

COLUMNS

China catches up with mobile ad tech

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By **Stephen Upstone**

China arguably took a giant stride in Western public consciousness when it hosted the 2008 Olympic Games. The world finally understood: this was a sophisticated, advanced country with vast economic potential.

Since then, despite recent hiccups, the Chinese economy has expanded at an astonishing rate to become the world's largest at the tail-end of 2014.

No wonder then that this vast country is proving of immense interest to companies in the mobile industry.

Numbers game

According to the GSMA, unique subscriber penetration in China was 1.25 billion at the end of 2014 and that number will overtake the country's population of 1.39 billion people by mid this year. These are big figures and that only accounts for 57 percent of the addressable population.

Earlier this year China officially became a mobile-first country when the China Internet Network Information Center (CNNIC) reported that more people in China used mobile to surf the Web than computers for the first time.

This is against the backdrop of a burgeoning mobile market.

Ten of the top 17 smartphone manufacturers now come from China. The leader among these is Huawei, which at number three is still way behind Samsung and Apple, but these brands are forming powerful partnerships to help them step up, for example, with the likes of Seoul, South Korea-based LG Electronics.

There is also a strong base of mobile application developers, such as Alibaba, Sungy Mobile, Baidu and Cheetah Mobile top global app store ranking developers according to App Annie. They are skilled at making apps, especially utility apps where the interface is simple and therefore does not need much localization.

There are also cultural factors that work well in tech of any kind.

Business leaders who are dedicated to the workplace make decisions quickly and decisively.

Innovation in China is growing and the number of patents granted has doubled since 2005.

Local innovation on the ground is building successful global players in the consumer electronics space, particularly in chat services, online gaming and app development. And there is a plentiful supply of highly educated graduates attracted to the cool new mobile tech industry, rivaling Silicon Valley for brainpower.

The one thing China is lacking, however, is a history of developing mobile advertising technology. This is key to driving mobile growth and if you disagree, consider for a moment that, without mobile advertising, none of the app stores would likely exist.

It is an immutable rule of the marketplace: developers and publishers need access to advertisers if they want to make money.

Platform issues

Take a look at a list of the top mobile ad tech vendors in China. They are almost all ad networks, in which the tech vendor brings together both buyers (advertisers) and sellers (publications) to form a mobile ad marketplace.

This works well for smaller scales, but to really work effectively and efficiently at larger scales, more sophisticated approaches are needed.

Principal among these is programmatic trading, also known as Real-time Bidding (RTB), in which ad slots are auctioned off via exchanges at the rates of many billions per day, very much like financial markets.

The sellers (publishers) manage their inventory using sell-side platforms (SSPs) and the buyers (advertisers) optimize their buying strategies through demand-side platforms (DSPs).

Only one of the Chinese ad tech vendors mentions DSP as a specialism. This is reminiscent of the environment in the United Kingdom several years ago, and is why eMarketer points out that the programmatic/RTB share of the market is relatively small, without the sophistication to serve specialized media such as video.

This cuts both ways.

For non-Chinese publishers, they struggle to get into the Chinese market.

So, in the same way that mobile smartphone developers are leveraging partnerships to extend their reach, partnerships are key to accessing the sometimes-insular Chinese markets. Some are doing this by working with companies in China that license their apps.

Going the other direction, developers within China need a means of accessing the rest of the world.

There are two ways of doing this: either they acquire or invest in non-Chinese businesses or by striking agreements with mobile ad tech providers who understand their business needs, often because they have native Chinese speakers in their workforce.

CERTAINLY, THESE ARE interesting times in China.

Alibaba recently bought a majority stake in AdChina, the country's biggest digital ad platform by quite some distance.

If mergers and acquisitions are happening in the Chinese market, then this is more reminiscent of what is happening today in the U.K. and the United States.

Watch out for more agreements both within China and between Chinese and non-Chinese mobile ad tech companies, because China is catching up fast.

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