

# How Kids Set the (Ring) Tone

In a wireless world, teenagers are driving the hottest new technologies since the dotcom era while giving the tech world a jolt of creative chaos

By JYOTI THOTTAM

**W**HEN HE NEEDS TO FIGURE OUT WHAT his company should be doing next, Daniel Kranzler often seeks expert advice—from his 18-year-old daughter. Kranzler's company, Mforma, makes games and ringtones for cell phones and, by staying plugged in to teens like Kat, has seen sales double every few months. He's not alone. An explosion is under way in the cell-phone industry, as innovative new companies are popping up, feeding not just teen tastes but also, in the process, defining a new future for wireless communications. Kranzler inked a deal for Mforma with Marvel for exclusive access to its comic-book characters and is working on a next wave of cell-phone services. "My daughter lets me know what she thinks of the products—with a baseball bat," he says. "Her favorite is, 'Oh, Dad, you so don't get it.'"

There are 180 million cell-phone subscribers in the U.S. today, and we are no longer simply talking or text messaging or gaming. We are living inside our phones, even decorating them like a home, with images we call wallpaper. Meanwhile, creative companies big and small are scurrying to persuade us to use our tiny screens in ways we haven't even imagined. Fox thinks we will want to watch *24: Conspiracy*, a version of its hit TV show developed just for the phone. The NBA hopes basketball fans will use their phones to get game stats, follow their fantasy leagues and watch replays. And one ambitious start-up is betting that people will pay to blog via cell phone.

These days, tiny companies with names like Zingy and Jamdat are market leaders, and product testing often means throwing something new out

to the public just to see if it flies. The world of these wireless data services is so unformed that no one knows yet what people will pay for in the long run. "The history of this space is everyone just feeling their way through," says John Burris, director of wireless data services for Sprint. But the excitement is real: companies and industry experts are convinced that cell-phone services hold great promise and are desperately trying to get into the game, hoping to catch the next wave in our growing Cell-Phone Nation.

**\$2.6 BILLION** Estimated amount spent by Americans last year on cell-phone games, entertainment and services to personalize handsets, such as ringtones and wallpaper.

For the moment, the market is being driven by teenagers, who have moved far beyond talking on their phones. "I text more than I talk," says Josh Blackburn, 19, of Naperville, Illinois, who tries to keep his \$70 monthly cell-phone bill under control by talking only after 7 p.m., when his minutes become free. But he will pay to send text messages to his friends, to IM them and to download wallpaper of Jessica Simpson. Royce Badger, 17, of Atlanta, loves his commute to school—that's when he plays racquetball on his cell phone. Erin Duffy, 17, a high school senior in Katy, Texas, lost the flashy phone that let her download ringtones and wallpaper, so, as punishment, her father saddled her with an older model that, to her mortification, allows her only to text and talk. She's saving up for a new one, with different ringtones for each of her friends: "I'll have Britney Spears for my girlfriends, and I'd have rap for my boyfriend."

Teenagers right now are "the sweet spot," says Burris of Sprint. An estimated 76% of kids ages 15 to 19 and 90% of people in their early 20s use their cell phones regularly for text messaging, ringtones and games, and that enthusiasm has turned wireless data services into a big business. Gartner Research estimates that Americans spent

\$1.2 billion last year on ringtones, wallpaper and other “personalization” services and an additional \$1.4 billion on cell-phone games and other entertainment. Fabrice Grinda, CEO of one of the leading ringtone companies, Zingy, says these services tap into young people’s impulse to assert their individuality, as they have always done with clothes and hairstyles. And as with clothing, there’s money to be made off these urges. While downloading an entire song from iTunes costs just 99¢, Grinda’s customers are willing to pay as much as \$3 for a 30-second ringtone.

To turn wireless data services into a major source of revenue, carriers will eventually have to move beyond what works with young people. They are relying on an army of small companies to create the cutting-edge content. Many of them start-ups, those companies develop the games and ringtones and take a cut—as much as 80%—of the fees charged by the carrier for each download. Analysts expect that revenue from ringtones

and gaming will eventually level off. “There are only so many ringtones and so many games they can offer,” says Phillip Redman, an analyst at Gartner. So those companies are madly trying to come up with the next big thing in cell phones.

To handle all this sophisticated video and music content, the big carriers are making massive investments in their networks. Sprint is pouring \$1 billion into an upgrade this year, and Verizon is rolling out its high-speed data services network. At least for now, they will be the gatekeepers. Meanwhile, at least one carrier is already bypassing the small companies for cell-phone services: Verizon is relying on household names like CNN and NBC (for news) and Comedy Central and VH1 (for entertainment) to attract users to its new VCast service.

What’s the bottom line? Wireless companies like Jamdat are getting panting attention from venture capitalists convinced that cell-phone services are their newest gold mine. Wall Street has started to grill every consumer company about its wireless strategy. But this hypefest isn’t quite like the dotcom delusion. “This started with a business model,” notes Larry Shapiro, who runs Disney’s North American mobile business. “We’re being prudent.”

That’s good news for investors, but it may also mean that the cell-phone-services industry will turn corporate before you know it. As long as companies are trying to figure out what works by flying the next big idea past a bunch of teenagers, they may take chances on some zany concepts. But once the commercial winners are clear, more outlandish forms of content may fade away. Spam and advertising will inevitably creep in, too. That makes now an ideal time for all of us to enjoy the wacky creation of a new industry. Teenagers may be driving their parents crazy with their cell-phone habits, but they are doing something positive, too: jolting the tech world with a hit of much-needed creative chaos. ■

**Questions**

1. What are some of the innovations start-up companies are hoping to apply to cell-phone technology?
2. How much did Americans spend in 2004 on ringtones, wallpaper and other “personalizations”?

## MOBILE MAGIC

**High-speed networks are turning cell phones into multimedia machines. Here’s what they can do:**



**Ringtones** An addictive way to personalize your phone, ringtones sound a snippet of music or a celebrity voice with every call. You can choose a different song for different callers.



**Pictures** What can you do with all those camera-phone snapshots? “Picturemail” lets you send them like e-mail—Grandma can see those first steps on her phone.



**Wallpaper** Another popular way to personalize the phone is with an image of a favorite actor, singer or work of art. You can even choose a picture to pop up for a specific caller.