SELL PHONES:

What will make mobile advertising tick? Part II

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Mobile Advertising – Technology Requirements

Let's look at the technology piece of the puzzle. As we have seen in Japan and Korea, higher processing power handsets and 3G pipes play a significant role in the adoption of rich advertising content. If an ad is non-intrusive, delivers value, and is relevant to the consumer; there will be a higher propensity of adoption vs. when after 45 seconds of "connecting to server" screen, an ad rears its ugly head to slam in the face of an already frustrated consumer.

In the US, 3G is being adopted fairly aggressively and when Cingular picks up pace with its WCDMA/HSDPA deployment, growth is going to accelerate into 2007. By 2008, 3G penetration will reach over 25%[1]. Adoption of Smartphones is also increasing (Figure 4). With Motorola's Q and RIM's Pearl, price point is getting near mass-market consumption levels.

By 2007, we will start seeing $100 smartphones. In the US, 25% of the converged devices sold during 1H 2006 were 3G devices. This is up from just 3% in 2005. User interfaces are also getting better. UIOne, MYDAS, Flash, Screen 3, 1mm, and other proprietary solutions are extending the possibilities. In terms of options, there are different channels available – SMS, MMS, Search, Browser, Games, Video/TV, etc. each with its pros and cons and maturity level in the market (Figure 5 and 6).

Search plays an important role in *mobile advertising and marketing* – whether it is based on declared intent from the user or passive impressions based on user's context, history, and preferences. Google is an example of the former while Amazon is a brilliant case study of the latter. Local search and advertisements will be a significant part of the equation. As Mark Anderson, CEO of Strategic News Service quipped in his column "Searching for Transactions", "Search isn't about advertising, it's about shopping, which is why the advertisers have to be there".

It is truer in the mobile environment. Astute advertisers realise the proximity and intimacy of the medium and already conjuring up clever ways to engage the consumer. Service providers with good "mobile" search engine technology will be at competitive advantage as they build a strategic framework to address the bigger opportunity.

For mobile advertising to be successful, one needs "reach", "purity", and "analytics" (Figure 7). Reach is how many "real" customers do you have? Purity is the "quality" of information on the customers. Name and address just don't cut it. Analytics is matching users interests – implicit and explicit, context, preferences, network and handset conditions to ads and promotions in real-time. Not just bucketing a user in a group and giving them a number but understanding the user in every way possible and customising every single interaction, every single push, every single imprint, and every single promotion to the finest degree possible.

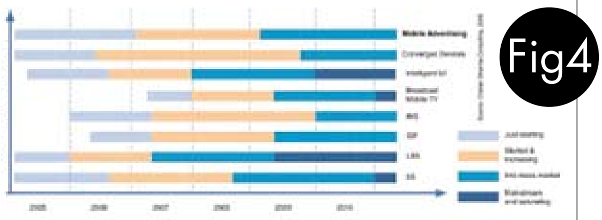
So, who has the reach? Clearly, carriers with millions of billing relationships currently have the tightest relationship with the end-customer in this ecosystem and has the most relevant transactions to build a good customer profile fingerprint[6]. On the other end are the Internet brands like Yahoo, Google, and MSN with over ½ a billion unique visitors each. Other important players include giants like Amazon, EBay, Myspace, Youtube, Skype, AOL, and Paypal.

The internet brands have good reach but limited purity. Purity is about good profile data. The customer profile information that Internet players have assimilated doesn't really always translate well into a view of a customer's interests and preferences. They can and will build a direct relationship with consumer but it will take time and has to overcome some technical and business hurdles.

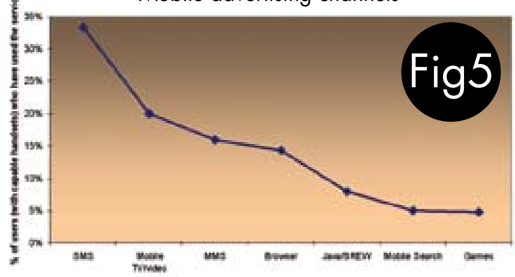
Finally, one needs the analytical framework. The goal of the framework is to capture the behaviour and interests of the user while they are browsing, shopping, interacting with a variety of applications and content, and even simply calling 1-800-Flowers. This knowledge mixed with the explicit profile helps build characteristics and traits of users on a mass scale.

Once the segmentation and understanding of the user is fine-tuned, the gathered knowledge can be continuously applied to enhance the user experience while they are

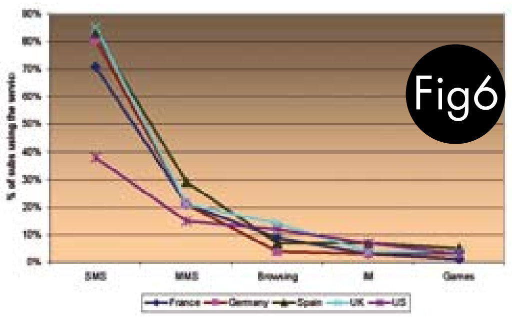
Expected lifecycle of various key technologies in the US [2]



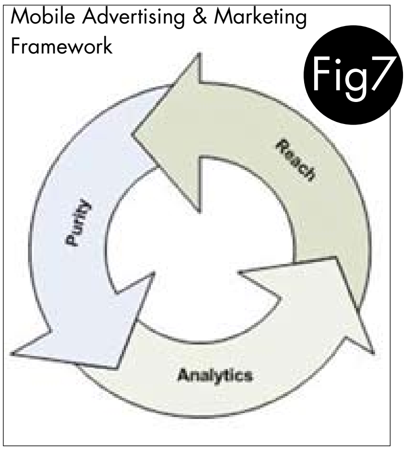
Mobile advertising channels[3]



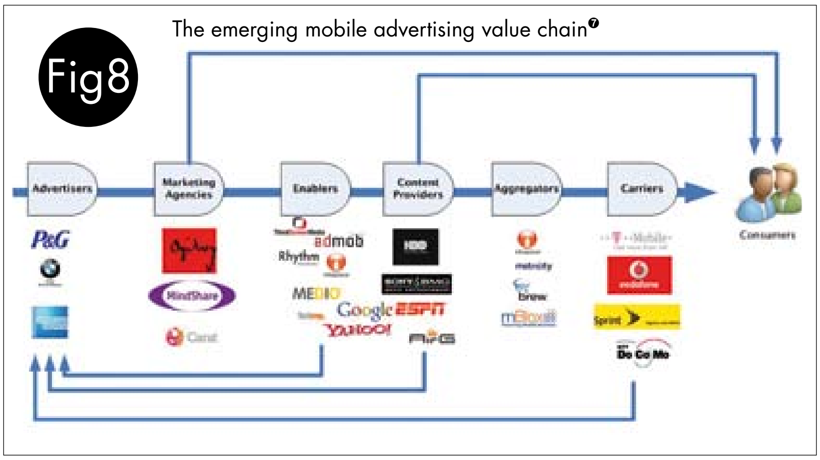
Consumption of various services in key western nations[5]



[1] For a more exhaustive discussion on 3G, please see http://www.chetansharma.com/cover%20story_3G.pdf
[2] Source: Chetan Sharma Consulting
[3] Source: Chetan Sharma Consulting, Q206
[4] http://www.tapsns.com
[5] Data Source: M:Metrics, Aug 2006
[6] While carriers have the most pertinent data on the users, it resides in disparate locations and very few have realized the long-term value of such an exercise.
[7] Source: Chetan Sharma Consulting
[8] "Lions and Antelopes in the Advertising Ecosystem", Omar Tawakol, Revenue Science



segments (Figure 8):



interacting with their mobile phone by targeted promotions and offers sent to the user, and mobile advertising can be enabled such that it adds value to the user experience.

In terms of platforms, there has been a lot of activity on building backends, but little progress on the front-end where it matters the most. What is absolutely needed is an easily accessible control framework for "permission advertising/marketing" so that the user can selectively or globally switch-on or off the types of ads/promotions they would like to entertain and when.

We need a SIP/Presence like capability that works across all apps and services and is as universally accessible through open APIs. Mobile advertising is not just all visual either. It can interact with the customer while they are on hold or support free 411 or premium services or can be integrated with podcasts, essentially finding clever ways to provide ad/promotion content in exchange for something that provides value to the end-user.

The context engine combines various inputs and uses location and other contextual information to package information before it is pulled or pushed to the consumer. This is true for all the application areas such as portals, storefronts, local search, mobile search, off-net access, and other applications.

The value chain

As the convergence continues, the mobile ecosystem keeps shifting. Currently, the mobile advertising chain consists of the following main segments (Figure 8):

For each of the participants, there are some inherent benefits, specifically,

- For the carrier, it is an excellent way to build loyalty and "stickiness". It is also a way to take the saturated levels of data users to another level by subsidising premium content and even transport costs by advertising thus lowering the barrier-to-usage. However, the carriers need to balance the influx of users and data traffic with the potential for additional revenues. Spectrum is still limited and it needs to be used wisely in any strategic scenario.
- For the user, relevant (opt-in) and targeted advertising and promotions deliver value. In all recent surveys, the number of users willing to pay for the Mobile TV service is a very small fraction of the number of users who want to use the service. With advertising, they can afford more and start enjoying the full capabilities of their handsets.

From an advertiser's point of view, mobile provides unparalleled reach and a reliable and fairly accurate measurement tool. The ad/promotion system should have the capability to create promotions at national and local level (city, zip code, location) and everything in between. The system needs to support extensive querying and segmentation capability to design sophisticated campaigns for e.g.

- Give me users who are most likely to purchase a new ringtone from Usher.
- Give me users who are Pop aficionados, have coke as their favourite cola, wear Nike shoes, single, living in large metro areas on the east coast, income level above $120K, have ARM11 or higher devices, and have responded to at least 50% of ads in the past 2 months.

For evaluating the mobile medium, advertisers are using the same criterion as they have used for other channels, namely:

- **Reach** – how big is the audience esp., unique and regular visitors?
- **Purity** – how good is the user profile information?
- **Frequency** – how often is the audience exposed to advertisements?
- **Performance** – what's the quantitative measurement criterion to determine effectiveness of the campaigns?
- **Advertising inventory** – what's the availability of ad slots on premium properties?
- **Advertising units** – what's the size and shape of advertising content?
- **Tools** – what kind of tools are available to run the lifecycle of a campaign? How does mobile advertising fit into the larger advertising budgets and planning?

For content providers, both big and small, it offers an ability to go direct in addition to working with carriers on revenue-sharing arrangements. If a content-provider has traction and user profile data for a few million loyal subscribers, advertisers would love to talk to you. But, as we discussed earlier, it comes down to reach and purity of the subscriber base.

Campaign Sponsors	American Express, P&G, GE, Toyota, etc.(Advertisers)
Marketing Agencies	Ogilvy, Universal, Carat, Mindshare, etc.
Enablers	ThirdScreenMedia, Admob, MobiTV, Enpocket, Rhythm NewMedia, Medio, ActionEngine, Screen Tonic, Google, Yahoo, Tellme, MSN, Infospace, etc
Content Provider	CNN, Disney, Yahoo, YouTube, ESPN, Mixxer, Intercasting, etc.
Aggregators	mBlox, Infospace, WSC, etc
Carriers	Sprint Nextel, NTT DoCoMo, Vodafone, Telefonica, Verizon, Cingular, Virgin, amp'D, Clearwire, etc.
Consumers	You and Me

Risks

While the potential is immense, there are also significant risks and potential challenges that need to be tackled before the industry evolves into a vibrant advertising medium. The prominent ones are privacy and data security. Once you start mining user data, significant profile information can be developed.

Then how that information is used and by whom becomes an issue, and a significant legal minefield. In addition, if the industry doesn't want regulators to get involved, the security policies and procedures need to be in place to protect the data from theft or misuse. Next, the advertising ecosystem needs to be fostered so that everyone in the value chain benefits relative to their contribution.

Some people have compared the advertising ecosystem to lions (advertisers) and antelopes (consumers), where you need enough antelopes to attract the lions but not enough lions that you scare away the antelopes[9]. As **Omar** indicates in his article, advertising needs to align the interests of different players in the value chain to keep plenty of antelopes around the watering hole. As we have seen time and time again, if the ecosystem is healthy, segments thrive. Otherwise it is relegated to slow growth or the interest dissipates altogether. There needs to be a good balance of power between advertisers, content providers, carriers, and consumers.

Value-chain dynamics

It is clear that mobile advertising and marketing has big potential if certain technical and business requirements are met and industry strives to take into account the user considerations that matter the most. But, which players will dominate and control the ecosystem? Without a doubt, carriers have the purest profile information available, but can they execute their strategies? Well, they have approx a 3 – 4 year window.

Once 3G and Smartphone penetration curves collide and pass 20-30%, if the carriers haven't built a good mousetrap (value proposition) by then, all bets are off. Different dominant players will start to emerge, as it will get easier for Internet and traditional brands to build direct relationships with a good proportion of the subscriber base.

It is also possible that in some geographies carriers and brands will work closely to establish a tight service offering and equitable revenue split. Role of savvy brands like P&G who are generally ahead of the curve on most technology trends is going to be important. Brands and service providers who are able to integrate user experience across channels will benefit the most (Microsoft will be a strong player in cross-channel advertising). There is real value in understanding user behaviour on the Internet and mobile, and cross-leverage in **a**) building a solid profile fingerprint and **b**) using it to push content.

Then, there is the whole world of off-net advertising and marketing. Carriers are increasingly playing a lesser role in that segment. But the market is very fragmented amongst hundreds of content providers and mini-aggregators. They only have a piece of the (reach and purity) puzzle and hence the analytics they apply will be limited in scope.

Could they collaborate to leverage each-others strengths? Certainly. Can the user profile information be available as a web service (with user's permission of course)? Sure. Can carriers start to offer that to trusted providers in exchange for revenue-share? Possibly. There is clearly enough room for experimentation in both the technology and business models arena of this nascent industry segment.

Finally, ads and promotions should be "super-distribution-friendly" (across carriers and devices) meaning – treat ads and promotions like content that can be passed around "easily."

Conclusion

Now that we've got everyone talking about Mobile Advertising, it's time to take the ball and run with it. We should start by understanding the nature of our medium and be careful not to assume we're Internet-Search-Advertising on a cell phone.

While we seek to build enough exposure to drive advertising, we shouldn't forget the role of good-old space ads and the interests advertisers have in testing new media. And there's a pot of gold awaiting the solution to the problem of the mobile device interface.

If we can work to clean up the storefront, we can better bring product to market. And we can begin to get a feel for what people want. And if it's applications that drive the exposure we all want to sell to advertisers, we may need to be more creative in developing products.

It is quite clear from industry trends that the mobile industry (especially in the US) is moving from an emerging state to a more interactive and immersive application and services environment. By 2011, the advertising industry will be close to US$600bn.

Can mobile start to increase its revenue share from its current levels of less than 0.2% to 2 - 5% by then? Since this medium can provide context, immediacy, and personalisation, the answer is yes. However, there are technical, business, and legal hurdles to be crossed before the industry becomes a thriving institution.

Until then, stay tuned. **ww**

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For Part I of this feature, please contact Wireless World magazine or Chetan Sharma Consulting.