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Paul Maglione argues that despite consolidation in the mobile games industry, there is still room for entrepreneurs

The global mobile games industry, despite having generated an estimated US\$1 billion in download revenues in 2004, is still in its infancy.

While the product on offer is changing rapidly, from black-and-white arcade classics a couple of years ago to 3D and network-connected gaming today, parts of the mobile games industry remain underdeveloped.

Developers and publishers, nearly all startups with cash constraints and timing pressures, inhabit the product side of the business.

Meanwhile, the distribution side is represented chiefly by the operators.

Getting onto the cellcos' games decks, and occupying visible positions on those decks, is still what is mainly driving the industry.

On the publisher side, head count and revenues are doubling year on year. But they rely on distributors that dedicate a tiny fraction of their resources to mobile gaming and are closing down access points to their games portals, as cellcos merge with one another and consolidate their games teams and suppliers.

In this environment, most content providers' distribution strategies favor larger suppliers, which will lead inevitably to consolidation that leaves a half dozen or so "superpublishers."

Meanwhile, brands are key to sustaining and amplifying sales growth and overcoming the limiting effects of a narrow distribution channel.

Given the unfamiliarity of the browsing and download process for most users, and a "shelf display" that typically consists of 14 alphanumeric characters on carrier WAP decks, it is only natural to think that a big brand will help sell a mobile game. Carriers recognize this and tend to give an entertainment brand good launch visibility if the game meets their quality requirements.

Of course, buying licenses to brand franchises is expensive and is getting ever more costly as venture-capital and IPO money fuels a bidding war for high-profile IP.

But the logic of brand importance favoring superpublishers is related to more than their ability to pay for the IP.

Brand owners will license their IP only to companies that have the resources to produce games of consistently high quality and to drive return on investment while amortizing their license across as many markets as possible. The latter is also driving consolidation; hence the series of buyouts of European developers and smaller publishers by North American publishers that occurred last year (MGA, 7 Jan, 2004).

But the biggest driver of publisher-side consolidation is the complexity of the "platform" challenge.

In order to generate good download numbers, a game needs to be ported to at least 150 handsets

across North America and Europe – and many more in Asian markets.

Such a level of porting is necessary because carriers will respond positively – in terms of deck placement and promotion – to titles that can run on most of their handsets.

Larger publishers have an advantage over smaller companies in that they are better positioned to obtain new-model handsets from manufacturers.

They also have access to the resources needed to carry out the complex porting process, perform quality assurance and bug-fixing, and obtain carrier certification for each SKU. Account managers are also needed to follow through with the carriers to get the games launched.

But the complexities that are shaping the current market consolidation also give rise to specializations that are ideal entry points for startups.

For publishers that have release road maps of 20 to 50 titles a year, total reliance on internal development teams is not an option. Therefore, high-quality, cost-effective and dependable external development is in high demand.

It is also not surprising to see the emergence of porting specialists and QA houses.

But other niches are being established: At least a half dozen IP agents specialize in acquiring brands for mobile entertainment companies. On the distribution side, some publishers use aggregators that specialize in particular geographies, while others use aggregators to reach web portals.

Also, companies that specialize in premium-SMS aggregation get plenty of business, and media outlets specializing in mobile games – usually web-based – are proliferating. Some carriers have even outsourced their entire mobile games service to managed-service providers (MGA, 12 Nov, 2004).

What is important to understand is that a consolidating industry still leaves plenty of room for creativity and entrepreneurship.

New industries take off when they enjoy not only access to capital, but also economies of scale, strong brands, multiple distribution channels and a rich ecosystem of suppliers that inject innovation into the industry.

There is still plenty of opportunity for new entrants. They simply have to be astute in choosing an underserved niche, serving that niche better and more cost-effectively than anyone else, and maintaining a level of inventiveness that keeps them ahead of the competition.

Paul Maglione is senior vice president for publishing and marketing at UK-headquartered games publisher Digital Bridges. Contact: www.digitalbridges.com