

FEATURE: Mobile advertising reality check

By Frederick Ghahramani, founder of AirG
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FRIDAY FEATURE

Mobile advertising reality check

Our industry owes a lot to the executives at companies like Third Screen Media, AdMob, Sprint Nextel, Millennial Media, JumpTap, Enpocket and others whose entrepreneurial efforts have pushed mobile advertising to the front of today's headlines. While each of these companies is trailblazing into the market with a slightly different approach and strategy, one thing that I suspect they've all learned, as have we, is that building an ad-sponsored mobile service and selling advertising on mobile phones is not as easy as everyone thinks.

I speak of course from recent personal experiences. In 2006, AirG generated more than 20 billion mobile ad impressions in the United States. Combine this inventory with our ability to target ads to more than 10 million end-users based on their demographics and multiply that by reported industry CPM rates of \$50+, and you would think that AirG is printing money when it comes to mobile advertising. But the reality is that far less than 10 percent of our ad inventory was actually exploited and sold last year.

Before trying to figure out how we can all work together to move the needle in 2007, it's important to first acknowledge the clear schism in the advertiser landscape. There are two distinct groups of companies that want to advertise on mobile phones. First, we have companies that want to advertise on our properties with the goal of bringing customers one click away from their point of sale. This includes mobile game publishers, mobile music vendors and other mobile application creators. For these companies, mobile advertising is all about speeding up the process of customer acquisition, and their ad spending is driven in a measured fashion whereby the cost to acquire the customer must over time be less than the lifetime value of the same customer.

For these lifetime economics to really start making sense, CPM rates need to move below the \$5 range (compared to the current rate of \$50). In 2007, companies that will enable this category of advertiser are the ones that can facilitate reverse auctions, blind auctions and provide customers with the ability to bid on search words and targeted pieces of inventory through an on-deck presence.

But are these the type of advertisers that the industry really wants and needs? Isn't this type of advertising going to create a merry-go-round race-to-the-bottom where I sell you my unused inventory and you sell me your unused inventory and we collectively put downward pricing pressure on the industry's ad rates as a whole? From a macro-economic perspective, how big can this type of advertising really get? Will it not be functionally capped by the marketing budgets of the companies that excel in the mobile space?

And beyond the economic issues, how do mobile operators feel about dodgy off-deck content providers buying premium placement on their portals to ensnare customers into a recurring \$10/month subscription through a free (oops, I mean "zero cost") ringtone offering? Will each ad need to be vetted and approved prior to publication to avoid an increase in customer care calls? How do portal managers feel about competing portals advertising on their prime real estate with the goal of permanently diverting customers away? And in this vein, aren't all mobile application providers essentially competing with each other for the same time-slice and value-added service spend from the end-user?

The second group of mobile advertisers consists of companies from outside the mobile industry looking to increase the awareness of their products and services in a highly intimate and personal setting. These companies have begun to understand that a mobile phone placed eight inches from your face is a better platform to inculcate a message and brand into your thought patterns than a 42-inch plasma TV.

But selling these companies on the concept of mobile advertising and getting them to spend more than just their "trial budgets" is a long and challenging sales cycle. Budgets are crafted on a quarterly and sometimes annual basis, with countless intermediaries, media buyers and agencies soaking up the ad spend along the way. Selling to these advertisers is more of an art and less of a science, and the sales process depends heavily on pre-existing relationships and coming up with creative custom ad-units for each separate campaign. This custom creative services approach holds far more weight than the technical details of an ad-serving platform, the financial implications of CPM rates, or access to mobile advertising inventory through an online user interface.

On this front, look to those companies that have pre-existing Madison Avenue relationships to be the big benefactors of these advertisers. But it should also be noted that the highly customized nature of selling to these advertisers poses a challenge to the revenue scalability of the mobile advertising industry. Consider this: if Google had to customize a pitch and concoct a new ad unit for each campaign, would its revenues have scaled as quickly?

But back to my initial conjecture--even with all the attention and excitement in the mobile advertising space, it is still quite difficult to sell a mobile ad in the scale needed to build an ad-sponsored mobile service, and to do it in a fashion that doesn't cannibalize the traffic or customer retention of your core mobile business.

I certainly don't want to go on record as the industry's stick in the mud--especially given the latest analyst reports suggesting mobile advertising will be a \$4 billion industry in 2011. Quite the contrary, I am extremely bullish about mobile advertising and the potential financial implications for all of us in the value chain.

But I believe that there are still several key economic and strategic issues that need to be ironed out before the industry can scale. And for these issues to be resolved expeditiously, it is important that we work together as an industry and avoid falling into the trap of being irrationally exuberant about mobile advertising. After all, it wasn't too long ago that **analysts** were saying mobile advertising would be a \$6 billion dollar industry in 2005.

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