



Mobile games – a very serious business

During 2005, mobile gaming will have generated close to US\$2.4 billion in revenue for operators. An impressive number? Maybe not when compared with the overall online games market that is estimated to have reached close to US\$29 billion in the same year. So, what needs to be corrected or achieved within the value chain to ensure that mobile games revenues gain a greater percentage of the overall rewards? **Paul Rasmussen** gives the lowdown on this hotly tipped market.

Online gaming has become a mainstream entertainment business with innovative ideas, including more powerful and sophisticated games consoles, being launched with increasing frequency.

But this US\$29 billion business has ambitions to become even larger and could rival the global recorded music industry by 2008, claims a recent study by DFC Intelligence.

Key to achieving this goal, states DFC, is recognising the growing diversity among markets, platforms and business models. But where and how does mobile gaming fit within this overall framework for the future, especially given the particular technology challenges it will continue to face?

What is increasingly recognised by the games industry is that the mobile component is still in its infancy. The value chain remains complex de-

spite many attempts to establish workable business models that provide equitable profit to those involved. The access technology, according to the games developers, remains unacceptably unreliable with up to 10% of games transactions failing due to network errors. Handsets have proved notoriously unpredictable with their ability to conform to accepted standards and, lastly, the prescribed route for users to download games is cumbersome and non-intuitive.

But things are improving, albeit slowly.

KEY DRIVERS

“Many of the necessary steps are underway to solve some of the more obvious issues,” says Kristian Segerstråle, VP of EMEA production for Glu Mobile, a top-five games developer. “The overall mobile games industry is getting closer to where it should be with, for example, many of the weaker handsets (from a games perspective) now being

replaced by more competent devices, and there is better integration of the overall technology within the value chain.”

But Segerstråle does not belittle the intricacies involved within this chain: “We need a multitude of technologies to work together in a seamless manner – the games download and installation technology must work without any problems, the handset browser should properly display what content is available, the management of content on the back-office server must be effective and accessible, the transaction and billing technology needs to be up-to-date and professional. If all these subsystems do not interwork successfully, then the customer experience will be poor.”

Mobile phones are the most obvious target for any complaint by the consumer. But as handsets increasingly support standardised technology, such as Java or BREW, then compatibility will improve and with it the user experience. Certainly Java looks set to become the dominant download technology for games handsets and already has over 88% of the market.

According to a new study from Informa Telecoms & Media, although Java’s market share will fall in the coming years, on a global basis this decline will not be significant. “By 2010, it is predicted there will be nearly 280 million users downloading Java games worldwide, representing 85% of the market.” says report author, Pamela Clark-Dickson. “Meanwhile, there will be over 34 million users downloading BREW games, forming 10.6% of the global market. Interestingly, we believe Java over BREW will have increased in popularity, with 14.8 million users downloading games, representing 5.3% of the global market,”

Total downloadable games users by technology type, 2005 – 2010 (millions)

Technology	2005	2006	2007	2008	2009	2010
Java	68.9	103.7	147.9	195.7	242.5	279.4
BREW	8.4	13.2	19.1	25.3	30.8	34.7
Java over BREW	1.4	2.6	4.4	7.0	10.5	14.8
Total	75.9	114.4	162.5	214.0	262.7	299.4

Source: Informa Telecoms & Media

FASTER PROCESSORS

What will also provide a better user experience are the dramatic technology changes underway within high-end 2.5G and 3G handsets. The processing power now becoming available in these devices is diverging sharply from the low-end or more fashion oriented handsets – with some observers stating that the latest high-end handsets now have a 3 to 1 processing advantage over the low-cost terminals.

“This differential will increase over time,” claims Glu Mobile’s Segerstråle, “and we might see mobile phones that can compete with hand-

held consoles, although this battle hasn’t started yet. Nokia’s attempt with its N-Gage device to address the console market is now recognized as a failure, and today there is probably a three-year technology gap between handsets and games consoles – but this will lessen.” However, there is growing acceptance that there will be a category of handsets – albeit small, that will look to compete within the console games segment, but these will only be an attraction to hardcore gamers, given the significant majority that want the handset to be more of a lifestyle product.

An important side effect to this increase in processing performance is the positive impact it will have on porting and qualifying games on the increasing number of handsets that are launched each year, conservatively estimated at around 150. While progress has been made with standardising much of the hardware and software elements within the phone, the boost in processor speeds will enable the developers to ‘abstract away’ the games code and greatly reduce the porting effort involved.

Eric Hobson, the European general manager for games developer Mforma, has strong views on whether this new power should be used to reposition mobile phones as games consoles. “My biggest issue with many in the mobile games industry is the disproportionate amount of time they spend wishing the handset to be a games console, and trying to figure out how they can make it perform more like the Playstation 2. We’re very focused on believing we are selling entertainment snacks, not entertainment meals. The console games fall into the latter category by being an immersive experience that a user might spend several hours playing – this is not what people do on the mobile. They want a short entertainment fix like PacMan, poker, Connect4 or whatever.”

But this mention of poker, or any form of mobile gambling, sets many alarm bells ringing within the cell phone community.

GAMBLING NIGHTMARES

The mobile industry has progressed steadily up the content value chain – wallpaper, logos, ringtones, adult material and then gambling. And it is this final class, according to Duncan Callow, a partner with international law firm DLA Piper that is proving the most complex. “This mobile content route has become legally more complex with each step. But mobile gambling has both age related issues and the fact that it can be illegal in some countries. At present it’s a legal nightmare.”



Kristian Segerstråle, VP of EMEA production for Glu Mobile

Callow maintains that there are no European countries that allow mobile gambling today. “The majority of countries have strict law on lotteries and they are mainly state run. Most countries allow bets to be placed using the handset, but proper gambling calls for the player to be within licensed premises – which means games like poker cannot be played using the mobile.

“Mobile users will need to access a service based offshore if they want to play a gambling game such as poker. But there is no clear guidance as to whether the game is being conducted offshore whilst the user is onshore and thereby infringing local laws. Due to the many headaches associated with mobile gambling we believe it unlikely mobile operators will adopt such a service, even though we are aware that some mobile content providers have tried to replicate what has been seen with online gambling, namely setting up in a lawful offshore environment. But it’s a risk and a very complicated industry to become involved with.”

One risk Callow points to is the action taken by the German authorities against newspapers and broadcasters that are promoting offshore betting. “Even the online betting firms have had action taken against them. So, setting up a mobile-based operation to do this could involve enormous time fighting or trying to avoid legal battles, and it’s perhaps easier to make money elsewhere.”

SINGLE OR MULTIPLAYER?

If mobile gambling looks a potential minefield, then developing multiplayer mobile games might prove more fruitful. Whereas online single player games are generating just over 20% of global mobile games revenues today, this will fall to just 10% by 2010. Taking over will be online multiplayer games, defined as those played over the network against other users.

“These new games will have generated 28% of total global revenues in 2005, and are forecast to grow much faster than online single player revenues and to continue to take a larger share of global revenues,” says Clark-Dickson. “This increase is because publishers and mobile operators will launch more games that will allow mobile users to play against each other, and will introduce community features that will encourage increased multiplayer games downloads and traffic. By 2010, online multiplayer games are predicted to generate annual revenues of US\$2.3 billion, 21% of global revenues.”

Online traffic – Single vs Multiplayer (millions of sessions per year)

	2005	2006	2007	2008	2009	2010
Single player	2589.5	4824.6	7504.1	10693.7	13911.9	16467.4
Multiplayer	4582.2	12301.9	23418.1	36246.0	47335.7	56328.5
Total	7171.7	17126.4	30922.2	46939.7	61247.5	72795.9

Source: Informa Telecoms & Media

The deployment of WCDMA technology will have an increasing impact on the attraction of multiplayer games as the high and unpredictable latency issues associated with GPRS are overcome. “Games capable of providing 3D and multiplayer features are very much in demand and mobile operators are reluctant to consider a game unless it has these attributes,” says Sven Halling, CEO of Terra Play, a middleware platform developer. “There’s a lot to learn from multiplayer games played in the fixed environment, but remembering that mobile traffic charges can dramatically affect uptake and usage.”

Closely associated with the success of all forms of gaming is the need to build a community of like-minded players. “It has become a key component to the long-term viability of mobile games, and in particular multiplayer versions,” says Hugh Griffiths, head of mobile data with O2. What these games communities also generate is greater loyalty to the game – with the likelihood of reducing subscriber churn, as well as providing operators and publishers with more detailed information about these players’ habits and preferences.

Perhaps the final component needed to turn mobile gaming to the predicted mass market is wide acceptance that the handset is a viable platform and that recognisable brands from other media are deeply involved.

“The entry of big household gaming brands into the mobile segment is very important,” says Glu Mobile’s Segerstråle. “Our biggest selling title, Who Wants to be a Millionaire, has already sold over a million units in 2005 in Europe alone. While this is a big brand, it’s important for consumers to start associating their handset with the idea that it’s a gaming device. The entry of firms such as Electronic Arts, which will spend money promoting its games, can act as a beacon for mobile.”

