

COLUMNS

Stepping up to the challenge of mobile ad monetization

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By [Chris Ensley](#)

Market researcher comScore, recently in an effort to provide a more comprehensive view of digital audiences across different platforms (desktop, tablets, mobile devices), released a beta version of its first "MediaMetrix Multi-Platform" report.

The most notable change from comScore's traditional MediaMetrix report are the overall audience increases for media properties with a large mobile presence. The report demonstrates how significant and important mobile audiences are becoming to digital media properties.

Shown below is comScore's rank of the companies with the largest digital audiences across both desktop and mobile.

The top three sites with the largest mobile audiences are Google, Yahoo and Facebook, each of whose mobile audiences are approximately 50 percent the size of their desktop audiences. Meanwhile, Pandora's mobile audience is more than twice its desktop audience.

Mobile adds significant incremental reach to audio, less so to video

We find it very interesting that audio sites benefited the most from including mobile audiences, while video-centric sites benefited least.

The site with the largest jump in the rankings when adding mobile audiences is Pandora, which jumps from the 61st ranked site when just measuring desktop users to the 23rd ranked site when adding the mobile audience.

Conversely, Vevo, a video-centric site, has the smallest mobile audience and, as a result, fell from the 19th ranked site to the 24th ranked site.

Taking the comScore data and sorting by those sites with the largest mobile audiences shows that several companies move up the rank.

For example, Pandora's move up the ranks is based upon its having the sixth largest mobile audience overall.

As shown in the chart below, Pandora's unduplicated audience is 164 percent larger when its mobile audience is included with its desktop audience.

Other sites that benefit significantly when adding mobile audiences to desktop audiences are Twitter (54 percent increase), Yelp (up 44 percent), ESPN (up 38 percent) and The Weather Channel (up 35 percent).

...), Yelp (up 11 percent), ESPN (up 60 percent) and The Weather Channel (up 60 percent).

Sites generating little incremental benefit from mobile include Microsoft sites (up 2 percent) and Vevo (up 5 percent).

Mobile advertising becomes priority

Given how sizable some of the leading digital media companies' mobile audiences are, it is not surprising that mobile advertising has become a much greater focus for some of the industry's leading companies.

Recognizing this, eMarketer recently significantly increased its 2012-2016 projections for U.S. mobile advertising.

In December 2012, eMarketer raised its 2012E U.S. mobile advertising estimate to \$4.4 billion from its previous estimate of \$2.6 billion, a forecast it made in January 2012.

This implies U.S. mobile advertising growth of 180 percent in 2012, up from the previous estimate of 80 percent growth.

eMarketer revised 2013-2016 estimates even more than its 2012 estimate.

In fact, eMarketer is now projecting U.S. mobile advertising to increase 77 percent in 2013 to \$7.2 billion, a full \$2.8 billion higher than its previous forecast of \$4.4 billion.

The firm attributed the significant increase in its estimates in large part to the success of "native ad" formats such as Facebook's mobile news feed ads, Twitter's Promoted Products, and Google's direct response advertising.

eMarketer now projects U.S. mobile advertising in 2016 (\$20.9 billion) to be nearly twice the size of its previous estimate (\$11.9 billion).

Analog dollars to digital dimes to mobile ???

Most of us are familiar with the quote often attributed to former NBC chief and now CNN executive Jeff Zucker that "new digital business models are turning media revenues from analog dollars to digital dimes".

This quote is derived from the fact that digital media is more difficult to scale relative to analog media discovery itself is perhaps the hardest part of any digital site combined with the fact that there is a never-ending supply of inventory online.

Lack of scale online led to the formation of online ad networks, which packaged inventory to provide scale that publishers were unable to achieve on their own.

However, this had the tendency of commoditizing sites and lowering pricing, often referred to as "the race to the bottom."

How then will the "analog dollars to digital dimes" reference translate as audiences move online from desktop to mobile devices? Will pricing move to mobile pennies, nickels or dimes?

In a recent presentation, Kleiner Perkins Caufield & Byers partner Mary Meeker noted that, on average, desktop ads are currently being sold at \$3.50 CPMs, while mobile ads are currently being sold at 75-cent CPMs.

It is important to note that mobile CPMs vary widely depending upon the device on which the ad will run, among other factors that we will discuss later.

For example, mobile ads that run on iOS or Android devices are typically priced at significantly higher CPMs (\$2.10-\$2.85) than ads that run on Windows or Symbian devices (20 cents to 59 cents), as shown in the chart below.

It is early days in mobile advertising and, as a result, mobile inventory is growing substantially faster than mobile ad budgets, raising concerns that the race to the bottom will happen more quickly in mobile.

As online advertising moved from buying sites the way shows or channels are bought on television to buying audiences based on likelihood to purchase certain products, the use of advertising exchanges has become a more efficient way for advertisers to reach their desired targets.

Online, the transition from ad networks to real-time bidding (RTB) exchanges took place over the course of a decade or so

In mobile, this transition has taken place in a few short years. As an example of this, Adfonic, a mobile DSP, recently reported that RTB as a share of ad requests continues to increase.

In Adfonic's Global AdMetrics Report (<http://adfonic.com/news/reports/>), the company reports that RTB as a share of ad requests increased to 36 percent of requests in the third quarter of 2012 from 6 percent of requests in the first quarter of the same year.

Some believe that the faster adoption of RTB in mobile relative to the evolution of desktop RTB adoption will only quicken the "race to the bottom." However, recent industry research and commentary from publicly traded online advertising companies suggest this is not the case.

Mobile ad pricing trends

In its December 2012 Analytics/Liquidity report (<http://www.nexage.com/resources/nexage-analytics-reports>) Nexage, a mobile ad exchange, reported that CPMs in third-quarter 2012 increased by 44 percent relative to second-quarter 2012 results, driven by audience enabled data and rich media and video-enabled impressions.

Nexage noted that pricing varies widely, with banner ad units not enabled by data selling for 1 percent of the price of a rich media ad unit that is enabled by data (i.e., location, demographic, device ID and enriched contextual data).

Nexage reports that location-enabled impressions are garnering two to five times CPM premiums, while rich media and video enabled impressions are garnering five to ten times CPM premiums, with video garnering the 10 times premiums).

Nexage expects continued CPM growth in fourth-quarter 2012 and 2013 based upon positive campaign ROIs and continued third-party data enrichment.

MoPub, which operates a real-time bidding exchange, reported that eCPMs increased in third-quarter 2012 with impressions on iPad, Android tablets and phone demonstrating the most significant price increases during the quarter.

MoPub noted that pricing on Android devices increased by 26 percent during the quarter while pricing on iOS devices increased a modest 3 percent, but enjoyed a 67 percent pricing premium over Android.

It will be interesting to see MoPub reports in 2013 when we will be able to see year-over-year increases which will take out the seasonality that occurs with in-quarter analysis.

Digital marketing firm Kenshoo recently announced that in its analysis of 2 million Facebook ad clicks and conversions, mobile now accounts for 20.3 percent of Facebook ad spend.

Kenshoo also found that mobile ads on Facebook carry a 70 premium over desktop ads.

The company concluded that the world's top brands have embraced Facebook mobile advertising and expects the channel to become increasingly competitive as new devices deliver enhanced interactive experiences.

History is likely to act as a guide.

As shown in the chart below, in 1995 there were 6 million Internet users and global Internet advertising revenue was approximately \$55 million, or approximately \$9 in advertising was spent per user.

In 2011, global Internet users reached 1.5 billion, and global Internet ad spending reached approximately \$73 billion, implying that \$49 in advertising a 5 times increase from 1995 was spent per user.

Public company commentary highlights mobile

Given how significant mobile audiences have become for publicly traded companies such as Google, Yahoo, Facebook, Pandora and AOL, we thought it would be interesting to track how each is faring in monetizing their mobile audiences through ad sales.

In listening to several public companies report third-quarter results, we were struck by how many companies featured mobile in their introductory comments.

Pandora

For example, the first sentence from Pandora CEO Joe Kennedy was that "This quarter exceeded our expectations as Pandora continues to demonstrate and expand its mobile leadership with both listeners and advertisers."

Pandora provided numerous metrics to demonstrate its improved ability to monetize its growing listener base, 78 percent of whom listen via mobile devices.

Pandora reported that revenues per thousand listener hours (RPM) increased by 14 percent in third-quarter 2012 to \$26.96 from \$23.60 in the year-ago period.

In the 12-month period ending in the third quarter of 2012, pricing had increased by 5 percent relative to the 12-month period ending third-quarter 2011. This suggests that Pandora is getting increasingly adept at selling mobile ads.

We would also note that in our own experience, Pandora's mobile ads have become significantly more mobile-advertiser-friendly, with the size of the mobile ads significantly larger and the size of the music or artist information significantly smaller.

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AOL

During AOL's Q&A session, CEO Tim Armstrong noted that "on the pricing side, the same thing that happened at the beginning of the Internet is happening at the beginning of mobile, which is essentially there's a lot of network-based mobile monetization we're able to get high CPMs when we sell our owned and operated properties. but what you see in the bucket of mobile monetization is a much higher level of inventory getting monetized by networks. [which] tend to be lower CPMs out of the gate I'd expect O&O, once people specifically buy it, to have very high CPMs and high monetization. But I think the majority of our inventory for some period going forward is going to be more network-priced, which I think is a natural trend in the industry."

Demand Media

During the company's third-quarter earnings conference call, CEO Jim Rosenblatt noted that "One of the most exciting growth opportunities across the company which utilizes our content, community and monetization platform is mobile. Because mobile is such a natural extension of our existing business, we expect to be one of the big winners from a secular shift to mobile."

Mr. Rosenblatt noted that Demand Media's mobile traffic increased by 20 percent to 24 million uniques up from 20 million uniques during the quarter. He also noted that "mobile RPMs continued to increase in Q3, growing more than 40 percent compared to Q2."

Facebook

Mobile initiatives and monetization was also a primary driver of Facebook's strategy.

In CEO Mark Zuckerberg's opening comments he noted that "there are 3 pillars to our strategy: first, we want to build the best and most ubiquitous mobile product; second, we want to build a platform, so that every new app that gets created can be social and enable people to share; and third, we want to build a strong monetization and economic engine to build Facebook into one of the world's most valuable companies."

Like other CEOs, Mr. Zuckerberg made it a priority to turn the mobile monetization on its head, or to turn what the market previously perceived as a problem into an opportunity.

Mr. Zuckerberg noted that "most people underestimate how fundamentally good the trend towards mobile can be for Facebook. This is because there are three trends that are kind of compounding together: first, mobile will give us the opportunity to reach way more people than desktop; second, people on mobile use Facebook more often; and, third, long term, I think we're going to monetize better for amount of time spent on mobile than desktop. All of these combined together make mobile a much larger opportunity for us than I think most people realize."

Google

During prepared remarks, CEO Larry Page noted that "Search query volumes have grown this quarter as measured year-over-year, and we are seeing tremendous innovation in advertising, which I believe will help us monetize mobile queries more effectively than desktop today. Indeed, our mobile monetization per query is already a significant fraction compared to desktop. In short, as we transition from one screen to multi-screens, Google has enormous opportunities to innovate and drive ever higher monetization."

Mr. Page also noted that "online advertising has developed in very device-specific ways, with separate campaigns

for desktop and mobile. This makes arduous work for our advertisers and agencies and means mobile opportunities often get missed. But while we're working to significantly simplify the campaign experience advertisers should be free to think about their audience, while we do the hard work of dynamically adopting their campaigns across devices."

Google is clearly having success at monetizing its mobile audiences, even if pricing remains below desktop pricing: a year ago Google reported that mobile run-rate revenues were \$2 billion, but on its call Google reported that mobile run-rate revenues are now \$8 billion.

Millennial Media

During its prepared remarks, Millennial's CEO Paul Palmieri noted that "Overall effective CPMs in Q3 increased over Q2. This was primarily driven by advertisers buying more targeted and engaging ad formats. Typically, the more engaging and the more highly targeted an ad is, the higher the price point for us. With highly targeted, highly engaging ads, we can charge advertisers prices that can be at parity or above comparable online display ads. As we continue to shift more of our business towards these more targeted and engaging ad types, we have seen effective CPMs across our platform increase."

Yahoo

Yahoo also outlined how important mobile is to the future of the company.

During the call, CEO Marissa Mayer stated that "as the world becomes increasingly mobile, the way we all consume content has dramatically shifted. Interestingly, when you look at the most frequent uses of smartphones, they include checking the weather, checking sports scores, checking stock quotes and other financial information, watching videos, sharing photos, getting the latest news and playing games. Does that sound like any particular company that you know?"

Ms. Mayer also stated that "mobile represents not only a daily habit, but a fundamental and massive platform shift, a platform shift that we have to ride and participate in, in order to be relevant." Well said.

THE MIGRATION of consumer online usage from desktop to mobile is occurring rapidly.

The recent comScore data clearly shows how dramatically usage is migrating for some of the premiere online advertising companies.

Investors were clearly concerned that as consumers migrate to viewing content on mobile devices, the advertising proposition would prove challenging given 1) small screen sizes; 2) the nascent advertising marketplace for mobile ads combined with 3) the enormous increase in mobile advertising inventory driven by consumer adoption of smartphones and mobile media consumption.

While mobile advertising is not without significant challenges, recent industry research and comments from leading CEOs suggest that the industry appears poised to meet the challenge.

New technologies are making mobile advertising easier to buy as online campaigns can be dynamically adopted to run across hundreds of different mobile devices at once.

Mobile pricing, while clearly a discount to desktop pricing currently in the mobile "nickels" range relative to desktop "dimes" does not appear to be heading to mobile pennies, but rather may continue to close the gap relative to desktop pricing as rich media ads benefit from incorporating third-party data.

Most importantly, online industry leaders appear determined to take this challenge and make it an opportunity.

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