

# Analysis: Advertising Will Set Mobile Free

By Keith Mallinson Friday, November 2, 2007

**Demand for advertising-supported mobile content will soar: Wireless carriers will benefit without burdening publishers with large revenue shares or soaking consumers with exorbitant usage charges.**

Advertising is an enormous U.S. economic force; in 2006, it was estimated to be worth \$296 billion. In old media, it funds terrestrial network TV, radio and Yellow Pages while paying half or more the cost of most newspapers and magazines. Online digital content is also largely free to consumers, with e-mail, social networking, popular information and listings paid for by \$20 billion in banners and sponsored search. Virtually anyone with a computer is online, most have broadband and use is unconstrained by price.

Access to content at no incremental cost to consumers stokes up demand by orders of magnitude. Un-metered dial-up and flat-rate broadband Internet access make online usage free. Google, Yahoo!, eBay, MySpace, YouTube, Skype and Sling Media ride for free on the carriers' pipes, but among others, these destinations are why most households pay \$20-\$45 per month for fast Internet access. Advertising charges underpin these Web players' business models, whereas monthly recurring charges have made large and healthy new business for telcos with DSL and for cable companies' with Internet modem services.



## NO SUCH THING AS FREE

In mobile, there is no such thing as free for most subscribers, where uptake and usage is significantly constrained by pricing. Additional phones can be added to my AT&T family plan for \$10 per month. My bucket of 1,400 voice minutes can be shared among them, but data plans are on a per-phone basis with unlimited Web starting at \$20 per month and rising to \$40 with video and text. Without a data plan, usage charges are a whopping \$10 per megabyte.

Mobile Internet uptake and usage will increase dramatically as unlimited data plans become more widely adopted and cheaper with increasing competition. Not many users are willing to pay a subscription or variable charges to access weather information on a phone when they can get it so many other ways for free. New data users are even less inclined to pay monthly subscription fees for premium content and will have less need to do so with increasing availability of free content. Leap has recently undercut the leading carriers by 40% with its Cricket unlimited EV-DO PC data card plan at \$35.

Intensifying price competition in handset data plans is also inevitable. Information providers will provide much of what we want with advertising support and with "free" generating massively increased demand. Carriers also benefit – as they did with online – with substantially increased subscriber uptake for mobile data.

## MORE ROOM TO GROW

Potential abounds. Several pioneers with ad-supported business models are jumping in with the same entrepreneurial drive as in online. So far, for example, only around 13% of mobile subscribers access news and information each month and less than half that percentage use search. Only a small proportion of content pages viewed on the mobile Web or via rich clients such as Java or BREW include any advertising. Nevertheless, approximately 1 billion ads are served by Admob and Third Screen Media each month in the United States, and the number is growing rapidly. Mobile advertising is at bargain prices. Display ad cost per thousand (CPM) and search cost per click (CPC) are substantially less than their online equivalents, where in search, for example, clicks average more than a dollar and frequently fetch \$25 or more for hot key words with high priced purchases such as mortgages or insurance.

Mobile search providers Medio, JumpTap, Microsoft (MotionBridge) and Google have the additional capability of click-to-call. With location-based capabilities, local search and advertising has unique potential in comparison to its 15% share of online. For example, location-based click-to-calls from Saturday night revelers who fall on the wrong side of the law would be worth a lot to attorneys who specialize in these matters.

There are still significant challenges in this nascent marketplace. Advertisers want national reach across all major carriers. Whereas consumers frequently switch TV channels, consumers tend to have just one phone and one on-deck carrier experience. Advertisers also need systems to make buying and formulating campaigns easy, the workflow capabilities to target and match advertisements with Web page inventory and the measurement tools to measure effectiveness.

Mobile advertising revenues are less than 1% of wireless carriers' \$20 billion in data service fees which are growing at double-digit rates. Advertising revenues in support of the content subscribers consume will surely grow to a significant proportion of these figures over the next few years.

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