

Mobile Advertising - Opportunity for Telcos

In recent years, telecommunications industry has witnessed tremendous growth in network size, number of subscribers and number of operators. While this current growth has been impressive, future growth is expected because of the continued expansion of mobile services, effects of global deregulation and the influx of developing countries into the global marketplace.

Mobile phone has become the most important marketing tool to acquire customers and improve sales. The continued adoption of Smartphones, development of new mobile applications, and the huge volume of user generated content will not only impact service requirements but also reshape new business models that may further improve telecom business.

This paper highlights the opportunity and challenges for network operators participating in mobile advertising and the potential business models which they may adopt for generating additional revenues, improving ARPU and reducing churn.

About the Author

Pavan Kumar Turlapati

Pavan Kumar Turlapati is associated with Marketing and Strategic Initiatives for Telecom business unit and previously handled presales for Communications and Network Solutions under Telecom Practice. He has been working in Sales and Marketing in the IT industry for 10 years across verticals. He holds an MBA degree from the Andhra University.

Table of Contents

1.	Introduction	4
2.	Network Operators Traditional Advertising	6
3.	Shift Towards Advertising	6
4.	Leading Operators Initiatives in Advertising	7
5.	Mobile Advertising Ecosystem	9
6.	Key Guiding Principles for Winning this Opportunity	12
7.	Potential Advertising Models	13
8.	Conclusion	14
9.	References	14

Introduction

With 5 billion mobile connections worldwide, advancement in wireless technology has given mobile devices a strong edge towards advertising. The growth is driven by rapid adoption of Smartphones and media tablets for multipurpose use ranging from communication to infotainment. As mobile devices allow a higher level of interaction, leading brands are depending on them to advertise their products aggressively.

Non-telco players such as Google, Apple and Facebook have increased their importance in mobile ecosystem, with a leading U.S market share for smart phone and advertising services. The downward pressure on telcos traditional business of voice and SMS services, and stiff competition is creating a room for them to opt for non traditional services such as mobile advertising.

This opportunity is also triggered by dramatic change in lifestyle, changing consumer behaviour patterns, heavier usage of social networking and advanced mobile services.

Trends Observed

In the past few years, markets have changed drastically and key trends observed after reviving from the economic recession

- 1) Emerging consumer devices – the changing consumer behavior and usage patterns for data services through mobile device, Smartphones, tablets has tremendously increased.
- 2) NGN (IP networks) – the recent investments by telecom service providers on the transformation from PSTN to IP networks has urged them to focus on the converged and advanced mobile services.
- 3) Video services – the drastic change in usage of data services by the consumers has encouraged operators to opt for content delivery network. The challenge still lies with providing low cost content, QOS and required infrastructure to reliably deliver the content to subscribers. Research shows that, subscribers are willing to pay additional amount to access quality video services.
- 4) Smartphones – the growth for smart phone will continue to outpace regular mobile phones but mobile fragmentation will remain challenge for operators. The richer content can be viewed by the consumers once there is an increase in penetration levels for smart phones. Also judging a right smart phone platform for consumers will be one of the biggest challenge for operator's strategists.
- 5) Social networking – the desire for multi way communications and collaboration, had created interest in usage of social networking platforms. Social networking has certainly changed the lives of society and helped enterprises in reaching consumers.
- 6) Convergence services – the convergence of media and telecom has brought opportunities for players in providing feature-rich converged and seamless services to the customers.

Share of Worldwide Ad Spending

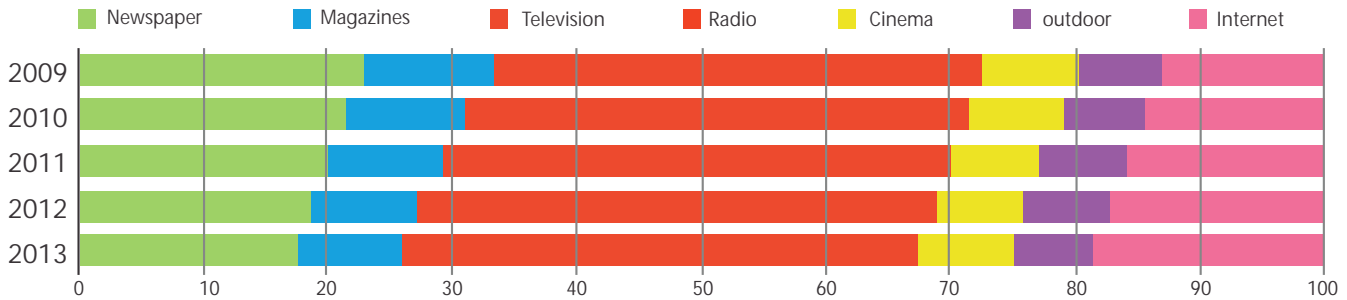


Figure 1: Ad Spending by the Medium

Source: ZenithOptimedia

According to ZenithOptimedia, is part of the world's largest media services group, the share of global ad spending represented by the internet vertical, is expected to reach 15.5% in 2011 and rise to 18%-18.3% by 2013. Meanwhile, the TV vertical is expected to grow almost 2%, from 40.7% to 41.4%, while the outdoor vertical is expected to grow minimally from 6.8% in 2011 to 6.9% in 2013 and cinema will stay flat at 0.5%.

Internet remains the fastest growing advertising medium and spending seems set to continue. Whilst newspapers, radio, TV, magazines, outdoor are showing signs of spending less by the advertisers.

Gartner says Mobile advertising revenue is set to reach an all time high growth rate, \$3.3bn in 2011 up from \$1.6 bn in 2010 riding on the quick adoption of smart phones and tablets and the various advertising options they offer to brands and advertisers. This revenue is expected to grow exponentially to reach \$20.6 bn by 2015. Search and maps will deliver highest revenue, while video/audio ads will see the fastest growth through 2015.

North America and Western Europe is where mobile advertising budgets will grow the most and represent 28% and 25% of the global market by 2015. Yet, during this period, it is Asia/Pacific and Japan, with its surging population that will remain the leading markets accounting for 49.2% of mobile advertising in 2011 and 33.6% of the global market share in 2015.

Table 1: Mobile advertising revenues by region, worldwide, 2008-12 (US \$ mn)

	2010	2011	2015
North America	304.3	701.7	5,791.4
Western Europe	257.1	569.3	5,131.9
Asia/Pacific and Japan	868.8	1,628.5	6,925.0
Rest of the World	196.9	410.4	2,761.7
Total	1,627.1	3,309.9	20,610.0

Source: Gartner (June 2011)

For many years mobile advertising as a medium had not been taken seriously by marketers and it is expected to take off in coming years. The advertisers are experimenting on mobile ads, especially on social networking sites and mobile applications, which will go on improving all through the forecast period.

Network operators traditional advertising

The network operators traditional model of advertising is changing and new business models are being invented through mobile and the internet. The sales from yellow pages and directories are declining year on year for the operators. Some of the leading operators in US have shut their information services operation to focus on core business. Few major players who are still struggling to run the publishing business have expanded into advertising solutions on mobile and internet platform.

Previously the publishing business was considered a lucrative option but technological changes and consumers accessing information via different services have changed that image. Advertisers are moving towards mobile and online accessible directories in which their listings (ads) can be more accessible for consumers.

Traditionally operators maintained separate business entities for information services business, but now they are establishing an integrated business division to support advertising, to concentrate on core business and to improve technology competencies. To participate in the advertising business, operators need to build the capabilities and aggressively involve in advertising value chain to take real advantage of the opportunity.

Table 2: Revenues of leading telcos from traditional information services business

Operator	Revenues	Profile
AT&T	\$3,935 million (2010)	AT&T Advertising Solutions
Rogers	\$ 1,500 million (2010)	Rogers media- radio and television broadcasting, publishing, sports entertainment and on-line properties.
SingTel	Not Available	SingTel Interactive Pte Ltd. publishes telephone directories under the Singapore Phone Book and Yellow Pages names. In addition, the company offers directories on tourists and travel, health and education, and business and trade categories.

Source: company financial reports

Shift Towards Advertising

Telecom operators shift from yellow pages/directory business to the advertising avenue, this represents an emerging opportunity that is to be utilised. Mobile advertising offers strong overall growth and improved customer satisfaction. The intensified competition in the market is driving mobile operators to compete with differentiated and innovative data and mobile entertainment services.

The opportunity for the advertising in the form of internet, mobile and IPTV are gaining importance and operators are forming partnership with third parties to capture the large portion of this market. Also this opportunity will help operators in reducing churn from the existing subscribers, increase minutes of usage and improve customer loyalty.

Network operators will grow and increase market share through non-traditional services but the traditional services cannot be ignored as they remain key source of revenue.

Table 3: Non-traditional services

<i>Opportunity</i>	<i>Description</i>
<i>Advertising</i>	<i>Advertising is not being a game play of marketing but the telecom and other industries are utilizing this as a new business model to survive in the current competitive environment.</i>
<i>Gaming</i>	<i>Operators are selling the mobile and online games through app stores and mobile portal. They have tied up with game developers for exploring new mobile games, rather consumers losing interest in frequent games.</i>
<i>Music</i>	<i>Mobile and online music is gaining importance leaving behind digital music for differentiating the music services.</i>
<i>Mobile Payment</i>	<i>Mobile payment has huge market potential and many leading operators have started mobile payment services.</i>
<i>IPTV, Mobile TV</i>	<i>Leading operators are exploring IPTV and mobile TV as a new revenue opportunity in their existing markets.</i>

Leading Operators Initiatives in Advertising

The opportunity in advertising has prompted operators to expand through partnership or turning to in-house development of an advertising platform. Many of them rely heavily on the partners to gain expertise and build strong position in the markets.

Major operators such as Vodafone, Telecom Italia, T-Mobile, and Sprint have made initial steps into advertising business. Also, other leading vendors such as Ericsson, Alcatel lucent, Amdocs and Comverse are offering mobile advertising platform to operators.

Recently Vodafone and Telefonica have established advertising solutions unit and many other network operators are likely to follow. This integrated business unit will help global players in launching cross-country platforms and localized advertising solutions.

Table 4: Operators partnership with ad platform vendors

Sl.No	Operator	Vendor	Description
1	Telefonica	Amobee	Telefónica has launched a mobile advertising solution from Amobee across its portfolio of European and Latin American mobile markets. Amobee is world's premier provider of mobile ad-serving solutions
2	Singtel	Comverse	SingTel iMedia, its advertising service offering businesses a targeted and effective means to reach customers across mobile, TV & Internet. Comverse HUB Mobile Advertising is part of the Comverse HUB of value-added services.
3	Orange	Blyk	The Orange Shots service works across SMS and MMS, and like Blyk's original model, encourage customers to message back and give views and opinions. Blyk is commercial partner of Orange providing Strategic support for the creation deployment And on-going management of the operator's media and advertising messaging propositions.
4	Etisalat	Alcatel Lucent	Partnered with Alcatel Lucent in launching the first permission-based mobile advertising service in the UAE. The opt-in advertising is to receive ads and offers that match their interests from their favorite brands on their mobile phones.
5	America Movil	MyScreen	America Movil has partnered with MyScreen to implement mobile advertising solution.
6	3	Rhythm	Enable users to view and download mobile advertising that was previously paid for. This includes gossip, news, comedy, film, music tracks and mobile games on Planet 3 portal. Video, display and rich media ads on behalf of the world's largest brands.

Source: Company websites and press releases

Mobile Advertising Ecosystem

The mobile advertising ecosystem comprises advertisers, advertising networks, agencies, publishers, and mobile operators for providing mobile advertising services. These entities in the ecosystem are from different industries and background. This ecosystem is similar to online advertising but pricing, formats and budgets are significantly different.

The mobile operators in this ecosystem receives little money on ad campaigns (using flash based ads, embedded videos, text links, banner ads), but the advertisers benefit by reaching wide range of mobile subscribers.

The system integrators help in integrating the ad serving and ad management platform with the existing IT infrastructure and also can form a partnership with the ad platform vendors to build mobile advertising services.

Mobile Ecosystem has many players between Advertiser and Consumer

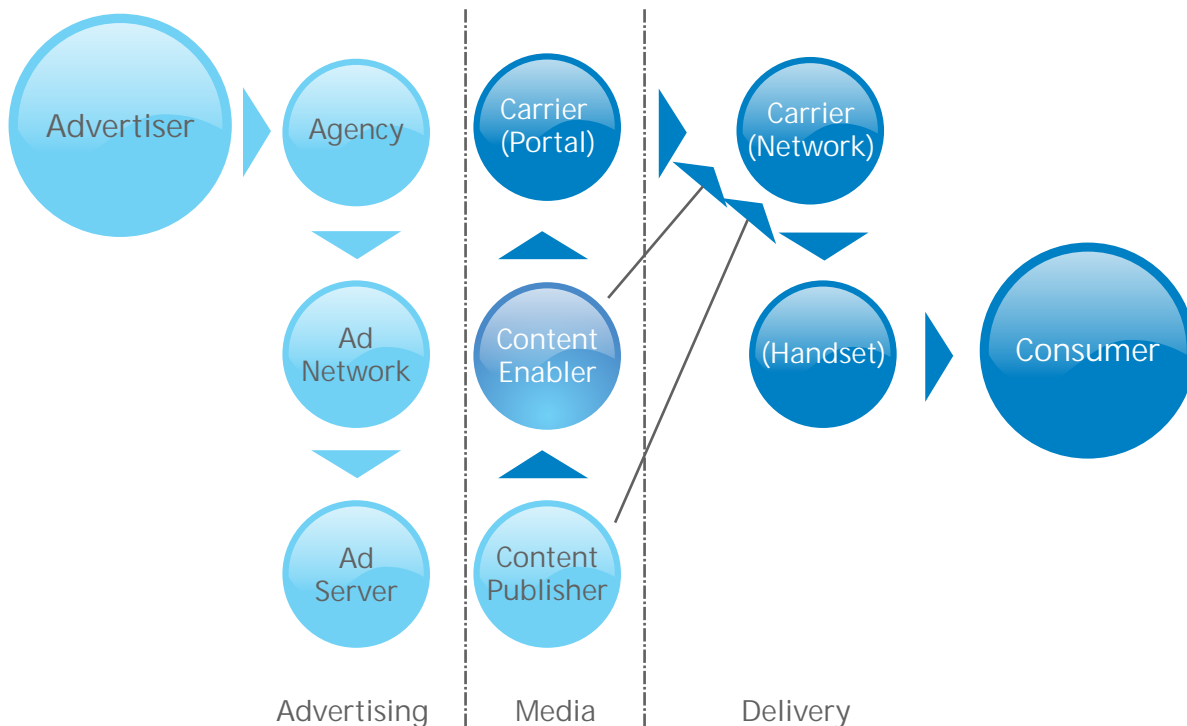


Figure 2: Mobile advertising ecosystem

Source: Interactive Advertising Bureau

Also, ad networks in the middle of the value chain play important role in managing the complex relationship within the ecosystem. The operators must engage with different players in the ecosystem to influence subscribers with the ads targeted. Operator hold a prime spot in the mobile advertising ecosystem,

managing user interface and subscriber relationships. The information like demographics, billing information of subscribers will help operators and advertisers in targeting right audience for the advertising messages.

This is where location-based advertising will come into picture as it has the ability to locate customer location for delivering specific ads on their mobile devices. Location-based advertising will help advertisers in reaching customers effectively with better timing and in delivering richer mobile experience.

According to Mobile Marketing Association, for designing a mobile advertising campaign, mutual channels will help in reaching wide consumers.

Table 5: Channels for mobile ad campaign

Channel	Description	Constraints	Advertising Opportunities
Mobile Web	The Mobile Web is a channel for delivery of web content, which offers and formats content to users in awareness of the mobile context. The mobile context is characterized by the nature of personal user information needs (e.g. updating your blog, accessing travel information, receiving news update)	Constraints of mobile phones (i.e. screen size, keypad input) and special capabilities (i.e. location, connection type such as 3G or WLAN)	Banner ads on Mobile Web sites Text ads on Mobile Web sites Branded Mobile Web sites. Good for: Driving users to a Mobile Web site Lead generation Direct sales Branding
Mobile Applications	Software or content that consumers download to or find pre-installed on their mobile phone and then resides on the phone. Examples include applications such as games, news readers and lifestyle tools.	Downloads are accessible only to consumers with appropriate mobile phones and data plans.	Ad placement within applications (e.g., banners, "splash" pages) Branded applications. Good for: Branding/CRM Driving users to a Mobile Web site

Channel	Description	Constraints	Advertising Opportunities
Mobile Messaging	This category includes SMS and Multimedia Messaging Service (MMS). SMS is available to virtually all mobile phone users and does not typically require a data plan or Mobile Web access, making it ideal for reaching most mobile users. While SMS is limited to contain text, MMS can contain images, audio and even video content. Most mobile phones sold over the past few years support MMS, making it an effective way to reach many mobile users. Interactive applications frequently use SMS with common short codes (CSC), which are four-to six-digit phone numbers to/from which messages can be sent/ received.	Message has to be tuned for the mobile device constraints like mobile internet constraint, multimedia constraint and bandwidth constraint.	Text ads (SMS, MMS) Branding/CRM (SMS, MMS) Banner ads, splash pages (MMS) Animated images (MMS) Good for: Driving users to a Mobile Web site Click to call Branding/CRM Interactive dialogue (e.g., voting, polling)
Mobile Video and TV	Video and TV delivered over a mobile network to the mobile phone's media player. Videos may be downloaded or streamed and are usually accessed from a Mobile Web site or contained in an MMS message. Mobile video is accessible to consumers with Mobile Web and mobile video enabled mobile phones and data plans.	Mobile TV is accessible through mobile TV enabled phones.	Video ads in pre-roll, mid-roll or post roll. Static images, animation or video Clickable overlays Branded videos Good for: Branding/CRM Driving users to a Mobile Web site Click to call Click to buy

Source: Mobile Marketing Association

The mobile campaign continue to be powerful ad channel for the marketers. Few pointers has to be considered such as keeping messages simple, bundling similar or related product and delivering relevant messages, will help in getting the most value out of each mobile campaign.

Key Guiding Principles for Winning this Opportunity

To utilize the mobile advertising opportunity, operators have to leverage customer data and build strong relationship with subscribers. Below are few key principles to be considered to successfully explore this revenue generating opportunity:

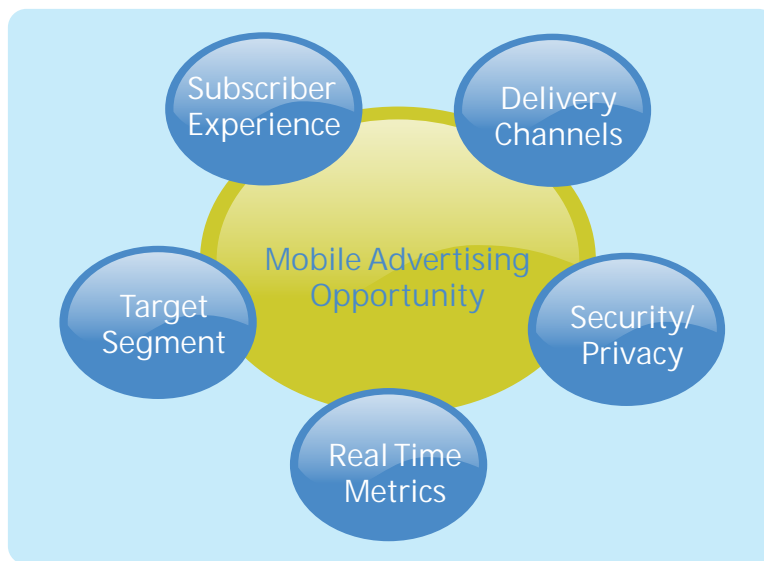


Figure 3: Key guiding principles to win mobile advertising opportunity

Subscriber experience: Operators can deliver life-enriching personalized messages, relevant, and useful ads, which are considered as valuable information by the subscribers. It's important for operators not to send irrelevant messages which result in loss of trust and make it difficult to retain customers.

Security: Customer data has to be used properly by the advertisers and concerns over protection of the data has to be addressed very seriously.

Target Segment: The target segment for the mobile ad campaign can be identified on the basis of available information, demographics and customer behavior. Advertisers have to plan for effective ads to impact the right target audience and fulfill the campaign objectives.

Real-time Metrics: Operators can provide real-time information and report/analysis on the post campaigns to demonstrate the success of the campaigns to the advertisers. This will help them to modify the campaign for wider reach and maximize the campaign effectiveness. The campaign performance can be measured by means of Cost Per Thousand Impressions (CPM), Cost Per Acquisition (CPA) and Cost Per Click (CPC). CPM is the value paid by the advertiser for every 1000 times of ad views and impression is recorded. The CPC is amount earned each time a user clicks on the ad (response from the consumer).

Delivery Channels: Operators must have full control on delivering the message through multiple channels to specific target segments. They must be able to support the channels, formats, models and advanced strategies to capture the significant share of billion dollar opportunity.

The telcos may refer these guidelines to become more effective in the mobile advertising value chain

1. Highlight services for differentiating among competitors: Operators have to highlight the features that distinguish service from that of competitors.
2. Strategic Partnership in mobile marketing field: Operators need to choose a partner with right expertise in mobile marketing to develop innovative strategies to provide advertising services.
3. Permission-based advertising: This type of advertising will ensure that customers benefit from the advertising service. Operators must adapt the strategy to reach those customers who genuinely want to receive the ads and also have to strongly control offensive messages reaching the mobile subscribers who are not interested.

Potential Advertising Models

The potential advertising models for telcos are outlined below:

1. Mobile internet advertising model

The evolution of mobile internet has changed the complete picture of internet advertising model. The leading mobile internet markets are USA, Japan, China and Brazil. The mobile internet is ramping faster than any desktop internet and most users will connect to internet via mobile devices than the desktop PC's in future.

The revenue from this model is through ads clicked by users on mobile web page, which is quite similar to the internet search model. However, the revenues depend only if they have revenue-sharing partnership with mobile portal provider or search portal provider.

Mobile internet advertising expenditure will rise significantly with revenues expected to hit \$2 billion per-year levels by 2014, riding on growing consumer adoption and rising brand engagement with mobile services. (Source: Juniper Research)

2. Enabling the Mobile Ad Platform

The momentum for the mobile advertising is observed, as telecom and IT vendors have started investing in ad platforms. To sustain and grow in the mobile advertising market, operators have to enable an end-to-end ad platform or partner with a third party platform vendor to meet the main objectives of advertisers. Many leading third party vendors have tied up with operators as mentioned in table (4) to enable ad platform across multiple channels.

3. App store Integrated with Mobile Advertising Platform

The operators, equipment vendors have already launched their own application stores to compete with Apple's app store and Google android market. Currently telcos are following business model of internet players by providing ad services over smart phone applications and internet –based TVs through app store. Relative example is iAd, a mobile advertising platform of Apple for iPhone, iPad and iPod touch line of mobile devices allowing third party developers to directly embed advertisements into their applications.

4. Ad Insertion Model

Decline in fixed line telephony services has stimulated telcos in offering services like IPTV services to acquire market share. Telcos can explore the ad insertion into IPTV content or VOD sessions to attract local and national advertisers. With excellent IPTV infrastructure in place can address both immediate and future requirements in video delivery and ad insertions.

Conclusion

Network operators consider mobile advertising as a booming industry but this is not yet universally supported. Operators must build a strong position in mobile advertising space, as this will help in keeping customers loyal, help in differentiating with competitors, and generating profitable revenue stream by pushing various advertising methods, from messaging to content over mobile portals. In future, mobile advertising will play a pivotal role in driving usage of mobile data services. To assess the Return on Investment (ROI) in mobile advertising and to encourage use of this medium, operators can own the technology or opt for revenue sharing business model with a third-party provider.

References

1. IAB - Interactive Advertising Bureau
2. Mobile Marketing Association (MMA) <http://www.mmaglobal.com/mobileadoverview.pdf>
3. Company financial reports - AT&T, Rogers, SingTel Interactive
4. Gartner mobile advertising forecast <http://www.gartner.com/it/page.jsp?id=1726614>
5. Mobile internet expenditure by juniper research - <http://www.business-standard.com/india/news/mobile-internet-ad-spend-to-hit-2-bn-per-yr-by-2014/71714/on>
6. Advertising expenditure by medium and revenues by region http://www.brandrepublic.com/go/zenithoptimedia_april_2011_adspend_forecasts/
7. <http://en.wikipedia.org/wiki/IAd>

About TCS Telecom Industry Solution Unit

TCS' Telecom Business Unit is the second largest vertical contributing higher percentage to the overall TCS revenues. With a dedicated pool of professionals and an accumulated experience and ongoing associations with world-class Telecom service providers and equipment manufacturers, TCS has acquired unparalleled understanding of the Telecom domain.

TCS helps wireline, wireless, broadband, and cable service providers redefine their markets with innovative solutions that help them become more agile, reduce fixed operations costs, and introduce next generation services. TCS sets customers apart from their competitors with instant access to industry solutions, best-in-breed technology, assets, and frameworks.

Contact

For more information, contact global.telecom@tcs.com

Subscribe to TCS White Papers

TCS.com RSS: http://www.tcs.com/rss_feeds/Pages/feed.aspx?f=w

Feedburner: <http://feeds2.feedburner.com/tcswhitepapers>

About Tata Consultancy Services (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India's largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at www.tcs.com

IT Services
Business Solutions
Outsourcing