

THE REAL FUTURE OF MOBILE VIDEO

A BUSINESS ANALYSIS OF MOBILE VIDEO REVEALS THE CHALLENGES FACED BY MOBILE CARRIERS TODAY.

right: Although Verizon V Cast's video images are comparable to broadband images, launching the video viewer and connecting to the server often takes more than a minute. Once connected, video buffering times are acceptable. The tabbed interface keeps scrolling to a minimum, but there's no way to flip through the channels to see what's on. Every channel change requires a journey through the menus.



About a decade ago, many analysts predicted impending growth in the nascent Web video industry would lead to increased demand for niche video content. This was hailed as great news to video entrepreneurs of all stripes, and producers awaited the arrival of a financially viable business model for the delivery of Web video to couch spuds. But therein lies the problem. The spuds stayed on the couch. They didn't schlep to the PC to watch TV. Today there are scores of great examples of Web video, many commercially viable, but the Web never evolved into a video delivery system for the masses.

Although it has taken a few years, the industry has it figured out. The Internet really is a great medium for moving niche content around. It's just that the PC

is a horrible way to watch it. Why not connect the TV to the Internet? And IPTV was born. (For those who want to remain buzz word compliant, "niche" content is now called "long tail" content. It's the same thing, but giving it a new name helps pundits sound smart even when they have nothing new to say.)

The lessons learned by Web video pioneers are similar to the lessons learned by radio and television pioneers decades before. New media doesn't catch on if it simply mimics old media. When the bulk of radio programming consisted of announcers reading the newspapers—or 40 years later, when early television programs were merely radio programs with cameras—nobody had a compelling reason to jump to the new medium. Only when new content designed specifically to take advantage of the new medium comes online does the medium catch on.

It seems obvious in hindsight that not many folks would clamor to watch TV on a PC. So what makes mobile carriers and their partners think people want to watch TV on their phones? Even a top-of-the-line \$400 mobile phone can't provide the video viewing experience of a \$149 13-inch color TV. To encourage people to spend that kind of money for a phone, the mobile video has to offer something better than plain old TV on a painfully small screen. Alas, it doesn't—at least,

not yet. The typical mobile video viewing experience is akin to watching Web video on a dial-up connection.

Mobile carriers are in an unenviable position. In order to get into the video business, they must spend huge sums of money on network infrastructure, content deals, and marketing. Their efforts have to coincide with the release of reasonably priced, video-capable phones. The risk is high. If they fail to execute even one of these requirements, the whole initiative fails.

Network challenges

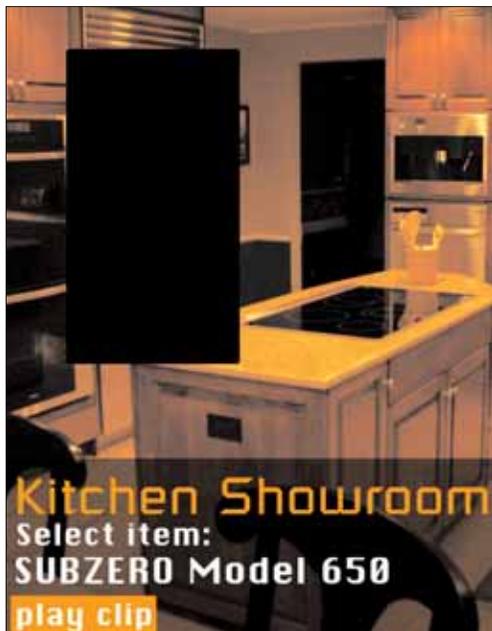
There are two ways to get video to a handset: unicasting, via streaming or downloads, or broadcasting. (Actually, there are other ways to get video into a handset, but they don't serve the carriers' interests, so, like the industry, we'll get to those later.)

Unicasting is a one-to-one delivery mechanism. The handset requests the video and a server sends it to the handset. It's conceivable the network can grind to a crawl if too many users on the network request video at the same moment. That would be bad enough for the video users having to wait several minutes for only a few moments of video. But what about the voice customers? "Can you hear me now?" And how about the high-speed Internet subscribers?

As an example, Verizon customers may pay \$59 per month

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above: Mobile video applications that give users the information they want where they want it will be successful. This prototype of a home design retail application allows users to get a video demonstration of an item's features immediately, rather than waiting for an in-person associate. The application can be delivered directly to the phone via Bluetooth or another protocol at the store.

for a voice plan, plus \$ 59 per month for high-speed Internet access. V Cast, a unicast service, costs an additional \$ 15 per month. It's not in Verizon's best interest to let hordes of V Cast users clog the network. That's not a concern today because V Cast is just rolling out and only a relatively small percentage of customers subscribe to it. If V Cast is a hit, the network will have to expand or Verizon will have to move to a broadcast model. Neither option is cheap.

Some content—such as news, weather, and sports—lends itself to a broadcasting. But in this age of video on demand and time-shifting PVRs, users aren't going to embrace a broadcast model for much else. The carriers that try to move customers to a broadcast model will have a tough sell. Virgin Mobile has talked about offering PVR capabilities to its mobile customers, but the devil is in the interface. Will users embrace programming their phones from an

EPG (electronic programming guide) crammed onto such a tiny screen? My TV's EPG already looks cluttered on a 42-inch screen.

In the United States, two companies are betting big on the broadcast model: Crown Castle will use DVB-H (Digital Video Broadcasting-handheld) and Qualcomm will employ its FLO technology. Both these systems use networks separate from the carriers' networks, so phones will need additional receiving capabilities, which will make them more expensive. How much will customers pay for a video-capable phone? How much will the carriers have to subsidize these phones?

The stakes are huge. Qualcomm's cost of building out the network and licensing the necessary spectrum have been estimated at approximately \$ 900 million—all to deliver 1970s-style broadcast television.

The carriers and the mobile broadcasters also will have different agendas. Carriers are looking for differentiators. They want content the customer can only access through their networks to increase customer loyalty. The mobile broadcasters need to reach the broadest possible audience to maximize profits. Because bandwidth is finite, neither Qualcomm nor Crown Castle will be inclined to offer a carrier exclusive content.

What's available now

It seems U.S. carriers are basing their expectations on how mobile video has fared in Europe and Asia. They first might want to seek the counsel of the venture capitalists who invested in interactive TV start-ups in the United States in the late 1990s. Spurred by ITV's

success in Europe, VCs threw money at U.S. ITV start-ups and lost big.

U.K. mobile carrier 3 reported 400,000 video downloads of soccer highlights the first weekend it offered the service. By the beginning of 2005, the company said more than 20 percent of its revenue was derived from data services. Numbers like these make U.S. carriers salivate. Shrinking margins in their voice business have them looking at data and video services to boost the bottom line. If a single U.K. operator can attract 400,000 downloads in a single weekend, then what can we expect in the much larger U.S. market? MobiTV might give us a hint.

MobiTV is a video subscription service that provides content to Cingular and Sprint, two of the three largest carriers in the United States. After one year, the company reported an underwhelming 300,000 subscribers. Nobody is saying how many subscribers have signed up and left. At the time of the service's launch, video performance of 1 or 2 frames per second was all that was available. For this customers were required to fork over \$ 9.99 per month. (Today frame rates can reach 8 to 15 frames per second if you have a "high" frame rate phone.)

How many people watched Web video in 1996 or 1997, declared it a bust, and never looked at it again for years? One has to question the wisdom of charging \$ 10 a month for such an awful user experience. MobiTV got to be first, but it did so to the detriment of the industry at large. Verizon V Cast subscribers have it a little better. The video appears to play at better than 20 frames per second. It looks like

decent broadband video, and the subscribers pay \$ 15 per month for only a few channels. V Cast enthusiasts boast that videos buffer in a matter of seconds, yet fail to mention that booting the V Cast application, connecting to the server, and getting to select the first video from the cumbersome tabbed menu often takes more than a minute.

Here's a real-world comparison. For \$ 9.95 per month, plus another \$ 5 for high-definition service, I get HBO HD on my television. If it comes down to a decision between Tony Soprano and Larry David in full-screen glory, or a bunch of postage-stamp-size post-game player interviews from ESPN and a few 3-minute clips from *The Daily Show*, what do you think the family on a budget will choose? How long do the carriers expect this pricing to last? Never before has anything made my cable bill look like a bargain. Either mobile video content must become more compelling or prices have to decrease. It's unlikely economics will let either happen in the near future.

Gauging customer interest

The punditocracy likes to cite survey upon survey in which people express interest in mobile television. Because a vast majority have never actually seen mobile television, of course, the respondents are curious. Certainly the mental picture they form when questioned by the chipper researcher is nothing like what is currently offered. An oft-quoted Jupiter Research report revealed 40 percent of those surveyed were interested in mobile television, fewer than half were interested in paying for it, and less than one in

20 would make video capability a priority when purchasing the next mobile phone. Today it appears mobile video is not much more than a curiosity.

What seems to be overlooked by the carriers, their partners, and the analysts are two key points: North American users are different from Asian and European users, and the mobile phone is viewed as a tool, not a toy. North Americans don't spend nearly as much time on mass transit, the perfect activity to encourage mobile video surfing, or as the CEO of MobiTV annoyingly calls it, "TV snacking." There are already myriad ways to occupy North Americans with idle time: PSPs, mobile gaming, Blackberrys, iPods, and good old-fashioned books and newspapers. Mobile video is actually competing against some of the carriers' higher-margin offerings. Text and multimedia messaging are natural extensions of the device. Passive viewing is not. We like to use our phones while doing something else. For mobile video to succeed, it must understand the mobile user's needs.

Mobile video could succeed in the retail environment, replacing the in-store kiosk. Standing in front of an item, the user could view a demonstration of the product. Further information on availability, promotions, and other items to consider purchasing along with this item could be presented. The phone is a time-saving device for the user, and the medium is a cost-effective way for the retailer to enhance the shopping experience. Museums and other cultural institutions could also make use of mobile video to provide background information on exhibits, and solicit donations and memberships.

Will the carriers open up for such innovation? It's unlikely. Retailers won't want to grant exclusivity to a carrier, so carriers will be hesitant to open their networks. Even if carriers do open their networks, they won't do it cheaply. They are commanding a premium for their bandwidth with \$ 59-per-month broadband subscriptions—why should they give retailers a break?

The clearest path to widespread mobile video adoption is through the handset makers. If businesses could get content to mobile phone users without using the carriers' networks, mobile video will take off. Technologies such as Bluetooth and USB are already built into phones. Businesses could send and users could receive video through these protocols without paying an additional cent to the carriers. Some content could be downloaded from the Internet and uploaded to phones. Some content could be distributed at a business location via Bluetooth. This is where innovation will occur. Small agencies will sprout up with real mobile video solutions for users' real needs—not some outdated notion of TV snacking.

The carriers might put up a fight and use their clout with the handset makers in an effort to hold onto the closed network model of CompuServe, Prodigy, and AOL. Or they might realize that opening up their networks to real innovation will lead to greater revenue growth. ■

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