

## **Operators must beware the Trojan Horse**

**By Annie Turner, Director BKI Media**

As the Trojans found to their great cost at the end of a ten year siege, a gift can bring serious consequences. Over the last few years, mobile operators around the world have been only too pleased to partner Google, Yahoo! and Microsoft in their bid to create additional revenue streams through advertising, increased content sales or as the gateway to the wider Internet. As a matter of urgency, operators need to consider the potential consequences of these partnerships.

While most accept that the walled garden – or citadel – approach is coming to an end, operators rightly believe that extra sources of income from the Internet can help defend against them being reduced to a bit pipe by adding value for the user: if customers can find sufficiently compelling content on-portal, there is less motivation for them to leave it. If big brands are offering prizes and other incentives on-portal, then the portal is stickier and there is good money to be had from the advertiser (search and advertising are natural bedfellows – see the first article in this series at [www.bkimedia.com](http://www.bkimedia.com) or [www.jumptap.com](http://www.jumptap.com)).

What's more, if operators can leverage their subscriber knowledge and direct users quickly and easily to the content and/or information they are searching for, then users will reuse their service provider's search facility repeatedly, in effect becoming the gateway, or portal, to the mobile Internet. With so much at stake in terms of revenue and even their role, it is easy to understand why the operators raced to partner the big Internet brands, thinking that their online success could be replicated, to the operators' advantage, on mobile. They would have done well to heed the advice given to the Trojans by

Loacon (updated for modern politically correct times) – beware rivals bearing gifts.

Google, Yahoo! and Microsoft have done well out of their partnerships with the operators. The operators' cooperation was the fastest and most straightforward way of getting their search boxes and business models onto the mobile screen instead of struggling to establish a mobile presence from the off-portal wilderness. With the operators' blessing, the big Internet brands have learned an awful lot in a relatively short time and have plans of their own, which don't include the service providers.

The operators are in great danger of giving away the keys to their kingdoms. They have allowed the big Internet brands to form direct links with their customers and to establish themselves as mobile brands too. At the moment, the majority of subscribers still use their operators' portals as the launch pad onto the Internet and the operators still have the opportunity to own the mobile experience – from voice and data to search and buy – in the medium and long terms. If they don't seize this opportunity, the big Internet brands soon will.

The fact that Google has said it has no intention of making money from Android and the Open Handset Alliance is not the point. The danger for mobile operators is that Android is designed to be an entirely free, open source (Linux) platform that allows consumers to use whatever applications they like and go wherever they want, at will, with no recourse to the operator. This is nothing less than disintermediation – aka cutting out the middleman or reducing the operators to bit pipes.

Put another way, operators are perilously close to abdicating all control of their customers' behaviour, which will result in their inability to capture revenues from all those value-added services that they have built their future business models on.

### **Looking the gift-horse in the mouth**

It's now or never for the operators. If they are to maintain their relationship with their customers in order to control and exploit their consumers' behaviour, they must not delay. BKI Media has long argued that the only way operators can counter the incursion of the big Internet brands is to team up with white label mobile search providers, who have much to recommend them.

In the first place, by definition, they are not in competition with the operators because their contribution is invisible to the user.

Secondly, again by definition, white label mobile search companies specialise in mobile and understand that the mobile Internet is not simply about trying to squash the online experience onto a smaller screen. Life is much more complicated than that and Google and Yahoo! have been rather crude in their approach to mobile.

The Internet brands also need to do more work on their backfill results for search: algorithms that produce page rankings in terms of relevance online cannot be applied to mobile where pages do not 'point' to each other as they do on the web.

Also, Google boasts that its algorithms 'learn' from user behaviour, so for instance, when used online, it learns that the bottom two results on the first page were actually what the searcher was looking for. This doesn't work on mobile because people don't read down the list of the results, instead they are inclined to plump for a poor second best towards the top of the list. The algorithm adds this learning to what it knows about the user, although it is incorrect. Over time the problem is compounded as more inaccuracies are added.

To combine search and advertising successfully, white label search providers typically have a very good directory of WAP content to backfill with. They can force them to the top of the search results after the sponsored listings. The most important thing is that users get good results from search, on or off-portal. This encourages them to use the operators' own branded service again and again, and to use their portal as the gateway to the Internet.

The white label search approach gives the user a good experience, produces more information about consumer behaviour (from which to build consumer profiles and give the individual better answers) and generates money from advertisers for sponsored links and banner ads.

Many mobile operators' chief executive officers, including Arun Sarin, head of the world's largest operator by revenue, Vodafone Group, have said they don't want their companies to become bit pipes. They argue that their relationship with their customers is so powerful that no-one can take it away from them. Google, Yahoo! and Microsoft demonstrably have other ideas, yet like Trojan Horses, while they are powering operators' portals,

advertising and search, they are devising strategies to disintermediate their hosts.

There is a small window of opportunity for mobile operators to avoid becoming bit pipes and evict the Trojan Horses from their citadels before the massacre of their value added services and revenues takes place.