

# MOBILE MARKETING



## Sell Phones:

WHAT WILL MAKE MOBILE ADVERTISING TICK?  
PART I  
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Mobile Marketing and Advertising is the new "it" in the industry. All 3 industry shows (MES, MECCA, and CTIA) in LA 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 organise internally to be the clearinghouse and magnet for agencies and advertisers.

The advertising agencies and big brands have started to throw MDF dollars at experimenting with this new medium called mobile. Analysts have started predicting billion dollar markets by 2010. 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.

How big is the market?

To get a grip on the potential market in the US or Western Europe, we take a look at Japan 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/year (Figure 1).

According to InfoPlant, almost 60% of the Japanese consumers use mobile coupons and discounts more than once a month. The US market is just starting to get organised 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" subsidising 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.

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

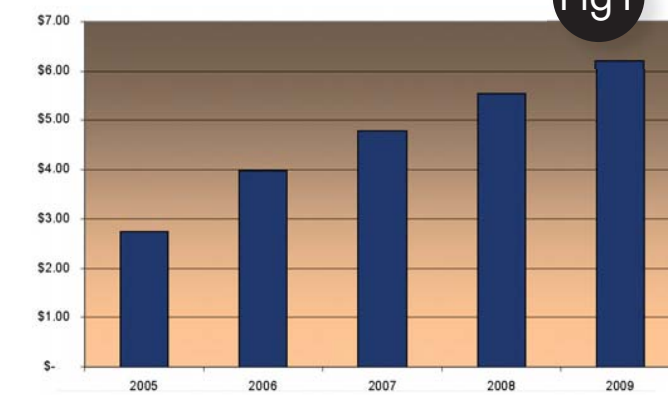
The potential is clearly there but how long will it take to reach a critical mass? How many years before the industry cracks \$1bn? \$10bn? For reference, it took 2, 4, and 5 years for Broadcast, Internet, and Cable advertising respectively, to cross the \$1bn revenue mark; 5 years for Internet and Broadcast advertising to cross the \$5bn mark. None of them crossed \$10bn mark in their 1st 10 years of existence (Figure 2).

Will mobile be any different?

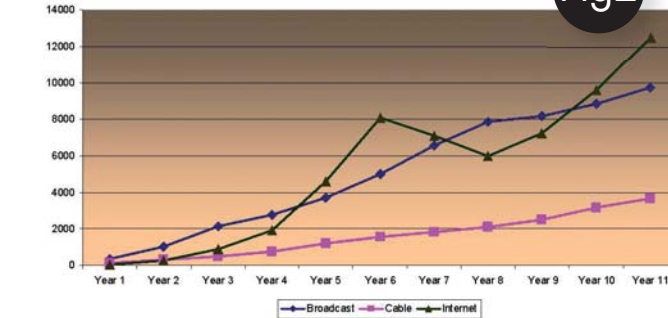
Instead of being a blip in the advertising revenue stream, when will the mobile segment start rivalling revenues generated from advertising on Internet, Radio, Newspaper, and TV? Can it? If yes, what does it take to get there? What technical, business, and legal issues need to be addressed before agencies have dedicated staff to tackle mobile advertising and real dollars instead of MDFs as part of the budgeting exercise? Who will be the dominant players controlling the ecosystem five years from now?

What, then, needs to happen for Mobile Marketing to go from buzz to biz? While we technologists can feel good about the success of Internet advertising, it's helpful to remember that it didn't exactly happen overnight. It may be useful not to assume that the Mobile Marketing will replicate the Internet experience. This time around, it may be helpful for us to

Mobile Advertising Revenue Growth in Japan



Annual Ad revenue growth in broadcast, cable, internet in the first 11 years



Source: Coverage of fall shows (2006) is available at <http://www.chetansharma.com/ctia0906groundup.htm>.  
Marketing Development Funds (MDF) are typically allocated for new media activities.  
In a recent report, Infoma estimated that the mobile advertising market is going to be worth \$871m this year, and will jump to \$11.35bn in 2011.  
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.

Source: Dentsu, Chetan Sharma Consulting  
Source: <http://www.wirelesswatch.jp/modules.php?name=News&file=article&sid=2021>  
Source: Dentsu, Chetan Sharma Consulting  
Year 1: 1995 for Internet, 1980 for Cable, and 1945 for Broadcast TV (Source: IAB).  
Source: IAB Internet Advertising Revenue Report, 2005 Full Year Results, PriceWaterhouseCoopers

consider business strategies in the context of some basic questions: What do advertisers want and how do they achieve it? What do we have to offer them?

#### What do advertisers want?

At its most basic, advertising is gaining exposure to customers in order to send them messages toward the end of influencing their behaviour. All things being equal, the less it costs the better.

Advertising objectives range from supporting a brand ('image' advertising) to triggering a sale ('direct response' advertising). And broadly, some advertising aims for 'reach' (maximum exposure) and some for 'purity' (relevance). If you have something everyone wants, you want to send your message to as many people as possible, but if you're selling hotdogs, you'd likely not spend much targeting vegetarians.

Advertisers are chronic testers and rigorously ROI-focused. There are many types of advertising medium, so when a media planner goes to allocate their budget they want to have data on how effective the advertising has been and at what cost.

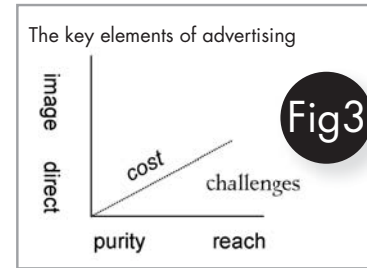
Also, there's a bit of a social scientist in all advertisers. If their objective is to send a consumer a message, they want to know where all those eyeballs are spending time. So when a new medium (like TV or the Internet) emerges and attracts peoples' attention, advertisers notice.

All these variables are reflected in the media allocation budget/model, which optimises spend. A percentage of the total is typically dedicated to testing new media, techniques and channels. If eyeballs are spending less time watching television and more time on the Internet, they will notice. The rest, and most, of the budget goes to existing advertising media.

Basically, all advertisers have the same objectives and think about the same things. Large companies may have statisticians building LTV (LifeTimeValue) models; a small business person may say, "I didn't get one sale off that stupid coupon mailer so I ain't doing that again". While they may look different and use a different mix of quantitative data and intuition, they have the same conceptual model.

What does that mean to the Mobile Marketer?

The advertiser is our customer and they seem to think, in part, like this:



be meaningful to them? And what are the challenges we need to address in order to deliver?

#### The Problem of Reach

All things being equal, advertisers want to message as many people as possible. This is a critical challenge for Mobile Marketing. Unlike the Internet, we certainly can't assume they'll be a Big Bang of exposures partly because the 'access network' isn't monolithic, public and free.

It would be nice if we could build another money machine business model we've seen from the likes of Google/MSN/Yahoo, but we should be mindful of the characteristics of our medium and design our strategies accordingly. This is a major but critical 'mindset' change we need to make: Internet Advertising may not be an effective roadmap.

Mobile customers are currently 'owned' by many carriers and it costs them a lot of money to build and maintain their networks. So the pool of exposures is split up from the start and owned by carriers not necessarily interested in cooperating to accommodate any outside interest in stimulating the mobile advertising industry. It will take time to build our reach.

This doesn't mean we should abandon ship but rather speaks to the need to initially adopt a pretty traditional ad sales approach. Because advertisers want to follow the eyeballs of consumers, we can look to access MDF and work with them to understand the new media.

And we shouldn't make the same mistake we did in the early days of Internet Advertising and overprice

our services based on industry hype. As anyone who's ever sold advertising before will tell you, it's easy to pitch a new media ad once, maybe twice. But if it's not cost-effective, advertisers will figure it out pretty darn fast. We must work in more of a spirit of partnership with advertisers to build the new media.

With that said, cell phones are unquestionably ubiquitous, so advertisers have a vested interest here. As with most new media, we may likely find ourselves working initially with large, national brands to establish our value. And as we do so, we can gain the confidence of carriers and look to gain increasing access to their consumers/network. From that foundation, we can look to increase our reach to the point where paid-placement-like models make sense.

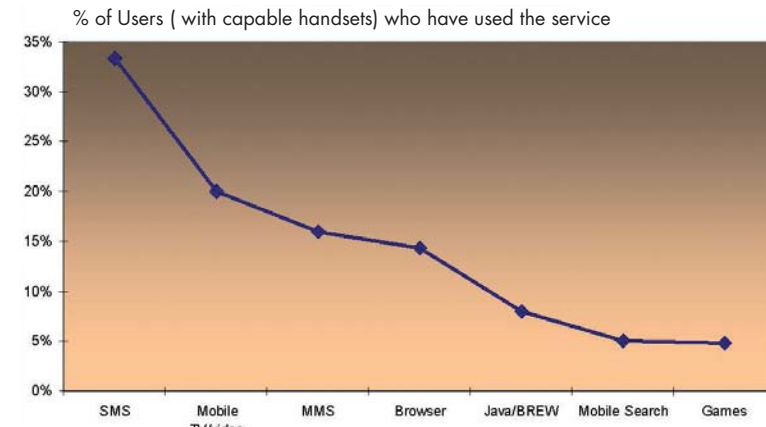
Out of the gate, we want to have the capability to build a history of our customer contacts and look to segment that activity as a function of behaviour, demographics, etc. (At this point, none of us should be throwing away transactional data)

This lays the foundation from which we can later offer purity to advertisers for more targeted initiatives, which commands a higher CPM. We eventually want to be able to present a traditional 'data card' that shows advertisers what types of people we can help them reach. "We can reach 10,000 consumers" rarely plays as well as "We can reach 10,000 consumers, 20% male/ages 16-32/interested in sports cars, etc."

#### The Problem of the Storefront

Advertisements must be delivered on something, be it a screen, voice mail, audio, etc. To date, we've not seen any 'killer apps' building strong enough adoption to generate enough traffic to fuel a vibrant ad model.

But at this early stage, we should be careful not to read the data and make conclusions about what consumers may or may not want. I've met players who talk about pulling out of mobile products 1 month after launch! Adoption takes time. And it could be that we need to take a hard look at the overall interface/environment before understanding the performance of a particular product.



It's clear that we need to make it easier for the consumer to navigate our applications, but we also have to remember that it may have already taken them 18 'taps' to even find it. The world's most compelling product may not fare well in a grocery store that randomly puts things on the shelves: If people can't find milk, are we to infer they don't want milk? Similarly, if mobile directory-products haven't gotten traction, maybe it's because no one can find them. And while the size of the ringtone market may astonish some, I'm more impressed by how big primary demand must really be, given how tough it is to find and buy anything on a cell phone.

Someone needs to step up to the plate and clean up the storefront by designing a reasonable interface. While we've seen a lot of players focus on the problem, they all seem to be rooted in the PC interface – categorised, nested menus navigated by clicks and keyboards. And attempts to add technology onto that structure, such as voice and assisted-text, still assume the underlying PC logic such that we are still left with a tedious command and control experience.

Personally, I rarely wake up and say, "I have an entertainment, sub-cat music,

sub-cat classical, sub-cat Beethoven, 7th Symphony query need". I simply say, "I'd like to hear the 7th Symphony." There's no inherent reason why we can't query our mobile devices as simply as that. And when the interface isn't a maze of category screens, we free up space we can use to up-sell, cross-sell, promote and advertise. So, if we are to get traction with mobile apps and drive enough use to generate enough exposures to interest advertisers, someone needs to clean up the store. Then, and only then, can we leverage traditional merchandise and marketing techniques to sell with more of a Life Time Value perspective than the current 'develop it/hope to get on a carrier deck/hope someone will find it/hope they'll buy it' approach. The only other alternative is a

direct-to-consumer model with a short-code facilitated delivery system. However, the current economics of the business will struggle to bear the cost of marketing involved in getting known to buyers. To date, no one's demonstrated the deep-pockets and patience required to directly chase consumers for a future revenue stream the size and sustainability of which is not yet proven.

#### And what's our Product, anyway?

In our attempts to develop mobile apps that drive significant traffic, it may be helpful to creatively expand our definition of the product.

In content-delivery apps such as ringtones, our very definition of 'content' may be too conservative. Certainly the Internet has shown us that consumers are interested in all kinds of silly stuff – nay-sayers should check out YouTube and the like. Maybe the current merchandising of blockbuster content is shooting ourselves in the economic foot. And the bullet hurts more when we can only merchandise a handful of SKUs per screen, as those inevitably get filled with 20/80 products that have low margin driven by high royalty fees.

If the end-game wants to include an ad model, maybe we should look more closely at the clear consumer impulse to find, collect, show, trade, commune. Perhaps there's some opportunity in taking a more 'content-is-what-content-does' perspective – after all, the cell phone is essentially a communication tool. And maybe blockbuster content works better as a form of paid advertisement itself; this seems viable in a generation that more readily accepts ads as a form of entertainment.

Look out for the exciting Part II in Wireless World's March 2007 issue, where Chetan Sharma looks at Mobile Advertising - Technology Requirements; The value chain; Risks; Value-chain dynamics; and concludes with some thought-provoking statements. **ww**

#### Acknowledgements

Our thanks to Sunil Jain, Amar Patel, Anne Baker, Sarla Sharma, Shawn Conahan, and Subhadeep Chatterjee for their valuable assistance with the article.

#### About

Meliff has extensive professional expertise in technology strategy, direct marketing and advertising. He was in the Strategy and Media practice in the New York office of BoozAllen and Hamilton, after which he oversaw the re-engineering of the Global Promotion, Selection and Analytics business and systems at Reader's Digest, Inc. He led a successful 1997 IPO of Multiple Zones as CEO, and subsequently led and sold 2 other technology companies. Sharma is a recognised industry expert in strategy and implementation of wireless data and pervasive computing solutions. 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.