

Asia Pacific: Powerhouse for Mobile Advertising

WHITE PAPER

Prepared by Nick Lane
Chief Analyst, mobileSQUARED

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We're in the scenario where brand-penetration within mobile is lagging far behind smartphone penetration... because many agency personnel acting as "budget custodians" (mainly media agencies) lack understanding on mobile advertising beyond SMS campaigns. This is slowly changing with the entry of several Mobile Internet Advertising players in the last 6-12 months, including Smaato. These partners have been engaging our clients and fellow agencies by offering test-budgets and campaigns to help. Many see the opportunities - but it would take a while; we must rally the industry quickly.

I'm overall optimistic with the outlook however. It's a case of winning small battles with some clients, activating a few initiatives, showcasing strong results, and collaborating with like-minded people in the industry to build the case for mobile. In a matter of time, the cow should give us our milk.

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Ian Loon

Digital Lead, Tech Practice Group (Asia), Starcom Media Worldwide

Summary

The mobile Internet presents an unprecedented opportunity for brands to communicate with customers using mobile display-based advertising. Mobile Internet usage across Asia is second only to messaging when it comes to mobile data services. While the hype of the developed mobile world around apps and smartphones has permeated throughout Asia, the mass-market opportunity today continues to be on Feature Phones, although smartphone penetration will exceed 30% of all Asian devices within five years.

This means, over the forecast period, the length and frequency of each mobile browsing session will increase, expanding what is already a vast universe of inventory, into a potential representing stratospheric opportunities. But with every development comes an increasing level of complexity adding to a fragmented landscape, and it creates opportunities for multiple business models.

Converting this complexity into an opportunity for brands and publishers alike, using the delivery of a cross-platform aggregated ad network, presents one of the fundamental solutions in eradicating the fragmentation blighting the adoption of mobile advertising, not only in Asia, but globally. And one of the companies that is ideally situated to deliver an optimized ad network is Smaato.

We're in a nascent marketplace, but it's going to be big, very big. And it's starting to happen in Asia today.

The Mobile Internet Boom

Asia – which here includes China, India, Japan and APAC is on an unprecedented scale for players in the mobile industry used to dealing in millions in markets such as the US and Europe. When dealing with Asia, it's always best to place everything in context, as the millions rapidly become many millions, even billions.

As a region, Asia has a population of 4.05 billion people. By the end of 2010, it will have a mobile population of 2.27 billion (according to Morgan Stanley + Ovum forecasts), representing a market penetration of 66.7%. Of those users, 26.1% will be using the mobile Internet. At the end of 2009, Asia had a mobile Internet population of 432.65 million.

In China over a three-month period up to the end of September 2009, the number of mobile Internet users increased by 37 million. By the end of 2010, China alone will have over 350 million mobile Internet users. Including the phenomenal growth in China, the number of mobile Internet users across the whole of Asia will expand by 168.54 million, taking the total number of mobile Internet users in the region to 592.19 million. And that, for any company involved in advertising, represents an astonishing opportunity to deliver display-based campaigns for brands. What's even more compelling is that over 246 million mobile Internet users are accessing the service over 2G networks. Excluding the 10 million 3G users in China at the end of 2009, the majority of its mobile Internet usage is over second-generation networks, as indeed is the case in India and Thailand.

Asia then, is a region content with content. While the developed westernized marketplaces obsess over network speeds with their expectations tailored by fixed-line broadband access, speed is an unknown quantity to the Internet virgins in developing markets accessing content over 2G networks. Of course 2G networks are constraining the potential of delivering a rich-media mobile experience to consumers. But that is largely a moot point given that 3G or alternative wireless broadband access technologies are just around the corner, if not already implemented. Regardless of the access, mobile Internet already has a massive audience across Asia. In no uncertain terms, Asia is a continent of incalculable potential. Well, almost incalculable.

Reasons to be Excited

In 2010, the average mobile Internet user across Asia will generate 26.47 page impressions per day, equating to 805 page impressions per month. In two of the most advanced mobile Internet countries in Asia, China and Japan, mobile Internet users here are generating a total of around 10 billion page impressions per day. This means across all of Asia, over 15.68 billion page impressions are being generated on a daily basis.

The latest consumer research from across Asia reveals that users in Asia are most attracted to news sites, with social networking sites coming in at fifth place in the popularity stakes. However, when usage is applied to the different categories of sites, mobile social networking attracts over 50% of total traffic across Asia.

4.05 Billion

Asia Population

2.27 Billion

Asia Mobile Population

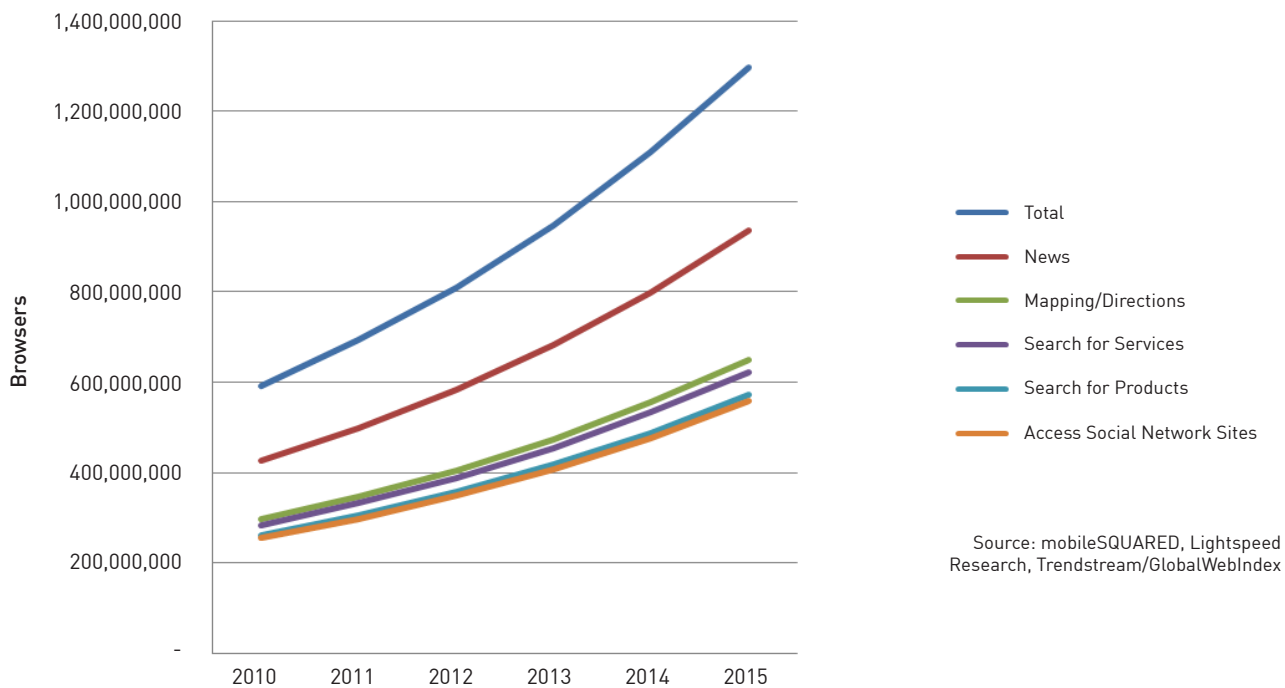
432.65 Million

Asia Mobile Internet Population

**15.58 Billion
Page Impressions**

per day generated in Asia

Mobile Internet Browsing Behavior



The inventory levels will increase at exponential levels as usage escalates, driven by the continued increase in users.

By 2015, almost 1.3 billion users will be browsing on their mobiles and the number of average daily page impressions will be at least double existing usage per user.

Bizarrely, the mobile Internet journey in Asia is really only at the beginning.

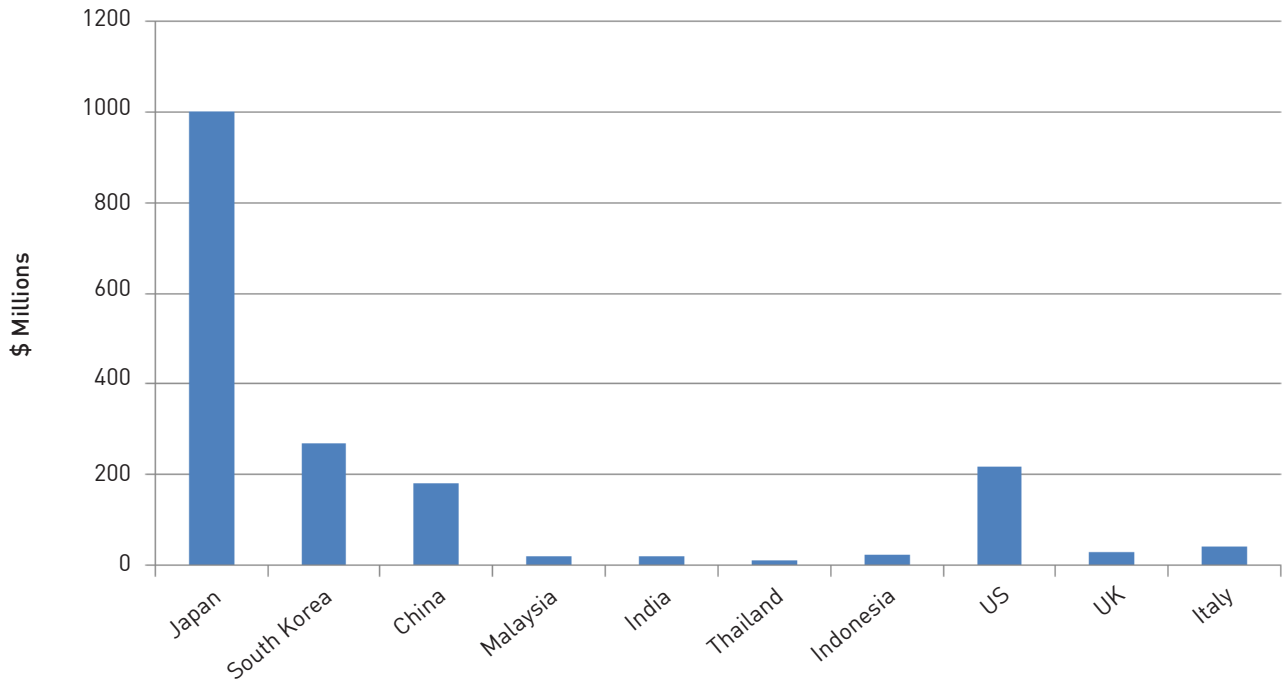
This is certainly applicable to the monetization process for much of the region when it comes to mobile advertising.

mobileSQUARED research claims that Japan has become the first nation to break the US\$1 billion revenue mark for mobile advertising, with the Korean market worth US\$270 million, followed by China on US\$180 million (see graphic in page 5).

These three markets are not only the flag bearers for mobile advertising across Asia, but globally.

In comparison, the US mobile advertising market was worth a little over US\$219 million in 2009, while the UK mobile advertising market came in at a little under US\$29 million.

Mobile Advertising Spend 2010



Such is the advanced nature of Japan's mobile advertising business that its accountability and measurability can now be directly correlated to mobile transactions and payments.

The diversity of the region is emphasized by the next tier of markets in terms of mobile advertising activity.

Based on revenue generation Indonesia, fronts a field of India and Thailand and Malaysia. mobileSQUARED forecasts that the combined mobile advertising revenues for these markets will generate US\$54 million by the end of 2010.

On average, the combined mobile display market across these four markets will account for 30% of total spend this year (US\$16.2 million).

In emerging mobile advertising markets, the central focus of campaigns centers around messaging, seen as the primary access method between a brand and consumer.

Of course, this trend varies throughout Asia. In India, it is commonplace to deliver 100 million marketing messages a day.

In other markets, such a strategy would be unheard of.

\$1.5 Billion

Mobile Advertising spend in Asia

The Difficult bit

Whereas collectively the numbers for Asia are impressive and the opportunity immense, even though mobileSQUARED estimates that less than 8% of the traffic has been converted into mobile advertising inventory, this hides the reality of an incredibly complex region. There are a number of hurdles that a brand must overcome to connect with a consumer.

Firstly, the brand must create compelling content deemed relevant and contextual to the consumer, whilst accounting for the diverse national cultural differences across Asia. This content must then traverse over 400 devices in use across Asia, ranging from legacy devices to Feature Phones and smartphones, each with different screen sizes, running on different operating systems, and over disparate operator networks. And lastly comes the multitude of ad networks required to finally serve the content to the consumer.

To serve one ad, is no mean feat. To deliver millions, and in the not-so-distant future, billions of ads, and to accommodate and overcome the vast number of hurdles, is a significant achievement. Because of the complexities involved in delivering a mobile display campaign, the majority of campaigns have been restricted to country campaigns, but an aggregated ad network approach has created not only a cross-platform, but a regional opportunity for brands to maximize investment and reach, while maximizing revenue for mobile publishers.

The Clicky bit

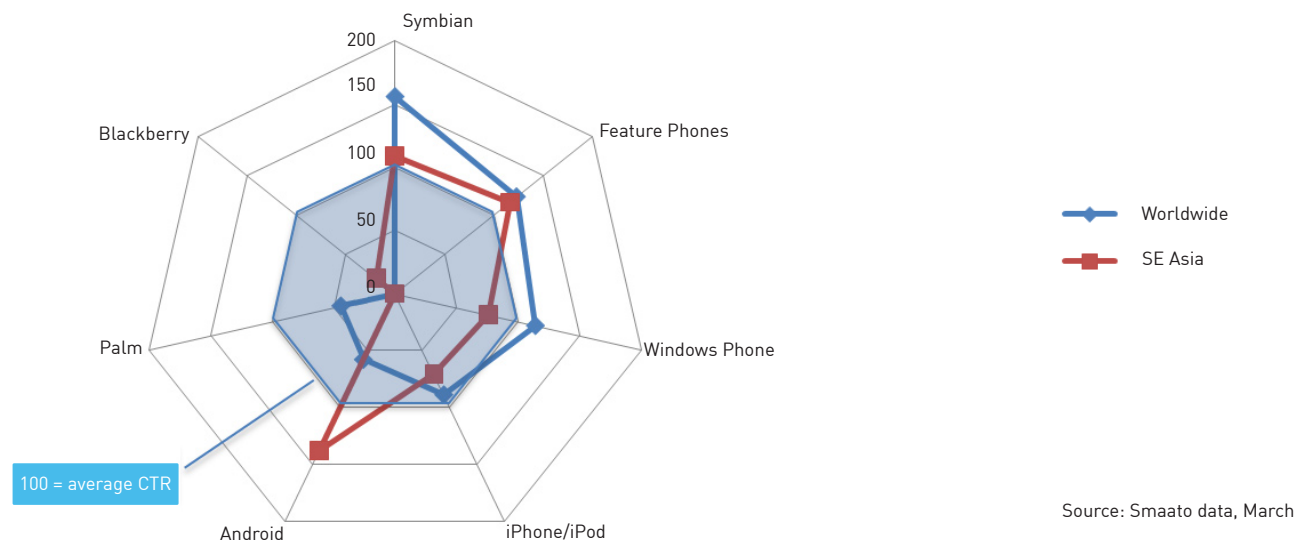
Of course the maximization of investment and revenue for the brand and publisher respectively, is the consumer response to the ad. Serving the ad represents only half of the work. Behind every ad is served can be an array of business models creating yet new levels of complexity.

The mobile display market in developed nations has evolved using a cost per thousand (CPM) model, but in parts of SE Asia, in particular, it is a cost-per click (CPC) model that has been adopted for the majority mobile display campaigns. The CPC model provides a guarantee to advertisers that they will only have to pay for their ad if a subscriber clicks on it. For the last 18-24 months this has been the favored model in developing markets because it is perceived as a more secure return on investment and enabling companies to experiment with mobile advertising in the near-term.

Over the last 12 months, the model has expanded beyond CPC towards a more elaborate cost-per action (CPA) model incorporating browsing (landing page), call, text or e-mail. By presenting brands with optional methods in which the consumer interacts with the ad increases the click-through rate (CTR).

Smaato's CTR

Figures released by Smaato reveal that their CTRs based on operating systems almost correlate between the company's global figures versus SE Asia. Globally, Windows Phone, Feature Phones and Symbian lead the way in terms of delivering ads, while in SE Asia, Symbian, Feature Phones, and also Android devices made a strong showing in March.



It is not surprising that Symbian features highly (as well as Feature Phones) given that Nokia dominates device penetration in some markets by up to 85-90% across SE Asia, and this is highlighted in its higher-than-average CTRs.

What is surprising, is the below average showing for the iPhone, both worldwide and in SE Asia which can be attributed to the iPhone's low market penetration across SE Asia.

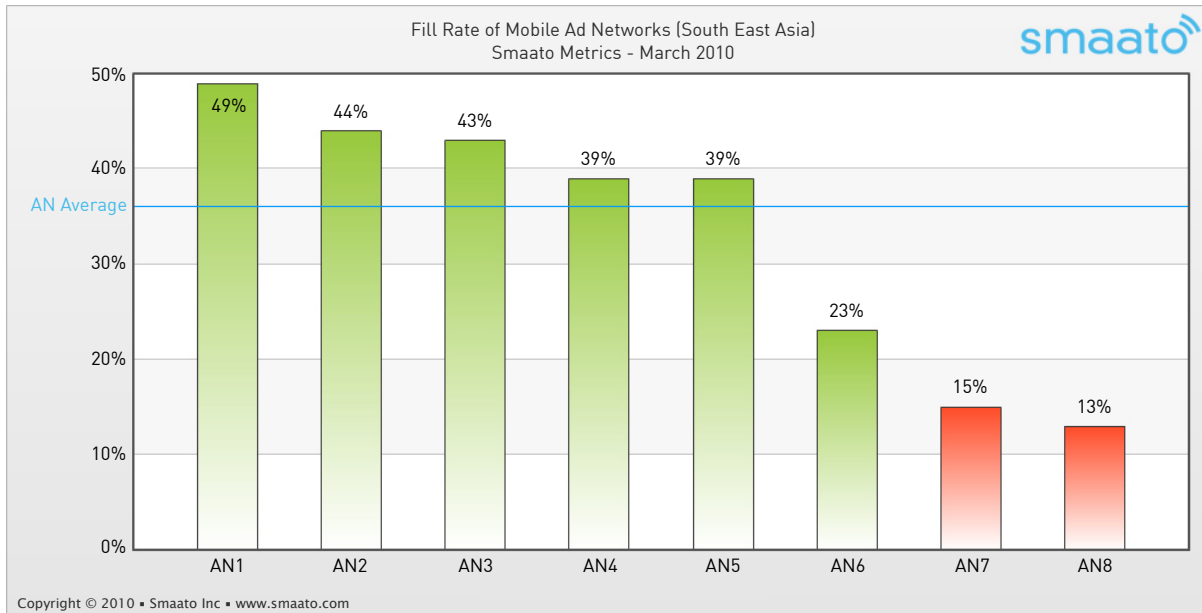
Conversely, an explanation for Android's particularly high showing in SE Asia could be attributed to new users more attracted to mobile advertising in Smaato's Android-based inventory across SE Asia, for the month of March 2010.

Based on the Smaato data (metrics.smaato.com), mobileSQUARED forecasts the number of ads to be served on smartphone devices to surpass the number of ads served on non-smartphone devices in 2012.

For brands working with their agencies, or indeed going directly to mobile agencies, the mobile internet remains device agnostic, and this must be reflected when planning their mobile display campaign strategy.

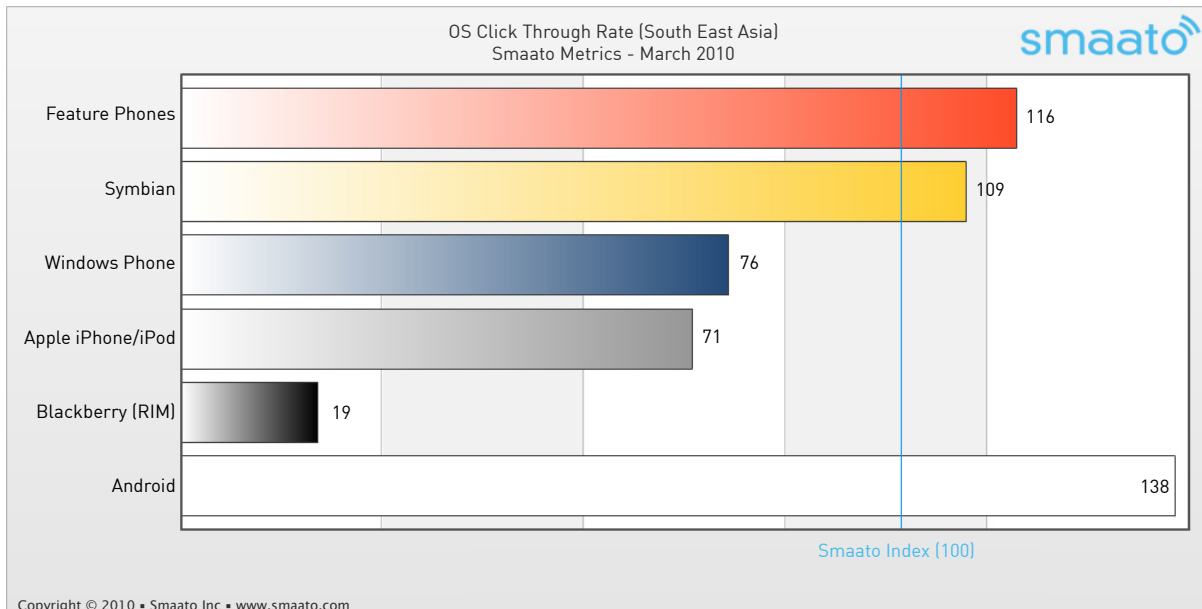
Using an aggregated ad network provider maximizes a brands opportunity of delivering a truly device agnostic campaign.

Fill Rate of Mobile Ad Networks SE



South-East Asia's average fill rate of 37% is considerably higher compared to the worldwide average of 28% and inched higher compared to the previous month (32%).

OS Click Through Rate SE



Feature Phones repeated its gains on a global scale in South East Asia, jumping from a CTR Index of 85 to 116 and second place behind Android. Feature Phones are the only handset OS to make consistent gains across the globe in the last four months.

* The volume of Android devices is still too small to compare, the chart shows Android phones outside the ranking (metrics.smaato.com)

Conclusion

The mobile industry has become consumed by apps. And for that matter, it's not just about the iPhone or indeed smartphones.

Smartphones will account for approximately 30% of total Asian devices by the end of 2015, but in the meantime, Feature Phones represent the mass market.

Coupled with the increasing demand to serve advertising over the mobile Internet, is the increasing complexity created by numerous device and network-based hurdles.

To overcome this fragmentation and deliver an aggregated solution to work in alignment with the immense opportunity that is the mobile Internet, Smaato is one company that is perfectly positioned in the engine room to maximize brand and publisher revenues from mobile advertising.

Without a doubt, the mobile Internet is the greatest app of them all. Let's use it.

Nick Lane, Chief Analyst, mobileSQUARED

Nick has been described as "the leading commentator on UK mobile media (Adam Smith, Futures Director at GroupM). But Nick's experience extends well beyond the UK. He specializes in mobile market intelligence and heads up the research and analysis at mobileSQUARED (www.mobilesquared.co.uk).

He applies his industry knowledge and insight, coupled with the company's wealth of global mobile contacts, to consult on company and sector strategies, market forecasts, industry reports and copy that is welcomed by clients and mobileSQUARED's global subscribers alike.

Prior to launching mobileSQUARED, Nick was Head of Research Services and Principal Analyst at Informa, where he oversaw the group's leading industry newsletters, reports and forecasts that have helped shape the mobile industry. In this role, Nick established himself as one of the leading authorities on the mobile content, services and advertising space, regularly speaking and chairing at conferences and events around the world.

While in this role at Informa, Nick wrote a number of reports, from consumer behavioral analysis to mobile advertising. He was responsible for the first ever mobile advertising forecasts – projecting US\$11.35 billion by 2011 – and he has been cutting those forecasts ever since. Until now that is.



The Asia-Pacific region shows a huge potential for growth in the mobile advertising space.

We are proud to have established a Singapore presence already in 2009 and will continue to hire to grow our local team.

As the Smaato Metrics and this white paper show – this is a complex market which has its own rules and requirements. We welcome partners that help us continue to grow the mobile marketing economy together.



Ragnar Kruse
CEO & Co-Founder, Smaato



About Smaato

Smaato is a pioneering mobile advertising company that operates the mobile ad optimization platform called SOMA (Smaato Open Mobile Advertising) and partners with mobile publishers, developers, ad networks and operators.

Smaato's SOMA mobile advertising platform aggregates more than 40 mobile ad networks worldwide and optimizes mobile advertising revenues according to automated rules overseen by an experienced ad operations team. More than 4,000 publishers have signed up with Smaato as a partner to monetize their content in 215+ countries and Smaato is managing 6 billion ad requests per month.

SOMA's unique feature is the aggregation of multiple leading ad networks globally to maximize mobile advertising ARPU. SOMA can be easily integrated with ad networks, ad inventory owners (publishers, developers and operators) and 3rd party ad technology providers.

Smaato is an active member of the Mobile Marketing Association, the dot.mobi Advisory Group and the German Digital Media Association BVDW. Smaato received a Top 100 Private Company Award by AlwaysOn Media (2009 & 2007) and was an Andrew Seybold Choice Awards finalist at CTIA 2008 for best Newcomer, among other awards.

Smaato Inc. is based in Redwood Shores, California. The privately held company was founded in 2005 by an experienced International management team. The European headquarters are in Hamburg, Germany and the Asia-Pacific presence of Smaato has been established in Singapore.

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