



Cover Story

Walled gardens come tumbling down

Web 2.0 forces telcos to rethink strategy

by Ken Wieland

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It has already happened in Japan and is starting to happen in Europe: the collapse of mobile operators' walled gardens. The increasing popularity of so-called Web 2.0 social networking Web sites such as MySpace, YouTube and Facebook, along with a growing demand among mobile users to access the "real" Internet, means the days of the traditional walled garden are numbered.

"Mobile operators need to balance more the needs of the customer and their desire to control the customer experience," says Philip Makinson, a telecom specialist with Greenwich Consulting.

Mobile operators created so-called walled gardens by making it difficult for customers to browse beyond "official content" on their portals. The perceived upside was that operators could develop closer relationships with advertisers and encourage a greater take-up of official services (and revenue).

The main flaw with the walled garden business model is that customers don't like them all that much. In Japan, for example, 70 percent of traffic generated by NTT DoCoMo's i-mode service is from accessing "non-official" sites. And with the rise of Web 2.0 Web sites, consumers, more than ever, don't want to be in a straitjacket designed by the mobile operator. They want to roam free (see *What does Web 2.0 mean?* at right).

In Europe, mobile operators appear to be getting the message. Last June, Vodafone UK made a landmark strategic shift when it announced it would allow its customers, for the first time, to browse the Internet freely and without having to access the Vodafone Live! portal first for the privilege. Now Vodafone UK customers also can select the URL address for their landing page.

Despite these radical changes, a Vodafone UK spokesperson is keen to play down any notion of a volte-face. "This is a natural evolution to meet our customers' needs," he says. And, for the record, the spokesperson claims Vodafone never had a walled garden in the first place, although he concedes it was "difficult" for the customer to browse for unofficial content.

Show me the mobile Web 2.0 money

Vodafone UK's mobile Internet service is enabled by U.S.-based Novarra, a "content transformation" platform provider. The solution comprises a server that automatically formats Web content for a wide range of handsets (2G through to 3G). The server works with all WAP and HTML browsers, so the mobile user does not need to download clients.

"The increasing popularity of Web 2.0 [interactive and content-sharing Web sites] is making mobile operators reconsider their strategies," says Jayanthi Rangarajan, Novarra president and CEO. "It is forcing mobile operators to evolve into a new place. Mobile operators can get much, much more money by filling their pipes than they can by trying to control the traffic."

Novarra claims that although 20 percent to 30 percent of mobile page views are from the top 50 content providers, the remaining 70 percent to 80 percent are from the so-called "long tail": niche sites, which, when taken as a whole, can constitute a large traffic-generation source. "A typical mobile user, who uses the real Internet to access services, will triple data consumption over a six-month period and approach 400 page views per month after using the service for a year," Rangarajan claims.

Given the apparently compelling figures, why hasn't Novarra acquired more than a handful of mobile-operator customers since it brought its server-based solution to market in 2003?

"There is still a strong WAP and portal mindset among operators, although that is beginning to change," Rangarajan says. "After all, many operators have spent a lot of time and money developing walled gardens and it is not always easy to let go of that. I would say, though, that mobile operators in the U.S. are 8 to 12 months behind operators in Europe when it comes to moving away from walled gardens."

Poor customer experience has been another impediment to increased mobile data usage. At least that's the view of UK-based Shozu. Backed by VC funding to the tune of US\$24m, Shozu has developed its own client-server solution, which, the company claims, can improve considerably the mobile user's experience in the Web-based social networking environment.

"We make it much easier for customers to upload and download data via the mobile phone," says Dean Wood, Shozu's senior vice president of marketing. "By using a client-server solution, we can monitor whether or not an upload has been successful, and, if the user goes outside [cellular] coverage during the middle of an upload, the client can restart the upload where it left off when the user comes back into coverage," he claims.

The Shozu platform's other main attraction, according to Wood, is it can act as an intermediary for a number of content-sharing Web sites such as YouTube, MySpace, Flickr and Facebook. It is not a vertical, walled-garden model.

Web 2.0 gets in a fix

In much the same way as Web 2.0 is disrupting the mobile world, it is also forcing fixed-line operators to rethink their strategies.

"Creating communities around user-generated content is a key area for us," says Pascal Thomas, vice president of NExT.com, an organization set up by France Telecom in April 2006 to deliver new products and services around Web 2.0.

In December 2006, France Telecom made its first big Web 2.0 retail splash with the launch of Pikeo, its photo-sharing site, which was fully upgraded this summer. Using Microsoft's Virtual Earth cartography service, integrated into Pikeo, users can archive their photos by positioning them on a world map (as well as by Web 2.0 methods of tagging). Developed at the San Francisco Orange Labs, the Pikeo project is a direct result of the NExT.com program in which Thomas is involved.

What does Web 2.0 mean?

Web 2.0 describes a second generation of Web sites. Unlike the Web 1.0 world, where users were passive observers of Web site content (continuously waiting for page refreshes to receive new information), the Web 2.0 world is dynamic, interactive and near real time.

But what is the business model behind Pikeo? "We expect over 50 percent of revenue will come from advertising and traffic," Thomas says. It's too early to say what the revenue mix between them will be, Thomas adds, but he sees mobile access (and the ability to upload photos from the handset onto the Pikeo Web site) as a critical element of the business plan. France Telecom aims to provide mobile access to Pikeo in France and the UK by the end of this year, but access won't be limited to Orange subscribers.

Given the Orange brand is more associated with mobile than either fixed or Web-based services, France Telecom's decision not to foreground the Orange logo in its photo-sharing Web 2.0 venture—it is "Pikeo powered by Orange"—is understandable. "We need to adapt the brand positioning and still be understood by our customers," Thomas explains. "But developing our own [Web 2.0] services is a matter of urgency for France Telecom."

In keeping with the open ethos of Web 2.0 that is bringing down mobile operators' walled gardens, Thomas is looking at adopting the white label model for Pikeo, meaning other players would be able to harness the technology developed by NExT.com and brand the service as their own. "We would be looking at an advertising revenue-share model in that scenario," Thomas says.

Open platforms, new business models

In contrast to France Telecom, BT's initial Web 2.0 emphasis is not on creating retail community-type services of its own (although it still sees an opportunity in retail) but on building an open platform through which third-party application developers can access and launch their own services.

Central to achieving this new service creation environment is its Web21C SDK (software development kit) facility, which allows application developers—through BT's open APIs (application programming interfaces)—to create services that customers can access over BT's all-IP 21CN network. Application developers appear to have welcomed Web21C SDK, launched last April.

"Just weeks after we made SDK available, we had 1,800 applications running over the network," says Jean-Marc Frangos, senior vice president of technology and innovation in the BT Group. "We expect that number to be in the tens of thousands next year."

The obvious benefit of the wholesale Web21C SDK business model is that BT can hedge its bets on which applications and services will win out. With the retail model, service providers compete with one another for customer traction and the vast majority of new services are unlikely to succeed. With Web21C SDK, BT has a better chance of being associated with a winner, able as it is to gather revenue from various service components it offers third-party application developers: security, customer authentication, call placement, SMS packages and, if need be, billing.

Web-based social networking booms in Korea

Cyworld, run by SK Communications (a subsidiary of SK Telekom), is the most popular social network site in South Korea. More than 40 percent of South Korea's population is registered as Cyworld members and, according to SKC, more than 90 percent of Internet users in their 20s have signed up to the blog and social networking service.

NExT.com's Thomas says France Telecom will release its open APIs for third-party application developers by the end of the year. However, it launched its "bubbletop" Web site this summer, which allows users to aggregate content from different sources (including Web 2.0 players such as YouTube). Bubbletop is an example of what in the Web 2.0 world is called a "mash-up" service, where new services are created out of aggregating different content and applications from different sources.

BT's Frangos believes this is where the retail value lies for Web 2.0. "Web 2.0 service providers can play the role akin to a broker in the brick and mortar world by bringing together services into one place—a price comparison site, for example—and charge a premium for that service," he says.

More than just a dumb pipe

The biggest threat Web 2.0 poses to mobile and fixed operators is they become "disintermediated" from the digital services value chain. If mobile operators can compensate through greater data traffic and higher-value tariff packages, however, it might not be too much of a worry. But if the trend is to offer flat-rate, all-you-can-eat packages for Internet access—which is Vodafone UK's approach—then trouble may lie ahead.

"My concern would be that mobile operators enter into a downward spiral of always lowering the price of their data package prices in order to compete," says Greenwich Consulting's Makinson. "There is always the risk for operators who allow users to bypass their portals that they start to slide down the slippery slope of commoditization."

The challenge for telcos entering the Web 2.0 space will be to develop non-traffic revenue streams, such as advertising and premium value mash-up sites. And if they decide to be a pipe, they need to be a clever pipe: one that offers a better user experience than their competitors.

It will be a hard trick to pull off.