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How marketers plan to invade your phone

So far, most of the advertising on cell phones has been from phone companies themselves. But that could change soon, reports Fortune's Stephanie Mehta.

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NEW YORK (Fortune) -- Who's advertising on mobile phones? Mobile phone companies. And mobile game makers. And purveyors of ringtones and other applications for cell phones.

No duh, you say: Of course creators of content for mobile phones would want to market to mobile-device makers. But the flip side of that obvious fact is who isn't advertising there yet. For the cell phone to become the next great marketing medium - a platform akin to radio, television or the Internet - it will need to attract advertisers from outside the mobile industry.

Big marketers certainly seem interested in the opportunity: Car makers, movie studios and other deep-pocketed companies have started testing the waters of mobile marketing, and research firms estimate mobile advertising could be a \$1 billion-a-year market in just a few years. That revenue is going to have to come from more than firms hawking ringtones. (There's an interesting side discussion on whether advertising on mobile phones eventually can offset the cost of phone service, or even allow it to be delivered for free - more on that later.)

But for now, mobile marketing - a term that encompasses everything from ads to text-message voting campaigns seen on shows such as "American Idol" - remains both nascent and limited in its appeal to advertisers. AirG, a company that develops mobile communities for carriers such as Sprint and Canadian operators Robers and TELUS, says it generated more than 20 billion mobile advertising impressions (basically slots for advertisers) last year, and sold less than 2 percent of that inventory. Its biggest advertisers include Verizon, AT&T and Boost Mobile, a subsidiary of Sprint.

That doesn't mean marketers can't learn from the experiences of the pioneers. I recently sat down with Frederick Ghahramani, one of the founders of AirG, to try to understand what kind of marketing works on mobile phones. While there are lots of start-ups out there pledging to become the Google of the mobile device, Ghahramani thinks a better model for mobile is more retro: radio.

In the world of radio, Ghahramani argues, the 15- and 30-second spots aren't necessarily the most effective forms of messaging, but rather, the contests and the in-store appearances by disc jockeys, and on-air contests - activities that build relationships with customers and deliver something of value to them based on their interests and demographics.

Similarly, AirG offers advertisers banner ads, but some of its most successful campaigns involve contests and other loyalty-building initiatives. A few months ago, it helped create a national campaign to promote Boost's Hookt, a mobile social networking site published by AirG, and West Coast Customs, a custom car shop well known to viewers of MTV's "Pimp My Ride". As part of the contest, Hookt users could apply to win a new Dodge Charger tricked out by West Coast Customs. Modifications included "Pimp My Ride" luxuries like Lexani Sterling Rims, Toyo Tires and a Rex Billet grill.

Customers could enter the contest via Boost or via mail or the Web. More than 98 percent of the 1.6 million contest entries came via mobile. "There's a lot of slots out there," Ghahramani says, referring to the advertising inventory in the mobile world, "but there's a lot more money to be made being creative."

Ghahramani offered some other interesting insights into the world of mobile users. Customers of his various mobile social networking communities - think MySpace but exclusively for the mobile world - typically spend 59 minutes a day hanging out in these mobile communities. (This doesn't count time that they use their phones for things like, say, making calls.) That may not be 59 consecutive minutes phone-surfing social networking sites but, Ghahramani says, users are nonetheless connecting with new pals or checking out new material when they are on coffee breaks or waiting for the bus.

The experience of AirG's users underscores why advertisers are so interested in getting onto mobile devices: Not only can the advertising be intensely targeted (AirG knows how much time each user spends on the phone, and also has all kinds of demographic information that the users have volunteered) but it can reach the kinds of consumers who aren't sitting in front of a computer all day - or may not even have a computer. For all the excitement about Internet advertising, there remain many people who simply aren't regularly online: but many of those people always have their phones on hand.

Now, back to the notion that cell-phone calls could be ad supported (read: free). There's certainly a lot of support for such an idea, most notably from Google CEO Eric Schmidt, who told Reuters late last year: "Your mobile phone should be free." Last summer Virgin Mobile USA announced a product to let its customers earn extra airtime in exchange for viewing third-party advertising on their cellphones.

It is an intriguing idea, but one for which there really is no precedent in the world of telecom. Could you imagine Ma Bell pumping a 10-second ad for Coca-Cola or Jeep into your ear before connecting your phone call to your mom? Then again, there's now a move to sell advertising for directory assistance calls - consumers get free 411 calls in exchange for listening to a short ad from a potential vendor. One of the companies testing such a service: good old AT&T.

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