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Communications, Media, and Technology

The Mobile Internet Opportunity: Capturing Context and Creating Value

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“The medium is the message.”

– Marshall McLuhan

Canadian communications theorist

“I am myself and my circumstance.”

– José Ortega y Gasset

Spanish philosopher



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In 1964, Marshall McLuhan, the Canadian communications theorist, coined his celebrated statement, “The medium is the message.” To grasp the idea, consider how a new medium develops in three phases

Phase 1. In its infancy, the new medium is used as an extension of existing media. Cinema resembled theater; TV was radio with images; the Internet was like a typical point-to-point communication or broadcast medium.

Phase 2. Each medium generates its own specific personality: special effects, color, sound, and specific narrative in cinema; new formats and reality re-creation in TV; social communities interacting over a multimedia network of virtual links in the Internet.

Phase 3. Each medium shapes the social web, or at least contributes to doing so. A recent example is Web 2.0, which has created new ways of social interchange for leisure, entertainment, work, and even love. McLuhan’s statement applies to this third phase.

McLuhan’s idea was that, as a medium develops an identity, it shapes society not because of the content delivered, but rather through the defining characteristics of the medium. New media create new ways of human and social interaction, and enable new cultural patterns to form and spread across society.

The specific way in which a new medium acquires its own personality is hardly predictable; personality emerges from the dynamic interaction of the involved forces and agents. As social and economic phenomena, Google, Facebook, “Who Wants to Be a Millionaire?,” and even text messaging were neither rightly predicted nor really predictable.

What is predictable is that once a new medium achieves enough diffusion, it will acquire a well-defined, specific personality, create its own usage patterns, and influence the social structure. At that point, it will have created medium-specific ways to generate value for users. That opens the door for unique business designs that allow companies to capture part of that value.

Exhibit 1 The three phases of the Internet

	Stage 1: Infancy	Stage 2: Adopting its own personality	Stage 3: Shaping the world
Behavior in a medium	<p>The Internet starts with a “printed page” paradigm:</p> <ul style="list-style-type: none"> • Email as an electronic post mail • Web pages as printed pages 	<p>The Internet develops its own personality:</p> <ul style="list-style-type: none"> • Search, news groups, alternative news feeds, and blogs 	<p>People turn away from newspapers and TV toward Internet news—or create their own media outlets</p>
User dynamics	<p>Usage patterns mirror those from older media—except users interact with the medium and other users</p>	<p>Companies exploit their ability to collect vast amounts of data and connect users to it with powerful impact</p>	<p>Users build communities and re-shape the ways in which they interact with each other</p>
Representative players	<p>Amazon Netscape</p>	<p>Google eBay</p>	<p>Facebook Meetic</p>

Source: Oliver Wyman

Mobile Internet as a New Medium

Many of the defining characteristics the mobile Internet will acquire are inherited from mobile voice communications and the fixed-line Internet. For example, mobile voice communications enabled new social behaviors based on the ability to help people stay connected anytime, anywhere. New ways of working and social patterns started to emerge, such as the blurring distinction between work and leisure time. But clearly the mobile Internet is also quite different from basic mobile communications and fixed-line Internet, both of which feed its emergence.

The mobile Internet is already well into the second phase, creating its own personality, and approaching the third phase.

- **Phase 1.** Mobile Internet can be traced to the first wireless application protocol (WAP) services and applications for mobile phones. Mobile Internet was then a poor copy of its fixed-line cousin: Operators' walled networks, inadequate bandwidth, and handsets incapable of rendering high-quality graphics all contributed to a poor customer experience.
- **Phase 2.** With the deployment of 3G networks, mobile Internet begins to emerge with its own personality and attract widespread industry interest:
 - Internet and consumer electronics giants enter the mobile space, offering services, platforms, and devices.
 - Operators try mixed strategies, with walled networks being part of the value proposition, but they also ensure a good customer experience when surfing the open Internet.
 - Services and applications are designed specifically for the new medium's defining characteristics, such as personalization and location.
- **Phase 3.** As networks expand and access improves, more powerful and user-friendly devices and services will fully exploit the medium's potential. Exactly how this third phase develops is unpredictable, as with other new

media that eventually exert significant social changes.

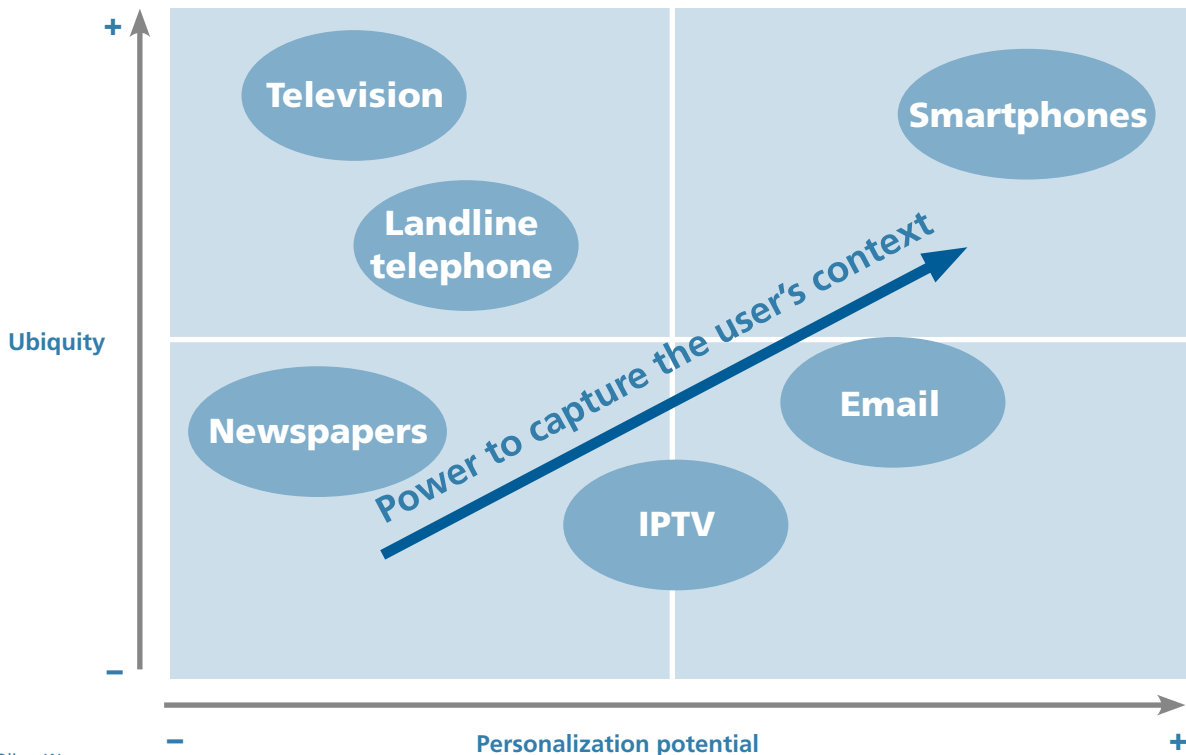
In our view, the key element of mobile Internet's future personality lies in the fact that, as a medium, it carries much more information about the individual consumer and her context than other media to date. The mobile Internet system (including devices, services, applications, networks) will be able to take a sort of "X-ray image" of the consumer to discern her context.

Mobile Internet versus Other Media

To illustrate, compare mobile Internet with more established media:

- Commercial TV is a mass medium. TV executives and advertisers know which programs certain segments of the audience are watching at a given time. Beyond this, only statistical inference, applied to audience—tracking schemes developed over many years, allows advertisers to make a hypothesis about the audience.
- The fixed-line or PC Internet goes a step further, gathering information about individual consumers and their behaviors while online. This makes the Internet a richer medium than TV in terms of integrating information about the consumer and her context. Billions of interactions occur, but they are primarily one-to-one rather than one-to-many interactions, with the individual always reachable. In addition, because of user interactivity, the Internet is a richer medium than TV in terms of the information that can be collected about individuals and their behavior, which is the basis for contextual advertising.

Now let's go another step further, as the multimedia, Internet-enabled mobile phone can capture even more information about consumers and their context (Exhibit 2). Mobile communications allow for a high degree of personalization, from the device and its features to the ways and places those devices are used. Because the mobile phone is ubiquitous, this personalization can be updated in a variety of situations. The mobile is almost always turned on, and is almost always in the consumer's pocket, used in a wide range of settings. Mobile Internet usage thus reflects, in every situation, an image of the user and her context.



Source: Oliver Wyman

In the 1920s, José Ortega y Gasset, a Spanish philosopher who stressed the importance of one's context in determining one's self, coined his famous phrase, "I am myself and my circumstance." Ultimately, this means that a person behaves differently when placed in different situations. Consider, for example, how a consumer's buying behavior changes when the context changes. He is much more likely to shop when walking through an airport on the way home from a business trip than when walking home after a day at the office. The context is different, and only his mobile device can capture this richness about the context and convey information about his circumstance (and, if we believe Ortega, even about who he is at a given moment). It is this potential for contextualization that transforms the mobile Internet into a new medium with its own rules and patterns.

Capturing the Context and Creating Value from It

The types of contextual information that the mobile Internet is, in principle, able to capture and convey are very rich. Among the different types of information available now or soon are these:

Now

- **Value of the consumer** (her ARPU history), with value a good proxy to wealth and class (for post-paid consumers)
- **Sex, age, place of residence, and other demographics** (for postpaid consumers)
- **Handset brand, range, and cost**, another proxy for wealth. In a recent project, Oliver Wyman built a mobile-handset-demand segmentation model, linking handsets' characteristics with consumers' preferences and psycho-demographic profiles.
- **Usage patterns** for voice, data, and Internet activity
- **Location**, so far the most valuable contextual element that mobile can capture, which gives rise to location-based services

Soon

- **Short- and long-distance journey patterns**, which provide information about how the user moves

about; coupled with local information databases, this will provide a wealth of contextual data.

- **Individual perspective**, instant by instant. Each user brings her own view of the surrounding world: what is visible, what is important, and how she feels about it. Through text, multimedia messages, and social community platforms, this instantaneous (and changing) perspective of the world can be captured.
- **Buying information**, to the extent that mobile devices provide a means of paying for goods and services: What does the consumer buy, when, and where?

This information about the user's context provides an opportunity to create value for her¹, by providing services, applications, information, or content that are relevant, useful, attractive, or fun given her context.

Value-creation mechanisms can leverage the user's contextual information in various ways:

- **Exclusivity**. Oliver Wyman helped a telecoms company develop advertising campaigns for brands positioned as "exclusive," targeted at users with top-range handsets.
- **Situational behavior**. Some advertisers, linking payment information with an SMS platform, launch one-to-one marketing actions targeted at potential customers in a given situation (for example, travel insurance companies marketing to people detected to be traveling when they pay for their fuel using a credit card).
- **Location**. In another project, we helped a mobile operator assess the feasibility of a new business model wherein some retail chains planned to send SMS messages with targeted promotions to shoppers whose presence was detected within each store.
- **Mobility**, which enhances contextual information. Imagine a dating application that places users on a map as they move and communicate.

- **Mood**. Twitter ("Broadcast yourself...at every instant") permanently connects users to their social networks, affording instantaneous awareness of their friends' activities and moods.

As these examples show, contextual information channeled through the mobile Internet medium can indeed change the way people behave, from gaming to consumption of goods and services to flirting. At the same time, contextual information changes the way marketers target their potential customers.

A New Game for Mobile Operators

The nature of the mobile data business suggests that a two-tier game will likely be established once the mobile Internet fully emerges as a new medium in its third phase.

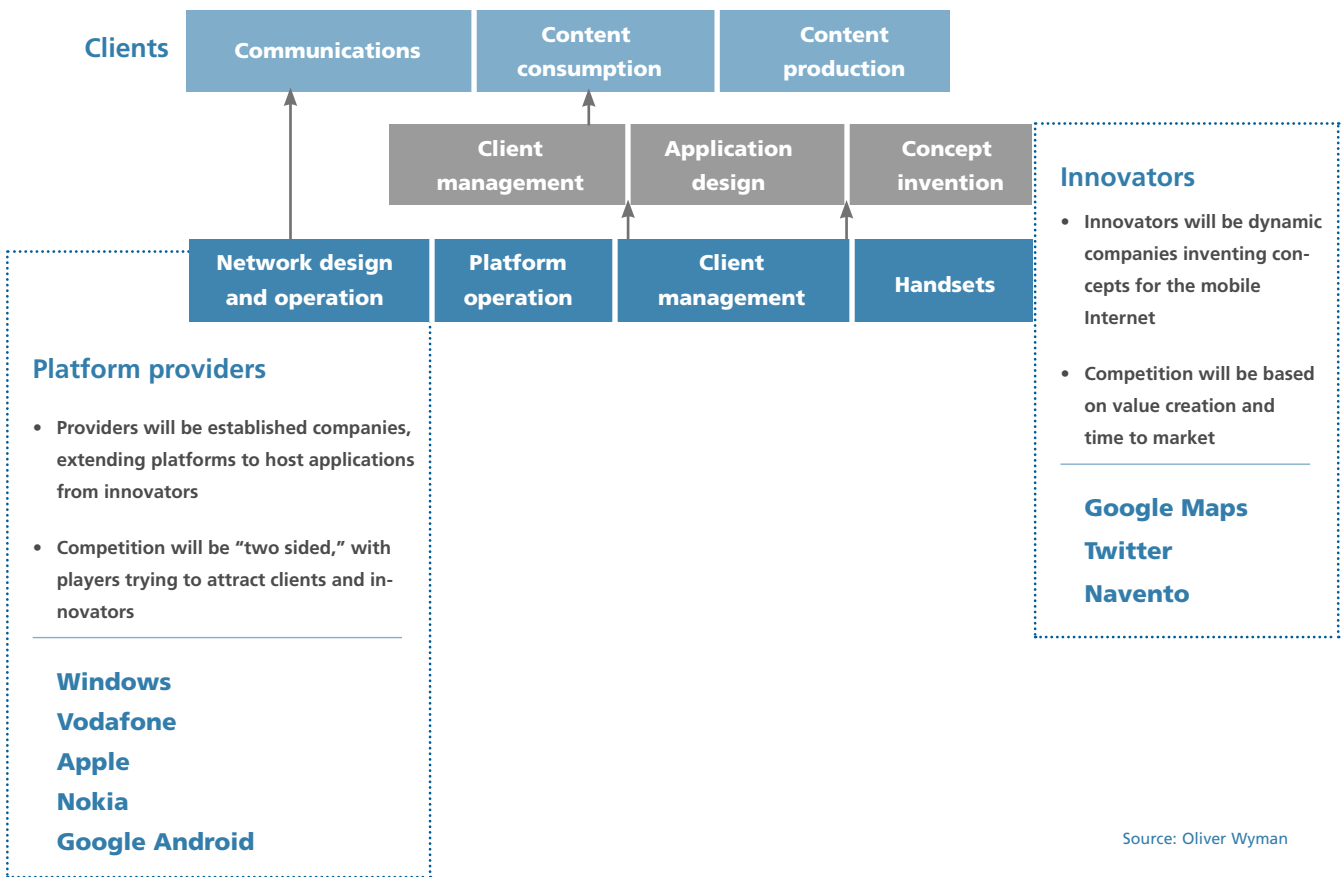
An *innovation* game will flourish, played by companies developing new services, applications, and content. The unpredictability of the new medium will lead to the failure of most of these new services, but many will thrive. Already, applications are proliferating for Apple's iPhone handset through the company's AppStore shop; similarly, at Nokia's website for developers, applications by third-party developers range from text translation to gaming to video-sharing.

At the same time, other agents will play a *platform* game, competing to host as many successful new applications and services as possible. This will be a game of infrastructure and reach, based more on economies of scale and network effects than on pure service innovation. As in any two-sided market, agents try to attract both developers and final clients, boosting cross-network economies. Thus, the bigger a platform becomes, the greater its appeal to developers. For players in this platform game, knowledge of every detail in the innovation game and methods for hosting new applications will be critical.

Different players are currently trying to occupy the platform space, including mobile operators, handset vendors, and Internet giants. All are trying to attract innovative applications and services to host and monetize. The winners will be those platforms that achieve enough scale to reach a tipping point that can attract both future users and innovators.

¹ It also opens up an opportunity of violating her privacy, a critical subject for the real potential of the mobile as a new medium, but which we will not explore in this article.

Exhibit 3 Two linked ecosystems



Source: Oliver Wyman

Players in the mobile and online value chains will, therefore, compete against one another by adopting new business models around users' contextual information. Each company will need to evaluate its relevant assets and how to leverage them to take the largest possible share of the newly created value. Key assets include:

- The **ability to identify, analyze, and screen** information about innovations in other steps of the value chain
- The **agility** to make and implement decisions in a highly dynamic environment, where a new service can achieve widespread adoption in a few months
- The **flexibility to establish partnerships** in a value chain that will be far less integrated than the classic mobile-industry chain
- The **flexibility to embrace multiple technology platforms**, to allow for the co-existence of as many new services as possible

Mobile operators look well positioned to compete in this new space. Although operators won't be leaders in the innovation game, their power derives from direct access to their users' contextual information.

However, as noted before, operators have serious competition. Location-based services, traditionally considered the domain of operators, are currently under attack from big players such as Google and small innovators such as Navento. Other threats for operators come from device manufacturers trying to control ownership of the end user. The success of the iPhone shows the extent of this threat.

To be successful, operators now need to devise ways to leverage their assets to compete and collaborate with more innovative agents. In preparation for hosting innovative applications that the new mobile Internet medium is already spawning, mobile operators should decisively position themselves by:

- **Adapting technology platforms** to ensure that they can enable new services and applications,

including those marketed by third parties, and host them while capturing some value

* * *

■ **Adapting cultures to promote innovation.**

Traditionally, the operator's culture has been based on the need to deliver predictable and scalable services, thus avoiding risk to ensure a good customer experience. Now, risk-avoidance needs to co-exist with risk-taking in new services.

■ **Adapting processes to a much more dynamic environment,** in which time to market will be a key success factor

■ **Establishing partnerships in short time frames,** and, while sharing part of the value created with third parties, maintaining control of their position in the value chain

The mobile Internet will soon emerge as a totally new medium, which will re-shape the way in which users work, play, and communicate. This new medium will have two different families of suppliers—small innovators and platform providers—that will drive a transformation of the mobile-industry value chain and a new split of the generated economic value. The end result? A flourishing ecosystem of many innovators, with a rapid birth-death cycle, hosted on a limited number of platforms.

In this scenario, successful mobile operators can leverage a set of powerful assets, such as knowledge and control of their customers. But they will find strong competition, and have to adapt to a much more open and fast-changing environment. ❖

About Oliver Wyman

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