

Free For All: The Untapped Opportunity for Mass Market Mobile Email

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1. On Mobile Phones, Communications is the "Killer App"

The mobile industry may like to believe that users are willing to settle for a confusing array of fragmented services across a wide range of devices. In reality, many users are starting to expect an experience on their mobiles that is similar to desktop and Web applications.

On the move, in the office, and at home, they want it all. Put simply, users want text messaging, instant messaging, and a slew of so-called mobile 2.0 messaging services. They want them on their terms and without thinking about the underlying technology or if they are using a PC, a browser, or a mobile phone.

Against this backdrop, demand for communication services that bridge the boundaries of desktops and mobiles is poised for explosive growth. Top of the checklist for many people is email, a service that has become an integral part of their lives but so far has been limited to the desktop except for a small minority of users.

The Radicati Group, a tech market research firm, counts two billion active email accounts worldwide. Yet despite all these accounts, less than two percent of the 3.3 billion mobile users in the world receive email on their phones today. User demand is certainly not the bottleneck. To the contrary, Frost & Sullivan, a research and consulting company, forecasts that global mobile email usage will increase 24 percent annually over the next four years.

1.1 Pent-up demand

Clearly, mobile email is moving up the priority list of many mobile users. So why is there a disconnect between the number of people who want mobile email and those who get it?

A recent online survey of 500 users sheds some light on this. It reveals that a whopping 67 percent of users would like email on their mobile phones. However, some 45 percent of respondents said they are put off by high cost, and another 30 percent complained that it was too complex.

Put simply, so far mobile email has not been accessible for the average user.

Other barriers to adoption include:

- Limited device support: Mobile email has worked well primarily on specialized devices and smartphones – devices of choice for enterprise users but owned by only a small fraction of others.
- Usability: Consumer handsets have been difficult to configure and use for email.
- Cost: On the desktop, email is free. Studies show that mass market users expect the same when it comes to mobile email.

Fortunately, several trends play in favor of increased mobile email adoption.

Chief among these is the move by mobile operators – such as Vodafone in Europe -- to introduce affordable "all you can eat" fixed rate data plans. These are whetting the appetite of users for a wide range of mobile services, including mobile email.

Another trend is the decision by device manufacturers to introduce more sophisticated devices at lower prices – such as the new iPhone, and consumer-oriented BlackBerries -- that combine large screens, qwerty keyboards, more processing power, faster connectivity, and memory, to deliver an end-user email experience approaching that of a PC.

In summary: Mobile phones increasingly are becoming the "new computer" for many people. Reduced mobile data tariffs encourage users to access mobile services such as email on the fly. The opportunity is ripe to provide mobile email to a mass market audience.

2. Pump Up The Volume

The good news, according to Frost & Sullivan, is that mobile operators and service providers have an opportunity to turn mobile email for the mass market -- consumers, prosumers, and small and medium business users -- into their next big cash cow.

The better news is that the market for mobile email is a huge growth area without a clear leader.

Sensing how important mobile is to their futures, online giants such as Google and Yahoo! are scrambling to offer users mobile email. These companies have a competitive agenda that is impossible to ignore yet difficult to discern.

In the short-term, the impact of their offerings may appear harmless enough. But be assured the impact can be profound as users learn to associate their brands with a broad range of personalized mobile services.

Case in point is Yahoo!, who offers Yahoo! Go and well as onePlace. onePlace is a mobile content solution, announced in March, 2008, that is designed to dovetail with the company's other mobile offerings including oneConnect, a tool to update social networking and messaging on one mobile platform; and OneSearch, which aggregates news, weather, financial data, photos, and Web links based on search queries. onePlace will "put everything in which a consumer is interested into a single location and then serve it up in the most personally-relevant manner," Yahoo! said in a press release.

If mobile operators and service providers are not careful, mass market users will come to view mobile services such as Go and onePlace as the jumping off points for all mobile content and communication. Should this happen, the role of the operator will be relegated to that of dumb pipe. This scenario is hardly far-fetched. Carriers and Internet service providers lost their clout to Web rivals in the early days of the Internet, and they risk this occurring again if they don't act fast.

However, there is still ample time and room for many in the mobile value chain to compete and win against the Internet giants *if* they can deliver an engaging mobile email service for the mass market at an attractive price.

2.1 Device compatibility is paramount

Over one billion new mobile devices are sold each year. Each mobile device model has unique characteristics and performs differently on different mobile networks.

Handset fragmentation makes it difficult to provide a mobile service for the mass market. The proliferation of mobile operating systems and environments – Symbian, BREW, Java ME, Windows Mobile, Mobile Linux, BlackBerry OS, iPhone and, most recently, Android -- creates additional complexity. It makes mass deployment of a wireless service extremely problematic.

In view of this dilemma, vendors of proprietary mobile email software have purposely restricted offerings to a limited set of devices. A prime example is Research In Motion (RIM). Its proprietary push email solution runs only on a handful of BlackBerry devices.

This may work when the addressable market is made up of a relatively homogenous group of enterprise users that primarily require access to one system (Exchange). But when the target audience is a large varied mix of consumers and prosumers, then an *all-inclusive approach* – one designed from the ground up to work on a multitude of devices – makes better sense.

Leveraging a solution that runs on as many phones as possible is an recipe for success that enables mobile operators and service providers to address their largest possible market.

2.2 It pays to be open... source

For this reason, an open source approach is ideal to address the market for mobile email. In contrast to proprietary software, open source is furthered by the parties that contribute to its development. What's more, all parties are encouraged to change and improve it.

As a result, the quality, ease-of-use and performance of open source software now rival that of proprietary software. A prime example is Linux, software that benefits from a large and loyal developer community.

Against this backdrop, mobile operators and service providers are increasingly using open source software, from operating systems to infrastructure and, most recently, extending that up the software stack to mobile apps and services. It reduces their internal complexity and cost and levels the playing field.

When it comes to mobile, the primary value that open source provides is broad device compatibility. Take the case of Funambol, which is the largest mobile open source project in the world. Its software has been downloaded more than two million times by a community of 50,000 developers around the world. Their community tests and improves the software running on a wide range of devices and mobile networks. Because developers can access the code, they can quickly pinpoint and resolve issues. This world's 'largest virtual mobile development and quality assurance team' enables Funambol to support 1.5 billion mobile handsets, including the latest mobile devices much more quickly than proprietary approaches. It is the only proven and practical way to address device fragmentation.

Another value of open source to mobile is that it provides the maximum control for deployments. This is crucial because mobile is inherently complex and there is no substitute to having source code as the ultimate flexible safety valve.

Open source also provides superior value because its economics are significantly different than that of proprietary software. This is why industry analysts and users view open source as a disruptive force in the industry. It involves significantly lower development, QA, sales and marketing costs, which translates into cost savings which ripple throughout the value chain.

In summary: Using open source allows mobile operators and service providers to successfully deploy compelling new services such as mobile email to the mass market.

3. An offer they can't refuse – free

While open source makes it possible to deliver mobile email to a mass market, the new key to success is to make it free.

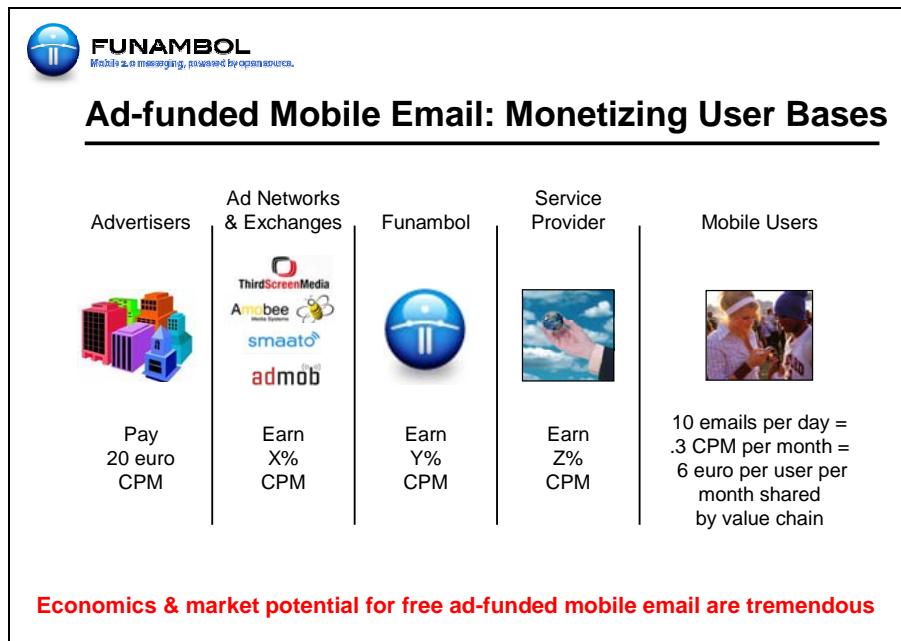
A recent industry survey of mobile phone users in the U.K., Germany, Italy, Spain, and the U.S. conducted by Vanson Bourne, a specialist research-based technology marketing consultancy, reveals that 79 percent of respondents would accept ads attached to email messages if the mobile email service was free. The survey also found that a whopping 98 percent of respondents cited cost as a reason for not trying or using new mobile data services in the past.

3.1 Ad-funded drives results

How does an ad-funded mobile email model work? And would it benefit the business ecosystem of service providers and advertisers?

Do the math, and the following example proves ad-funded services drive positive results up and down the value chain.

Consider the following scenario: Advertisers are willing to pay 20 euros per CPM (1,000 ad impressions). A typical email user receives 10 emails per day, which exposes them to 300 ads per month, which is .3 of a CPM per month. This user generates 6 euros of value per month. This must cover the cost of providing mobile email to the user, including the data traffic for the service, with the balance shared by those in the value chain. This can enable a service provider to net one to two euros per user per month. When multiplied by hundreds of thousands or millions of users who are attracted to free email, this represents a lucrative new revenue stream.



Service providers clearly benefit from offering an ad-supported service; but they can achieve a sustainable competitive advantage only if they are also first-to-market. Indeed, a review of free and paid mobile services shows first-mover advantage can literally pay dividends. Specifically, a free service that is also the first to market can chalk up an adoption rate of between 10 and 20 times that of a comparable paid service.

In the case of mobile email, a service offered as part of a paid subscription model might typically achieve a modest 1 to 3 percent uptake. In contrast, a first-to-market ad-funded mobile email service might be adopted by a mass user base of 10 to 20 times that amount.

In a nutshell, the first to market can cash in on mass market demand for ad-supported services. A first-mover advantage is enjoyed by the service provider that understands this trend and – more importantly – acts on it.

Connect the dots and there is intriguing evidence that an ad-funded or ad-subsidized go-to-market model is the only approach that will drive service adoption among cost-conscious mass market users. Put simply, an ad-funded business model is the only approach that gives people the service they want at minimal or no cost, while allowing mobile operators and service providers to generate significant revenue.

3.2 Relevancy rules!

The success of an ad-funded mobile email solution is dependent upon the propensity of users to accept and act upon the mobile ads they are shown. Studies show that users are more likely to pay attention when the brand messages are genuinely useful and relevant. Put simply, consumers welcome advertising that is in tune with their own lifestyles and life stages.

Indeed, a series of recent reports indicate ad-funded content and services models are set to gain serious traction *if* the advertising presented to consumers can be tailored more to their needs. A survey of consumers conducted by global market research firm Ipsos Mori, for example, found that over a third of 16 to 34 year-olds who own a mobile phone are happy to receive mobile advertising in return for free content such as music, games or video. However, the study cautions that effective advertising must be “creative, relevant, and non-intrusive.” Anything else is spam.

What is a useful service? Interestingly, there is mounting evidence that consumers place location-aware advertising, such as coupons from local stores or special offers from shops nearby, at the top of the list.

To be sure, relevancy – and hence useful advertising – must leverage the clues an individual leaves behind – including demographic data, preferences, past purchasing history, browsing patterns and location. However, it is paramount that such systems respect individual privacy. One way to ensure that advertising is not perceived as intrusive is to offer users the option to opt-out in return for a small monthly fee. That way, the consumer is empowered to accept advertising on their terms only.

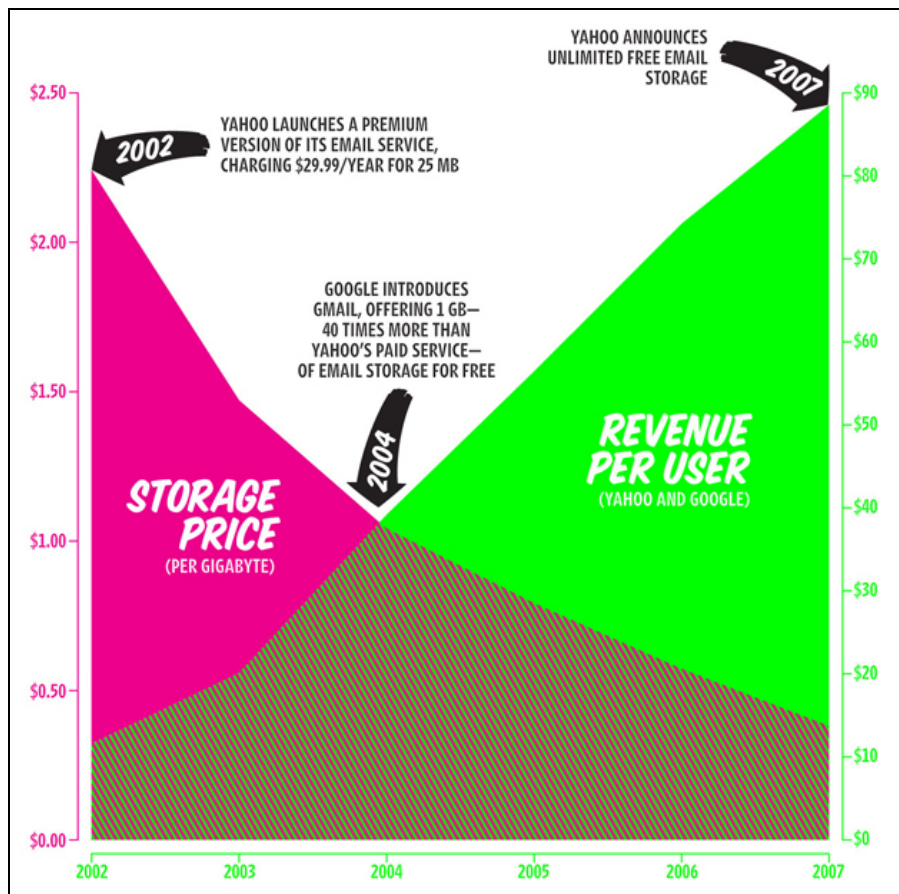
3.3 The Right Stuff

Spoiled by the Internet, where the price of bandwidth and storage have dropped dramatically, mass market users expect the majority of Web content and communications services to be free. Indeed, the Web has become the land of the free and the impact of the companies whose businesses touch the Web has been profound. "There has never been a more competitive market than the Internet," Chris Anderson, editor in chief of *Wired* magazine and

author of the milestone book *The Long Tail*, writes in his new book *FREE*. "And every day the marginal cost of digital information comes closer to nothing."

Put simply, free has emerged as a full-fledged economy. Artists such as Radiohead and Nine Inch Nails offer music for free – and make a profit in the process; the fastest growing segments of the gaming industry are free-to-try massively multiplayer games; and Google and Yahoo! cleverly offer every service free to consumers.

A prime example is webmail. Anderson's book documents how the drop in storage prices allowed Google to aggressively go after and win new customers. For years, webmail users had to pay for extra storage. Then, as storage prices decreased, Google turned the model upside down and offered 1 gigabyte free to every user. Yahoo! soon followed suit with the ultimate offer: infinite free storage. Since each page of webmail comes with ads, more users means more revenue.



Source: WIRED, Steven Leckart; Chart design: Nicholas Felton

Anderson doesn't examine the potential impact of "freenomics" on mobile services; however, the arrival of flat-rate data plans and the advance of mobile advertising strategies create perfect petri dish conditions for companies to offer their content and services for next to nothing – subsidized by relevant advertising. The model thus changes from selling goods and services to matching companies in a three-way market that connects service providers, brands, and consumers.

Against this backdrop, it's only a matter of time before mobile email is free. But this doesn't mean companies should adopt a wait-and-see attitude. To the contrary, Anderson reminds us that the winners in the webmail windfall were the companies that "made their stuff free *first*."

In summary, market trends are converging to create a major opportunity for service providers and mobile operators -- mobile email for the mass market. To seize this opportunity, service providers can deploy a solution that is based on open source, for the broadest device compatibility, and supported by advertising, to foster adoption among cost-conscious users. The opportunity is huge, but so is the drive of Internet giants to extend their reach to mobile. The winners will be those companies that have the capabilities to offer mobile email for free first – and still make money. Service providers must choose a strategy that ensures them both competitive edge and first-mover advantage. A wrong move now means the difference between a great market and none at all.

4 References, Credits and Additional Information

This paper is sponsored by Funambol. The opinions expressed in this white paper are those of Peggy Anne Salz and MSearchGroove and do not reflect the opinions of the organizations referenced in the paper.

ABOUT FUNAMBOL

Funambol provides mobile 2.0 messaging software powered by open source. The company is the leading provider of ad-funded open source push email and PIM sync solutions for the mass market. The commercial version of Funambol has been deployed at service providers, mobile operators, portals, device manufacturers, and ISVs including customers such as 1&1, Earthlink, and CA, Inc. Funambol is headquartered in Silicon Valley, with an R&D center in Italy. For more information please visit www.funambol.com.

ABOUT PEGGY ANNE SALZ

Peggy Anne Salz is the founder and chief analyst of MSearchGroove, an online source of analysis and commentary on mobile search, mobile advertising and social media. Her report, Mobile Search & Content Discovery, was regarded as the first in-depth study of its kind, establishing Peggy as a leading authority on mobile search and content discovery technologies enabling media companies and mobile operators to monetize content and services. Her drive to spark debate about issues impacting the industry at all levels has won her international recognition as a brave new voice in the mobile content market. She has established a successful consulting career based on vision, insight, versatility, and over 15 years of industry experience.

ABOUT MSEARCHGROOVE

MSearchGroove.com provides analysis and commentary on mobile search, mobile advertising, and social media. Through primary research and interviews with c-level executives and industry luminaries, MSG is the essential read for companies seeking ways to monetize their digital assets, drive mobile advertising revenues, and harness the power of empowered consumers.