

2011

THE PROMISE OF MOBILE ADVERTISING

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Commissioned by AT&T Interactive

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Introduction

The world of advertising is changing at a dizzying pace. New media are transforming advertising, and consumer expectations have changed accordingly. In this dynamic environment, no communications platform holds more promise than the mobile device.

Mobile platforms present a unique opportunity to reinvent advertising. With mobile, the perception of advertising will shift from interruptive broadcast messages to targeted information services of real value to consumers and positive interactions that have an immediate top-line impact.

Advertisers care about two basic metrics – *reach* and *purity*. They want to communicate with as many people as possible (*reach*) and they want to reach the most accurately targeted audience possible (*purity*). In the past, advertisers have tried to compensate for a lack of purity by casting a wider net, spending inefficiently and often failing to reach their target audience.

With mobile, advertisers can deliver the right information to the right target at the most opportune time; delight the consumer with instant gratification; complete transactions and measure direct correlations between advertising, transactions, and return on advertising (ROA). With the power of real-time metrics in hand, advertisers can scientifically design, measure, and alter their campaigns and deploy strategies for one-to-one relationship building with customers.

Mobile is having a significant impact on local advertising. The attributes of immediacy, location, always-on connectivity, user profile and segmentation, and the viral nature of the medium make mobile the best channel for local advertisers to engage potential customers.

Defining Mobile Advertising

Mobile advertising offers many ways to reach consumers, including messaging, banners, interstitials (e.g. pre-video rolls), video, audio, bar code, idle or “home” screens, applications, Bluetooth and search. Each channel offers advertisers the means to direct and fine-tune their messages for the individual consumer. So many choices can be intimidating, but advertisers should take comfort in the fact that choice is an important strength of the medium, because it will allow them to tailor their programs to match each consumer’s preferences.

The key to the success of each method is to evaluate options based on the target. For example, some consumers may be more receptive to text messaging, while others may prefer for content to be pushed via idle screen. Learn which mode your target customer prefers and you will significantly increase your odds of success.

Reach of Various Mobile Channels

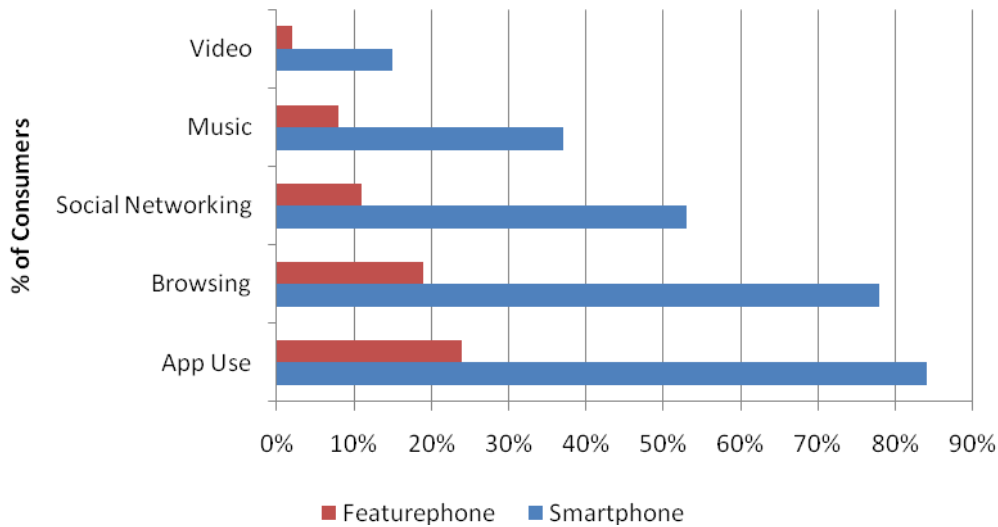


Figure 1. Reach of Various Mobile Channels (U.S. Market)¹

The use of smartphones has sharply increased the reach of mobile channels (see Figure 1). As the mobile ecosystem evolves, we will see campaigns begin to take advantage of multiple channels to engage the same user.

Media buyers are chronic testers, constantly evaluating the ROI of each media buy. In fact, a percentage of the total ad budget is typically dedicated to testing new media, techniques and channels. As people began to spend less time watching television and more time on the Internet, advertisers were among the first to notice.

¹ Source: The State of Mobile, comScore, Jun, 2010

US Mobile Advertising Market

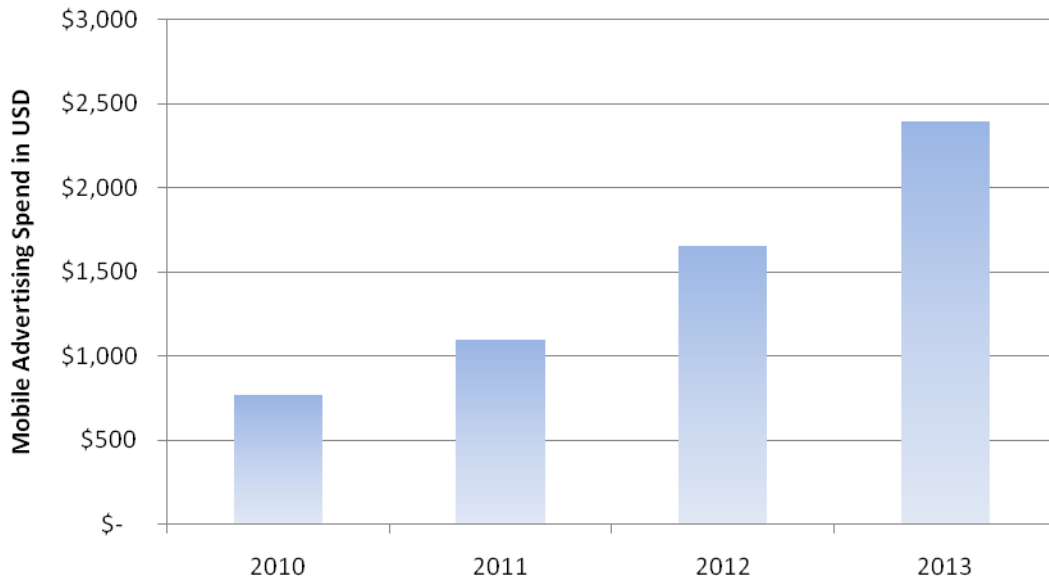


Figure 2. U.S. Mobile Advertising Market Forecast (All figures in thousands)²

It is estimated the U.S. mobile advertising market will grow from \$770 million in 2010 to almost \$2.4 billion by 2013. Within this impressive growth, one segment stands out: search. In 2010, paid search had the biggest share of U.S. mobile advertising spending, accounting for almost 46 percent of revenue.³

Since our mobile phone stays with us pretty much all of the time, and since our phone can do more and more as its capabilities evolve, the percentage of our time spent on mobile is constantly increasing.

For some audience segments, especially the younger demographic, mobile devices are omnipresent, and smartphone use among women is also demonstrating impressive growth. These factors combine to make a compelling argument that mobile can emerge as the predominant medium for advertisers to engage and entertain consumers.

² Source: Estimates are an average of forecasts reported by eMarketer, Sept. 2010, and mobileSQUARED, Oct. 2010, and include messaging, display and search advertising revenue.

³ Source: The United States of Mobile Advertising, mobileSQUARED, Oct. 2010

Benefits of Mobile Advertising

Consumers

Consumers find greatest value in advertising that is timely and relevant. Given the targeting capability of mobile, there is significant opportunity to change consumer perception of advertising in general. With mobile, advertisers have the opportunity to offer consumers convenience, control, and choice.

More than just information, consumers can now receive relevant discount offers and redeemable coupons where and when they want them, which will have a dramatic effect on “the last 50 feet” prior to entering a local business. Instead of searching through the Sunday newspaper for the latest discounts, they can receive offers relevant to any given context; this leads to instant gratification, a powerful emotional consumer outcome.

Advertisers

In his classic book, *The End of Advertising As We Know It*,⁴ Sergio Zyman, former chief marketing officer of The Coca-Cola Company, writes –

“There is only one rule: advertising must sell.”

The problem with advertising has been the lack of effective means for precisely correlating it with sales. It is extremely difficult to measure ad campaign ROI.

The advent of digital advertising on the Internet has helped, but metrics on the intermediary stages of advertising impact – brand awareness, message association, brand recall, brand favorability, purchase intent, and purchase/loyalty – remain elusive. Surveys conducted after the fact simply do not render an accurate picture of consumer behavior. Mobile advertising, on the other hand, affords the capability to track consumer interactions at each stage, and for the first time allows us to accurately measure “Return on Advertising.”⁵

Content Publishers

With subscription models for content on the wane, publishers will necessarily integrate mobile advertising to support content development and distribution. For content providers large and small, mobile advertising offers the chance to explore new revenue models. With targeted data, content can be refined on a per-user or per-demographic basis to increase relevance and value. The mobile platform provides a unique ability to transform advertising into valuable information, and content providers who adopt this new model will see competitive advantages.

⁴ The End of Advertising as we know it, Sergio Zyman, Collins Business, 2000

⁵ Source: *Mobile Advertising: Supercharge your brand in the exploding wireless market*. Chetan Sharma, Joe Herzog, and Victor Melfi, John Wiley & Sons, 2008

Operators

Wireless network operators occupy a unique position in the mobile ecosystem. Unlike other participants, operators have a direct billing relationship with the consumer. They also have access to behavioral data that enables them to identify the specific interests and preferences of each consumer and, more importantly, how these factors are trending over time. Combined with knowledge of location and presence, operators have all the resources needed to finally make advertising context-aware and hyper-targeted.

Operators can measure and report on advertising performance with a level of accuracy previously unavailable in any other medium. Instead of relying on focus groups or survey results projected to larger populations, operators can assess with pinpoint accuracy how well a campaign performed and measure its impact in multiple dimensions, beyond just click-throughs. The ROI for each campaign can even be measured in real-time, so advertisers can make adjustments on the fly.

How Does Mobile Compete With Other Ad Channels?

Mobile will be the most disruptive mass medium, with far-reaching implications for both advertisers and consumers. Mobile phones have capabilities unknown to previous media, capabilities that make mobile a potentially superior platform for advertising at lower price points than ever before. Mobile phones have the following four unique capabilities:

1. They reflect the personalities of their owners – and almost everyone has one
2. They are everywhere – always carried, instantly viral, location- and context-aware and always on
3. They offer a variety of input methods, including touch, camera and voice
4. They have built-in payment mechanisms

These unique capabilities are enabling significant new advertising models. To understand the impact mobile will have on the advertising industry, one should study its influence across five key dimensions:⁶

- **Reach** – how many consumers can you get in front of?
- **Targeting** – how accurately can you reach the right users at the right time?
- **Engagement** – how can you optimize consumer interaction with your brand over time?
- **Viral** – how fast and to what extent can your message spread within the medium?
- **Transaction** – how quickly and efficiently can a consumer execute a transaction linked to advertising?

⁶ These concepts are introduced and discussed in great detail in *Mobile Advertising: Supercharge your brand in the exploding wireless market*. Chetan Sharma, Joe Herzog, and Victor Melfi, John Wiley & Sons, 2008.

Traditionally, the advertising industry has focused on “reach” and “purity.” In the digital world, mobile provides the opportunity to look beyond traditional metrics and start thinking about high-touch campaigns that keep consumers engaged, the viral dissemination of campaign elements, and transaction capabilities that will have a significant impact on sales.

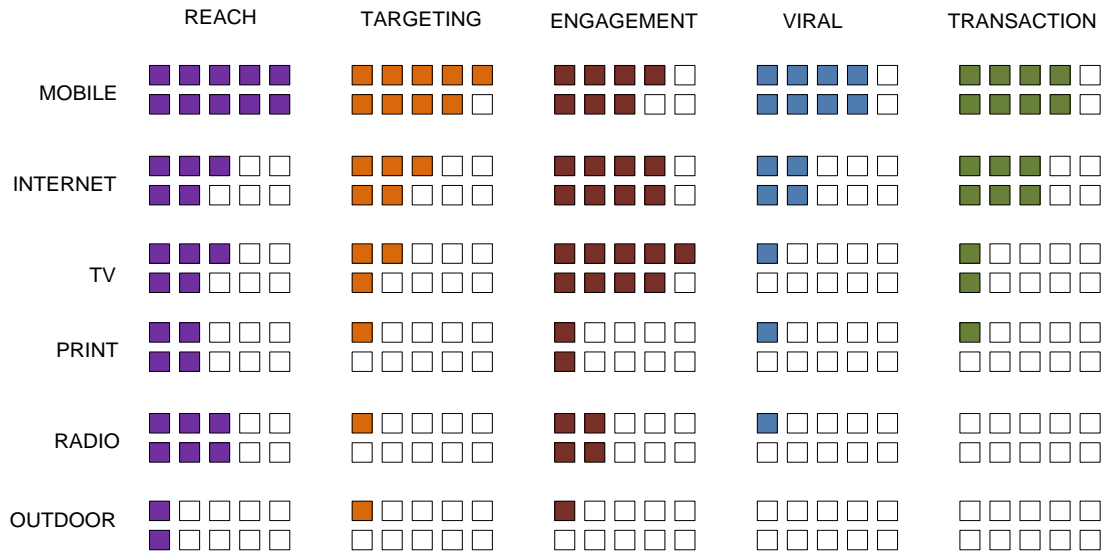


Figure 3. Mobile vs. Other Advertising Media

Figure 3 compares advertising media across five key dimensions. By almost every metric, mobile outperforms all other media. Since the mobile device is with the user all the time, the opportunity for engagement is maximized. Since mobile is context- and location-aware, advertisers don’t have to broadcast messages to anyone but their target, making their ad dollars work more efficiently. On top of the benefit of focus is the propensity to share. The immediacy of the medium allows target users to share information much more quickly than the advertiser could ever do. A message about a brand or a product sent by a consumer to his or her social network carries a lot more weight than the same message coming from an advertiser.

Mobile Advertising: Today vs. Potential

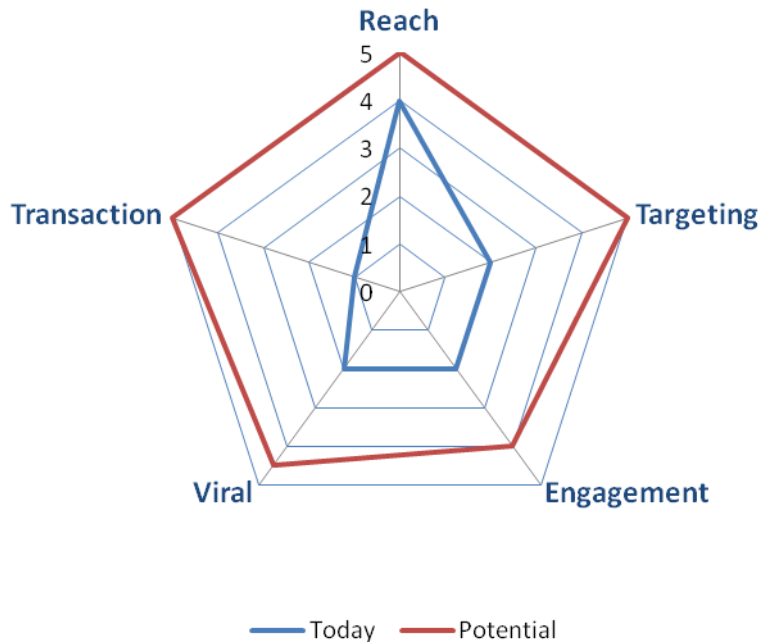


Figure 4. Mobile Advertising: Today vs. Potential

The potential of mobile to redefine advertising is enormous. We are only now starting to see the signs in various campaigns, and there is still a lot of opportunity to improve the technologies that will enable the next generation of devices to bring even better support for targeting, engagement, virality, and transactions (Figure 4).

Mobile advertising collapses time and distance. Now, the first impression of an advertisement can instantly lead to a purchase transaction. The use of location awareness can be an effective targeting tool for local advertisers. Highly granular analytics provide real-time feedback on what's working and what's not. More than ever, advertisers can efficiently connect the dots between advertising and revenue – an elusive goal throughout the history of advertising.

Key Principles For Successful Mobile Advertising

To succeed, any new advertising medium must empower both advertisers and consumers. The mobile advertising ecosystem that connects the advertiser and the consumer must operate on this premise. Otherwise, mobile advertising will fall short of expectations.

The key principles for successful implementation of mobile advertising are:

- User Experience and Value
- Segmentation and Targeting
- Measurement and Reporting
- Privacy and Security

User Experience and Value

The single most important factor in developing new advertising products and services is the user experience. Many people find advertising to be intrusive and interruptive. Mobile advertising presents the opportunity to overcome this preconception and show that advertising does not need to be bothersome, but instead can provide valuable, personalized, contextually relevant services that offer convenience, choice and control.

The key to successful mobile advertising is value. As long as consumers feel they are getting something relevant and useful, they are going to embrace the medium. However, if the value comes at a cost to user experience, privacy or the security of their personal data, the backlash will be swift and will inhibit the growth of the medium.

Segmentation and Targeting

The sweet spot for mobile advertising is segmentation and targeting. In other media, advertisers often waste a lot of their advertising spend on unintended audiences. Segmentation and targeting are traditionally based on broad demographics identified by sampling TV viewership, radio listenership or publication readership. For each campaign, fewer than five targeting characteristics are typically used. In mobile, given the specificity of the demographic, behavioral and social information available, one can start thinking about micro-segmentation with hundreds or even thousands of targeted segments.

With mobile, one can understand the complex consumer persona (Figure 5) in great detail from basics like age, gender and income to more subtle attributes like preferences, habits and tastes, to tremendously useful data like communication patterns and key influencers. Such data can provide a complete understanding of the consumer as an individual, as well as trend analysis of shifting demographics.

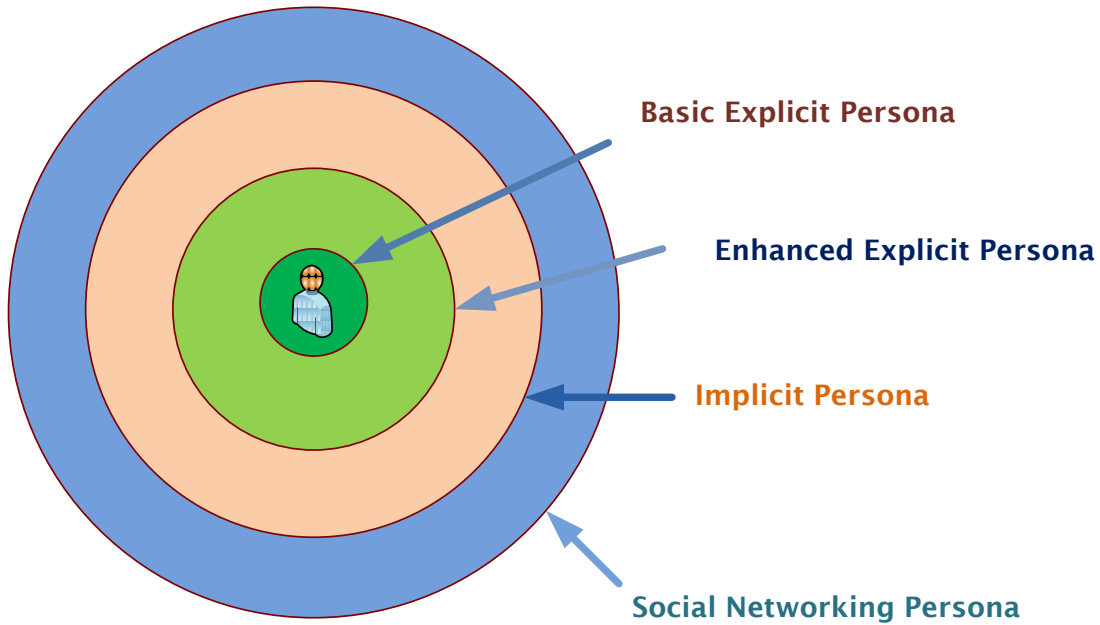


Figure 5. Building the User Persona to Enable Segmentation and Targeting

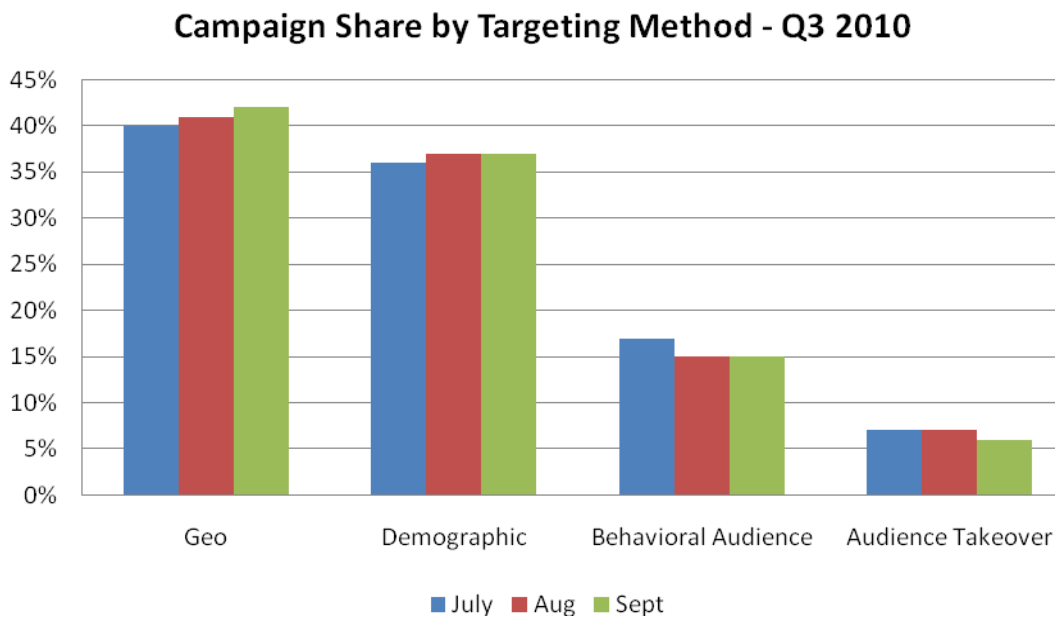


Figure 6. Campaign Share by Targeting/Segmentation Method⁷

⁷ Source: Millennial Media S.M.A.R.T. Report, Jul.-Sept. 2010. The data represent campaigns across the Millennial Media Network during Q3 2010. Geo is defined as a campaign targeting method that specifies geographic location by DMA code, city, state, country or region. Behavioral Audience methods target an audience for which there is enough behavioral data to match with relevant advertisements. Audience Takeover refers to a strategy wherein an advertiser takes over all advertisements served at an ad-network for a period of time.

If we add location and context to demographic data, the ability of the advertiser to match advertisements with consumers' interests becomes much more precise (Figure 6 shows which targeting methods resonate with advertisers the most). With micro-segmentation comes the capability to track not only location and demographics but also preferences and transaction histories. When that happens, consumers begin to view advertisements as relevant information and not something to be ignored. Social interactions (social networking memberships, call records, instant messaging interactions) add to the knowledge advertisers can use to create offers that have the highest chance of engaging the customer.

Given enough information about consumers,⁸ advertisers can present offers in real-time through personalized interactions or target first impressions across a web experience in a compact time period. While much consumer information is available today, it is not often centralized and streamlined. It will take substantial investment on the part of advertisers, publishers and network operators to build a universal profile that will allow more advanced segmentation and targeting. When that happens, mobile advertising will be able to extend to hyper-targeted audiences in the long tail of niche segments.

Measurement and Reporting

As an advertising medium, mobile excels at measurement. Data can be precisely tracked, location awareness adds context, and advertisers are able to measure all elements of campaigns including:

- **Reach and Frequency:** Unique users and number of impressions per timeframe
- **Rich media:** Measurements for video and audio including completion rates, time viewed, interaction rates, replay counts, and measures for counting individuals reached virally through social networks
- **Direct response:** Click-through rates (CTR), cost per click or call (CPC), cost per lead, and cost per sale, transaction, or customer acquisition
- **Branding measurement:** Aided or unaided brand awareness, ad recall, message association, purchase intent, and purchases or transactions

Put all of these pieces together and you have a viable medium for advertisers. As the industry matures and the structural elements fall into place, mobile will undoubtedly become one of the most preferred advertising media, especially for targeting the youth segment. Hyper-accurate metrics will enable greater understanding of user behavior both individually as well as in population segments. This will enable advertisers to fine-tune messages to almost absolute certainty and significantly increase the effectiveness of their campaigns.

Mobile also enables other media, such as print, television, and radio, to become interactive; interactivity provides opportunities to measure and watch behavior, which in turn leads to improvements in performance over time. Campaigns that were once only able to measure

audience response through polling or broad generalizations based on TV ratings are now able to measure effectiveness at the individual consumer level. The highly accurate metrics made possible by mobile interactivity represent a major step forward for advertisers and brands.

Privacy and Security

While the potential of mobile advertising is immense, there are also significant risks. User privacy and the security of consumer data must be a guiding principle in mobile advertising. There is tremendous value, both for the customer and for the advertiser, in the use of customer information like location, search history, transaction history, network usage, mobile web usage and social networks. But to unlock this value, concerns over the protection and proper use of this data must be addressed.

Only by giving customers the ability to determine who can access their data—as well as how and when—will mobile advertising achieve its potential. The more control customers have to manage their privacy, the more they will trust the medium and be willing to participate. Mobile provides unprecedented capability and opportunity to personalize and target, to make every message and impression count. However, it must be done with the consumer, not to the consumer.

Mobile Local Advertising

It is sometimes said, “All advertising is local.” Local advertising connects brands to consumers within their local context, whether they are looking for a plumber in their home town or trying to find the best pastry shop while on vacation in a foreign city. By applying the filters of time, location, social recommendations, preferences, price, ratings and availability, the most precise and relevant advertisement can feel like a recommendation from a trusted source versus a pitch from an aggressive sales person.

According to BIA/Kelsey, which tracks mobile local advertising revenues, U.S. mobile local advertising is expected to grow from \$213 million in 2009 to \$2 billion by 2014, a compound annual growth rate of 57 percent.⁹ The rapid growth in smartphones (currently more than 50 percent of new device sales) and increased mobile web and app usage are driving up ad inventory and providing great reach for advertisers. The availability of location data on smartphones is allowing large and small advertisers to hyper-target their campaigns, yielding much higher conversion rates and ROI.

From international brands like Toyota to local businesses like John’s Cycle shop, mobile provides the perfect medium to inform, engage and build loyalty. The opportunity spans major verticals including auto, restaurants, home service, retail, banking, real estate and health care. The mobile audience can engage in many ways – click-to-call, visit a site, sign up for promotional offers and coupons, send and share, save and revisit – improving convenience and

⁹ <http://www.techjournalssouth.com/2010/09/study-says-mobile-local-advertising-to-reach-2-billion-by-2014/>

prolonging engagement. Redemption rates on mobile coupons are significantly higher than those using traditional methods. Mobile will not replace all other media but rather complement and boost their capacities. When integrated with print and TV campaigns, mobile can not only extend their reach but also help make them more measurable and accountable.

Consider the following successful campaigns:

Arby's campaign for Roastburger¹⁰ When television's Jimmy Kimmel asked viewers to text for a free Roastburger, 152,280 unique participants engaged, and more than 65,000 opted into local databases.

Fox Chevrolet Baltimore¹¹ After a month of zero car sales, a Baltimore Chevrolet dealer ran a \$98 new car promotion. Consumers received information about the sale via mobile. Hundreds showed up at the dealership, and 34 cars were sold at full price. Two customers each won a \$98 new car.

McDonald's McCafé Mocha Mondays¹² McDonald's wanted to engage the Hispanic community in New York City to drive McCafé Mocha transactions on "Free Mocha Mondays," one of the company's largest sampling campaigns. The mobile campaign used demographics and geo-location to serve ads only to Hispanic consumers within particular New York City blocks.

P&G: Text 2 Save campaign¹³ Procter & Gamble (P&G) wanted to establish a new method of digital couponing for the industry. Pampers launched a mobile coupon initiative on the Pampers Facebook page and offered \$1 credit of the wireless bill to Pampers consumers who texted a unique code from inside the package. The redemption rate was twice that of traditional methods.

These are but a few of the countless examples of local campaigns based on an understanding of how consumers use their devices, how they consume content, and how they share it. By integrating mobile into their campaigns and promotions, local advertisers can build long-term value and competitive advantage.

Selecting An Advertising Network

Once you have made the decision to integrate mobile into your content network or advertising campaigns, your next step is to choose a partner to help you navigate the mobile ecosystem. Here is some basic guidance to help you in your decision process:

¹⁰ Source: Hipcricket, 2010

¹¹ Source: Hipcricket, 2010

¹² Source: Millennial Media, 2010

¹³ Source: AT&T Interactive, 2010

Reach & Relationships – Most advertisers are looking for a partner who can help them reach millions of subscribers across various demographics.¹⁴ Reach for advertisers manifests itself in the form of access to publishers. Similarly, publishers care about the quality of its advertisers and the track record of the ad network in bringing in repeatable business. Those ad networks that have relationships with the widest and deepest set of publishers and advertisers are the most attractive. As such, your partner ecosystem must provide you with the broadest reach using various mobile channels, including search, display, SMS, video, NFC (Near Field Communication), and others.

Technology – Technology is the lifeblood of digital advertising. Ad network operators who have invested in a technology platform that can evolve with the changing technology landscape will give advertisers a competitive advantage. Ad networks that can provide targeting using variables such as country, carrier, device, location, demographic, and context will offer more value to both advertisers and publishers. The platform should also support measurement and engagement. Rather than simply counting clicks or landing page impressions it should measure engagements in terms of time spent or number of times content was saved or forwarded, for example.

Advertisers want to gain exposure to consumers and influence their behavior in the most cost-effective manner. It follows they should look for partners who can help them run hundreds of campaigns, reach the right audiences, and deliver a positive return on advertising.

Conclusion

The advent of mobile advertising is starting to provide more power to consumers, who have grown accustomed to controlling the kind of media they consume, how they consume it, when they consume it, and how they share their experiences with their social networks. Mobile presents a rare opportunity for advertisers to communicate directly with their intended audiences through sophisticated targeting; precisely measure the impact of campaigns; and proactively persuade consumers to engage and buy.

The mobile medium provides context, immediacy, and personalization, and helps transform advertising into relevant, useful information consumers will embrace. It is clear that mobile will play a significant role in the ad strategies of brands and advertisers for the foreseeable future.

Mobile is having an especially transformative effect on local advertising. The factors of immediacy, location, always-on connectivity, user profile and segmentation, and the viral nature of the medium makes mobile the best channel to engage customers at a local level.

¹⁴ Advertisers targeting specific demographics, such as health-related or ethnic communities, may select partners who specialize in those demographics.

Finally, the mobile advertising ecosystem must be developed so that everyone in the value chain benefits in proportion to his or her contribution. If there is an equitable balance of power between advertisers, content providers, carriers and consumers, mobile advertising will flourish.

Mobile communications provide an opportunity to reinvent advertising as we know it. By following the key principles outlined in this paper, partners in the mobile ecosystem can turn advertising into a valuable information resource for consumers.

Disclaimer

AT&T Interactive commissioned this white paper to address the following topics:

- How advertising has been reinvented by a handheld device
- How to leverage mobile advertising for increased campaign accountability
- How to scale reach while maximizing segmentation purity
- Success stories in mobile advertising

Although AT&T Interactive offered certain editorial comments to the final product, it did not consult with the author during the preparation of these materials and did not provide any of the data upon which the author's conclusions were reached. The opinions expressed herein are exclusively those of Chetan Sharma Consulting, based upon data, which the author developed from independent sources.

About AT&T Interactive

AT&T Interactive, a subsidiary of AT&T Inc, is an industry leader in creating local search products that encourage consumers to discover and engage with local businesses across three screens - online, mobile, and TV.

YP.com, AT&T Interactive's flagship web property, attracts over 30 million monthly online unique visitors¹⁵. YP.com is also accessed by millions of users each month via the mobile web. AT&T Interactive consumer apps have a pre-activation presence or have been downloaded through digital app stores on over 40 million mobile phones¹⁶.

AT&T Interactive's robust local ad network helps advertisers grow their business and distributes ads to a distinguished list of top publishers whose presence spans online, mobile and TV. AT&T Interactive's wide range of local ad products such as premium listings, performance-based advertising, and search engine marketing provides advertisers an opportunity to increase their presence among consumers who are looking for a local business.

AT&T Interactive products are supported by over 5,000 media consultants from the AT&T Advertising Solutions organization and other select resellers.

To learn more, please go to: www.adsolutions.att.com/

¹⁵ AT&T Interactive Analytics, October 2010

¹⁶ AT&T Mobility and AT&T Interactive Analytics

About Chetan Sharma Consulting

Chetan Sharma Consulting is one of the most respected management consulting and strategic advisory firms in the mobile industry. We are focused on evolving trends, emerging challenges and opportunities, new business models and technology advances that will take our mobile communications industry to the next level. Our expertise is in developing innovation-driven product and IP strategy. Our clients range from small startups with disruptive ideas to multinational conglomerates looking for an edge. We help major brands formulate winning, profitable, and sustainable strategies.

Please visit us at www.chetansharma.com

About the Author

Chetan Sharma is President of Chetan Sharma Consulting and is one of the leading strategists in the mobile industry. Executives from 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 and is probably the only industry strategist who has advised each of the top 6 global mobile data operators. Some of his clients include NTT DoCoMo, Disney, KTF, China Mobile, Toyota, Comcast, Motorola, FedEx, Sony, Samsung, Alcatel Lucent, KDDI, Virgin Mobile, Sprint Nextel, Skype, AT&T Wireless, Reuters, Juniper, Qualcomm, Comverse, Reliance Infocomm, SAP, Merrill Lynch, American Express, and Hewlett-Packard.

Chetan is the author or co-author of five best-selling books on wireless including *Mobile Advertising: Supercharge your brand in the exploding wireless market* and *Wireless Broadband: Conflict and Convergence*. His books have been adopted in several corporate training programs and university courses at NYU, Stanford, and Tokyo University. His research work is widely quoted in the industry. Chetan is interviewed frequently by leading international media publications such as *Time* magazine, *New York Times*, *Wall Street Journal*, *Business Week*, *Japan Media Review*, *Mobile Communications International*, and *GigaOM*, and has appeared on NPR, WBBN, and CNBC as a wireless data technology expert. He is also the chief curator of the mobile thought leadership executive forums – Mobile Future Forward and Mobile Breakfast Series.

Chetan is an advisor to CEOs and CTOs of some of the leading wireless technology companies on product strategy and Intellectual Property (IP) development, and serves on the advisory boards of several companies. He is also a sought after IP strategist and expert witness in the wireless industry and has worked on and testified in some of the most important cases in the industry such as Qualcomm vs. Broadcom, Samsung vs. Ericsson, Sprint vs. Verizon, and Unpaid vs. Satyam. Chetan is a senior member of IEEE, IEEE Communications Society, and IEEE Computers Society. He has Master of Science degree in Electrical Engineering from Kansas State University and Bachelor of Science degree from the Indian Institute of Technology, Roorkee.