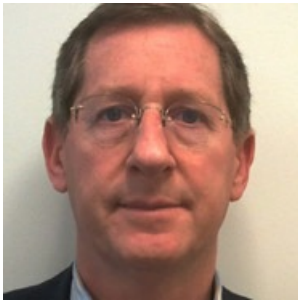


## What is the growth trajectory for mobile advertising?

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By [Chris Ensley](#) and [Colin Knudsen](#)

Introduced in 1979 as a personal wireless and portable communications device, the mobile phone has changed a lot since then.

Through relentless innovation in device technology, increasing network capacity and coverage and convergence with the Internet, the traditional mobile phone has morphed to include smartphones, tablets and other mobile devices.

Smartphone penetration is growing rapidly, representing 21 percent of the U.S. market in fourth-quarter 2009 up from 14 percent penetration at the end of 2008 and projected to overtake feature phones in the United States in 2011.

In 2012, for the first time, there will be a larger number of smartphones sold than desktop and laptop PCs combined.

The most recent mobile device phenomenon, the Apple iPad, has already sold more than 3 million units worldwide and it appears to be generating Internet usage more like a desktop PC than a smartphone.

So, as mobile subscribers pass the 5-billion mark this year and as mobile devices get smarter with greater functionality, it seems appropriate to focus our sights on the mobile market and, in particular, the emerging mobile advertising marketplace.

### Screen test

It was only several years ago that the mobile phone market became popularly considered the seventh mass-media channel, following in order of introduction print, music, cinema, radio, television and the Internet.

The mobile mass-media channel is also increasingly referred to as the third screen, after television and the personal computer sometimes the fourth screen when movie theaters are included such that Nielsen, the traditional TV research and measurement company, launched a quarterly report called the Three Screen Report in mid-2008 to track U.S. consumption of TV, desktop Internet and mobile phones.

### How is mobile different from the six legacy mass media?

Mobile is widely held to offer eight unique attributes/benefits: (1) It is the first personal mass media; (2) The device is ubiquitous with its user 24/7; (3) Is always on; (4) Has a built-in payment system; (5) Is available at the time of creative inspiration; (6) Has the most accurate audience measurement; (7) Captures the social context of media consumption; and (8) Allows for augmented reality such as the yellow first-down line on TV broadcast football games.

Mobile does present a number of clear differentiators and advantages as an advertising medium, although small screen size and traditional consumer usage patterns on-the-go, quick and short-usage bursts have thus far translated

to less patience with intrusive ads.

Also, so far, fewer ad dollars than projected spent on the medium.

By most accounts mobile advertising spend nationwide will approximate \$600 million in 2010, up from approximately \$400 million in 2009, a 50 percent year-to-year growth rate.

To place this in a broader context, in 2009 ad expenditures on major media nationwide approximated \$160 billion, including \$23 billion of Internet ad spend.

Clearly, while the growth in mobile advertising is impressive, the mobile ad market in the U.S. remains immature and modest in size.

Most estimate that 80 percent to 90 percent of mobile ad revenue currently is SMS advertising, reflecting both the penetration of this medium and the screen and other limitations noted above.

SMS advertising is largely direct-response-oriented, which is also the largest component of online advertising.

With traditional media, direct response advertising comprises approximately 30 percent of the market, with brand advertising accounting for the largest share.

So there are real differences between the consumption by advertisers of media in the two digital channels compared to the traditional media channels.

#### Network play

Fundamentally, the complexity of the mobile ecosystem and the precedent developments required in devices, infrastructure, consumer behavior and advertising technology to enable this market to explode beyond SMS have been substantially underestimated.

Mobile advertising is already substantially larger and well established in Japan and mobile commerce is huge in both China and Japan.

Google, arguably the world's largest advertising network, has launched its Android OS operating system as part of its effort to control or influence the development of the mobile ad market.

More recently, Google acquired AdMob, one of the larger mobile ad networks, for \$750 million in stock.

Apple, of course, has taken the mobile market by storm with its iPod, iPhone and iPad, and acquired Quattro Wireless, another leading mobile ad network, in January for \$275 million.

Also, Apple recently introduced the iAd platform with \$60 million of commitments pre-launch.

Clearly, both Google and Apple anticipate the continued growth and evolution of mobile from a communications media to an advertising, social and commerce media driven by mobile access to the Internet.

Mobile Internet usage is already ramping faster than desktop Internet usage did. Most analysts believe that by 2014 more people will connect to the Internet via a mobile device than a desktop PC.

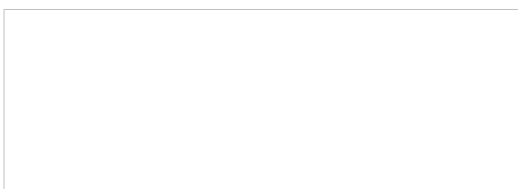
One of the largest components of mobile growth is coming from the consumption of digital content.

#### Content rules

Earlier this year, Cisco released a report forecasting that mobile data traffic globally will increase 39 times from 2009 to the end of 2014, driven by device proliferation and mobile video content consumption.

Cisco predicts that mobile video will represent 66 percent of mobile data traffic by 2014.

According to Nielsen's first-quarter 2010 Three Screen report, the year-to-year consumption of video content via the Internet increased by 2.6 percent, while the consumption of video content via mobile technologies increased by 51.2 percent.



Traditional media companies such as local TV station owners have an opportunity to compete in this new arena by

offering live and local television directly to smartphones and other portable devices.

Two competing consortia have already been formed The Mobile Content Venture and the Mobile 500 Alliance to aggregate owned digital spectrum and deliver content to mobile devices.

Combined, these two groups own 346 full-power TV stations in 167 markets reaching 90 percent of the U.S.

Another trend in mobile is the consumption of content that is not generated by entertainment companies, but rather is information provided by other mobile users via social networks, such as Facebook and Twitter.

In addition, mobile social networking is becoming even more local by adding location-centric aspects to information.

Location-centric mobile social networking applications such as Foursquare, Gowalla and Yelp allow consumers to share information with their social communities in a local manner.

Consumers are increasingly relying on their mobile phones to stay connected with their social networks and are doing so in a location-oriented, real-time and interactive fashion.

Advertisers are creating applications that are location-centric and use a user's location to provide relevant incentives to make a product purchase.

Growth is inevitable

So as one looks a year or two ahead with further increases in smartphone penetration, the continued growth of the iPad and the emergence of new tablets, will larger screens and higher data consumption greater Internet usage result in more ad dollars shifting to this medium and more rapid growth in the mobile advertising market?

It seems inevitable while a number of questions remain.

What are the implications from the increasing prevalence of mobile applications? Will rich media be delivered by a Web-centric HTML5 world or by a proprietary applications-centric world? Will one platform ever emerge that will simplify and standardize the delivery of rich media ads to mobile devices?

Moreover, where will the wireless carriers obtain sufficient spectrum to handle all this growth? Does this provide an opening for the incumbent TV broadcasters?

The increasing ubiquity of personal wireless communications combined with continual technological advancements in the form and functionality of wireless devices offers advertisers and marketers the chance to reach individual consumers with targeted messages specific to location and to capture performance metrics in a real-time virtuous loop.

This vision is enticing and will take time to be fully realized.

Given the very large and growing subscriber base more than 70 percent of the world's population it does appear to us that there is an inevitability to the emergence of mobile advertising as a huge market.

The issue, in our view, is how high is up and how long before mobile becomes an integral part of the advertising firmament.

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