Business Models for Delivering Mobile Value Added Services (VAS) in Developing Markets

POLICY BRIEF

KEY RECOMMENDATIONS

Regulator and Network Operator Collaboration

Given the variety of network models that can be adopted and the potentially unfair revenue sharing schemes that are often controlled by the operator (at least during the inception period of the service provision), some degree of regulatory intervention will help balance the financial relationship between the stakeholders.

Innovation over Policy

A policy free environment is perhaps the only way to reap the benefits of innovation; especially when introducing a new service. In this instance however, the lack of policy has created an unfair playing field (depending on the type of business model adopted). Therefore, although policy intervention may prove to be beneficial, striking the right balance is imperative.

Business Model Adaptability

The mobile content market is rapidly changing. To survive and remain profitable in this field it is vital to be able to think innovatively and adopt new business models. Combating the negative attitude towards SMS and banner ads creatively is another challenge service providers must be willing to face.

WIDELY USED VAS BUSINESS MODELS

There are a multitude of business models that have evolved from three main paradigms for the delivery of value added services:

1. Subscription model: Users are partially (for premium content) or wholly charged a specific fee irrespective of actual usage.
2. Advertising model: Content and services are mixed with advertising material, often in the form of banner ads. These adverts may be the sole or major source of revenue for the broadcaster.
3. Merchant model: This simply involves wholesalers and retailers who trade mobile content, goods and services.

Most other business models are variations of the subscription, advertising and merchant models. For example, the **utility model** employs metered or pay-as-you-go system, while the **infomediary model** uses valuable information about user behaviour to reach a target user base. The **affiliate model** is a further variant of the utility model, where revenue share is based on the number of user clicks.

Although the business models illustrate the source of the revenue, the profit sharing between the content creators and the distributors (mobile network operators) are often left to the discretion of the parties involved; usually the network operator.

KEY REVENUE DRIVERS

A high-level analysis of the main models suggests the income streams are largely dependent on:

1. Network traffic: Certain models (especially advertising based) rely on the expansion of social networks driven by user recommendation.
2. Unique customer value: A key driver for subscription-based models is to maximise the willingness to pay by creating high levels of unique customer value.
3. User mass: The merchant model is predominantly based on the premise of 3^{rd} party trade; and therefore, requires a substantial user base in order to be lucrative.

THE PAIN-POINTS OF MOBILE VAS DELIVERY

The dominant role of mobile operators and their ability to control multiple entities of the value chain from networks and services to application and content often have a gruelling effect on content providers. A fair number of mobile business models operate on 'walled-garden' or 'onportal' frameworks where the operator's value structure is used to generate content and application revenues. The user demand however, for unrestricted choice of content and applications is compelling the operator to become a mere provider of connectivity.

Case Study: BuzzCity

BuzzCity manages a mobile social network called myGamma that is advertising-funded. It essentially serves as a middleman to link advertisers with publishers for mobile advertising. As such, BuzzCity's ecosystem consists of advertisers, publishers, content aggregators, mobile operators and consumers. In addition, they also deal with media houses and broadcasters for marketing purposes and service providers for billing, site development and web hosting.

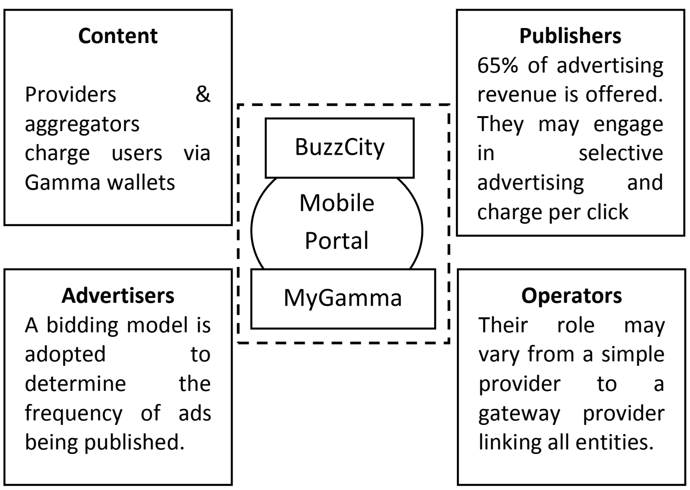

Figure 1: The roles of different entities in BuzzCity's value chain

The **merchant model** employed proved to be unprofitable due to the revenue share of;
- 40%-50% to the mobile operator
- 10% of billing aggregator fee
- 40%-50% revenue shared among merchants

The **advertising model** on the other hand, includes revenues from content owners, aggregators, community portals and advertising agencies who market via myGamma. As a result, BuzzCity has moved from a content provision business to a mobile advertising business. With this model, the gross margins are relatively high – BuzzCity receives 30-%40% of revenue on external publishers who in turn receive 60%-70% of the mobile advertising revenue.

Factors that Determine the Success of a Business Model – A BuzzCity Perspective

- *Technology*: In the case of BuzzCity, ad optimisation technology was developed to enhance the bidding system and thereby increase revenue.
- *Service targeting*: BuzzCity's services are targeted to advertisers and provides assistance to create and publish mobile ads
- *Consumer Targeting*: Although BuzzCity targets lower middle to middle income groups, the growth in the advertising business is slow in Thailand. This is due to the slow adoption of mobile phone as new media as well as the lack of adverts in the local language.
- *Network Operators*: BuzzCity's shift from the merchant model to the advertising model helps to avoid low revenue sharing from mobile operators and to retain 97% from mobile advertising on myGamma and 30%-40% from external publishers.
- *Network Externalities:* BuzzCity's mobile advertising network aggregates approximately 2,000 smaller sites. As a result, advertisers are able to reach a diverse audience.

Conclusion

As with the delivery of any product or service, it is vital to select the business model that will be most appropriate for the service being offered. In community or social networking scenarios for instance, advertising, subscription and transaction models have been found to be suitable.

The revenue sharing schemes that favour certain entities of the value chain (often the mobile operator), inevitably has a negative effect on the service provider, as was the case with BuzzCity. Although at present the focus of policy makers and regulators are not within this sphere per se, it will assist all players if some attention was paid to the revenue sharing aspect of business models in use. This does not however, suggest over regulation that may hinder innovation.

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