smaato
open mobile advertising

Europe's BIG FIVE join the Mobile Advertising Billionaire$ club

WHITE PAPER

Prepared by Nick Lane
Chief Analyst, mobileSQUARED

mobileSQUARED

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We see a dramatic increase of interest from brands and online marketers in the mobile advertising space. Our clients are looking for a sustainable strategy to move closer to the consumer with the omnipresent and smarter mobile devices. We welcome any market data that can support our customers outlook to make informed decisions about the future of mobile advertising in Europe.

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Torsten Schollmayer
Marketing Strategy, SapientNitro

SapientNitro is a leading mobile strategy and development company with 34 offices (8 in Europe) and headquartered in Boston.

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The biggest challenge is if we put money into mobile then something has to give elsewhere, but why would I do that when I will definitely get a result on search and display: So why take a punt on mobile? If you can't demonstrate a return on investment that then becomes difficult.

What are the results, what were the sales on the back of the campaign, what were the objectives, how does the data compare to the other channels, how effective is it? In the days when money wasn't so tight it was a lot easier, but now there is a need to innovate but the ROI has to be in a much shorter timeframe. So the spotlight is on.

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Franco Beschizza
Head of Mobile at the Central Office of Information's (COI)
Interactive Services Department

The Central Office of Information is the UK's largest advertiser, spending over £250 million per annum.
The COI is the UK Government's center of excellence for marketing and communications. It works with government departments and the public sector to produce information campaigns on issues that affect the lives of every citizen, from health and education to benefits, rights and welfare.

Summary

In 2015 Europe's Big Five markets (France, Germany, Italy, Spain and the UK) will generate combined mobile advertising revenues exceeding $1 billion, joining Asia and the US as a member of the "billionaire" club.

Mobile advertising spend will show steady growth between 2010 and 2012, but thereafter, the 2012 Olympics in London could well be serve as a catalyst, propelling total revenues for Europe's Big Five towards the billion dollar marker.

In the build-up to the Olympics over the next 18 months, mobile will become a mainstream medium for advertisers to reach consumers.

By 2012, there will be over 101 million mobile internet users in the Big Five, and by 2015, that figure is expected to rise to almost 160 million.

Consequently, page impressions will increase as more mobile internet users spend more time browsing. From a mobile advertising perspective, it presents an even greater opportunity for publishers to monetize the increasing levels of traffic to their sites.

Presently, mobile traffic is dominated by social networking, such as Facebook or Twitter, but over the next five years, while social networking traffic will continue to increase, its percentage of total mobile traffic will fall, as user behavior evolves beyond social networking.

Not surprisingly, mobile banner advertising will contribute approximately 30% of total mobile advertising revenues, driven by the phenomenal rise in mobile internet users between 2010 and 2015.

The road to the $billion

Europe's mobile advertising market is on coming of age and by 2015, will become a billionaire powerhouse when the cumulative revenues of France, Germany, Italy, Spain and the UK will be worth US$1.293 billion.

Between 2010 and 2015, the Big Five European countries will experience a combined mobile-advertising-revenue increase of over 950%, representing a compound annual growth rate of 48%.

The US and Japan still lead the world in mobile advertising in terms of market maturity and size. Japanese brands spend US$1 billion annually in mobile advertising and the US market has the luxury of a mobile population exceeding 300 million, where the average mobile advertising campaign spend is rapidly approaching $100,000.

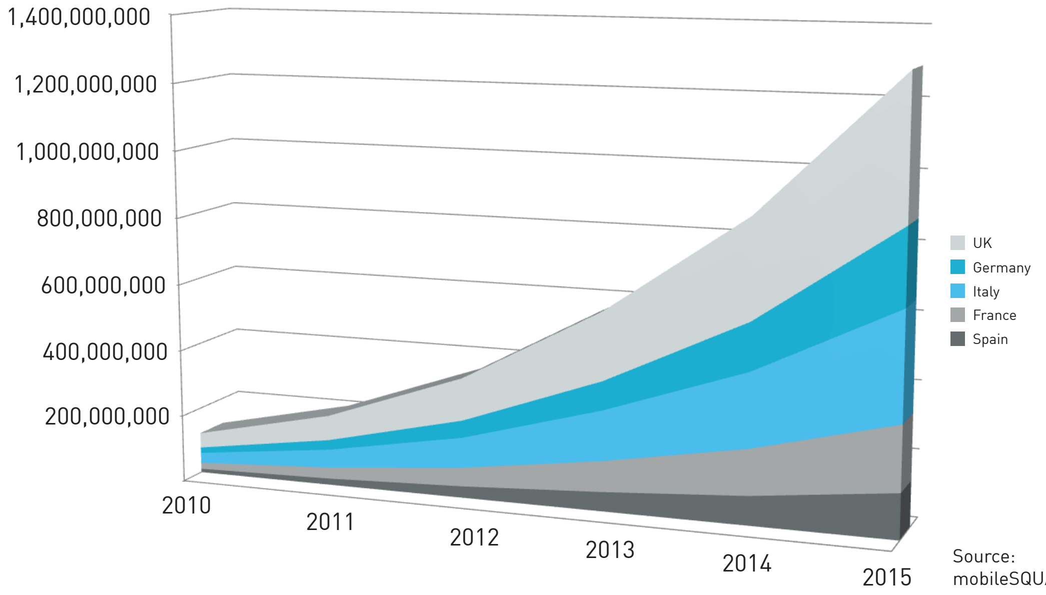
$1.293 Billion

"Big Five" Mobile Advertising comulative revenues by 2015

950%

"Big Five" revenue increase between 2010 and 2015

Total mobile advertising spend (US$) of Europe's Big Five



Source:
mobileSQUARED, October 2010

Europe, however can boast of a market primed for exceptional growth. By the end of 2010, mobile advertising revenues across Europe's Big Five will total $122.55 million. Indeed, a little under 40% of those revenues will be generated in the UK, with Italy the second largest mobile advertising nation on around 25%.

Indeed, to place the size of the mobile advertising market further into context, Spain, as Europe's fifth largest mobile advertising country, will generate less than $11 million in 2010.

Although it has been true that excessive hype and inability to meet unrealistic market projections over the last few years has dampened enthusiasm for the European mobile advertising market, recent developments are changing these perceptions to a more bullish one.

$122.55 Million

"Big Five" Mobile Advertising revenue by end of 2010

This is perhaps the first time mobile advertising revenues reflect the growing presence of mobile advertising in the marketplace.

For example, the UK is the largest, and considered to be, the most advanced mobile advertising market in Europe, and has an average mobile advertising campaign spend of around $15,000-20,000, compared to around $10,000-15,000 for France, Germany, Italy and Spain.

This means Europe's average mobile advertising campaign spend per Big Five countries of $15,000 is dwarfed by the average spend of $100,000 in the US.

However, assuming that on average Europe's Big Five each have 15 million mobile internet users, while the US has approximately 80 million mobile internet users, on a like-for-like basis, it is actually more cost-effective to reach mobile internet users across Europe.

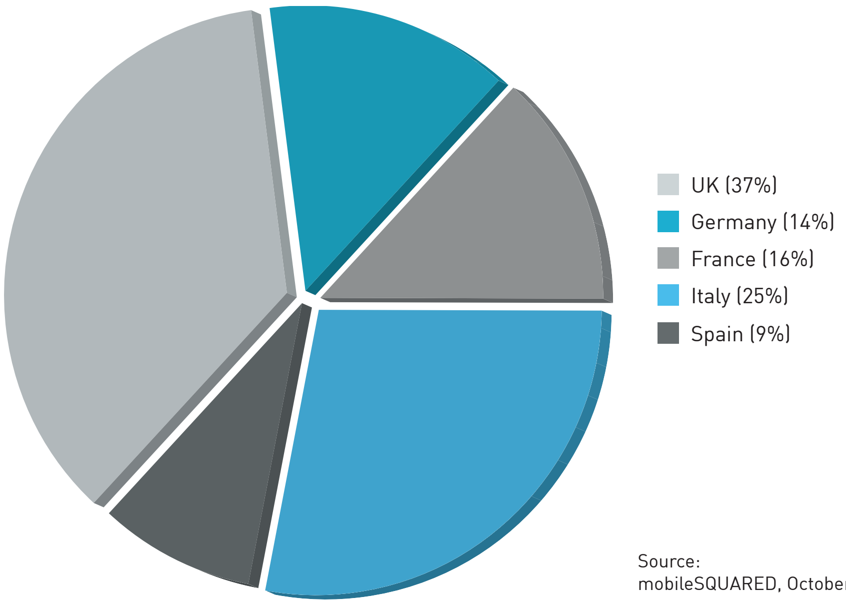
The average spend to potentially reach every mobile internet user equates to $0.00125 per user in the US versus $0.001 per user in Europe. Therefore, even though revenues in actual terms appear low, the European marketplace is in a healthy place.

Over the forecasted period, the UK will remain the largest European mobile advertising market, though its share of revenues across the Big Five will drop to around 30%, while Italy remains consistent on around 25%. Only Germany and Spain increase their percentage over the forecast period, while France's percentage decreases.

$15,000

"Big Five" Mobile Advertising average campaign spend

Breakdown of Europe's Big Five mobile advertising market, by revenue in 2010



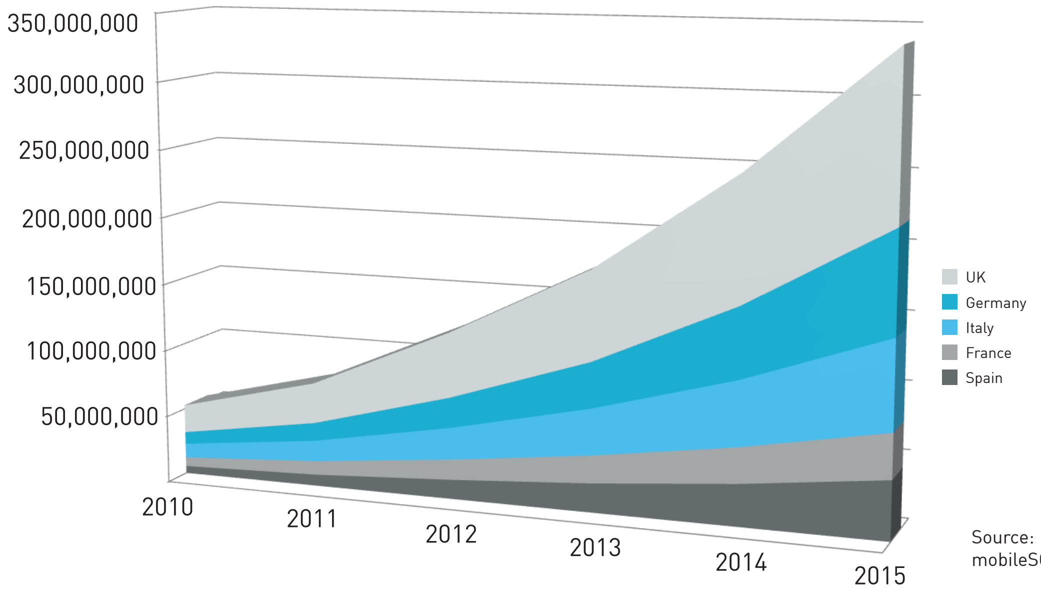
Source:
mobileSQUARED, October 2010

One of the largest mobile advertising revenue generators in each country will be banner spend (display advertising). The combined total for the Big Five in 2010 is $52.8 million.

Banner spend will enjoy an increase of 550% over the forecast period, taking the combined total for the Big Five to $339.1 million in 2015.

As with total spend, spend is dominated by the UK, by 2015, Germany will become the second largest market in Europe for mobile banner spend, with France the smallest of the Big Five market.

Total mobile banner spend (US$) of Europe's Big Five



Source:
mobileSQUARED, October 2010

Spend, particularly on banners, will be driven by the considerable increase in mobile internet and mobile app usage.

By the end of 2010, Europe's Big Five will account for 65.51 million mobile internet users. By 2015, that figure will leap to 159.61 million – a CAGR of 16%.

By the end of 2010, the UK will have almost 20 million mobile internet users, with nearly 50% considered frequent users – at least several times per month.

France and Italy will have around 14 million mobile internet users, while both Germany and Spain lag behind.

Yet by 2015, Germany will have the second largest mobile internet community after the UK. AGOF mobile counted 9.13M unique mobile internet users for 2010 in the recent first time German study. (www.agof.de/mobile-facts.988.de.html)

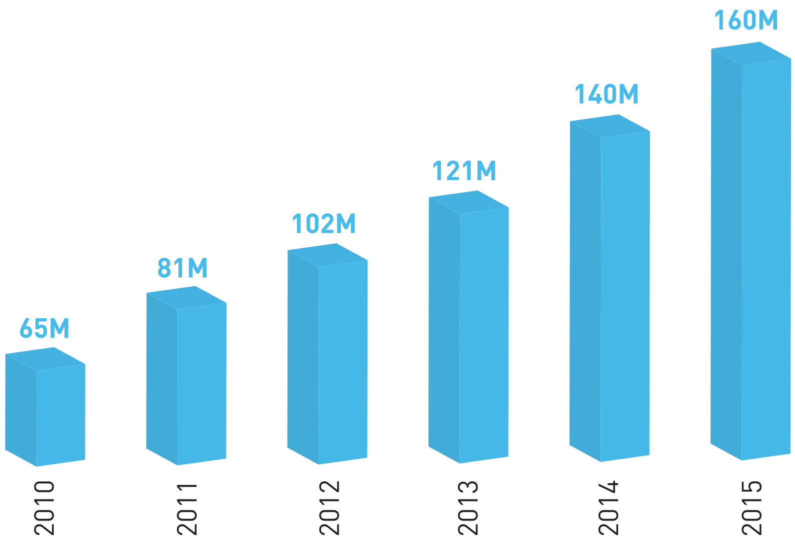
65.51 Million

"Big Five" Mobile Internet Users by end of 2010

20 Million

UK Mobile Internet Users by end of 2010

Total mobile internet users of Europe's Big Five



Source:
mobileSQUARED, October 2010

The good news for the mobile advertising industry is that not only will there be phenomenal growth in mobile internet users over the next 5 years, usage and therefore the number of page impressions generated, will explode into life, creating an exponential increase in inventory.

Presently, mobile internet usage is dominated by social networking.

While social networking traffic will increase over the 5-year forecast period driven by the rapid increase of mobile internet users, as a percentage of total traffic, social networking on mobile looks set to fall, as users vary their browsing experience as their understanding of the mobile internet increases.

For publishers, it means potentially more people generating more traffic to their site, and ultimately, increases their propensity to monetize their site from mobile advertising.

What's more, with the introduction of geotargeting during the forecast period of 2010-2015, inventory can become location-based which will generate a premium return for the publisher.

Data, Data, Data

Unfortunately, there is still an incredible amount of work required for Europe's Big Five markets to develop a billion dollar mobile advertising industry. The catalyst for driving the European mobile advertising industry will be the London Olympics in 2012.

101 Million

"Big Five" Mobile Internet Users in 2012

Up to 2012, mobile advertising revenue growth will experience a steady increase, but spend will greatly intensify as advertisers look to capitalize on the global appeal of the Olympics. Across Europe's Big Five, there will be over 101 million mobile internet users in 2012.

While mobile content companies continue to generate significant revenues for the mobile advertising industry, it is the investment by the major brands that will inevitably fuel revenue growth over the forecast period.

What's more, less than 3% of all brands are active on mobile. This will change significantly over the next two years as brands and businesses gear up for the Olympics.

However, greater transparency will be required for these brands and businesses to comfortably entertain the notion of using the mobile medium.

There continues to be a lack of data emanating from the mobile ecosystem, especially when compared to traditional media such as TV, radio and print. In 2009, the Central Office of Information was the largest investor in mobile advertising (and marketing) in the UK, but believes justifying mobile spend is becoming increasingly more difficult because of mobile's lack of transparency.

At the core of marketing is data, and the ability to understand and apply data into a successful strategy to demonstrate a return on investment.

Mobile has to become more transparent – in other words release abundant levels of data to encourage brands to migrate their advertising budget from other media with a proven ROI onto mobile.

Conclusion

Europe has been at the forefront of mobile adoption for years – all of a sudden it seems Silicon Valley stole the thunder in innovation with iPhone and Android – even Windows Phone 7 stages a comeback. Asia is already a powerhouse of mobile advertising with $1.5bn revenues in 2010 with the majority targeting the Japanese consumer.

This white paper showed that the big five countries of Europe are gearing up in mobile advertising revenues and join the $-billionaires club soon. Brands and agencies are seeing increased demand to build sustainable mobile strategies and move closer to the consumer and engage in conversations on mobile devices. As the European citizens are very technology minded and like their gadgets, brands will follow the usage patterns of impressive growth rates over the next 5 years.

This is good news for publishers and mobile app developers that have to support an economic model between choices of free, ad-supported apps and hybrid models with freemium offerings. The leadership of the UK mobile marketing market will spill over to the other leading economies of Europe as this report and the mobileSQUARED analysis shows. This is a big support in growing the mobile economy with all its players along the marketing value chain – and a good push into what looks like a strong holiday season in the fourth quarter of 2010 and beyond into 2011.

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).

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 analaysis 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.

The State of Mobile Advertising

According to the data collected by Smaato choosing the right ad network is a complicated decision, as publishers should consider fill rates, operating systems as well as response times of ad networks, to name a few criteria. Smaato's metrics are published monthly to show the state of the mobile advertising ecosystem according to data from over 50 ad networks globally & inventory of 9,000 registered publishers.

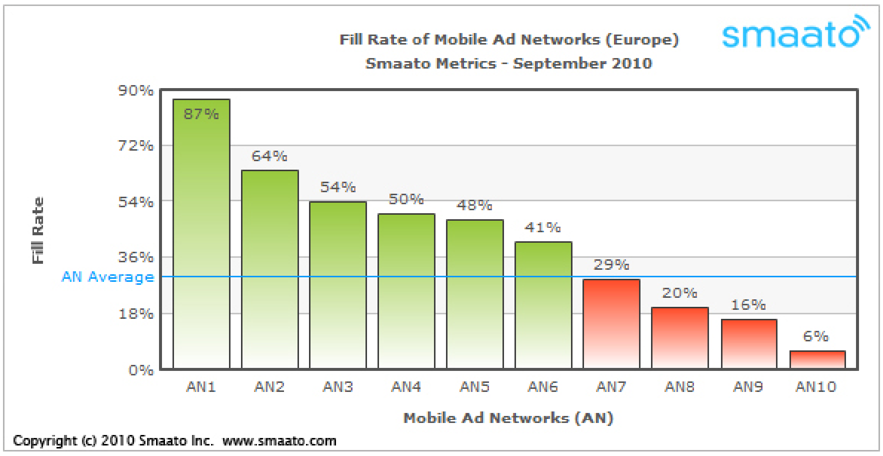


Chart 5: Fill Rate of Mobile Ad Networks (Europe's BIG FIVE), September 2010

The metrics demonstrate the performance of mobile ad networks globally and the fill rate is measured as the percentage of ads delivered per ad request and varies by different factors like country, device and content type.

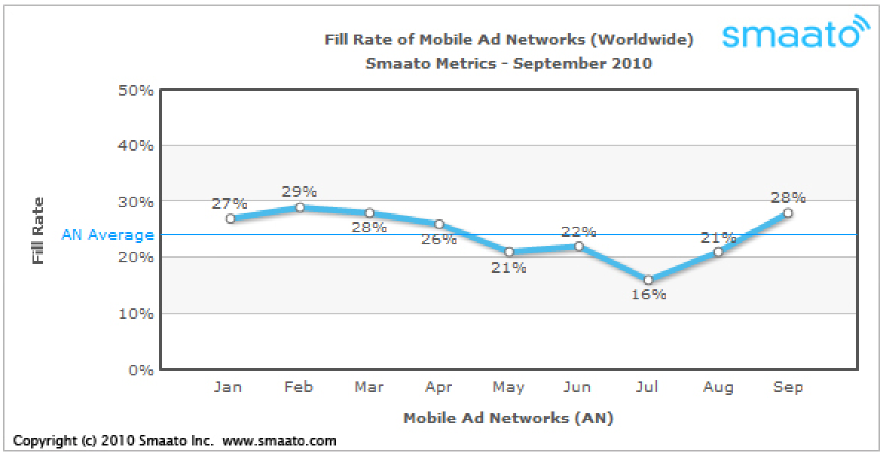


Chart 6: Fill Rate of Mobile Ad Networks (worldwide), January - August 2010

The Smaato Mobile Advertising Metrics are published monthly at: http://metrics.smaato.com

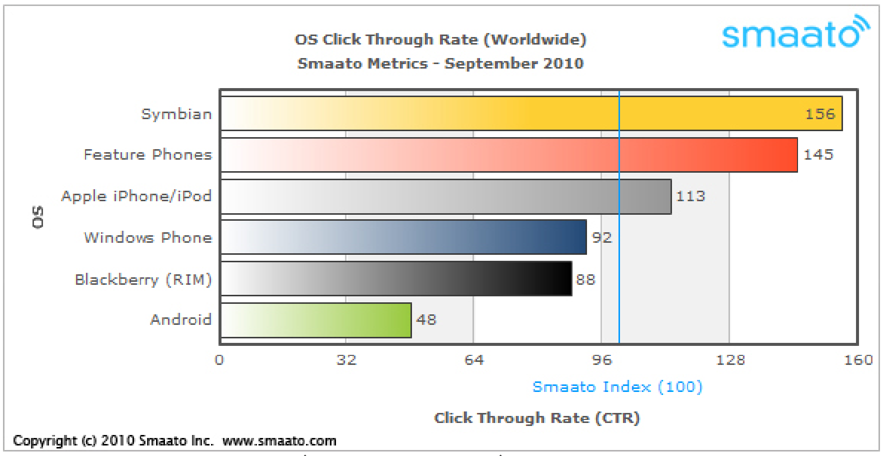


Chart 7: Operating System CTR (Click Through Rates) worldwide, September 2010

Also the Click Through Rate (CTR) and the reponse time of mobile ad networks are important performance indicators, measuring the success of mobile advertising campaigns. The Smaato metrics provide insights how consumers click through on different platforms and is therefore an indicator for advertisers to focus on specific platforms.

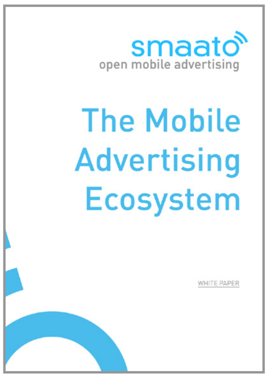
"Europe's leading five countries show an enormous potential for growth in the mobile advertising space.

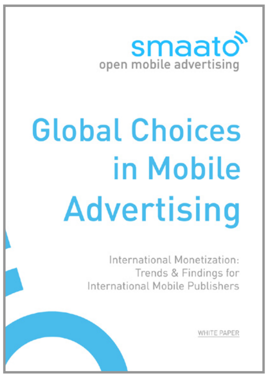
As the Smaato Metrics and this new white paper show – more and more valid data points are available from market research that will help to support the continued growth rate.

Agencies, media planers and publishers are in the same boat – as valid data and audience demographics provide a crucial benchmark for the mobile advertising industry."

Ragnar Kruse
CEO & Co-Founder, Smaato

Smaato White Papers





http://www.smaato.com/downloads

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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 50 mobile ad networks worldwide and optimizes mobile advertising revenues according to automated rules overseen by an experienced ad operations team. More than 9,000 publishers have signed up with Smaato as a partner to monetize their content in 220+ countries and Smaato is managing 16 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 and the German Digital Media Association BVDW. Smaato received a Top 100 Private Company Award by AlwaysOn Media (2009 & 2007) and was recently named a „company to watch 2010" by Financial Analyst company GP Bullhound, 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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