The Concept of Syndication as applied to the Mobile Content Industry

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Abstract

Mobile telephones were introduced to the mass market in the early 1970s. Since then, consumers have witnessed the explosive proliferation of handsets and network coverage, as well as various mobile products with a number of applications. With the advent of Third Generation mobile technology (3G), there are more ways for content and network providers to deliver more value-added services to their customers.

Yet, amidst the wide range of delivery models, which is the right solution for a small business to adopt in order to survive in the competitive mobile content provider market? This paper forms the basis of a future study of the application of the syndication model to the mobile content industry in Hong Kong and its place in supply chain management. It will examine the mobile phone industry in Hong Kong in general, and discuss the alternatives a small content business can adopt to survive in the business. We will assess whether the concept of syndication is applicable in these circumstances, as well as the implications of adopting syndication as a business model.

1. Introduction

The mobile phone industry has become an extremely lucrative business, since its introduction in Finland in 1971 [3], and now with a global value at US$414 billion dollars in 2003, and projected handset sales in 2005 reaching 730 million units [11]. Associated with this, the mobile content business has arisen, experiencing a large growth in the last two years. There are over 1.3 billion mobile phone users worldwide, 100 million of them using mobile data services. The global mobile content market is projected to exceed $70 billion in revenues by 2007, with third-party content providers forecast to bring in 40 percent of the total. For some of the main content, like wireless gaming, the revenues in the Asia-Pacific region (excluding Japan) will rise from $237 million in 2003 to $1.3 billion in 2008; for ring tone, it has had a worldwide revenue exceeding $3 billion in 2003. Finally, the global Multimedia Messaging Service (MMS) market is projected to reach $70 billion by 2007. [4]

Second generation phones (2G) have been predominant, while third generation phones (3G), with high bandwidth and enhanced audio/video capabilities, have entered the market with a slower rate of adoption (projected 2005 sales will be 55 million units). A multitude of applications, ranging from low-tech Short Messaging System (SMS) messages and simple ringtones, to videoconferencing and video broadcasting, are being introduced as platform technologies improve.

There are signs that the growth of handset sales will decrease in the coming years despite the encouraging signs of increased sales, as well as a dramatic increase in demand from emerging markets (e.g., India, China and Russia). The slow adoption of 3G phones, as well as the reluctance of providers in major markets to license 3G standards (as seen in China), have been the major obstacles to maintaining growth of the market at the existing rate. Replacement sales have also decreased, as customers in developed markets are more reluctant to replace their expensive, sophisticated phones with even more sophisticated phones. Meanwhile, competition in the content provider market has been fierce, as networks find outsourcing a much cheaper alternative for generating content. Large content generators, such as cable television stations are now redirecting their ready-made programs through 3G providers. A small firm in this market needs to adopt an appropriate business model in order to be competitive in the content provider sector.

2. The development of the mobile phone industry in Hong Kong

The mobile phone market in Hong Kong has bloomed vigorously in the past two decades since the first public mobile radiotelephone service using the NEC Advance Mobile Telephone System (NAMTS) was introduced by Communication Services Limited (CSL) in 1984. The early mobiles were analog and now the products have been developed towards the latest digital versions. There are 11 digital networks in the 800/900 and 1700-1900 Megahertz (MHz) bands.

The HKSAR Government introduced the mobile number portability service in March 1999, through which mobile users were able to retain their telephone numbers when switching to another mobile network operator. This promotion boosted mobile phone subscribers to 8 million in October 2004. The services that provided these mobile network companies were mainly voice service, SMS, mobile internet service and data transmission services (e.g., general packet radio service) during the mobile phone technology of 1G, 2G, 2.5G and 2.7G (generation). However, when mobile phone technology reached 3G, another push for competition started with four mobile network providers successfully bidding for licenses from the HKSAR Government in October 2001 (Hutchison 3G HK Limited, SmarTone 3G Limited, HK CSL Limited and Sunday 3G (Hong Kong) Ltd). By December 2004, all providers but Sunday 3G, had launched their 3G

services [9]. The 3G wave brought mobile phones into a virtual multi-media era and this also gave rise to strong competition between the mobile phone content providers.

2.1 Effect of environmental influences on Hong Kong's mobile content business

Hong Kong mobile phone content providers have faced difficulties in their political and economic environments. The Hong Kong economy was negatively impacted by the "burst of the economic bubble" in 1997 and breakout of severe acute respiratory syndrome (SARS) in 2003. In order to sustain market share during this period, price reduction and value added services were introduced in the mobile industry.

Considering the sociocultural characteristics of Hong Kong with its high adoption of trendy and innovative products, this gave the mobile phone industry and its content providers a large opportunity to develop products such as Ringtones, SMS and Mobile games. The content providers have further opportunities to apply concepts like Apple iTunes Music Store (iTMS) and local RoadShow (TV advertising on buses). The mobile phone would also be an open platform to distribute content such as classified retail to a more highly targeted market.

The music download trend was sparked off by the greater use of the internet and MP3 becoming the standard for digital music by the late 1990s. This gave the opportunity for the mobile phone to be the new distribution channel for downloading of music anywhere and at any time.

The higher technology capabilities of the mobile phone hardware encourage mobile content development. At the CeBIT Exhibition 2005 in Germany, SamSung demonstrated its latest cell phone V770 which incorporated a multi-media function, virtual television at TFT- screen of 26 thousands colors and a digital camera of one million CMOS lens [8].

Mobile content service providers have applied the state-of-art technology to offer a more user-friendly experience on their products via mobile phone. Further, the improved applications and networks have allowed content services to be more accessible to the target markets.

Where legal issues are concerned, while the infringement of intellectual property rights is still possible with organized crime such as counterfeit software and music piracy, the Customs & Excise Department of HKSAR remains the gatekeeper in tracking related criminal activities.

2.2 Competitive environment for mobile content

The mobile content industry exhibits the following market characteristics [7]:

- Low barriers to entry
- Abundance of niche market
- The presence of the open market
- A large number of players that contribute to the success of the industry
- Technology that is available to everyone, and
- Universal Access.

However, in comparison to the local mobile phone market, the content service market is still a newly developing market which is unstable and dynamic. Since 2004, 3G technologies have been available in Hong Kong. This enables the content service providers to have a widened bandwidth to deliver rich information content in different formats such as video, music, etc. Because of the present limitation of 3G mobile network providers in Hong Kong, the mobile phone content providers cannot rely on a stable distribution channel for their products and services.

The HKSAR Government has awarded 3G licenses to only four mobile network operators, and by December 2004, three of these (Hutchison 3G HK Limited, SmarTone 3G Limited and HK CSL Limited) had launched their 3G services. Therefore, in order to have market sustainability, the associated mobile content providers have to diversify their products and expand their distribution channels.

In view of the rapid development in mobile phones and mobile networking, the networking operators have to start thinking of an appropriate business model in order to generate higher profits with lower costs. In the past decade, most mobile networking operators, such as Hutchison and HK CSL, established their own mobile content development teams, covering areas like information services and mobile game services. They purchased information from various sources (such as the weather forecast from Hong Kong Observatory, news from radio broadcast) and developed their own short message service as well. They purchased the blueprint of mobile games and wallpaper, and converted them to their mobile web page format before uploading for their own services. The market leader, HK CSL Limited, developed its team in these value-added services, covering SMS, 24-hours personal assistant service, picture messaging, e-mail access, financial market news and world news [5].

Initially, Hutchison 3G HK Limited had its own mobile web development team while outsourcing some of its mobile content, such as mobile game development, ring-tone downloading service, and wallpaper. After the

official launch of its 3G service, Hutchison 3G had six categories of services, including the following:

- Services for phone and voice services;
- Mail messaging for text, picture and video message;
- Information Services for public information such as news, finance, weather, sport, traffic, horse racing, etc;
- Go China for information of Mainland China;
- Fun & Entertainment for entertainment and trendy information, and
- M-Site for linking to other web sites [1].

The company transformed its business model early in 2005. While still retaining its diversified range of products and services, it provides these by outsourcing the majority of its mobile content services and collaborating with services originators, mobile content providers and products/services distributors.

The outsourcing of these services by the large network providers has had implications for the smaller-sized mobile content providers. In the past decade, mobile content services have increased the scope and diversity of their offerings. It is now not only voice service, SMS, mobile internet services and data transmission services, but also banking services, mobile betting service for horse racing, football games, mobile phone Tracking Management System [2], traffic news, movie guides, etc. Therefore, it is important for small mobile content providers to choose an appropriate business model to sustain their competitiveness.

In comparison to the mobile network providers, the mobile content service providers are used to operating at a relatively small scale (e.g., such a company in Hong Kong may have less than 10 staff) and require less capital investment for their business operations. This allows the mobile content service providers to have a greater degree of flexibility in responding to the rapid changing market. Further, as mobile content services are often operated on a project basis, smaller and simpler organizational structures would be better suited to mobilize their resources for project and customer needs.

The business environment for the mobile phone and its related businesses is usually turbulent and the product life cycles are short as most offerings can be easily imitated or substituted. For example, ringtones and weather forecasts are easily downloaded through other distribution channels like the internet and/or personal digital assistants (PDA). As there is a high usage of Internet service in Hong Kong, it could be easy for the users to switch both voice and text messaging onto the internet, thereby avoiding the mobile phone operators' networks. In addition, Location Technology in mobile phones (i.e., making the caller easy to find) might encourage this 'drift'.

To sustain their competitiveness, the content service providers need to differentiate, and add value to, their services. For example, a customized information program offered to corporate clients could be seen to add value to customers. For a local insurance company, the insurance agents subscribing to the SMS services may share their company's latest information and policy status via mobile phone. In this case, the content service providers act as *syndicators* to provide the information programs to company employees, agents and other stakeholders.

Therefore, content service providers could be presently seen to be positioned similarly to the "simple" structure in Figure 1, depicting the relationship between company structure and environment. Their simplified organization structures help them to react quickly to market changes and maintain the market pace by providing differentiated services.

3. Models for a small mobile content provider

Although mobile content services have a potentially large market, the competition within the industry is increasing rapidly. Thus, it is becoming more difficult for smaller firms to survive and sustain their competitive edge. A few business models can be considered as applying in this industry. These include the following:

- Strategic Alliance
- Integration
- Syndication

3.1 Strategic Alliance

Companies in the same industry can join together as a strategic alliance, and enjoy benefits like:
- Lower prices from suppliers by joint purchasing;
- Saving cost and becoming more efficient by collaboration in content and services development, and
- Sharing resources and risk.

Possible forms of strategic alliances include [6]:

■ Joint Ventures: A newly created and jointly owned company. This applies to a market with slow change. There are dedicated assets for this new company, and consequently a low risk of losing assets to the respective partners.

■ Networks: Two or more companies work in collaboration without formal relationships, e.g. 'One World' in the airlines industry.

■ Contractual: Including licensing, franchising and subcontracting. These are intermediate arrangements with a contractual relationship being set up, but does not involve joint ownership.

	Entrepreneurial/ Autonomy	Functional/ Tech. Competence	Managerial Competence	Pure Chanllenge	Quality Style	
Pioneer Hostile	Simple/ Differentiation					Entrepreneurial
Administrator Stable		Functional/ Cost Leadership				Machine
Diplomat Diversity			Matrix/ Diversification			Divisionalized
Conqueror Regulator				Multidivisional/ Conglomerate		Professional
Moderator Complex					Holding Focus/Niche	Advocacy
Decision Style/ Leadership Style/ Core Value	Director/ Authoritarian/ Usefulness	Analytic/ Control/ Authority	Contract/ Comprise/ Aesthetic	Conceptual/ Creative/ Truth	Behavioral/ Considerate/ People	

Figure 1. Structural fit with environmental type

Alliances have been established in Europe for mobile operators, for example, Freemove, which includes T-Mobile, Orange, Telefonica Mobiles and Telecom Italia Mobile. These companies are enjoying most of the benefits that alliances can offer.

However, can these alliances work in the mobile content industry in Hong Kong? The mobile content industry is quite different from network operators. It covers a much wider range of products, like news, transport information, financial information, games, ringing tones, adult entertainment, etc. Further, there is often more than one company providing a single product. A few mobile games producers can form an alliance, or several News providers can join together. However, there may be little value for a large number of companies in different industries to form an alliance, as this is difficult across industry offerings and there may be of no benefit for sharing of resources and risks.

Finally, a small content provider will find it quite difficult to form an alliance with relatively larger network providers and/or other content providers. Similarly, there are no clear incentives for the larger companies to seek an alliance with smaller content providers as they could either buy the smaller company or may prefer to form an outsourcing relationship instead.

3.2 Integration

An organization will combine with another one in order to gain the benefit of economies of scale or a better control of profit making within a supply chain network. This could be in the form of vertical integration (backward or forward) or horizontal integration (when a company integrates with another company which is complementary to its present activities) [6].

It is doubtful that integration would be of value to the mobile content industry. As seen in the alliance option above, integration is not an ideal model for an industry that has a wide range of product diversity and scope. Further, small companies often do not possess the necessary capital to integrate, be it horizontal or vertical.

3.3 Syndication

Syndication is similar to outsourcing, where it enables the organization to concentrate its resources on its core capabilities. Furthermore, syndication involves the sales of the same good/service to many customers who then integrate it with other offerings and redistribute it [10].

To form syndications, there should be companies performing all three roles including Originators, Syndicators and Distributors.
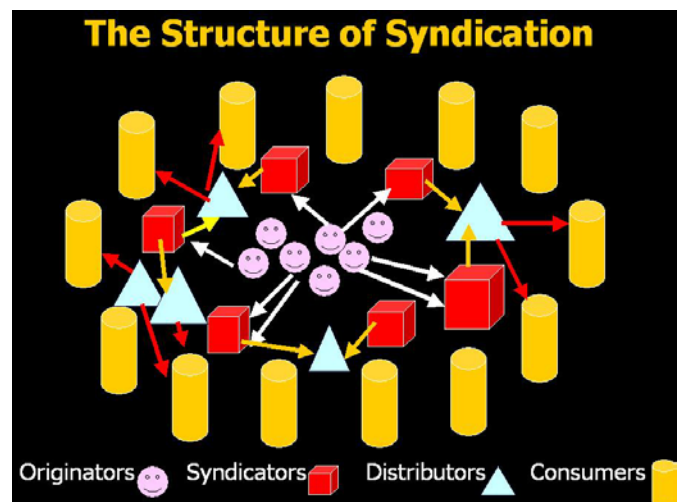

Figure 2. Structure of Syndication

Originator: An originator is the producer of original content

Syndicator: Organization that packages content and manages relationships between originators and distributors

Distributor: The firm delivering content to the consumer

Syndication can reduce operating expenses, enhance service and quality level, as well as improve efficiency and overall performance. It can also contain many suppliers and distributors.

Syndication has existed for many years, and according to many classical examples, it is the ideal way to conduct business in a networked, information-intensive economy [10]. The classical example includes newspaper content distribution. Through this, the distributors get the content for their newspapers, and the originators sell their work to syndicates for maximum distribution in various newspapers all over the world.

Similar to the newspaper industry, the mobile content industry has many content resources. News reporters, ringing tones producers, and games producers are all originators. After a mobile content company selects, re-edits and gathers all the material, it could distribute it to the customers through mobile phone or other mobile connection devices.

Syndication opportunities will arise with the co-operation between Motorola and iTunes as a good example of this practice, starting off with music producers acting as the originators, iTunes as the syndicators, and Motorola and mobile network service providers as distributors. Eventually, it may become a potential source of revenue for the service providers.

The models like alliances and integration can also be applied, but they can only be part of the whole model. For instance, different games producers can be integrated to share the resources and risk. The mobile content company can also be aligned with mobile service providers to help their subscribers to personalize their handsets, e.g., 'IN' from Smartone.

4. Syndication models for supply chains

The mobile content delivery to the mass market has been a major part of the business for mobile network providers in the last few years. In terms of supply chain operations, syndication has distinctive challenges when compared with similar models, such as outsourcing. Syndication will help these small players to capitalize on their market sensitivity and responsiveness. Syndication will also allow these companies to add value by gathering content, bundle them into products and distribute to customers through existing channels, as well as selling to network providers as outsourcing solutions. Two examples are as follows.

Product 1: Mobile Communications (e.g. SMS – Short Message System and MMS – Multi-Media Message System)

Players	Originators	Syndicators	Distributors	Consumers
Role	Create original content	Package content and manage relationships between originators and distributors	Deliver content to consumer	View or use content; create revenue for supply chain through fees, purchase or viewing ads
Examples	Record Company	3 Hong Kong/ PCCW/Smartone/ Sunday	3 Hong Kong/ PCCW/Smartone/ Sunday	Music Listeners

Source: Adapted from Werbach, K., op cit.

Supply Chain Flow:

Advantages:
1. Easy to distribute to wide range group of people/mass market
2. Instantaneous distribution possible
3. Economies of scale can be capitalized
4. Global market coverage possible.

Threats on syndication:
1. Originator can lose control of content easily
2. Imitation on operations design is relatively easy
3. Demand projection can be difficult
4. Collection of sales data for forecast and marketing analysis can be difficult.

Product 2: Mobile Games

Players	Originators	Syndicators	Distributors	Consumers
Role	Create original content	Package content and manage relationships between originators and distributors	Deliver content to consumer	View or use content; create revenue for supply chain through fees, purchase or viewing ads
Examples	Bandai	Smartone	Smartone	Gamers

Source: Adapted from Werbach, K., op cit.

Supply Chain Flow:

Advantages:
1. Easy to distribute to wide range group of people/mass market
2. Instantaneous distribution possible
3. Economies of scale can be capitalized
4. Global market coverage possible
5. Distribution costs relatively low
6. Intellectual rights protection will be stronger.

Threats on syndication:
1. Extra efforts/resources needs to be spent for compatibility to different formats
2. Few originators available in the market
3. Hardware requirement for distribution will be more stringent, e.g. WAP/Java games can only be used with handsets that support the standards
4. Initial investment for the customer can be high, as they might need to invest the handsets that support such products
5. Games are available on other mobile platforms that are directly competing for market share, e.g. Nintendo DS/Sony PSP/ PC online games on slim laptops, connect through wireless broadband connections.

From these examples, we can see that syndication is similar to outsourcing, yet different from traditional outsourcing in two ways. Outsourcing deals with physical products, while syndication usually deals with information and intangible services. In addition, syndication can be automated and standardized in a way that physical outsourcing cannot.

Additional investment will be needed for a traditional company to switch to syndication since automation is related to systems integration and data upload or download to/from different systems. At the same time, it can been seen that organizations like Bandai will have ample amount of information to offer, and for which a B-to-C distribution model of such a scale can work. Whether a smaller company will have enough content to utilize syndication should be considered.

Finally, the level of cooperation will be very important, as collaboration and openness of sharing company processes will be highly necessary for such a model to work.

5. Conclusions

Traditionally, telecommunication operators have been the preferred channel for distribution in mobile gaming. These operators have sought to control the entire value chain of telecommunications by controlling all of its components in networks and equipment to services and content. However, several trends in the structure of the mobile gaming industry, and the competitive forces facing it, suggest that this operator-based distribution system may not be the most beneficial in the long run. An alternate distribution strategy, Syndication, has a great

potential to provide mutual benefits to all players in the mobile content industry, including the new entrants from traditional media like publishing and entertainment firms. Further, syndication allows a company to compete against conglomerates on a small budget. The resources that are required to set up syndications are relatively less than creating the larger infrastructure for delivery of content, in addition to creating the content in-house. Also, content can be tailor-made for business as much as for consumers. Innovation can be made this way through the re-thinking of the delivery process of information.

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