The Battle for Mobile Advertising
A Winning Strategy for Telecommunications Operators
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If telecom operators hope to win in mobile advertising, they must take advantage of their large networks, in-depth customer data, and strong relationships with subscribers to defend their position within the mobile advertising value chain. Doing so will involve both competing against and partnering with the many other players looking to build their own positions. And they must overcome challenges surrounding privacy concerns, overly intrusive ads, and legal restraints on sending ads to subscribers who haven’t agreed to receive them. If telecom operators can do so, they will have access to a new source of high-margin revenues that will allow them to build additional digital services businesses. To that end, we offer seven specific areas of action for operators to devise winning strategies—from exploiting their customer data to building the technology necessary to deliver ads—to take advantage of this promising new medium.

Currently, mobile advertising makes up just a small portion of the online advertising market. Yet its potential is high—thanks to its ability to narrowly target consumers with interactive marketing offers at any time of the day or night. That potential appears especially high when it is considered in the context of the expected development of mobile applications. Large telecommunications operators are already preparing to take advantage of this opportunity, yet the competition will be fierce. Advertising networks, Internet players, specialists in mobile ad technology, and systems integrators, too, are looking to build a strong position in the mobile advertising value chain in hopes of capturing a significant portion of this new revenue stream.
THE POTENTIAL OF MOBILE ADVERTISING

By 2010, the world will contain almost 4.4 billion mobile phones, a large percentage of them smartphones—making the mobile phone the single most widely used personal electronic device. It’s no wonder that mobile advertising has become such a hot topic among marketers and telecom operators alike. Marketers, always ready for new and innovative ways to advertise their products, will have the means to reach highly targeted audiences even more effectively, and operators are looking eagerly to the medium for new business models and new sources of revenue.

At present, mobile advertising makes up a small piece of the overall digital advertising pie. Analysts expect, however, that by 2012 it could account for 10 percent of all digital advertising, a pie that is itself growing rapidly. At that level, mobile advertising will become a natural complement to traditional media channels, with the potential to boost revenues enough to help fund other digital services—if telecom operators are prepared to reap the benefits. And because marketers are focusing their investments on the most effective channels, operators can expect mobile advertising to be more resistant to the ups and downs of spending typical for traditional advertising channels.

Capturing a share of this new revenue stream, however, will be a challenge for many operators. Because the medium is so new, operators do not yet fully understand the mobile advertising value chain and how they can best profit from it. Furthermore, the medium is currently struggling to overcome a number of specific hurdles getting in the way of customers’ full acceptance. If operators are to take real advantage of this new business, they must situate themselves carefully within the value chain and build the capabilities they will need to win.

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OPPORTUNITIES AND CHALLENGES

Mobile advertising does not consist simply of online ads reformatted for the small screens of the typical mobile handset. Rather, it has the potential to include any number of formats, such as portal banners, texting, in-game advertisements, location-based search, and mobile video advertising. And new formats enabled by new generations of smartphones such as the iPhone remain to be invented. Some operators are even creating entirely new business models around the mobile advertising opportunity. Blyk, for example, began as a U.K.-based mobile virtual network operator (MVNO) with a completely new model for ad-funded telecommunications services. Its idea: to target only subscribers between the ages of 16 and 24, and to give them free messaging and airtime if they would agree to accept a certain number of advertising messages every day. Since Blyk’s launch, its business model has been revamped: It now supports operators by offering telecommunications services to specific target audiences that are partially funded through advertising.

From the perspective of marketers, mobile advertising offers four key advantages over traditional advertising media:

- **Targeting.** Mobile advertising allows marketers to target specific audiences on the basis of both socio-demographic and behavioral data, and critical information provided by the mobile device itself, such as location. It also improves their chances of reaching elusive but valuable segments such as teenagers and young adults, who tend to spend less time on mainstream media than other groups.

- **Interactivity.** One of the major strengths of mobile media is the ability to generate a dialogue between a brand and its customers, through SMS exchanges and other interactive dialogues. Thus, mobile advertising can provide a “return channel” to advertisers that very few other media can offer.

- **24/7 reach.** Mobile advertising gives marketers the opportunity to complement traditional campaigns via a personal channel that is available at any time.

- **Innovation.** Mobile advertising provides a novelty factor for marketers looking to project an innovative image for their brands. Since mobile operators are often seen as innovative players as well, brands advertised on operator portals can benefit further from the operators’ own image.

Despite these real benefits, mobile advertising has been slow to take off. Certainly, the recent economic downturn adversely affected every advertising channel. But mobile advertising must also contend with challenges specific to its medium:
• **Insufficient customer data integration.** Targeted customer information, a vital pillar of the mobile advertising value proposition, is frustratingly hard to deliver. Data owned by operators tends to be spread across multiple databases, which means significant efforts are needed to integrate it and make it usable for marketers. Worse, in many countries, subscriber identification is or was not a prerequisite to opening a prepaid mobile account, making it very difficult to collect socio-demographic data on these users.

• **Customer opt-in requirements.** In some areas, mobile operators are legally bound to maintain their subscribers’ confidential data in-house. When this is the case, operators need clear authorization from subscribers; customers must “opt in” to advertising programs before operators can send advertising messages.

• **Fear of bad user experiences.** Aside from the challenge of complying with opt-in regulations, sending intrusive advertising messages could damage the trust operators have developed with their subscribers. Intrusive or irrelevant advertising messages could also counteract the gains made through traditional campaigns, and compromise the emerging value of the mobile advertising channel. At present, most advertisers have limited experience with the mobile medium, and they are reluctant to accept the risk of hurting their brands’ carefully nurtured image.

• **Lack of standardization.** Telecommunications operators that want to convince marketers to allocate budgets to mobile advertising campaigns need to present useful metrics for judging the channel’s effectiveness and return on investment. Unfortunately, given the complex nature of the mobile industry, it is a daunting task to set industry-wide indicators across multiple carrier networks and a myriad of devices—one that will not be accomplished overnight.

Ultimately, we believe, the advantages of mobile advertising will outweigh the challenges the industry faces. The critical question is not whether mobile operators or other players will be able to accommodate these issues, but when and how.

**At present, most advertisers have limited experience with the mobile medium, and they are reluctant to risk hurting their brands’ carefully nurtured image.**
THE DYNAMICS OF THE VALUE CHAIN

Mobile advertising is a relatively new medium, and its value chain continues to evolve. Yet we expect it to settle into seven or so stages—from the creation and management of the mobile-supported media channel, be it a portal or a qualified customer database, through the measurement of a campaign’s performance. At various points along the chain, an assortment of players—telecommunications operators, advertising networks, technology companies, and Internet players—are competing to gain share and profits (see Exhibit 1).

Telecommunications operators of various sizes are exploring mobile advertising. Operators tend to see mobile advertising as a way not just to boost revenues but also to fund new digital services that will enrich their content offerings and reduce churn.

Large operators will likely take a very different approach to mobile advertising than their smaller rivals will:

• Large operators have already completed numerous pilot programs and are now rolling out mobile advertising services, with dedicated sales teams and technological capabilities provided by companies they have acquired or in which they have invested.

• Smaller operators are still in pilot mode, exploring the medium’s potential and relying heavily on partnerships with technology and media players to develop advertising services and take them to market.

Operators believe, rightly, that their main strength in mobile advertising is their customer base, the richness of their subscriber data, and the return channel that can give them quick feedback from subscribers. The most mature operators are investing to exploit the data available in their systems and are already addressing critical legal and privacy issues by developing opt-in programs.

And despite their lack of experience in the advertising business, they are building the foundation for cross-channel advertising, combining fixed, mobile, and Internet television channels to deliver comprehensive 360-degree campaigns.

Advertising networks such as WPP PLC and Publicis Groupe have numerous advantages: They have strong relationships with advertisers, they have experience creating and selling ads, and they understand the critical role of technology in delivering on the promise of mobile advertising. They are building the capabilities needed to include innovative mobile campaigns alongside more traditional campaigns, and they are gaining the expertise necessary to advise their clients on how best to benefit from mobile advertising through partnerships with, or acquisition of, specialists in mobile advertising technology.

Internet players, such as Google, Yahoo, and MSN, are seeking ways to export their powerful brands and domination of online advertising to the mobile medium. Most of these players already license Internet search

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**Exhibit 1**
The Mobile Advertising Value Chain

<table>
<thead>
<tr>
<th>Media Channel &amp; Advertising Services</th>
<th>Advertising Campaign Creation</th>
<th>Ad Sales</th>
<th>Technology Provisioning</th>
<th>Targeting (Database &amp; Analytics)</th>
<th>Ad Serving</th>
<th>Campaign Analytics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manage the channel on which advertising is displayed</td>
<td>Create campaign and advise announcers</td>
<td>Sell the ad inventory</td>
<td>Provide technology for ad provisioning</td>
<td>Provide customer intelligence for ad delivery</td>
<td>Run the ad serving engine</td>
<td>Collect and provide campaigns’ results to announcers</td>
</tr>
</tbody>
</table>

Source: Booz & Company analysis
engines to telecommunications operators; now they are looking to replicate the online search-based advertising model with an open mobile Internet model. That would enable them to capture a higher share of the value chain, much as they have done in the fixed Internet space, where search-based advertising represents about half of all spending on online advertising. Already Google’s Android, an open source operating system for mobile devices, is being positioned to make the mobile Internet more open. Early on, the Internet players will suffer from their inexperience in the mobile phone business and lack of strong customer intelligence, but they will no doubt learn quickly.

Technology players include two kinds of companies: mobile advertising specialists such as Amobee Media Systems and Velti, and system integrators such as Capgemini and IBM, as well as telecom equipment vendors and services providers such as Alcatel-Lucent and Ericsson. The mobile advertising specialists are looking to expand their footprint beyond the technology needed to serve ads into the media arena itself, where they could begin to sell ads and even create entire mobile ad campaigns. Their agility and innovation will be a plus in this effort, but they will also face challenges in scaling up to serve large advertisers and in finding the financial resources to do so. To build a strong position in these areas, mobile advertising specialists could either partner with operators and ad networks or become aggregators of ad inventory for all operators, offering marketers a one-stop shop for an entire country’s mobile advertising inventory.

System integrators, whose strength lies in their ability to integrate ad serving and management platforms with existing IT infrastructure, could partner with mobile advertising specialists to build comprehensive mobile advertising services and to further grow their traditional integration businesses in the digital services arena.

TWO SCENARIOS FOR MOBILE ADVERTISING

The battle for control of the mobile advertising chain is taking place between the large telecommunications operators and the Internet players—and its outcome is highly uncertain. What business model will succeed, and how will it subsequently evolve? It is possible that one of two very different, extreme scenarios could emerge, but the reality will probably be somewhere in between.

“The open mobile Internet.” In this scenario, consumers will use mobile devices to surf the Internet much as they use computers now, and operators will not succeed in building real differentiated services fast enough, thus reducing their role to that of “bit pipe” delivery networks. The serving of ads will be complemented by additional mobile-specific capabilities, such as localization and 24/7 availability. In this scenario, Internet advertising’s current model could be replicated with mobile. If this scenario comes to pass, the ultimate winners will be the Internet players, leaving the telecommunications operators to do little more than deliver the data.

“The operator-centric mobile advertising network.” In this scenario, operators will build large databases of qualified subscribers who have opted in to mobile ad services, and they will offer rich online mobile content combined with powerful data-mining capabilities. These databases will enable operators to offer marketers powerful insights on how to segment and target their advertising messages. Mobile payment services will complete the offering, allowing subscribers to buy advertised products through their telecommunications account without having to provide sensitive personal financial information via the mobile Internet. In this scenario, operators will lead the game.

Neither of these scenarios is likely to prevail throughout mobile advertising. The winning business model will likely vary according to advertising format. The “messaging” format, for instance, could be operated under the operator-centric scenario, whereas the “search” format could be operated under the open mobile Internet scenario. Furthermore, collaboration between operators and Internet players may favor the emergence of hybrid models.
WHAT SHOULD OPERATORS DO?

Mobile advertising offers telecommunications operators not just a new, high-margin revenue stream, but also a second chance to build a strong position in the overall digital services space. But they won’t get there unless they move fast to take advantage of their strategic mobile assets, targeted data, and subscriber relationships to carve out a successful position along the mobile advertising value chain.

To do so, operators need to build the necessary capabilities from the ground up (see Exhibit 2).

1. **Make the most of subscribers’ data.** Operators are sitting on a gold mine of subscriber data: socio-demographics, consumption habits and behavior, geo-localization, type of mobile device, etc. Fully exploiting this data requires two steps. First, operators must evaluate and integrate the data, which is typically spread across numerous different systems. (They should not underestimate how expensive and time-consuming a process this will be.) Second, operators must implement the data-mining capabilities that will allow them to provide marketers with predictive information on customer behavior and give them the ability to target specific customer segments.

2. **Develop an opt-in customer base.** The use of customers’ personal data requires their approval, not just for legal reasons but also to avoid offending customers who might view mobile ads as irrelevant, intrusive, and even harmful. The pursuit of mobile advertising is no excuse to violate customer trust. Opting in is required only for “push” advertising formats such as messaging; other formats, such as portal banners and in-game advertising, do not require opting in. Some advanced operators have already opted in as much as 10 percent of their total subscriber base. There is no silver bullet for building an opt-in subscriber base, but several tactics have so far worked well for operators (see Exhibit 3).

3. **Acquire the technology to deliver mobile advertising.** Delivering mobile advertising requires technology capabilities in three areas: targeting, ad serving, and campaign analytics. Although often neglected, the third category is critical to helping advertisers assess the ROI of mobile advertising and to encouraging their use of the medium. Operators can either own the technologies themselves, or partner with others to have them delivered via a revenue sharing model. There are already many mobile advertising technology specialists in the marketplace; selecting the right partner is critical to supporting the development of additional capabilities. Some large operators, including Vodafone Group PLC and Telefonica SA, have taken equity positions in technology providers as a means of building and securing access to technology for the long term. Selecting the right technologies should be part of a larger strategy that takes into account the financial capacity of the operator and views mobile advertising as a vital building block of a larger digital content platform.

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**Exhibit 2**

A Framework for Successful Mobile Advertising Strategies

- 1. Make the most of subscribers’ data
- 2. Develop an opt-in customer base
- 3. Acquire the technology to deliver mobile advertising
- 4. Develop ad-sales experience
- 5. Combine multichannel advertising platforms when possible
- 6. Extend services to include mobile payments
- 7. Participate in mobile advertising standardization

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Source: Booz & Company analysis
4. Develop ad-sales experience. Sales of the ad inventory itself could either be outsourced to ad networks through specific partnerships or be kept in-house by developing a dedicated sales team. An increasing number of operators are in-sourcing this activity. Either way, operators must remain engaged in the process—reassuring marketers that are new to mobile advertising and explaining to them the technological and legal limits of the services they provide—if they want to succeed in this market. In-sourcing ad sales will also enable operators to increase the share of the value captured from mobile advertising.

5. Combine multichannel advertising platforms when possible. The ability to integrate mobile advertising with other channels, such as fixed Internet and TV (e.g., IPTV), will be instrumental in designing complete advertising campaigns. For operators that own several channels, cross-channel advertising is a competitive advantage in the battle with Internet players.

6. Extend services to include mobile payments. The goal of almost every advertisement is to convince consumers to purchase the product or service being advertised. Thanks to the trusted relationship they have built with subscribers, telecommunications operators can offer subscribers the ability to purchase items through their mobile devices, paying through their mobile accounts without providing sensitive personal information via the Web. Mobile payment technologies will help operators build strong positions in the market in the struggle with Internet players and enable them to tell a more compelling story to advertisers.

7. Participate in mobile advertising standardization. Finally, operators must work together with advertisers to develop the market and to standardize mobile advertising formats and metrics. Standard inventory categories and audience metrics will give advertisers and advertising agencies the confidence they need to try services from which they can expect measurable returns. And the resulting transparency will be critical in overcoming the “marketing confidence gap” that will otherwise continue to limit the potential of mobile advertising.

**CONCLUSION**

Mobile advertising is still in its infancy. Yet it has all the ingredients to develop into a lucrative ad channel. For operators, it offers a new, high-margin revenue stream as well as the opportunity to invent new business models to fund new digital content services. The game is open. Operators can build strong positions, provided they can gain the media perspective needed to help them take advantage of the assets they already possess—in-depth subscriber intelligence and trusted relationships with consumers—to develop a comprehensive strategy for winning in mobile advertising.

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**Exhibit 3**

<table>
<thead>
<tr>
<th>LEVER</th>
<th>DESCRIPTION</th>
<th>COSTS AND RISKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription to newsletter</td>
<td>- Encourage customers to opt in to subscriptions to regular thematic newsletters on themes such as sports, wellness, and going out</td>
<td>- Content creation cost</td>
</tr>
<tr>
<td>One-shot benefits</td>
<td>- Encourage customers to opt in for one-shot benefits such as free ringtones</td>
<td>- Risk of cannibalization</td>
</tr>
<tr>
<td>Free services</td>
<td>- Offer free SMS for opting in and providing demographic information</td>
<td>- Risk of cannibalization - Potential for increased network services cost</td>
</tr>
<tr>
<td>New contracts</td>
<td>- When opening a new customer account, systematically request that customers opt in to receive targeted push ads</td>
<td>- No cost, but will be hard to implement for prepaid customers - Acceptance rates are usually low</td>
</tr>
</tbody>
</table>

Source: Booz & Company analysis
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