



Sweet dreams of advertising revenues

There are many ways to make the most of mobile advertising – a channel that offers substantial new value for advertisers. But do advertisers really need operators? This is a wake-up call for mobile operators: they must clearly define their position in this new value chain or face being sidestepped.



FOR DECADES, THE ADVERTISING industry has been looking for opportunities to target a brand's audience in the most efficient way. John Wanamaker, the American department store mogul and founder of Macy's, once said: "I know half the money I spend on advertising is wasted, but I can never find out which half." This situation has not changed: even with better database management for direct mailing and personalization tools for web-based campaigns, the dream of real one-to-one marketing remains just that – a dream.

For some time now, the mobile phone has been discussed as a channel for targeted one-to-one marketing. People treasure their mobile phones as one of the most personal items they have. Advertising agency BBDO found in a study that 63 percent of international respondents would never lend their mobile phones to someone else.¹ So it is understandable that a huge number of advertisers around the globe have already started using mobile-marketing campaigns to access their customers' most personal communication tool.

Results from mobile campaigns are often impressive. Reports by NetInformer, a provider of mobile-marketing services, quote typical response rates of 15 percent, around 10 times the rate for traditional direct-response advertising.² Such figures provide good arguments for advertisers and their agencies to move some advertising money away from traditional media channels. However, there is still a strong mismatch between usage habits for different media and advertising budgets.

Time shifts in media consumption are not yet being reflected in advertising spending. A Yankee Group study shows that people in the US read their newspapers on average for half an hour a day – yet advertisers spend almost USD 50 billion a year to reach their customers through newspapers.³

People also spend about half an hour using their mobile phones, but at present mobile-advertising budgets are only a small percent

of what is spent on newspapers. Advertising agency OgilvyOne calls this phenomenon the Marketing Confidence Gap.⁴

Besides the high response figures mentioned above, the mobile channel offers advertisers several unique advantages over traditional media:

- Interactivity – customers can easily respond to a marketing message, allowing advertisers to establish real one-to-one communication.
- Immediacy – messages can be tailored to support time-critical campaigns. Users, for example, might be asked to redeem a mobile voucher by responding within the next hour.
- Monitoring – mobile campaigns can easily be monitored in real time, so an advertiser knows immediately whether a campaign is succeeding and can adjust important factors accordingly.
- Forwarding – mobile advertising content can easily be passed on person-to-person, which can multiply advertising contacts and further lower cost per thousand.
- Personalization – based on proper user profiles, an advertiser can target the message to a customer's socio-demographics, preferences, buying history and other factors to enhance involvement and limit budget risks.

Several hurdles to overcome

Most mobile advertising campaigns so far have been operator-independent. Mobile networks are being used only as bit pipes to reach mobile users. Mobile operators generate revenues from traffic, but they are otherwise rarely involved in the mobile advertising value chain. Mobile-advertising features can be achieved in an operator-independent setup, but personalization in particular is a strong operator asset that leading players are now trying to exploit by actively positioning themselves in the mobile-advertising value chain.

Mobile operators are facing strong competition and falling per-subscriber voice revenues, so they are interested more now than



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ever in generating additional revenues from new business models such as advertising. Furthermore, recent initiatives by strong internet players such as Yahoo and Google to focus on mobile-advertising revenue opportunities are putting operators on the defensive. Multimedia handsets are now enabling higher-quality advertising campaigns which means the time has come for operators to strengthen their position in mobile advertising.

Of course, there are several hurdles for a mobile operator to overcome before it can succeed with mobile advertising. The most important question an advertiser can ask is: "Why do I need an operator for my mobile campaigns if I can reach my customers independently using all operator networks?" It may sound easy to answer but in reality it is incredibly complex and challenging for an operator. Only the mobile operator knows exactly which customer uses which content. Sufficient customer-profiling capabilities enable mobile operators to target specific customers with advertising information that matches user preferences. Advertising can be targeted in four ways, as described in the figure below.

Adding real value

Anonymous advertising with a mass-marketing approach independent of any targeting criteria represents the lowest level of personalization with expected lowest revenue potential. A banner on a mobile-portal site is shown to every user in the same way. This approach implies limited unique mobile benefit, and the same effect can be achieved via websites – often with many more users. Contextual advertising is based on the surrounding content: for example, an advert for a sports brand can be expected to be more successful if embedded in sports news. This approach can also be achieved in other media, but the location information about a mobile user differentiates the mobile setup from others.

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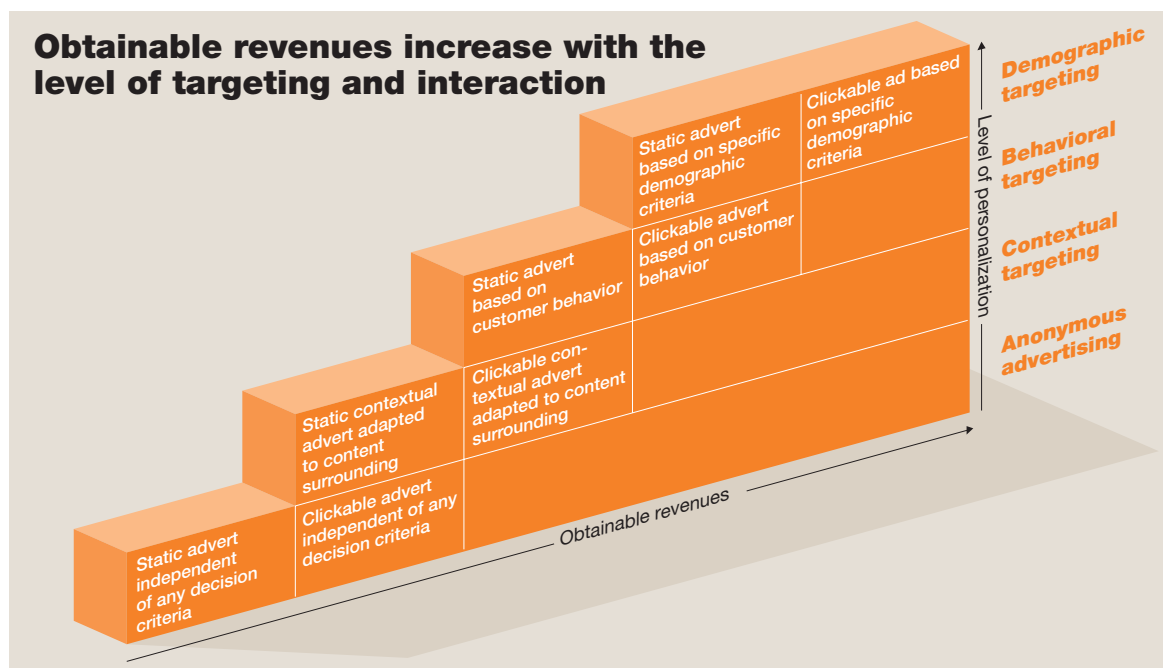
» The highest level of information management requires behavioral targeting, where users receive ads based on their known behavior. «

Location information enables the advertiser to target customers in a limited region, or provides regional brands with new opportunities to directly target their customer base.

The highest level of information management requires behavioral targeting, where users receive advertisements based on their known behavior. Users who have already bought several mobile games, might be interested in downloading a sponsored game with in-game advertising. Users who regularly read sports news can be targeted by sports brands even when they occasionally check the weather forecast. This way of targeting is already being used successfully by internet stores such as Amazon.

The highest potential for exploiting mobile-specific operator assets comes from demographic targeting. For many mobile services, such as WAP-site access, only the operator can match usage figures with user profiles and, based on this, provide relevant advertising information.

Demographic targeting is, however, a challenge for operators today because many segmentation and targeting criteria that



advertisers want operators to use have not yet been stored in mobile customers' profiles. Relevant information is either spread all over operator systems in a silo-based setup or it has not been considered useful so far. Either way, to enable proper segmentation for advertisers, operators need to improve their data-mining capabilities to match advertisers' requirements.

Although demographic targeting represents the most sophisticated form of personalization and often requires improvements to an operator's data warehouse capabilities, mobile advertising within an operator's content inventory will start with basic or no targeting. The challenge for now is to define a unique position in the mobile-advertising value chain – one that adds real value that advertisers are willing to pay for, and that mobile customers accept as a non-intrusive extension of offered services.

Choosing the best position

Four different scenarios put mobile operators in a good position to strengthen the success of advertising campaigns and generate additional revenues.

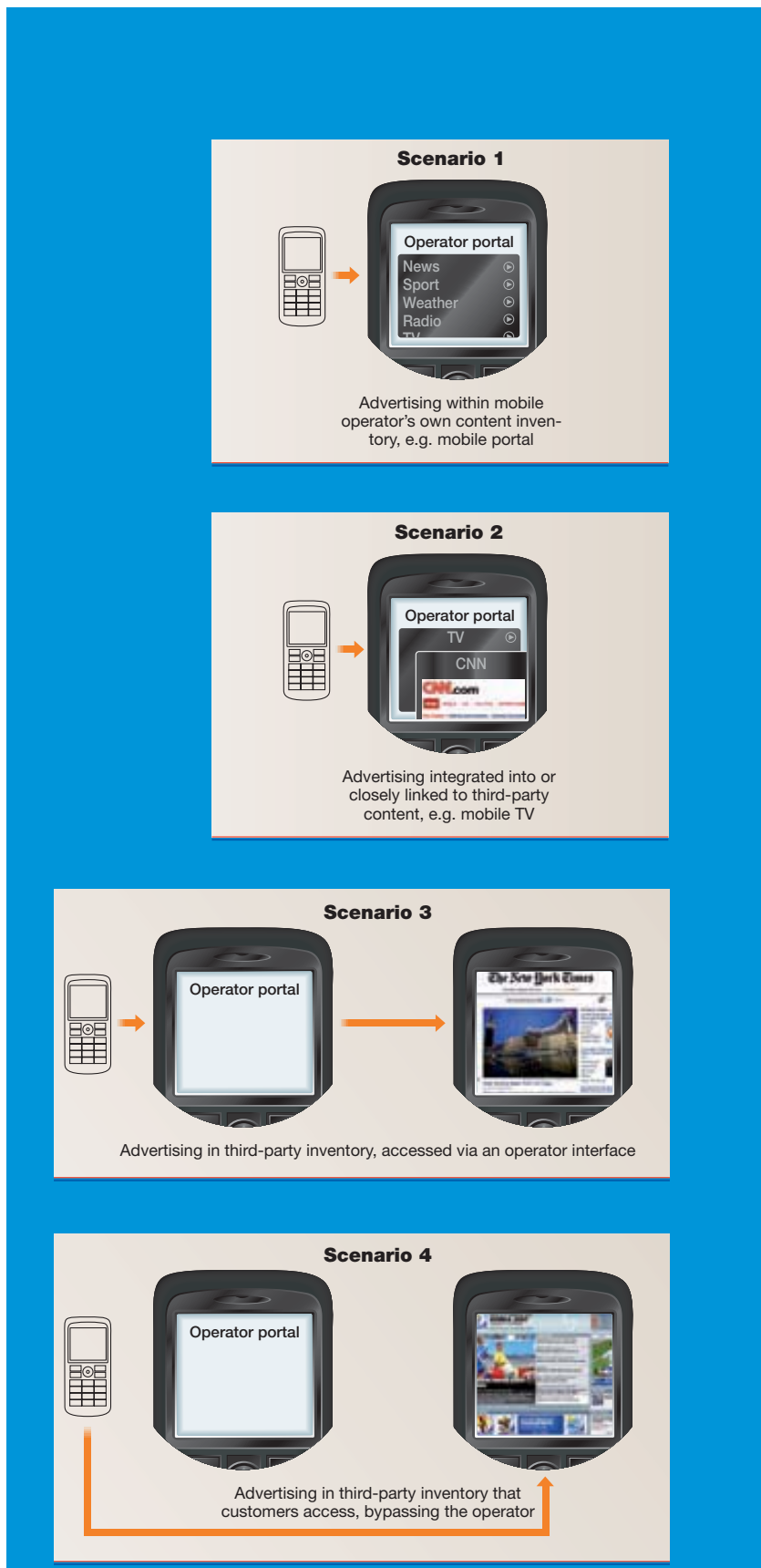
THE FIRST SCENARIO is the most obvious for mobile operators because they sell advertising space within their own content inventories. Some operators, such as Vodafone and O2 in Germany, have launched this business already. Both have outsourced the sales functions to third parties with experience in advertising sales. Various other operators are now preparing to launch mobile advertising within their content environments. The first step will mostly involve banners being placed within mobile portal content. A key characteristic of scenario 1 is the full content ownership of, and responsibility for, the advertising space from the operator's perspective.

SCENARIO 2 represents the typical mobile-TV advertising case such as in-stream, pre-roll or post-roll advertising. It could also include in-game advertising or advertising content closely connected to music clips. The characteristic element of this scenario is that the content is provided by a third party with its own interest in selling advertising space or at least participating in the advertising revenue chain. As an example, there will always be a need for negotiations and alignment between an operator and a TV channel on how advertising sales and integration are handled and how revenues are split.

Both scenarios represent models in which the operator has a strong position, providing a solid argument for a high share of revenues as advertisements are displayed directly to their own customers. Obtained revenues directly strengthen the operator's content business.

IN SCENARIOS 3 AND 4, mobile operators can enable more powerful advertising capabilities for third-party players.

Scenario 3 describes cases in which mobile customers are linked from an operator interface to an externally owned and managed content environment. Typically a customer will be linked from an operator portal to an external mobile site. But this can also include models where users are linked from a mobile-TV application or another interactive client to external mobile sites. The third-party owner of this site, such as a mobile newspaper, might be willing to



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sell advertising space on its own portal. The operator can strengthen this business by providing a mobile advertising platform to upload and schedule advertising content, to monitor campaigns and provide statistics. The operator can also set up dedicated site-specific charging for a linked site, which makes it more attractive for an advertiser to be linked from the portal. The operator can also enable advertising that targets the mobile user's preferences by providing neutralized user profiles or location information. All these enabling functions can be exploited by the operator and generate indirect advertising revenues. Of course, market-specific legal regulations and opt-in models need to be part of the setup.

The final scenario, number 4, is the least obvious argument for a third-party player sharing advertising revenues with an operator. Mobile users bypass an operator portal and access external sites directly. But because an operator can track URLs in the network, the supporting functions for improved advertising are the same as in scenario 3. There is no longer a link to operator content, differentiating it from scenario 3, and the revenue-sharing opportunities will be lower, but the mobile operator is still in a good position to manage and support specially targeted advertisements in the network. And because the advertising budget spent off-portal could be substantial in the future, operators should consider this opportunity to generate revenues from this business.

The challenge from internet players

This is even more important against the background of strong off-portal players entering the business space. In the US, the top 10 mobile internet sites today are provided by non-operator companies such as Yahoo, the Weather Channel and Google. These players are used to selling advertising space and have tools and sales processes in place. With their strong brands and existing community bases, they have good potential for capturing major shares of mobile advertising budgets, limiting the potential for operator activities in the mobile advertising business.

And off-portal players are moving even further. Google recently announced that it intended to participate in the US government's upcoming auction of wireless spectrum in the 700MHz band, which puts it in direct competition with mobile operators in the US.⁵ What is more, Google has developed a prototype mobile phone that could reach markets within a year. The company plans to offer consumers free subscriptions by bundling advertisements with its search engine, e-mail and web browser software.⁶

Mobile operators can still bring specific mobile capabilities to bear, enabling better targeting and personalized advertisements, but other market players are picking up speed. To seize this substantial business potential, operators should decide now how they want to position themselves in the mobile advertising value chain.

Sources:

- ¹ Wireless Works: Exploring New Brand Connections, BBDO Europe, 2005
- ² Netinformer.com, July 2007
- ³ Yankee Group, Mobile Advertising in 2006: A Test Year for Carrier Business Models, May 2006
- ⁴ OgilvyOne, Global Digital Trends, November 2006
- ⁵ Google press release, July 20, 2007
- ⁶ The Wall Street Journal, August 2, 2007

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» Strong internet brands could limit the potential for operator activities in the mobile advertising business «

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