Mobile device makers (MDMs), confronted by numerous challenges to growth and profitability, are looking to develop new avenues to expand their core device offerings. Based on a recent consumer survey by the IBM Institute for Business Value, we believe the rapidly growing market for mobile Internet services may provide just the ticket to revitalize MDM growth and send them profitably into the next decade.

Mobile Internet services – a safe haven for MDMs?

Mobile device makers (MDMs), freshly off a heady period of growth, suddenly find themselves faced with an uncertain future. Less growth in demand, coupled with lower prices, has impacted earnings and market share. For example, earnings before interest and taxes of the largest five companies in the industry have declined 7 percent since 2002. As well, market share growth has declined to a relatively stagnant a CAGR of 3 percent during the past five years.

Further exacerbating the problems, mobile device technology is becoming commoditized. Technology and features have evolved to where there is little real differentiation in device capabilities. One brand of high-end phone will be pretty much the same as a competitor’s. MDMs now must increasingly rely upon bundling and user interface to distinguish their offerings.

Faced with these challenges, MDMs need to look for new opportunities for growth. A recent IBM survey of nearly 700 consumers indicates mobile device makers – with their broad audience, ability to integrate hardware and software and collaborative business arrangements with mobile network providers and Internet service providers – have the potential to gain a foothold in the highly competitive mobile Internet services market. To be successful in this market, however, MDMs will need to develop a clear business strategy that augments their existing strengths and clearly addresses consumer demand. As well, they will need to be aware of channel conflicts potentially detrimental to their core device offerings.

The number of mobile Internet users worldwide is projected to approach 1 billion by 2011. Market forces shaping this growth include a growing number of mobile Internet users, a greater number of devices that can support mobile Internet applications, increasing penetration of faster wireless broadband networks, enhanced user interfaces, including increased screen size, and more attractive pricing for mobile Internet services.

MDMs entering this market must decide how aggressively to attack the market, based upon their existing capabilities and willingness to change. To help identify strategic direction, MDM leaders should ask themselves the following questions:

- How can the company’s strengths be leveraged to develop a sustainable competitive advantage in the mobile Internet?
- For which services should an MDM partner and for which should it invest in its own solutions?
- Which service segments can be most profitable?
- Are the company’s leadership and employees committed to a major transformation of the business model?
- Does the MDM have a clear understanding of the risks, obstacles
and challenges that must be faced?

Despite the potential for growth, penetrating the mobile Internet services market will not be an easy proposition in light of the significant competition from portal players and mobile network operators. To compete effectively, MDMs need to be at their innovative best. We believe concentrating efforts on such key issues as market strategy, an open ecosystem, consumer insights and a scalable, cost-efficient infrastructure will help MDMs derive meaningful value from their efforts to secure market share in mobile Internet services.

We believe the mobile Internet services market represents a realistic but challenging option for MDMs to diversify their business mix and reduce dependency on the commoditizing device business. To get to the next step in determining whether this approach is right for your company, ask the following questions:

1. Do you know what your customers expect from the mobile Internet?
2. How well do you understand the new competitive landscape?
3. How can you leverage your strengths to develop a sustainable competitive advantage in mobile Internet?
4. For which services should you partner and for which of them should you invest in your own solutions? Which service segments can be most profitable?
5. Are your company’s leadership and employees committed to a major transformation of the business model?
6. Do you have a clear understanding of the risks, obstacles and challenges that you will have to face?

The mobile Internet is projected to be a market with explosive growth potential. At the moment, it is somewhat fragmented. But it is unlikely to stay that way for long. The time to act is now.

Are you ready to log on?

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References
1 IBM Institute for Business Value analysis.

How can IBM help?

• **Strategy and Change:** Define and implement organization change and strategic leadership programs.

• **Business Model Transformation:** Transform the business model from a device-centric to a software and services led approach (global integration of enterprise).

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