Mobile Advertising for Dummies?

By Keith Mallinson, February 2008

Mobile advertising is an entirely new medium with unique characteristics, no playbook and meager revenues so far. Mobile advertising's best are still novices. It will be a while before the definitive idiot's guide can be written. In the meantime, here's some background on the advertising market—worth $450 billion worldwide—a primer on the potential and constraints in mobile advertising and some analysis on the state of play in its development.

Out with the Old

Advertising is undergoing dramatic change with the development of various new media. In the non-interactive world of TV, radio and print, advertisers bought their desired quotas of eyeballs and ears on the basis of TV household ratings, listeners, circulation and readership. Measurement systems for these are prevalent but many are inaccurate, biased or of limited value because they rely on small samples, self-reported behavior and advertising placements that may not be noticed or remembered let alone ever acted upon. The reach of these media is lessening as consumers zap commercials, multitask with web, IM or email and switch to new media. Nevertheless, "traditional media" are a powerful economic force, accounting for 2006 expenditures in the US of $184 billion, according to the Thumbnail Media Planner from 2020: Marketing Communications LLC. Despite declining circulation, newspaper advertising cost per thousand (CPM) rates have actually increased. Overall economic effectiveness is therefore reducing.

In with the New

Online display advertising extended the multicast approach in old media to this new interactive medium with PCs and Internet access. In addition to brand development, advertisers benefit from the--typically less than 1% of consumers—who click on advertisements for more detailed information. Advertising page views can be measured directly and with precision. Online display advertisements including banners and pop-ups are also sold on a CPM basis with some assurance that pages will actually be viewed. But just as one can hear talking without listening, that still doesn't guarantee that viewed ads are noticed. Many web sites are overly cluttered with advertisements and recall levels can be low.

Online sponsored search changed the advertising model on its head. Google pioneered this entirely new business model in which highly-relevant text-based advertisements are served based on key words entered into a simple search bar permanently embedded in one's web browser or on Google's refreshingly uncluttered home page. This kind of performance-based advertising is also offered by Yahoo!, MSN, AOL and others. It is paid for on the basis of rankings in sponsored search results and the number of clicks received.

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Whereas US online advertising is growing from $14 billion 2006 to $20 billion in 2007, mobile advertising is still so new, with relatively small numbers of insertions, that it is impossible to measure the trade with precision. Most published industry analyst forecasts are for in excess of $10 billion in global mobile advertising revenues by 2011, but estimates for 2007 are typically nonexistent or modest. According to a September 2007 report from The Kelsey Group, for example, US mobile search advertising revenues will rise from just $33.2 million in 2007 to $1.4 billion in 2012. Market leader AdMob claims 2.4 billion worldwide ad insertions in January 2008, but there is still a lot of unsold inventory with only a small proportion of mobile web pages carrying any advertising. Exhibit 1 illustrates some exceptions in the US.

Exhibit 1

Mobile Ads are Served to a Minority of Pages Viewed Today: Some Exceptions

Mobile Advertising is Embryonic and Unique

Mobile is a medium with a variety of delivery modes for electronic content including ring tones, wallpapers, video and associated advertising. So far, a significant proportion of mobile advertising is in text messaging with multimedia messaging set to follow. Video clips can be preceded by video advertisements. The emerging Mobile TV market provides opportunities for ad insertion “breaks” in a similar way to traditional TV. Greatest expectations by most interested parties including carriers, device manufacturers and advertisers are with mobile emulating online with graphical banners, text taglines and mobile search. Eventually, some of these different types of mobile advertising will become blended with online in their sale and delivery.

But the mobile medium is distinctly different to online. Mobile’s unique assets will enable it to exceed the performance of other media in many ways, although it also has its limitations, as indicated in Exhibit 2. Some factors are transient. For example, increased openness to third party content and access to subscriber profiles from mobile carriers, the adoption of ad format display standards, identification and recognition of best practices, availability of measurement systems and pricing benchmarks will help develop the market. An increase in clutter, spam and viruses will impede it.

Exhibit 2

Benefits and Challenges of Advertising on Mobile versus Online and Traditional Media

Benefits	Challenges
Reach: Whereas mobile phone penetration is approaching 85% of US population, the Internet only reaches 70% of homes and workplaces.	**Accessibility:** Small screens and limited keyboards constrain display and interactive capabilities. Innovations such as voice recognition will help.
Pervasive: Always with you, always on.	**Nascent:** Embryonic and unproven market with no success story case studies to follow.
Personal: Driven by individuals' demographics, behavioral history and presence, including automatic location identification.	**Heterogeneous:** Technical challenges with differing screen sizes and software, other standards for mobile web and rich clients. Trade bodies including MMA and MAG[1] are setting advertising display standards.
Intrusiveness: Targeted inventory on this intimate device is an advertiser's dream.	**Intrusiveness:** Potentially a consumer's nightmare if conditions for push advertising opt-in are lax and with other possible abuses.
Measurement: As with online, it should be possible to measure the impact of campaigns directly.	**Gatekeepers:** Carriers might block or impede some third party innovators.
New medium: Novelty factor with limited clutter, spam and malware problems.	**New medium:** Limited quality control and measurement systems. More rules of the road (e.g., ad display frequency caps), best practices and pricing benchmarks are needed.
Fraud resistance: Carriers can audit usage and click-to-call can easily be verified.	**Infrastructure:** Immature systems for managing campaigns, inventory, frequency capping on ad views and revenue yields on multiple formats including display, search, SMS, MMS and video.
Business models: Mobile advertising provides an opportunity to disrupt the established value chain with potentially large rewards for some newcomers.	**Business models:** It is not yet clear how the revenues will be divided and whether there will be sufficient reward for all essential players in the value chain.

[1] Mobile Marketing Association (MMA) and dotMobi Advisory Group (MAG)

A New and Expanding Ecosystem

Advertising revenues are no more carrier birthrights in mobile than they were online where the web entirely bypassed US carriers and many others worldwide. Carrier control of the mobile ecosystem with gate-keeping mobile content access, walled gardens and revenue sharing (from content and advertising providers) has limited rather than generated growth on the mobile Internet. Carriers should content themselves that advertising can stimulate network demand that will generate incremental usage charges and justify additional data service subscription charges. A lot of mobile content is going off-portal and advertising is shadowing this trend. This helps carriers because it expands the market overall.

Innovative players in mobile advertising will propel this new market by both allying with and competing against carrier initiatives. Media buyers for premier national (or global) brands such as Coke insist on high levels of subscriber reach that cannot be provided by any single carrier, while also seeking the simplicity of purchasing a full national campaign from a single source. AdMob has moved very aggressively into US brand display advertising to satisfy this kind of demand with on- and off-deck access to ad space inventory on 3,500 sites including ESPN and CBS.

What's it Worth?

Mobile advertising prices are higher than average online prices for banners and pop-ups. However, online prices vary enormously depending on the web site: prime inventory such as the Wall Street Journal fetches a CPM of $70 or more. Rates vary significantly depending on target and other factors with prices to advertisers typically in the $12-$20 range for the mobile Internet in the US. Prices as much as 50% higher are observed in some European nations including the UK and Spain. Mobile prices are toward the bottom end of the CPM ranges in print magazines and are similar to average rates for US—inattentive or otherwise-- TV "viewers". These cross-media price comparisons are made in recognition of the fact that what one is buying is very different in each case with price levels in any medium subject to a variety of medium-specific factors.

Performance-based advertising with keyword searching is growing to dominate online and this approach will likely also be a major category in mobile. Medio, JumpTap and Microsoft (formerly MotionBridge) are providing "white label" search capabilities and associated advertising on wireless carrier portals in competition to on-portal or off-portal competition from Google, Yahoo! and others. Rates averaging around 20 cents per click are on the low side versus online keyword prices that are skewed to average in excess of one dollar with some very expensive keywords driving high ticket-priced purchases such as insurance and financial services. Click-to-call shows great potential, in part because it has no analogy with other media. Only a small minority of computers can make calls, whereas by definition all mobile phones can. On the basis that the average yellow pages book look-up costs advertisers one dollar, as claimed by one US yellow pages publisher CEO, an average click-to-call for a taxi, pizza or restaurant reservation should be worth as much. In fact, $7-10 per call is a representative price range achieved for higher ticket-priced items including services such as plumber house calls.

How's it Sold?

Mobile advertising distribution is still at a formative stage with a variety of channel strategies vying for leadership. Most advertising space (called inventory), including that on the mobile portal of The Weather Channel is sold directly by in-house sales forces. AdMob's value proposition is with its broader reach. Major online players such as Google seek to capitalize on their existing sales channel and customer buying with bundled offerings. Nokia's Enpocket acquisition is an outsourced advertising sales channel that appeals to advertisers with its campaign management support tools. CBS works entirely through third party networks including AOL, AdMob and Millennial.

Has Mobile Advertising's Time Come Yet?

It is just a matter time before the mobile Internet and all that comes with it including mobile advertising takes off in a big way, but don't hold your breath waiting. There are challenges with development of the mobile Internet in general; upon which mobile advertising's biggest opportunity depends. For example, data connectivity prices are still too high to encourage significant use by more than a small minority. Lack of independently audited measurements and difficulties in reaching targets across all carriers continue to impede mobile advertising and make it difficult to justify declaring that 2008 is year that mobile advertising will finally take off.

Nobody knows when everything will come together sufficiently well for explosive growth. That could be at any time. However, now is certainly a good time to get in position to capitalize on the upcoming opportunity.

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Wiseharbor's founder Keith Mallinson has more than 20 years experience in the telecommunications industry, as research analyst, business consultant and as a testifying expert witness. He has published numerous reports and speaks publicly on a wide variety of mobile industry topics. He is a columnist with Wireless Week magazine.