



Advisory Report

The Slow but Steady Rise of Mobile Advertising



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■ Summary

Although 3G-based applications were touted as the “It” services during their launch, they are yet to achieve the astronomical growth that was expected at their inception, forcing carriers to consider alternate solutions to stimulate adoption. Carriers are slowly realizing that they can reach a wider segment of their potential audience and create an alternate revenue source if they compensate subscription revenue with advertising dollars, mimicking the evolution of fixed internet. Mobile advertising will also enable advertisers to better target their message and reduce the out of pocket cost for subscribers who are willing to provide personal information and view advertisements in exchange for incentives like free minutes or entertainment downloads.

The sprinklings of advertisements that have begun to appear on the small screen are mostly banner and SMS ads, a logical step since SMS penetration is high in the U.S. But when the promotional initiative begins to pay off, we are bound to see a variety of models as carriers and marketers experiment with the trend and deliver ads via video clips and game downloads. Most vendors also use ad networks like Third Screen or Millennial Media to effectively target their consumer base for higher efficiency.

Targeted advertising is the holy grail of mobile advertising as it addresses the relevancy issue more effectively than other mediums. The recent influx of online communities like AOL, Microsoft and Yahoo! in this arena via acquisitions and launch of related services and platforms further testifies the underlying potential of this promotional medium. 2007 was the year of takeovers, and the notable ones were AOL-Third Screen, Google-DoubleClick, and Microsoft-Screen Tonic. Despite rosy expectations, the industry remains cautious due to justified fears of privacy concerns and the unexplained nature of this nascent trend.

■ Current Perspective

In the past eighteen months, data intensive services have received tremendous attention as carriers scramble to make good on their 3G investments, trying to substantiate infrastructure

Report:

The Slow but Steady Rise of Mobile Advertising

expenses. While price wars on the voice side began to subside, carriers turned to data services to differentiate their offerings. Service like music and video downloads and streaming TV were highlighted to attract consumers and induce them to consider high-end data plans. Although 3G services were well received by the industry, they are yet to experience the astounding growth rate that was predicted. Several reasons including patchy coverage, poor user experience, high cost of 3G phones and small screen sizes were cited as the deterrents, but their impact pales in comparison to that of the biggest hurdle --high data costs. The average monthly download cost of an entertainment application is \$6.33 and an unlimited data plan costs somewhere in the neighborhood of \$20. When combined with a voice plan, the subscriber's monthly wireless bill is north of \$70 per cell phone which is quite steep compared to the industry ARPU average of \$52 and will discourage most subscribers.

With the launch of faster network speeds and big screen mobile devices that support high resolution images, U.S. carriers are slowly waking up to the possibility of offering subsidized data services by shifting the cost burden from the consumer's shoulders to that of the advertiser's via mobile advertising in the hopes of accelerating adoption and reaching new demographics.

The first notable mobile advertising initiative was launched by Virgin Mobile via its Sugar Mama Service, a service for voice customers that allows them to gain additional prepaid minutes each month by watching online advertisements, answering questions via text messaging, or filling out surveys about brands, products, and services. According to the carrier, the program has a user base of over 425,000 customers and is growing rapidly with an average of 1,000 new customers everyday. On the data services front, Sprint is the first carrier to support WAP, SMS and banner based advertisements. The carrier has taken several strides in this area since it announced in 2006 with Enpocket as a partner, that it will begin to offer advertisements on its phones. Sprint launched its own advertising platform the same year and dubbed it Sprint Mobile Media Network, enabling marketers to reach data subscribers through strategically targeted mobile web-based advertising programs. Sprint in association with Microsoft also launched the Windows Live search for mobile phones in 2007, creating new opportunities for highly relevant and targeted local advertising. Despite showcasing several mobile advertising programs and services, the carrier is yet to offer ad subsidized services to its customers with the sole exception of a direct link to the ad-funded Mobile MySpace WAP site. Although Sprint's main competitor Verizon Wireless has not offered advertising on its deck so far, the carrier uses Medio's Get it Now technology to advertise its content via search, doing a magnificent job of integrating its own content into the mobile search experience. T-Mobile UK is no stranger to mobile advertising and the carrier extended its campaign this year via a partnership with Yahoo! to offer targeted ads on its Web n' Walk service.

The mobile advertising phenomenon got the push it really needed when mobile advertising networks such as Third Screen, Ad Mob, Millennial Media and Rhythm New Media began sprouting in the past two years. The platforms act as middlemen providing information on the demographic and buying behavior of subscribers to marketers to increase the efficiency and time-to-market for the buying and selling of mobile advertising in WAP, Video, SMS/MMS and downloadable applications. The networks also provide in-depth research, planning and publisher inventory management analytical tools, to target advertisements, making sure marketers reach the right audience segment at the right time, bringing relevancy to the picture and yielding the highest possible ROI for advertisers. Mobile advertising networks will prove to be very valuable in the prepaid segment where consumer information is scarce and hard to collect. These networks boast of high profile merchant

Report:

The Slow but Steady Rise of Mobile Advertising

partners like CBS, Fox Network, Coca Cola and MLB and have also merged with online companies (like the ThirdScreen-AOL alliance) to improve their visibility and extend their reach.

The advent of technology companies like Microsoft, Yahoo! and Google in the mobile advertising arena further provided the much required seal of validation for this fledgling trend. Last November, Google extended its AdWords and AdSense programs to the cell phone which function on the same lines as their internet counterparts. Advertisers who enroll in the program will be able to target campaigns based on location and language, as well as gain standard placement options on the Google content network. Many AdWords advertisements are 'calls to action' (i.e., an end-user clicks onto a site in order to fill out a form, request more information regarding a product or make a purchase), but financial transactions are yet to be supported. The search giant also announced the launch of Android last year, a mobile phone platform based on Linux operating system devoted to advancing open standards; a large customer base for Android will undoubtedly boost Google's share of the emerging mobile advertising business. Google's DoubleClick acquisition was approved in December 2007, strengthening its mobile advertising arsenal by extending its network and developing deeper relationships with its partners.

Not to be outdone, Google's main competitor in the internet search world, Yahoo!, announced the launch of beta Yahoo! Go 3.0 earlier this month with a new, modern UI and several cutting-edge customization and personalization tools. Yahoo! Go 3.0 allows for click-to-talk mobile advertising, where users call a company to inquire into a promotion. The application also boasts of an array of services enabling Yahoo! to procure the demographic and behavioral traits of its customers, which is very useful for targeted advertising. This capability shifts Yahoo!'s mobile advertising strategy and creates additional revenue opportunities for the corporation, as it is in a stronger position in its dealings with marketers. Even though Yahoo! is playing catch-up, the company has the ability to attract more marketers to its mobile platform, as opposed to Google, since it already has a presence in the mobile industry and it has a built-in audience for its services. Yahoo! further consolidated its position as leader in mobile search advertising by buying software company. Actionality, a German company that inserts ads into mobile games and other mobile applications.

In January 2007, Microsoft entered the mobile advertising realm with a bang by acquiring European mobile advertising platform ScreenTonic. The company maintained the momentum by acquiring aQuantive five months later. Microsoft also allows advertising on MSN Mobile, a Web portal for cell phone browsers that connects users with Hotmail, instant messaging, search, news and other content. Microsoft's mobile advertising initiative however does not allow marketers to target their advertisements via location detection. Its competitor AOL acquired Third Screen Media to further strengthen its position in the mobile space and complete its advertising solutions set, which extends from display advertising to search based models. Mobile devices companies like Nokia are also aiming for a slice of the mobile advertising pie and are expanding their role in mobile services. Nokia acquired Enpocket (of Sprint fame) late last year to leverage the former's platform and forge partnerships with advertisers in addition to gaining expertise in mobile advertising.

Wireless carriers across the pond are taking the mobile advertising ambition a step further by launching a completely ad-sponsored MVNO. The UK-based Blyk launched in November 2007, is the first free mobile network to be funded by advertising, exclusively for 16-24 year olds. Users signing up to the network will receive advertising messages on their mobiles, and in return are given an allowance of free texts and minutes each month. Although the industry's reaction to Blyk was mixed, its success or lack thereof will likely be a

Report:

The Slow but Steady Rise of Mobile Advertising

key event in the development of this model and shape the future of similar initiatives across the globe.

Brands are beginning to see mobile phones as a new medium to reach their target consumers at the right place and time, which increases the relevancy of their message. The logical progression from advertising on the mobile screen is to enable sales of the advertised product within the system, enabling consumers to act on their impulses and providing a means to marketers to test the effectiveness of their marketing initiatives.

Several ancillary services like ShopText and mShopper that provide the marketer with an additional sales avenue and a means to measure the ROI (return on investment) while linking the consumer directly to a product or service are making their way into carriers' decks. As mobile advertising gains momentum, more marketers are bound to set up payment mechanisms over the wireless networks to satiate consumers' whims instantly. These sales will not only provide a good indication of the success of a promotional initiative, but they will enable customers to make purchases on the go, highlighting the advantage of mobility. Some mobile advertising platforms like MobiMogul's AdTones are adopting the reward model, where consumers receive a pat on the back either in the form of free downloads or a share in the advertising revenue for viewing advertisements. AdTones provides short 10 to 20 second audible tones of consumer products and service offerings and presents customers with an opportunity to earn a percentage of the ad revenue each time the advertisement is heard. For these services to truly gain traction, carriers and marketers have to undertake security measures and launch safe mobile payment gateways to earn consumer confidence and encourage usage.

Spending on mobile search and display advertising is estimated to balloon in the next few years with industry research estimating the business will be worth \$1.4 billion in 2012. Cell phones are ideal for personalized and targeted marketing. Advertisers believe that about half of all traditional advertising does not reach the right audience. They realize that their dollars are well spent in this medium as they can skim the subscriber base and advertise only to their target segments and tailor their advertisements to match each subscriber's habits, increasing the relevancy of their message. With LBS capable phones and cell phone triangulation, advertisers can also appeal to their target consumers at the right time by alerting people to the charms of stores or restaurants they are walking or driving past.

However, the trend is still in experimentation mode primarily due to its quizzical structure. Marketers are still finding the right blend for this medium that essentially brings together the characteristics of fixed internet, gaming, music, TV, and video. Moreover, advertisers, operators and middlemen have not agreed on a common format for this information, nor worked out the revenue sharing details. Marketers and carriers are also treading carefully as they don't want to overstep their boundaries which might result in consumer backlash and garner negative feedback a la Facebook's Beacon program in the Internet world. Carriers and marketers should ensure that all mobile advertising is permission based and they should steer clear of push advertising to avoid alienation. Customers should also have the freedom to choose between ad formats (e.g., SMS-based, WAP, Multimedia, etc.). Consent and relevancy are the twin keys to unlocking mobile marketing's potential, without busting the lock entirely. Operators will have to offer their customers something in exchange for advertising consent, and they must make it relevant. And customers are more likely to accept advertising on a mobile phone if the promotions appeal directly to their own tastes and interests. Carriers should give customers the option of choosing between similar wireless data plans that include or do not include advertising to cater to the populace that prefers a less cluttered screen. Carriers should also make sure that the premium data service has access to more data content and services as a way to help justify the cost premium. By

Report:

The Slow but Steady Rise of Mobile Advertising

giving customers this choice, carriers should be able to keep confusion over the services to a minimum and increase wireless data usage in new demographics.

Recommended Actions

Recommended Vendor Actions

- Google’s AdWords for Mobile allows advertisers to target campaigns based on location and language. Many AdWords advertisements are ‘calls to action’ i.e., an end-user clicks onto a site in order to fill out a form or request more information. Google should link its Google Checkout service to the platform to enable users to purchase the advertised product, adding the instant gratification element to the mix.
- Yahoo! should point out that its upgraded Yahoo! Go service features click-to-talk mobile advertising, allowing users to inquire into a promotion. The application also boasts of an array of services enabling Yahoo! to procure the demographic and behavioral traits of its customers, which is very useful for targeted advertising. This capability shifts Yahoo!’s mobile advertising strategy and creates additional revenue opportunities for the corporation.
- AOL should point that its AOL Mobile Search service was the first to feature the Click-2Call function enabling users to tap any phone number included in the search results and initiate a call. Its ThirdScreen acquisition further strengthens its armor. Competitor Microsoft should accelerate its mobile advertising efforts beyond the MSN mobile portal initiative, as it has a successful mobile OS it can piggyback on, along with mobile services that broach the internet/mobile divide.
- Sprint should enunciate that is the pioneer of carrier mobile advertising as it was the first to offer banner advertisements on its deck via its alliance with Enpocket. Sprint’s Mobile Media Network whose clientele include bigwigs like Pepsi is an affirmation of its dedication to this medium. Other top-tier carriers such as AT&T and Verizon Wireless have also expressed their interest in the mobile advertising model but are yet to implement it.
- Mobile advertising platforms like Millennial Media, ThirdScreen and Admob should highlight their MVNO and prepaid segment expertise as the young customer base of these markets are well suited for mobile advertising Prepaid carriers as a rule do not have subscriber demographic information at their fingertips making it difficult to market to them. Advertisers who wish to tap this market segment should utilize the advertising platforms as they can better target advertisements with their industry savvy.
- Services like Obopay and ShopText that allow retailers to launch their own mobile commerce shopping sites should collaborate with mobile advertisers to accelerate the growth of mcommerce. Mobile purchases will act as a good measurement tool for marketers who can test the success of their advertisement campaigns with greater accuracy and will enable subscribers to have a complete mobile shopping experience.

Recommended End User/Customer Actions

- Subscribers who plan to opt in to receive advertising on their mobile phones should make sure that they have the ability to opt out anytime they feel their privacy is being compromised. Users should also call for the option to hide their location details (in case of targeted advertising) and only disclose it at their desire.
- Users who have not subscribed to unlimited data access plans should enter into an agree-



Report:

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Steady Rise of Mobile
Advertising**

ment with their carrier to ascertain that they will not be taxed with mobile advertising data charges or messaging fees when they opt in to receive advertising on their cell phones.

