



Small Developers, Big Ideas

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Most mobile applications today are created by tiny companies with just a handful of employees. How do these companies survive, and how will the market for their applications change as it grows?

Back in March of 2000, four friends from Stanford University founded a development company called Centerscore (www.centerscore.com) to create games for the Internet. A year and a half later, they added mobile games to their portfolio, and the company did well in its new venture: when AT&T Wireless first launched color Java games, 20 percent of the games offered were from Centerscore.

And the company still has only six employees.

According to Seamus McAteer, Senior Analyst for Zelos Group (www.zelosgroup.com), mobile applications offer a perfect market for small companies. "The big guys haven't really been interested, and the barriers to entry are really low," McAteer said. "You don't need a huge development staff to set up a little J2ME widget: it's very different from developing enterprise software."

As a result, more and more small developers are providing carriers and manufacturers with the applications they need to market and sell advanced devices and network offerings. How do those small shops survive in the marketplace?

Working with Carriers

Most developers would prefer to work directly with carriers, but it's hard for a small shop to set up that kind of deal by itself. One key resource that helps developers target carriers directly is Tradepoint (www.tradepoint.nokia.com), a sales channel run by Nokia. Tradepoint was created in 2001 as an online exchange: it now also runs industry events to help developers and operators meet face to face.

Oliver Miao, Centerscore's CEO, says Tradepoint is a great asset for his business. "It gives us access to companies and people we wouldn't normally have access to," he said. "The United States is a local market, and we can deal well with it," Miao said. "But in Europe and Asia, we don't have the resources to go there frequently and manage those relationships, so Tradepoint really helps us there."

Because Tradepoint doesn't take a cut of the deal, it's a great way for developers to do business. Still, Tradepoint alone can't provide all the contacts a developer needs. At some point, every shop needs to work through an aggregator like Digital Bridges (www.digitalbridges.com) or Mforma (www.mforma.com), sacrificing some of their potential profit in exchange for the connections a larger company can provide.

Justin Siegel, CEO of the small development company JSmart (www.jsmart.com), says his company been able to set up most carrier agreements directly, but there are still cases in which he has to work through an aggregator. "Some operators simply won't work with anybody but aggregators," Siegel said. "And certainly, managing overseas relationships is hard to do if you're not working through an aggregator."

The real danger in working with an aggregator, Siegel says, isn't the share of the profit you have to give up: it's the fact that you lose ownership of the deal. "If you're looking to be bought or acquired, you're either going to bring a contract that has value because you have a direct relationship with an operator—or you're going to have a relationship with an aggregator, which has almost no value," he said.

A recent case in point was Aspiro's (www.aspiro.com) acquisition of fellow game publisher Picofun last August. The acquisition gave Aspiro access to Picofun's direct agreements with 27 mobile operators, 21 of which were new to Aspiro—a key asset for the deal. For a small developer, being able to offer connections as well as applications can be a great strength.

A Growing Market

In the long run, Siegel says, there are both advantages and disadvantages to staying small and independent. "We're so much more nimble than the big developers," he said. "If we decide we want to do something, we sit down, we discuss it, and we're doing it the same day. But our ability to support risk is a lot lower: if we put a lot into a title and it doesn't work, it's a big loss."

As the market grows, Siegel expects that developers are going to be forced to take on more and more of that risk. "Smaller developers are going to have to make bigger bets on single titles," he said. "The demand for quality of apps is getting so high that small developers can't bang out titles as quickly as they could have a year ago."

And with mobile applications becoming both more complex and more expensive to develop, Centerscore's Miao says it will become increasingly difficult for small developers to retain control of their relationships with carriers. "As things start changing and games start making a lot more money, publishers will start taking more and more control," he said.

Still, Zelos Group's McAteer says that doesn't mean small development shops will disappear altogether. Instead, McAteer anticipates a system like the one supported by the PC gaming industry today, with larger publishers farming out development to smaller development shops. That way, everyone benefits: the small shops get to keep their creativity and freedom, and the publishers and carriers get the products they need.

And for those small shops, now is a great time to be in the market. "Few of them are going to make money: you'll have one or two hits," McAteer said. "But there is an opportunity for a small development shop to really define the mobile medium, to hit it with something that captures the imagination of a substantial portion of mobile subscribers."