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Online Advertising Real Time Bidding & Opportunities for Mobile Services Providers

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As online advertising business continues its growth path (providing the core of the revenue streams of leading Internet players such as Google, Microsoft, Apple, Facebook, etc.), and mobile operators aim at sharing some of the revenue pie, along diverse business models, what would be the nascent opportunities for mobile service providers? We revisit the possible opportunities that online advertising evolution, and specifically the emergence of real time bidding (RTB) and growth of mobile advertising, opens up for mobile operators, in terms of business models and underlying solution development and deployment.

The online advertising eco-system is diverse and complex. Below is an illustration showing some of the various industry stakeholders. It shows the various components of the eco-system and the necessity of having all the dependencies taken care of to build an efficient mobile and real time advertising solution.

The ecosystem is fast changing and becoming increasing competitive. As an example, the Ad exchange players, integrating DSPs (Demand Side Platforms) /SSPs (Sell Side Platforms) and the recent emergence of at least 2 major players (Facebook and Amazon) bringing to market their own solutions recently, in addition to the more established Ad Exchanges such as Google/DoubleClick, Yahoo/Right media and Microsoft/Appnexus.

Overall, the key problem to be tackled is to increase the revenue per user for advertisers, with mobile operators aiming at capturing a piece of such revenue, either through a revenue sharing model or through a direct revenue generation.

It's the revenue per user that would form the main metric of optimization, when comparing these numbers for various OTTs (Over the Top). Having mobile operators increase this revenue through various schemes is what would form the basis for new services, or new business models, with a direct consequence on the products and solutions strategies of the mobile service providers. This as well as optimizing bids of DSPs through RTB on Ad exchanges, with the complementary goal of optimizing CPMs (Cost per Mille), CPAs (Cost per Action) and CPCs (Cost per Click)

Mobile operators globally are in a phase where two options are put in front of them: either to optimize their networks to becoming a mobile broadband path, with no or little plans to share a piece of the revenues derived by the OTTs, or to position their network, selectively, within the overall OTT value chain, to share a piece of the revenue streams. This is also the case in the context of mobile advertising, where some operators, have been, and are still, working on defining their own approach to this market, now that mobile devices penetration is high, smartphones/tablets offer screens large enough for advertising and revenue streams off mobile advertising are seen as a good alternative to declining revenues in traditional voice services.

Few things play in the mobile operators' favor, including their existing relationships with customers, their existing SMS/MMS campaign based services offering and most importantly, the vast amount of customer data, that is of high value to advertisers. Few things however, remain challenging, including the fact that mobile advertising has never been in their DNA, hence requiring transformation, the fragmented nature of the customer base targeted by advertisers and the fact that OTTs (such as Google with the AdMob acquisition, apple with iAd products, etc.) have gone after this market very aggressively, making it difficult for new entrants to come in.

Multiple options are being considered in terms of how to approach the mobile advertising market. They are described below.

- Mobile networks directly acquiring mobile ad networks to build a direct presence in this space

This is the case of the largest mobile networks, with an aggressive push towards mobile advertising. The best example in this situation is Singtel through the acquisition of Amobee (mobile ad serving platform) and taking a significant stake into Nexage (a mobile Ad Exchange, with DSP/SSP integrated). In a similar fashion, both Telefonica and Vodafone have taken stakes into mobile Ad serving and Ad exchanges companies, which provides them with the option of building a business upon these technologies.

- Mobile networks partnering mobile ad networks to build a direct presence in this space

This is the alternative approach that some mobile operators have considered, as a strategy to approach the mobile advertising market. In some cases, this is a complement to going with the first option above as well. In this case, we can note the case of Telefonica, Vodafone, Etisalat (based on Alcatel Lucent solution), America Movil (based on myscreen solution), 3 Group (based on Rhythm solution) and Verizon Wireless. In these cases, the platforms are owned and managed by the partners, but through a well-defined partnership model with the mobile operators.

- Mobile operators building their own mobile ad platforms to compete with mobile advertising networks

This is the case where operators have gone into designing and implementing their own mobile ad solutions, such as Ad servers and to some extent Ad exchange, DSP/SSP platforms. This is still in early stages of development. Examples include AT&T and NTT Docomo. In some cases, operators have been working on sharing common co-developed platforms to address the fragmentation problem and increasing the size of the customer base and having it approach the addressable size, as seen per an OTT. This is specifically the case of small mobile operators who would need to join efforts to get to a sizable customer base, such as in HK, Singapore, Taiwan, UAE as examples. It is unclear as of today if such a strategy will be conclusive.

As a complement to such models, some operators are right now looking at having their own mobile ads integration within their applications app stores, as a way to counter initiatives such as the ones used by Apple via iAd and similar nascent alternatives by Google/Android and Microsoft.

- Mobile operators focused on defining new business models leveraging mobile advertising without directly managing the mobile advertising process of buying, selling and inserting ads.

This is the case of large number of mobile operators, and is in some cases done in conjunction with one of the 3 options above. In most cases, this is build upon the existing operations process of mobile operators, such as performing content re-formatting based on screen sizes/formats, augmenting their billing models to accommodate mobile advertising insertion models, augmenting their marketing campaigns with mobile advertising related information, leverage some of their data warehouses information to be exposed to the mobile advertising eco-system running on top of the network, and integrate mobile advertising with their content distribution networks (such as IPTV, etc.), gaming networks. Some new business models are emerging in this context. Examples include Blyk MVNO as used by Orange, KDDI's own ecosystem, etc.

It is worth noting that in these various models, mobile operators aim at inserting themselves into the mobile advertising value chain from different angles, based on a strategy that is optimal to them. One should note that although various models are being considered, various challenges exist. This would include the face that mobile operators have little experience dealing with the various actors of the mobile advertising eco-system, don't have their customer data optimized for efficient targeting, are not used to working based on unspecified 3GPP standards, have to address various privacy considerations and are very careful getting into customer expectation management challenges that mobile advertising would cause.

Two key conclusions could be derived: first, the fact that the strategy to take in terms of development and business plan is not trivial and requires an in-depth review of this market, the pros and cons of each approach and more importantly a crisp mid to long term view of the customer landscape and approach to market. Second, the fact that no action plan and no decisions on this front, could quickly lead to striking out the chance of being a player in this market, with all the undesired consequences.

It is our belief that the network solution provider business, along with the mobile operator eco-system, will ultimately address the new opportunities offered by the evolution of mobile advertising and other OTT offered services over the next few years. A new landscape is likely to emerge, taking advantage of colliding large and complex eco-systems. Hence our most important recommendation to network solution providers is to take a systemic view at such evolution, be open to disruptions, manage risk return equations and converge on a clear strategic plan on how to address these opportunities.

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