



Going Mobile: The Mobile Local Media Opportunity

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Summary: On Feb. 24, The Kelsey Group will officially launch a new program and dedicated area of coverage called Mobile Local Media, a spin-off from the Interactive Local Media program. The new program will focus specifically on the growing content delivery opportunities on mobile devices. Some of these topics were previously covered via ILM. However, cultural and technological shifts have compelled us to dedicate for-

mal and increased resources to better define them. With MLM we will provide the same research, written commentary, conference programming, industry engagement and thought leadership that have defined TKG advisory services for 25 years. An introduction to the mobile market opportunity, and our scope of coverage, is framed in this Advisory. It also includes new data from TKG's Mobile Local Media Forecast 2008-2013.

'This Is the Year' (Just Like Last Year)

"Is this the year of the mobile Web?" The question has been heard over and over at technology conferences of late. Stepping back, claims of the mobile Web's imminent tipping point have been made repeatedly for the past several years. So what's so special about where we sit now?

Maybe it's not the year of mobile, but we are in a stronger position than ever. According to The Kelsey Group's Mobile Local Media Forecast 2008-2013, there are currently 54.5 million mobile Web users in the United States, which represents about 25 percent of online users.

Usage has been driven by rapidly evolving device standards and mobile development platforms that have begun to welcome third-party innovation for the first time. We can mostly thank the iPhone for knocking down wireless carriers' walled garden, which has caused subpar mobile products to dominate the

market over the past decade.

The iPhone represents less than 2 percent of the global cellphone market, but sales are accelerating. The device is now the fastest selling handset in the United States, with 15 million sold to date and almost \$5 million sold last quarter. It also makes up about a third of smartphones used in the United States.

It's not just the iPhone's penetration that's worth noting, but also its impact on the rest of the market. Copycat devices that compete on price will continue to flood the market, driven by evolving consumer expectations and competitive pressures.

We could even see a touch screen-based smartphone with mobile browsing, GPS, games, local search apps, etc., for less than \$100 this year. As copycat devices proliferate, iPhone-like features will essentially become commoditized and reach further into the mainstream. A big step in this direction



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came in December when iPhones began selling in 2,500 nationwide Wal-Mart stores.

Getting Smarter

The iPhone's market impact has been twofold. It has set a bar for quality and design, and it has introduced the application marketplace, which boosts its own usefulness. There are more than 15,000 applications in Apple's App Store and since its July 2008 launch, many mobile software companies have followed suit. These include BlackBerry's Application Center, the Google Android Market, a soon to be launched app market by Microsoft (rumored to be called Skymarket), Nokia's Ovi Store (slated to debut in May) and Palm's Software Store.

Meanwhile, smartphone sales have outpaced the rest of the handset market and make up about 11 percent of the global handheld market, according to September 2008 Gartner research. In the United States, almost 20 percent of consumers use a smartphone, according to The Kelsey Group's Mobile Market View Wave II,

conducted in October 2008. But more telling is that 50 percent of the survey's 512 respondents reported that they are likely to purchase a smartphone in the next two years.

The key point is that smartphone users map to greater data consumption: With the uptick in smartphone penetration has come an increase in mobile Web use.

Brian Jurutka, comScore vice president of market solutions, presented data at The Kelsey Group's Interactive Local Media 2008 conference showing that mobile data subscriptions were up 37 percent in June (year over year), and the use of mobile browsers has grown in step.

MMV Wave II likewise revealed clear increases in users who are accessing the Internet on a regular basis.

Mobile Engagement: By the Numbers

The opportunity seen in these numbers is a measure of quality in addition to quantity. The mobile Web generally receives higher levels of engagement than online, and smartphone users have proved to be more engaged than feature phone (non-smartphone) users. Finally, iPhone users exhibit levels of engagement greater than all of the above.

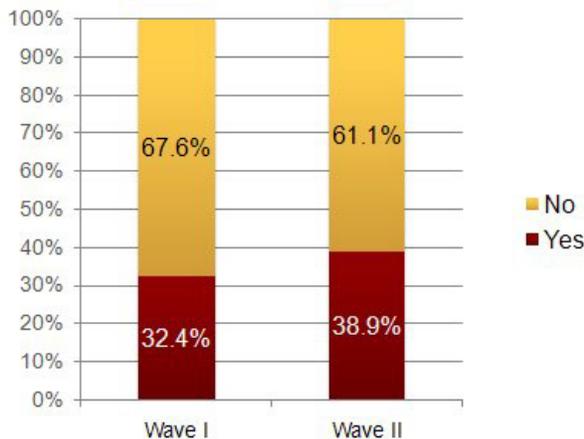
Market research agency GfK released a report earlier this month showing that 33 percent of mobile consumers recalled seeing mobile ads, while 41 percent of iPhone users did. One in three consumers who recalled ads responded in some way, while the corresponding ratio for iPhone users is one in two. One in seven reported buying a product or visiting a store after seeing a mobile ad, and one in four iPhone users did.

Clickthrough rates, or CTRs — an often used metric for online ad performance — are likewise higher on mobile devices than in the desktop environment.

CTR's vary widely based on the application, ad format and context, but Verizon Wireless reports overall CTRs of about 2 percent for mobile display ads among its U.S. consumers, compared with average online CTRs of about 0.25 percent. Meanwhile, Blyk, a Finland-based

Percentage of Mobile Users Who Access the Internet

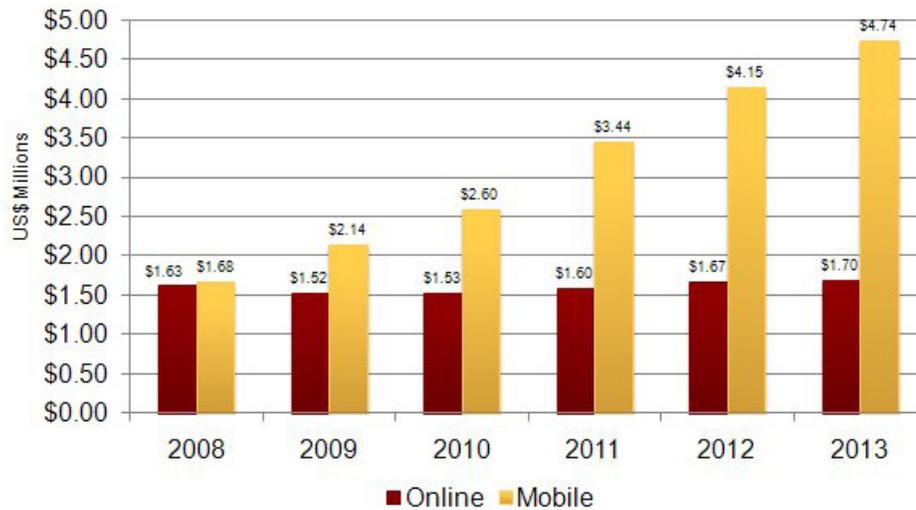
SOURCE: TKG MOBILE MARKET VIEW WAVE II, OCTOBER 2008, SAMPLE = 512. WAVE I, SEPTEMBER 2007, SAMPLE = 500. METHODOLOGY: ONLINE. COSPONSOR: CONSTAT.





U.S. Display Ad RPMs: Online vs. Mobile

SOURCE: THE KELSEY GROUP (2009)



ad-supported wireless service provider, reports that ad response rates are between 12 percent and 43 percent, depending on the application, among its European consumers. For U.S. mobile search ads, TKG's Mobile Local Media Forecast reports CTRs to be 25 percent.

There is still a market imbalance in that advertiser demand, CPMs and other ad rates don't yet reflect these qualitative usage realities. But they will grow.

According to TKG's Mobile Local Media Forecast, U.S. mobile display ad revenue per thousand impressions (RPM) will grow from an average of \$1.68 in 2008 to \$4.74 in 2013. This is compared with online RPMs, which will grow from \$1.63 to \$1.70 during the same period.

Think Mobile, Act Local

As mobile data consumption rises, local could be the big winner. There is a strong correlation between local search and the mobile use case, which will cause a good portion of the ongoing application boom to focus on local.

The touted location awareness features (GPS, etc.) of

the iPhone and other devices will push this. But it will be more about local search's ties to the immediacy and geographic relevance inherent in mobile search.

According to GfK, one in 10 mobile phone users in the United States used a location-based service such as a map, friend or restaurant finder in fourth-quarter 2008. The 25-to-34 age group saw the highest levels of interest in this type of offering, with 22 percent penetration. Location-based searches meanwhile represent four of the top eight mobile uses.

Think of it this way: If 20 percent to 25 percent of online searches have local intent, local most likely represents an even larger stake of search activity on the mobile device. Many other search categories, such as product research, reference and image search, will conversely make up smaller shares of mobile search — due again to the form factor and basic mobile use case.

We're already seeing this ring true in Google's mobile searches, according to Diana Pouliot, mobile ad sales director for Google.



Top Mobile Features Used

SOURCE: COMSCORE (2008)

1	E-mail
2	Weather
3	IM
4	Maps/driving directions
5	News
6	Local search
7	Sports
8	Directory assistance
9	Online gaming
10	Financial information
11	Bill paying
12	Social networking
13	Shopping
14	Horoscope
15	Adult content

“Local search on the mobile device indexes higher than the desktop by about two to three times,” Pouliot says. This brings up the question of whether the search algorithm has to change for mobile searches, given different intent. Pouliot says the algorithm stays the same, but results are fished out of a smaller bucket of Web pages that have higher relevancy to a mobile search (read: more local).

Already, about 15 percent of iPhone apps are local. TKG’s MMV Wave II survey found that 15.6 percent of mobile users searched for local products and services, up from 9.8 percent the year before. This will continue to grow.

Meanwhile, social media could buttress the apex of mobile and local, as a consumer use case continues to develop around finding things to do and buy locally,

while connecting with friends. Loopt, Where and others have developed these tools, but Google could really move the needle with the recent launch of its mobile social tool Latitude.

Supporting this, MMV Wave II shows that the number of mobile users who access social networks tripled to 10 percent from the previous year. EMarketer also projects mobile social network users to jump from 82 million in 2007 to 800 million in 2012.

Now the Hard Part

So how will all this be monetized? That’s the \$6 billion question. As with online search, we’ll see lots of shapes and sizes of advertising develop that mirror advertisers’ goals (i.e., clicks, phone calls, branding, foot traffic, conversions).

In this sense, mobile marketing will have some limiting factors compared with online (small screen, etc.). But it will conversely have unique opportunities tied to the mobile device’s portability and location awareness.

Mobile’s proximity to the point of purchase, for example, opens up possibilities that haven’t really gotten off the ground in online search. These include transactional or cost-per-action models such as mobile coupons or product reservations. Picture a user standing in front of a store shelf and being able to find cheaper items at another store.

Tools like this have been developed for the iPhone by early movers such as NearbyNow and TheFind. As the mobile Web grows, we believe usage will evolve around these types of activities, and we could see many more services like this. Winners will be those that can provide the best data, user experience and speed to market.

Success could also result from a finely tuned proposition to advertisers to utilize these tools to bridge the gap between the online and physical worlds — a longstanding source of uncertainty in local online campaign reporting.



What About Today? SMS and Voice

Amid the market enthusiasm around smartphones and new mobile content delivery models, it can't be forgotten that only 20 percent of the U.S. population carries the devices. This means that for the vast majority of the mobile market, the primary inputs are still talking and texting.

It's more the latter, according to Nielsen, which reports that the average mobile user sends 357 texts per month compared with 204 calls. This is a surprising figure to many, and it's clear younger users are skewing the average.

"If you're 25 or younger, it's the language that you speak," said Greg Hallinan, vice president of marketing for Verve Wireless, during the Internet2Go conference last month in San Francisco. Another segment to which SMS can appeal is small businesses, added Hallinan.

"Their threshold for sophistication is lower, and they're used to direct response [advertising] in print," he said. "They don't have mobile Web sites, but they do have promotions and a need to get people in the door in a time-sensitive way. That can be done easily in SMS in 160 characters or less."

The opportunity is further underscored by SMS user engagement. According to comScore M:Metrics, about 20 percent of U.S. mobile subscribers reported seeing SMS ads, and response rates were 12 percent. Though the SMS share of total U.S. mobile marketing revenues will diminish over time, according to TKG's Mobile Local Media Forecast, it currently stands at more than 60 percent.

Voice search likewise represents a more immediate opportunity for mobile local advertisers. Since the device is after all a phone, there will be lots of opportunities to serve local content that is tied to pay-per-call models.

Voice search will grow in 2009 for the same reason. It will result from continued growth of early movers in the space such as Google (1-800-GOOG-411), Tellme (Microsoft) and Vlingo. Each has extended its reach with on-deck voice search applications for the iPhone and others.

Here, some Yellow Pages companies could have an advantage with systems in place for call tracking and reporting. AT&T's acquisition of Ingenio allows it to sell business leads to advertisers across various media. This should soon include mobile searches performed on its YPMobile, which has shown popularity among local iPhone apps out of the gate.

Yellow Mobile

The Yellow Pages industry is well positioned for many of these opportunities, given the local search experience, data and sales channels it has in place. Thus far from Yellow Pages, we've seen mobile iPhone apps (such as AT&T's YPMobile), native apps for other smartphones, and Internet Yellow Pages Web pages

ULocate's Where iPhone App

SOURCE: ULOCATE (2009)





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that are optimized for various handheld devices.

In the widening application development environment, the opportunity going forward could also involve Yellow Pages partnering with app developers to provide local data in the latter's branded mobile search applications. Such partnerships could include licensing, revenue share or the development of distribution networks of in-application inventory. An example is YPMobile providing listings for local searches done on uLocate's Where iPhone app. The latter could help Yellow Pages gain access to more inventory for mobile ad distribution, given finite search volume on their own mobile products.

Some publishers' drive to go mobile will result from new leadership at top levels and new technology-minded individuals running mobile initiatives. It will also be partially driven by lessons learned from the past: The relative lack of speed with which some publishers approached the online opportunity has compelled them to be more ambitious in mobile product planning.

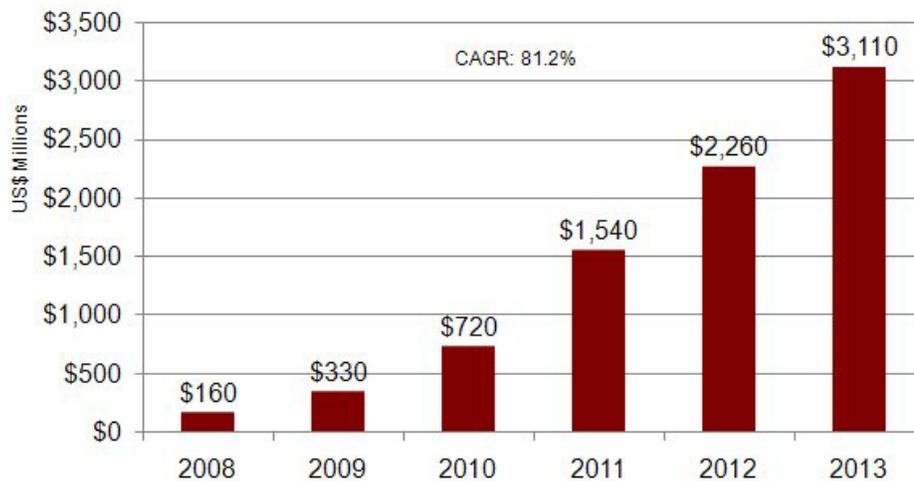
So far publishers' mobile efforts have centered on a desire to solidify their brand, positioning and audience — with the hope of monetizing the resulting user engagement down the road. When mobile usage reaches levels that generate more advertising interest, publishers will likely ad mobile distribution to the evolving local sales bundle.

Like the recent bundling of online video solutions for small and medium-sized businesses, this can be a retention tool for advertisers that are increasingly asking for mobile products. In this respect, mobile will represent the evolution of longstanding advertiser relationships. Put another way, it's a new spin on the often heard industry adage: If Yellow Pages publishers don't offer their advertisers mobile marketing, someone else will.

In addition to retention, mobile advertising has the potential to appeal to new advertisers that publishers have not traditionally reached. The differences in cost and format when compared with the traditional print product could translate into wider appeal to incremental advertisers.

U.S. Mobile Ad Revenues 2008-2013

SOURCE: THE KELSEY GROUP (2009)





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Take the scenario of local shopping search, for example. The mobile device's conduciveness to finding items for sale locally could represent an opportunity for publishers to more aggressively pursue the retail segment — an area in which they've traditionally lost share to newspapers.

Lastly, mobile's measurability and acute location targeting allow advertisers to see more concrete return on investment — something that could resonate in tough economic times.

Reality Check

On the other hand, mobile is still seen by many advertisers as experimental, a designation that is sometimes tantamount to spending decreases during periods of economic uncertainty.

Further impeding mobile marketing growth is usage levels. Though it is growing quickly, mobile hasn't yet reached the levels that will drive mass market advertiser adoption. Once it does, we can still expect a certain degree of lag time on the part of advertisers, as is often the case.

Currently, more than 80 percent of businesses don't employ any form of mobile marketing, according to a survey done by online local search company Where2GetIt. Similarly, relatively few ad agencies have resources dedicated to mobile marketing.

Drilling down to the SMB segment, The Kelsey Group's Local Commerce Monitor Survey Wave XII shows less than 1 percent of respondents reporting engagement in mobile marketing.

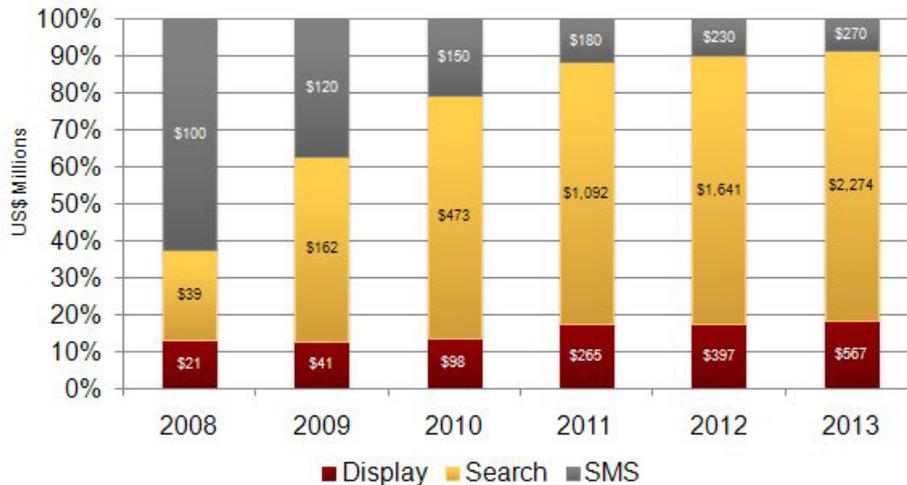
Much of this will change; driven by the factors outlined throughout this document. According to TKG's Mobile Local Media Forecast, U.S. mobile advertising was a \$160 million industry in 2008 and will grow to \$3.11 billion in 2013 — a compound annual growth rate (CAGR) of 81.2 percent.

Search is the fastest growing portion of the mobile ad market, followed by display and SMS. Though SMS marks the largest share of mobile engagement and content delivery, it will experience slower growth as the mobile Web proliferates.

Local search will account for more than 40 percent

U.S. Mobile Ad Revenue Breakdown

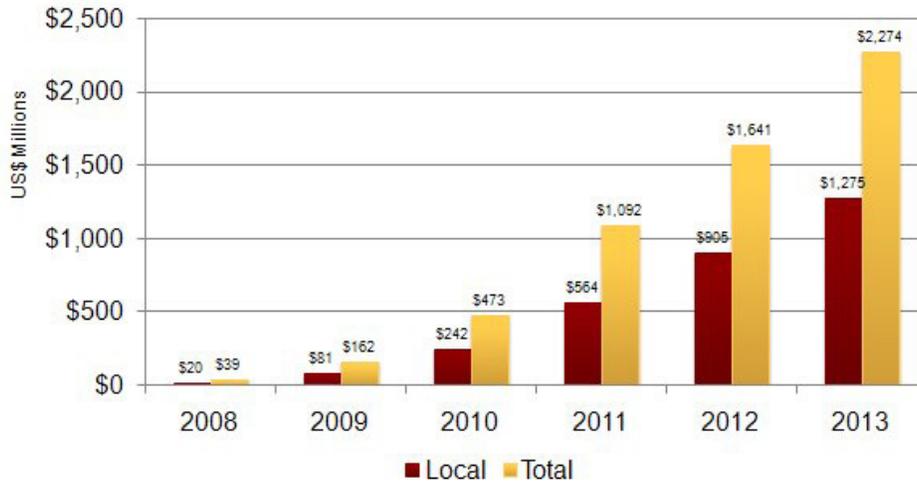
SOURCE: THE KELSEY GROUP (2009)





U.S. Mobile Search Ad Revenues: Local vs. Total

SOURCE: THE KELSEY GROUP (2009)



of U.S. mobile advertising revenues, climbing from \$20 million in 2008 to \$1.28 billion in 2013, a CAGR of 130.5 percent. The growth will result from a stark increase in mobile local searches — both in overall volume and in the percentage of searches that have local intent. The latter will increase from 28 percent in 2008 to 35 percent in 2013.

This will also be driven by higher cost-per-click rates for locally targeted search ads, when compared with non-local. By 2013, local will account 56 percent of search revenues.

What do these numbers mean? Though revenue opportunities aren't as great today as they will be in the latter portion of the forecast period, now is the time for anyone interested in this space to start to develop mobile products.

Lead time will be required to build a brand, a user base, and a foundation of intelligence for user and advertiser behavior. These will each be moving targets in the quickly evolving medium.

Winners in mobile local marketing will be ready with a certain degree of momentum when the fabled “tipping point” arrives and mobile local search becomes a mass market medium and marketing channel.

This day likely won't come in 2009, as predicted by the recent batch of “year of mobile” comments. But it will arrive in the latter portion of TKG's five-year forecast period. And 2009 is the year to start preparing for it, if that process hasn't begun already.

“Now is the time to get in while it's an early adopter thing,” says Google's Pouliot. “Know the metrics and understand it, so when it does arrive you're already in front of it.” **MLM**

Appendix: MLM '09 Editorial Calendar

Each of the themes touched upon in this Advisory deserves its own report. TKG's intention, as we define these opportunities, is to continue to engage all the leading industry players and develop our thought leadership position.



Here are some of the topics and reports currently on the editorial calendar:

- Mobile Local Media Forecast 2008-2013
- SMS: The Opportunity Today
- Voice Search: Coming Through Loud and Clear
- Mobile and Traditional Media: Winning Combinations
- Best Practices: Mobile Marketing Case Studies
- Getting Smarter: Smartphone Penetration and Usage
- A Look at the Mobile User: Mobile Market View Survey
- A Look at the Mobile Advertiser: Local Commerce Monitor Survey
- Meet the Mobile Ad Networks
- Yellow Mobile: The Directory Publisher Opportunity
- Channel Strategies: How Are Mobile Ads Being Sold?
- Mobile by the Numbers: Engagement, Conversion and ROI
- Beyond the Click: Mobile Pay-per-Call Advertising for SMBs
- Mobile OS Wars: Surveying the Smartphone Landscape
- Breaking Down Mobile Ad Formats: Search, Display and SMS
- Beyond Search: Mobile Television, News and Entertainment
- Shopping Search: Leveraging the Point of Sale
- Mobile Coupons: Getting off the Ground
- The New CPM: Mobile Application Engagement
- Integrated Campaigns: Adding Mobile to the Mix
- Upward Mobility: The Netbook Phenomenon
- Localizing National Advertising in a Mobile World
- Mobile Social Networking: 'Where You At?'