



Sell Phones:

What will make mobile advertising tick?

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Introduction

Mobile Marketing and Advertising is the new **“it”** in the industry. All the three recent industry shows (MES, MECCA, and CTIA)¹ in LA last month were buzzing with the potential of mobile advertising. For carriers, who until now had not paid attention to this evolving sub-segment, have started to organize internally to be the clearinghouse and magnet for agencies and advertisers. The advertising agencies and big brands have started to throw MDF² dollars at experimenting with this new medium called *mobile*. Analysts have started predicting billion dollar markets by 2010³. The ecosystem has also started shifting and new alliances are being probed and tested for positioning. Is mobile marketing going to be another over-hyped industry segment or will it actually help generate revenue, drive exits for VC investments, enhance content value-proposition, and most importantly, deliver value to the consumers? This article discusses the elements that are critical for the long-term viability of the mobile advertising and marketing industry.

¹ Coverage of fall shows (2006) is available at <http://www.chetansharma.com/ctia0906roundup.htm> .

² Market Development Funds (MDF) are typically allocated for new media activities.

³ In a recent report, Informa estimated that the mobile advertising market is going to be worth \$871m this year, and will jump to \$11.35bn in 2011 .

How big is the market?

To get a grip on the potential market in the US or Western Europe, we take a look at Japan⁴ as the harbinger of what's to come in this space. According to Dentsu, mobile advertising revenues for 2006 will be approximately \$373M or close to \$3.8 per subscriber (for the year). By 2009, this number is likely to scale to over \$6/sub/year⁵ (Figure 1). According to InfoPlant, almost 60% of the Japanese consumers use mobile coupons and discounts more than once a month⁶. The US market is just starting to get organized and move from SMS marketing to mobile/local search marketing, interstitials, in-content ads, banner ads, etc. In 2006, US will do less than \$1/sub (for the year) in mobile advertising revenues, bulk of which will be SMS marketing. Europe is also slowly waking up to the possibilities around mobile ads and has been experimenting with some clever business models such as Operator "3" subsidizing usage and phones in lieu of advertising on the phone. These models are also being offered in the microenvironments of downloadables, subscriptions, video streams, etc.

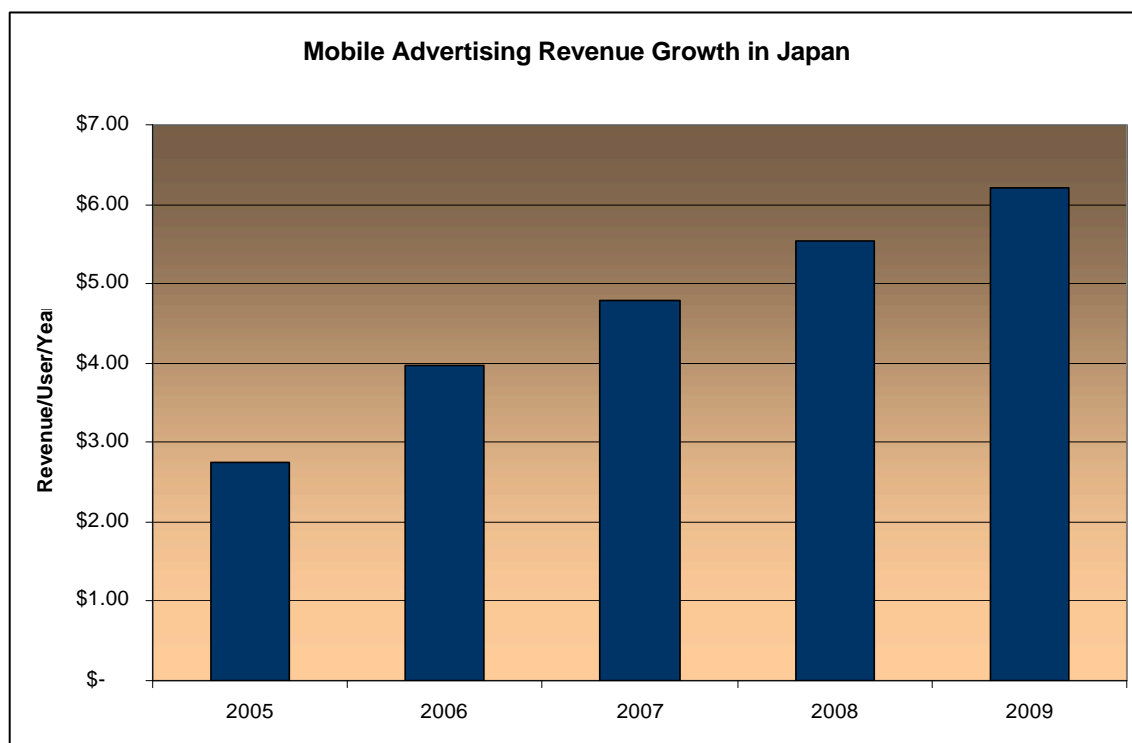


Figure 1. Mobile Advertising Revenue Growth in Japan⁷

⁴ Japan is the second largest advertising market in the world behind US. Japan is also the first country to exceed 50% 3G penetration earlier this year.

⁵ Source: Dentsu, Chetan Sharma Consulting

⁶ Source: <http://www.wirelesswatch.jp//modules.php?name=News&file=article&sid=2021>

⁷ Source: Dentsu, Chetan Sharma Consulting

It is apparent that due to the availability of **context, immediacy, and personalization**, mobile has significant advantages over the other channels as an advertising medium.

The potential is clearly there but how long will it take to reach a critical mass? How many years before the industry cracks \$1B? \$10B? For reference, it took 2, 4, and 5 years for Broadcast, Internet, and Cable advertising respectively, to cross the \$1B revenue mark; 5 years for Internet and Broadcast advertising to cross the \$5B mark. None of them crossed \$10B mark in their first 10 years of existence⁸ (Figure 2). Will mobile be any different? Instead of being a blip in the advertising revenue stream, when will the mobile segment start rivaling revenues generated from advertising on Internet, Radio, Newspaper, and TV? Can it? If yes, what does it take to get there? What technical, business, and legal issues need to be addressed before agencies have dedicated staff to tackle mobile advertising and real dollars instead of MDFs as part of the budgeting exercise? Finally, who will be the dominant players controlling the ecosystem five years from now?

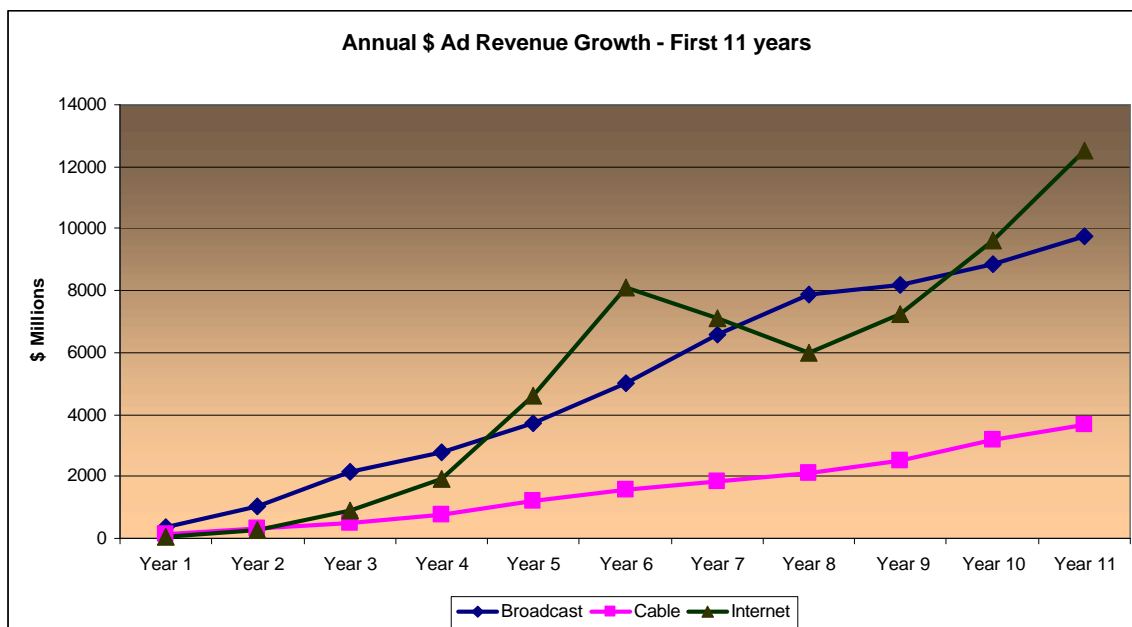


Figure 2. Annual Ad revenue growth in broadcast, cable, internet in the first 11 years⁹

⁸ Year 1: 1995 for Internet, 1980 for Cable, and 1945 for Broadcast TV (Source: IAB).

⁹ Source: IAB Internet Advertising Revenue Report, 2005 Full Year Results, PriceWaterhouseCoopers

Technology Requirements

First, let's discuss the technology piece. 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%¹⁰. Adoption of Smartphones is also increasing (Figure 3). With Motorola's Q and RIM's Pearl, price point is getting near mass-market consumption levels. By next year, we will start seeing \$100 smartphones. In the US, 25% of the converged devices sold during the first half of 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 4 and 5).

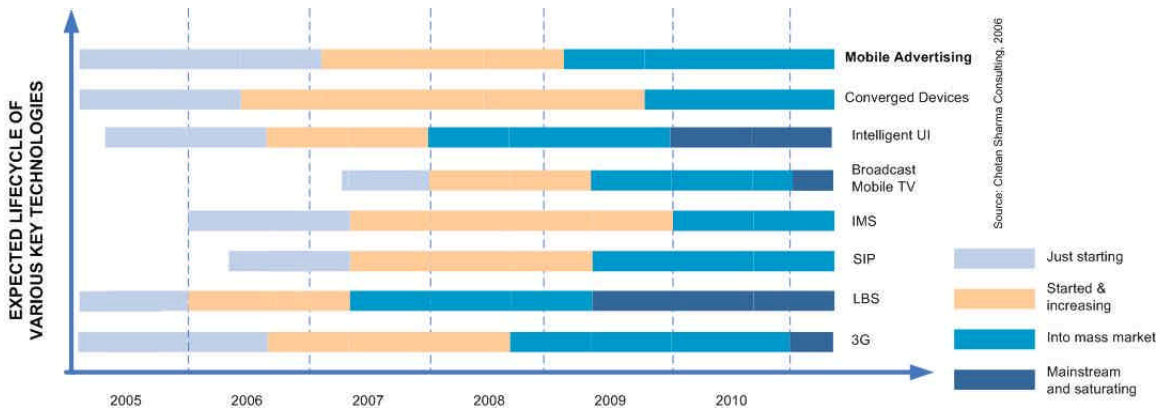


Figure 3. Expected lifecycle of various key technologies in the US¹¹

¹⁰ For a more exhaustive discussion on 3G, please see http://www.chetansharma.com/cover%20story_3G.pdf

¹¹ Source: Chetan Sharma Consulting

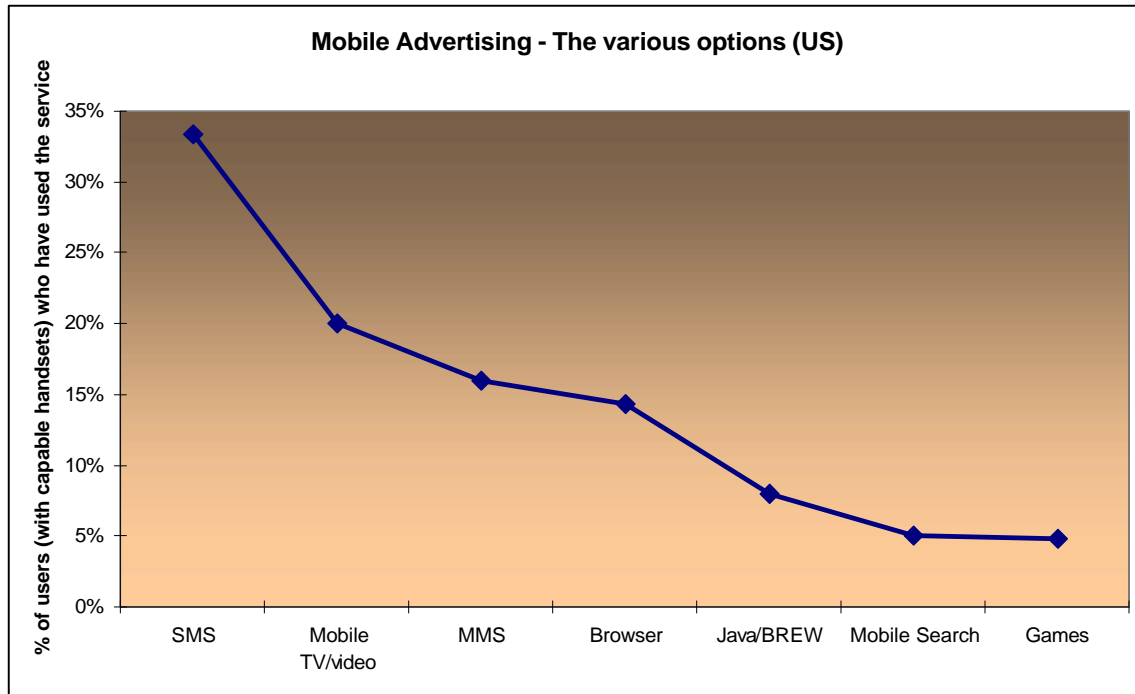


Figure 4. Mobile advertising channels¹²

Most of the effective *mobile advertising and marketing will be search driven* - 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 Service¹³* recently quipped in his recent 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 realize 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.

¹² Source: Chetan Sharma Consulting, Q206

¹³ <http://www.tapsns.com>

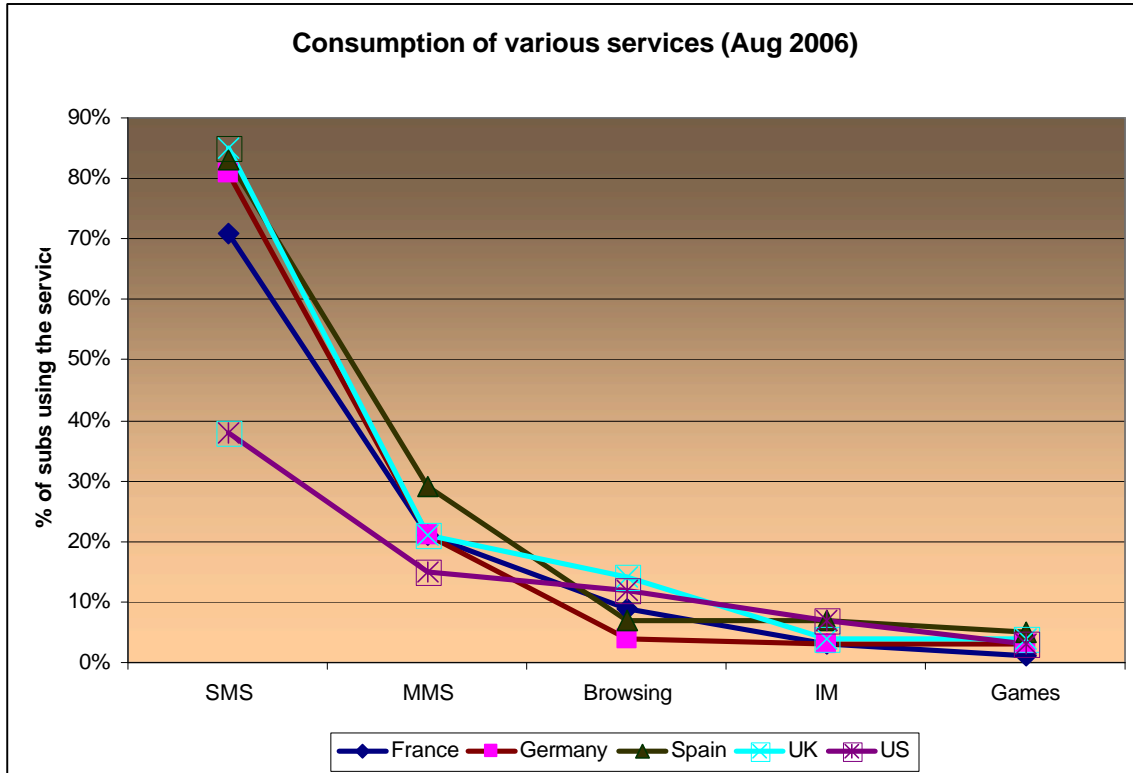


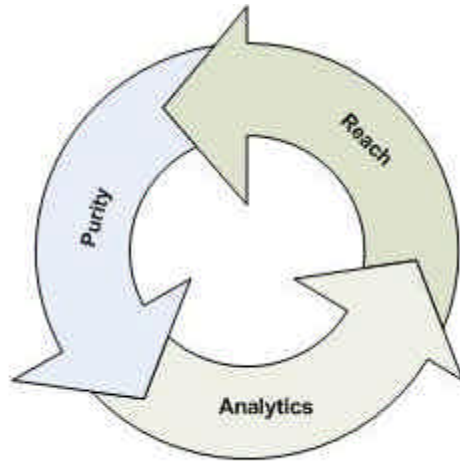
Figure 5. Consumption of various services in key western nations¹⁴

For mobile advertising to be successful, one needs “reach”, “purity”, and “analytics” (Figure 6). 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 customizing 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 fingerprint¹⁵. On the other end are the Internet brands like Yahoo, Google, and MSN with over half a billion unique visitors each. Other important players include giants like Amazon, eBay, Myspace, Youtube, Skype, AOL, and Paypal.

¹⁴ Data Source: M:Metrics, Aug 2006

¹⁵ 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.



Mobile Advertising & Marketing Framework

Figure 6. Mobile Advertising and Marketing Framework

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 behavior 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 enable 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 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 7):

Campaign Sponsors (Advertisers)	American Express, P&G, GE, Toyota, etc.
Marketing Agencies Enablers	Ogilvy, Universal, Carat, Mindshare, etc. 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 Carriers	mBlox, Infospace, WSC, etc. Sprint Nextel, NTT DoCoMo, Vodafone, Telefonica, Verizon, Cingular, Virgin, amp'D, Clearwire, etc.
Consumers	You and Me

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 subsidizing 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.

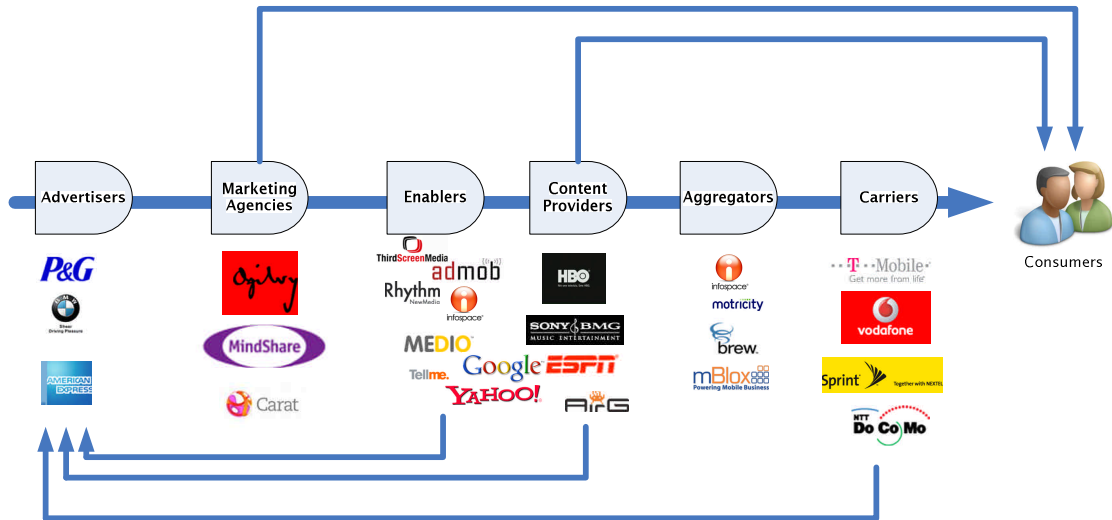


Figure 7. The emerging mobile advertising value chain¹⁶

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 favorite 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?

¹⁶ Source: Chetan Sharma Consulting

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.

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 amongst them 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 antelopes¹⁷. 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, segment thrives 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

¹⁷ "[Lions and Antelopes in the Advertising Ecosystem](#)", Omar Tawakol, Revenue Science

have approximately 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 behavior 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 work to leverage each-others strength? 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 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

It is quite clear from the industry trends that mobile industry (especially in the US) is moving from an emerging state to a more interactive and immersive application and services environment. By 2011, advertising industry will be close to \$600B. 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 personalization, 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 to our commentary on the shifts and turns in the ecosystem.

Acknowledgements

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Picture Credit

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About

Chetan is a recognized industry expert in strategy and implementation of wireless data and pervasive computing solutions. He has a strong background in developing and launching technologies, products, and solutions for the wireless Industry, including extensive experience in managing and delivering all phases of the product development cycle. Executives from leading wireless companies around the world seek his accurate predictions, independent insights, and actionable recommendations. He has served as an advisor to senior executive management of several Fortune 100 companies in the wireless space. Some of his clients include NTT DoCoMo, Disney, KTF, Sprint Nextel, AT&T Wireless, Cincinnati Bell, Reuters, Qualcomm, Reliance Infocomm, SAP, Merrill Lynch, American Express, Infospace, BEA, and HP.

Chetan is the author of best-seller: *Wireless Internet Enterprise Applications* (John Wiley & Sons, 2000) and co-author of *VoiceXML: Strategies and Techniques for Effective Voice Application Development* (John Wiley & Sons, 2002). His most recent book titled *Wireless data services: Technologies, Business models, and Global markets* was published by Cambridge University Press, UK (Jan 2004) and is a collaboration with Dr. Yasuhisa Nakamura, SVP, NTT DoCoMo. Chetan has patents in wireless communications, is regularly invited to speak at conferences worldwide, and is an active member in industry bodies and committees. Chetan is interviewed frequently by leading international media publications such as WSJ Interactive, Information Week, Japan Media Review, InfoWorld, Wireless Data News etc. and has appeared on WBBN and CNBC as wireless data technology expert. He frequently addresses several telecommunications industry trade delegations to the US such as executive teams from Japan, Korea, and Finland. He served on the US advisory committee of Korea-Pacific US States Joint Conference on wireless and multimedia. Chetan has published several articles and industry reports on topics ranging from wireless multimedia to WLAN to UMTS.

He has also been involved as a wireless technology expert witness in intellectual property litigation cases including Intellectual Property Infringement (Section 337 investigations) case in front of US International Trade Commission.

Chetan is advisor to CEOs and CTOs of some of the leading wireless technology companies on product strategy and IP development. He serves on the advisory board of [SignalLake](#) (early stage telecom venture fund), [Travelingwave](#) (speech recognition), [Nexage](#) (mobile video), [Compubahn](#) (system integrator), and [Intvo](#) (mobile gaming). In addition, Chetan also advises some of the largest financial institutions on wireless technology and companies in the sector. Chetan is regularly invited by various US government agencies to speak on wireless data and security related matters. He is co-chair of wireless technology committee of Integration Consortium - [IC](#). He is a member of IEEE, IEEE Communications Society, and IEEE Computers Society, and serves as a contributing analyst to the editorial board of [Wireless World magazine](#).

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