, most notably:

☑ Enhancing customer experiences on next-generation devices and services

☑ Increasing customer loyalty for mobile operators

☑ Driving higher data ARPU

☑ Reducing complexity for developers seeking to create applications across a broader set of devices and operators

SITUATION OVERVIEW

With voice services becoming commoditized and markets increasingly saturated, mobile operators are looking for new ways to increase revenue. Voice ARPU continues to fall, with subscriber penetration already ranging from 70% to over 100%. In developed markets, many operators have bet on data services as the way to differentiate and increase revenue. But today's data services have failed to meet expectations because of a poor user experience: Voice still accounts for around 80% of subscriber ARPU, give or take depending on the region, and most data revenue still comes from text messaging. The stakes are high. Operators in all regions of the world need to make data services successful or they risk suffering the financial consequences of an increasingly commoditized and mature industry.

Today's Major Issues

The major issues impacting the marketplace today are centered around the following areas:

☑ Handset OEM and operator margins are being squeezed as both forces look for new ways to engage customers, increase their spend on data services, and increase their brand loyalty.

☑ Today's existing data experiences are not living up to their expectations. The bulk of services are still focused around text messaging.

☑ Today's rampant proliferation of devices and short shelf life is making it hard on developers. They are forced to develop applications across a broader device community, delivering inconsistent media experiences that exponentially increase development costs and, in the end, are not engaging for consumers.

☑ User interface and ease-of-use issues are also leading to undesirable experiences. The differences between individual operator and handset OEM user interfaces (UIs), coupled with consumer frustration over the number of clicks required to access data, are leading developers to ask for easier solutions that allow them to create their own device profiles to test applications across a broader mix of devices.

All of these issues are pushing front and center the need to create new engaging mobile experiences that add value to operator services, leverage emerging handset technologies, ease developer pain and, most important, excite the customer.

A New Category of Mobile Experience Is Emerging

To address the aforementioned issues, a new category of data services is emerging that is optimized for mobile. This category incorporates rich media experiences that more fully engage the user and provide more subscriber value while promising to increase customer retention for operators. New mobile operator services indicate the emergence of this new category that includes a host of new, enhanced applications and data services. This new development moves toward satisfying the need for a better mobile experience.

The Internet Evolution Versus the Mobile Evolution

For many people, the arrival of the Internet to mass audiences in the mid-1990s ushered in an era of connectedness as well as access to enormous amounts of information. Over time, the advent of HTML made content more easily accessible, but the experience was characterized as being "flat" (see Figure 1), limited by a page-by-page interface.

FIGURE 1

The Internet Evolution Versus the Mobile Evolution
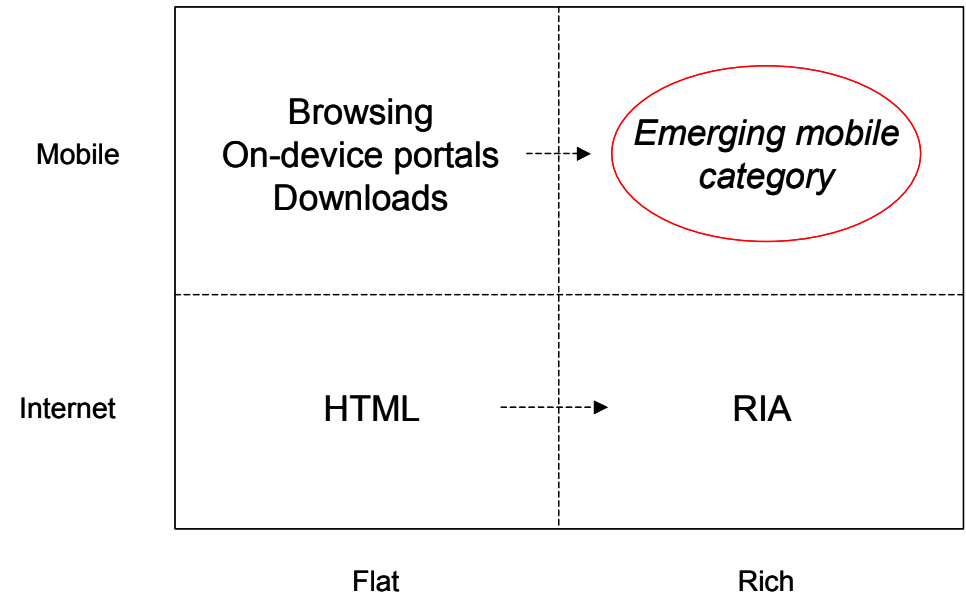
Source: IDC, 2007

As rich Internet applications (RIAs) emerged (enabled by technologies such as Macromedia Flex and AJAX), the user experience was greatly enhanced. RIAs enabled applications to incorporate data as well as rich, interactive graphics and animations into a single engaging experience. The mobile ecosystem is undergoing a similar evolution. Mobile data services started out with WAP and simple download capabilities as their Internet and content solution. While the browsing, UI, and mobile data experiences have improved in recent years with the advent of full browsers, Java, and BREW applications, the experience itself is still very limited compared with today's online experience on a PC.

As previously stated, clear examples point to the emergence of a new mobile category that has the opportunity to do in mobile what RIA has done in the Internet world: create a more visually exciting experience. These engaging mobile experiences offer more expressive content for consumers, with visually improved graphics and animation. But they go beyond what RIAs do by running outside the

browser and not requiring an always-on network connection, improving usability significantly. Emerging developer tools also provide more flexibility for developers to take the customer experience to the next level.

This emerging concept can be seen in Figure 2, whereby increases in content immediacy and desirability are leading to a more optimal experience for consumers, and one that is sharply differentiated from what we currently have today.

FIGURE 2

Mobile Data Services Positioning
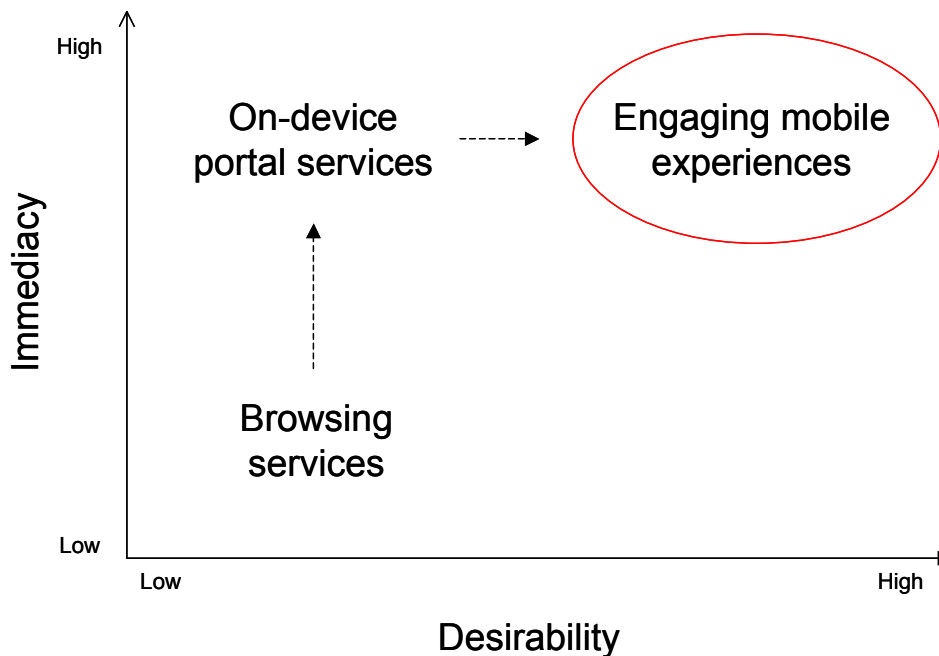
Source: IDC, 2007

Services such as WAP contributed to poor user experience and compounded network latency issues and the high number of clicks required to get usable data to a small screen. On-device portals have improved usability by pushing the data and caching it on the device, therefore providing more immediate access to desired content. However, on-device portals don't go nearly far enough, as they rely on the same basic content types as WAP-based services. Thus, the content remains flat and uninspiring. Mobile operators seek to provide improved services that will drive higher brand loyalty, and an answer is beginning to emerge in services with more engaging mobile experiences. Like on-device portal services, these experiences offer immediate access to desired content. But unlike on-device portals, these new experiences are more expressive and memorable, engaging subscribers in a way that increases their enjoyment and desirability of the service itself, improving data adoption and customer loyalty.

Examples of this emerging trend can be seen in some of aspects of Packet Video's focus on interactive experiences around media and Amp'd Mobile's Amp'd Live video service, which is very visual and interactive.

In addition, two mobile operators have recently launched enhanced services with some success on the strength of their networks and partnerships. They are pushing to truly engage customers by offering a new mobile experience.

NTT DoCoMo and the i-channel

NTT DoCoMo realized that it needed to increase the number of subscribers who used data services by providing a better experience. Of DoCoMo's 40+ million i-mode subscribers, 20 million accessed premium content, while the rest were low ARPU subscribers who did not access content on their phones. Existing text and pull-based services drove little consumer interest. NTT DoCoMo's biggest challenge since it had moved to a flat-rate plan was that its data revenue was now capped. It needed to find new sources of revenue other than voice and basic data services. It looked at Java- and browser-based solutions and instead went with Adobe's FlashCast to drive a new push-based branded customer experience, called i-channel, to these subscribers. It found Flash to be more resourceful and flexible, especially in the way it handles graphics and photos. Consumers were also used to Flash-based graphics from their Web experience.

NTT DoCoMo's i-channel service allows subscribers to access the latest news, sports, weather, games, and entertainment on their handsets. Pushing a dedicated button on the phone accesses updated channels that are more engaging. DoCoMo manages five "Basic Channels," while the "Optional Channel" is open to third-party developers who provide content for a fee. The service currently has 25 channels and is priced at ¥157.25 (around US$1.31) per month on top of an i-mode subscription. NTT DoCoMo worked with handset OEMs to develop the one-button solution to maximize ease of use. At the time of writing, nearly all of the 703i series phones announced in January 2007 support i-channel, joining some 800 and 900 series handsets already available. As of January 2007, NTT DoCoMo has converted 8.4 million of its 20 million lower-ARPU subscribers to i-channel, getting them to access content by providing a more engaging experience. These subscribers are now driving an additional ¥380 per month to the operator. In addition, about 46% of new i-mode subscribers are now i-channel based, and the operator expects to reach 10 million subscribers by the end of 1Q07. With i-channel, NTT DoCoMo has created more engaging mobile experiences for subscribers, resulting in higher interaction and ARPU.

Verizon Wireless' Launch of Flash-Based Services

Another example of this emerging experience comes from Verizon Wireless' strategy to take advantage of Flash technology to deliver rich, engaging mobile experiences across handsets. Verizon Wireless is the first North American wireless operator to take advantage of Flash and currently offers over 15 Flash-enabled applications on its Get It Now service, including The Weather Channel, NBC's The Office Games, and Shockwave Minis Unlimited. These applications extend the consumer experience to higher levels with more expressive graphics and animation.

Verizon Wireless was also seeking to improve the subscriber experience by increasing the visual impact and fluidity of applications in its Get It Now store. Flash provided developers with the same authoring tools for the PC and the handset, reducing their development time.

It is still relatively early to gauge results at Verizon Wireless, but additional Flash-enabled handsets are debuting every day, increasing the Flash footprint across the mobile operator's subscriber base. Verizon Wireless will roll out more Flash-rendered applications through its Get It Now branded mobile experience, allowing it to deploy incremental experience improvements over time. This capability is currently targeted at its mid- and high-tier handset segments, which support greater multimedia capabilities than its other offerings. The mobile operator sees Flash as an important tool that blends the Web and mobile worlds while providing a seamless user experience.

FUTURE OUTLOOK

The New Engaging Mobile Experience

In different markets, operators and handset OEMs are looking for more control over the UI, a critical feature of the customer experience. Operators will increasingly look toward providing engaging mobile experiences to strengthen their brand while driving higher ARPU among their subscribers. Even if the major operators' portals don't go far enough, these new engaging mobile experiences need to be evident at the UI and application layer, and what is presented to the consumer needs to be more engaging. In addition, the experience itself will be presented as a more attractive platform for mobile advertising and media delivery, which are becoming large industry initiatives as well.

Application developers' focus to reduce complexity remains high, aiming to surmount a fundamental issue that precludes applications from getting to market quickly and broadly. As mobile devices proliferate, additional complexity and capabilities are introduced to the market. Developers that use common tools to create engaging mobile experiences will be able to target a broader set of devices and significantly reduce their time to market while increasing their return on investments.

CHALLENGES/OPPORTUNITIES

With the development of engaging mobile experiences, there remain several challenges ahead as well as opportunities:

▱ **Interest will vary by geography.** Developed markets such as Japan, Korea, Europe, and the United States will gravitate faster to new applications and services based on this emerging experience, as they tend to drive higher media and data consumption rates.

- **An engaging mobile experience is a key driver of viral adoption among key population segments.** Consumers heavily rely on the recommendations of friends and family. Viral marketing is a key way to drive higher consumer adoption. A more engaging mobile experience will drive viral adoption if subscribers drive higher value from the experience compared with the previous one.

- **Mobility is becoming increasingly central to people's lives.** Enhancing the customer experience greatly enhances people's perceptions of mobility, as well as the products and services that provide that experience.

- **Engaging mobile experiences benefit the entire mobile ecosystem.** Mobile operators, handset OEMs, and developers will be able to realize their goals and address several core issues. A richer, more pleasing, and more engaging experience will improve customer satisfaction, service adoption, and usage, driving data ARPU and customer loyalty higher.

CONCLUSION

The mobile experience has evolved over the years from primarily voice to one that includes Internet-enabled devices that provide some interaction with the Web. Initial mobile data services had some capabilities but fell short on the user experience and therefore failed to excite the customer. A new trend is emerging whereby developers are now focused on creating new, engaging mobile experiences that are more immediate and more desirable. They will drive higher degrees of customer retention, loyalty, and data ARPU, not to mention improving the capabilities of both application developers and mobile operators.

Just as NTT DoCoMo and Verizon Wireless have enhanced the mobile experience for their customers, so too will other mobile operators and application developers. The focus is to deliver next-generation products and services that are optimized for mobility for consumers who each day demand a more engaging mobile experience.