

21st Century Mobile Marketing

Global Insights into the World's Most Advanced Mobile Society: Japan

Christopher Billich, Infinita Inc.

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According to industry data released by Japan's largest advertising agency Dentsu in late February, mobile advertising expenditures in the Japanese market in 2007 increased by almost 60% compared to the previous year, reaching ¥62.1 billion (ca. USD 621 million). This result tops even Dentsu's own optimistic prognosis, published 12 months earlier, by 12%. An impressive performance in an advertising market close to saturation - total advertising expenditures in Japan only grew by 1.1% from 2006 to 2007, and by 1.7% between 2005 and 2006.

Mobile advertising up 60% in 2007

For the first time ever, online advertising expenditures (¥ 443.6 billion, ca. USD 4.4 billion) exceeded combined radio and magazine advertising expenditures, which each were down around 4% on a YoY basis. Newspaper advertising suffered even more heavily at -5%, and TV advertising expenditures are down for the third year in a row.

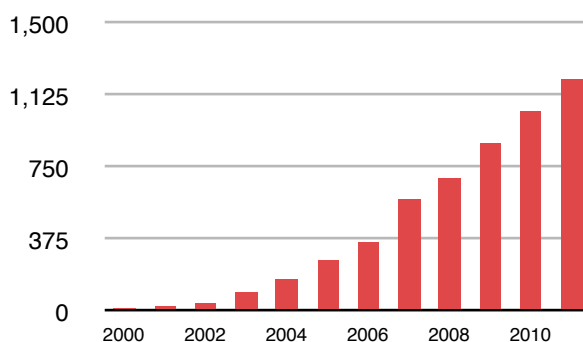
While the importance of mobile advertising is growing, it still accounts for a relatively small share of online advertising revenues (10.3%) and for a minor piece of the whole advertising pie, which is still dominated by TV, print and sales promotion.

Disconnect between mobile media usage and advertising spendings

Considering how media usage is developing in Japan, there is still clearly a disconnect between advertising spendings on traditional media and mobile. Between 2000 and 2006, the share of time that consumers spend on mobile (relative to all forms of media) has increased four-fold to 4%, but mobile-related expenditures still only account for 1% of all advertising spendings. 25% of Japanese mobile data users today respond to mobile

campaigns and actually sign up for promotions or make purchases as a result. Close to another third click on ads, but do not participate in promotional offers.

Thus, there is no question that mobile advertising will continue to gain in significance in Japan - a market where more than 4 in 5 of a total 100 million mobile subscribers use mobile data services.



Japan mobile advertising spendings, USD million

So there clearly is a lot of room for growth in mobile advertising here, even though Japan is one of the most mature mobile markets worldwide: Mobile advertising revenues are expected to more than double between now and 2011. Which factors have contributed to where we stand today, what are the forces driving the industry at the moment, and which challenges and opportunities does the market face in the coming years?

What makes the mobile web fly in Japan?

Several factors combined have led to the massive adoption of mobile internet usage in Japan: First and foremost, the fast and early roll-out of third-generation network technology (used by more than 75% of all subscribers) and resulting ease-of-use for the user. The widespread promotion and adoption of flat-rate data plans since 2004, used by about a third of all subscribers already is the second major driver. Additionally, a revenue share model favoring content providers 9:1 over the operator has led to an abundance of attractive on-deck content. QR codes and mobile

search, both pushed by the operators, make off-deck sites easily accessible as well.

A factor that is particular to Japan is the power balance between operators and handset manufacturers. All handsets are SIM-locked and exclusive to the operator, who controls development and handles distribution. This gives carriers an elsewhere unheard-of level of control over the rollout of handset features and results in a homogeneous distribution of features across the device base. Thus, Japan hardly has the problems of device fragmentation causing the rest of the world headaches.

Operators work together to create common standards and have steadily introduced one technological feature after another, enabling innovative content and services, many of them crucial to making mobile advertising a success. Examples include: Mobile email with full HTML support since the very early days of the medium (as opposed to creatively restrictive SMS), robust mobile browsers, and a cross-carrier emoticon library - not to forget phone cameras, QR Code readers, Mobile Flash, GPS, 1seg digital terrestrial broadcasting technology and FeliCa (RFID) chips for contactless transactions.

While the particular nature of the operator-handset manufacturer relationship in Japan has historical roots and cannot be replicated in other markets, other factors driving mobile internet usage, and in turn mobile advertising, apply everywhere.

How did mobile advertising develop in Japan?

No structured approach to mobile marketing existed during the first few years after the emergence of the medium with NTT DoCoMo's 1999 launch of i-Mode. The market was fragmented with an abundance of players and formats, as a consequence, marketers hesitated to pursue the mobile opportunity.

Standardization and cross-industry efforts

To solve this problem, each of the operators established a joint subsidiary with one of the

major advertising agencies. These joint subsidiaries serve three main purposes:

- (1) to develop and implement standards in formats, targeting and metrics,
- (2) to act as sales representatives for operator-owned services and content providers' on-deck sites,
- (3) to work with the operator in developing new products and services that spawn new mobile advertising opportunities.

It should be emphasized here that the operator subsidiaries work together closely with each other, as well as with the mobile content and media industries. So well-oiled a machine is the system that advertisers are able to book campaigns across all three operators through any one of their joint subsidiaries, keeping transaction costs for marketers to a minimum.

In addition to this construct, non-operator media sales reps market some of the official sites as well, this is specifically the case for some of the larger content providers. Independent agents cater to the plethora of off-deck sites, often in the form of Google AdSense-type affiliate ad networks. Off-deck sites operate on the same basic format, targeting and metrics standards as on-deck ones, with slight variations.

The early days: banners and email

Until about two years ago, mobile marketers relied mostly on banner ads, text ads and mobile email advertising. One of the more prominent operator initiatives from this era is the Tokusuru Menu, which lists campaigns and promotions on the deck.

Another one are carrier-driven, opt-in mobile newsletters that aggregate promotions and campaigns from different advertisers. Needless to say, many off-deck sites use opt-in newsletters as promotional tools for their own and third-party advertising as well. However, in light of operators' strict anti-spam measures and consumers' increasing wariness of message overload, mobile email advertising has been decreasing in popularity.

With regard to compensation models for mobile media, the traditional setup relied heavily on CPM and fixed-time pricing. More recently, marketers are beginning to favor performance-based models (CPA and CPC), although traditional pricing approaches are still warranted for branding-oriented campaigns.

About a third of the brands currently using the mobile to advertise are actually content providers promoting their own sites, so to some degree, one segment of the industry is driving another. About 30% of Japanese companies have a mobile site in addition to a PC web presence, but only about a quarter of them use mobile advertising as a marketing tool today, showing that there is still much untapped potential.

The advertisers' reluctance can mainly be attributed to the time factor. For a new medium to find strong acceptance in advertising, it first takes consumers to adopt it on a large scale, and then traditionally-oriented agencies to understand the benefits, challenges and rules of the medium. Lastly, this thinking still needs to trickle down to marketers. While many advertisers active on mobile today praise the medium for cost-effectiveness, targetability and transparency, some cite creative restrictions and lack of emotionality as problems.

Today: Large-scale tie-ups and branded content

But looking at some large-scale campaigns from 2007, it becomes clear that the third screen is quickly developing into a first-rate marketing channel.

Both Coca Cola and NIKE ran major campaigns on a site called mobagetown, which since about late 2006 has been, hands-down, the most popular mobile site in Japan. The site operates on a model of free browser-based flash games, social networking and avatars that users can dress up from a choice of more than 10,000 digital items. These can be purchased with a virtual currency obtained by clicking on ads, and registering with or shopping on affiliate sites. Mobagetown currently generates about 17 billion page

impressions per month from a good 9 million registered users (for comparison: the top page of Yahoo! Mobile clocks in just under 4 billion page impressions, NTT DoCoMo's i-Mode menu itself at an estimated 5 billion).



Coca Cola x mobagetown tie-up

In Coca Cola's case, a fully branded version of mobagetown was created. This was only accessible to mobagetown members who also had an Coca Cola Mobile member account or signed up for one. Once in, users were able to play Coca Cola-branded games, use promotional Decomail elements (graphic-heavy mobile HTML mail with animations) and obtain exclusive Coca Cola avatar items. The campaign was a massive success, with more than 1 million users signing up to Coca Cola Mobile over the course of the four-week campaign run. It generated 185 million page views, 350,000 users became "friends" with the Coke avatar, and 190,000 comments were left on the Coke character's blog. And the campaign clearly lives on - almost one year later, users still sport the brand's virtual clothing online.

Similarly, NIKE promoted one of its collections via mobagetown, giving users virtual versions of the clothes to be found in NIKE stores, to dress up their avatars. Additional "limited

edition" content could be obtained by users who went to an actual NIKE retail store and accessed URLs hidden in QR codes on stickers, driving traffic to the point of sale.

Banner and mobile email ads used to be the main route consumers took to find their way to promotions like these. More recently, search-based and content-matched ads are starting to increase in importance.

All three operators in Japan have chosen to partner with Internet search brands and make access to the off-deck world just as easy as finding on-deck content. This is a strategy clearly aiming to drive data access and open up a new revenue stream in mobile search advertising. Operator au KDDI plugged Google Search into its EZweb menu as early as summer 2006. Softbank Mobile followed suit shortly after its takeover of Vodafone Japan with a drastic move, replacing the entire Vodafone live! portal with Yahoo! Mobile. And NTT DoCoMo recently announced a far-reaching cooperation with Google, encompassing not only mobile search, but joint development of future mobile services as well.

Search and content-matched ads gaining importance

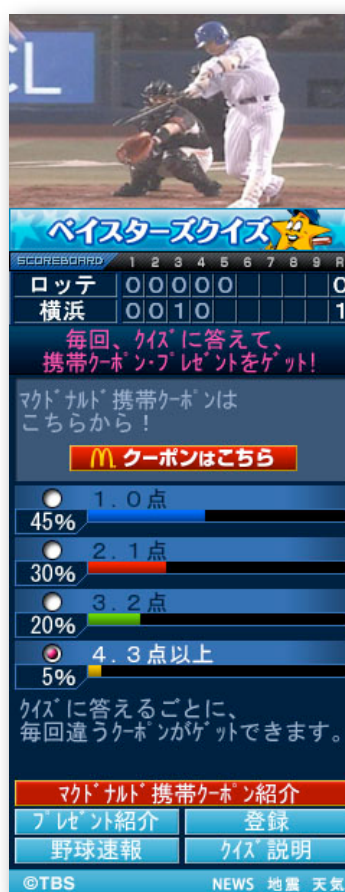
To illustrate just how important mobile search is becoming: Up strongly from only one year ago, more than 30% of mobile internet users in Japan today already use mobile search on a daily basis. Only less than a quarter say they do not at all. While today an estimated 25% of all mobile advertising revenues come from search ads, over the next 4 years this ratio is expected to shift to about 60%. Initially, operators were worried that users would shy away from official on-deck content as a result of search being prominently positioned on the deck. But au KDDI quickly proved that search can drive on-deck usage as well - and greatly increase off-deck access and mobile search ad revenues in the process.

While search ads are certainly one of the strongest-growing areas of mobile advertising, content-matched mobile ads are seeing fast adoption, too. Overture teamed up with NTT Data in February 2007 to provide content-

matched ads on R25 Mobile, a highly popular news site aimed at young professionals. Since July, Overture has been partnering with mobagetown to provide content-matched ads. Google started AdSense mobile services in October. And au KDDI's plans to offer behavioral targeting on mobile show where the things are heading.

Contactless transactions and digital mobile broadcasting: Key technologies for next-generation mobile marketing

There are two key mobile technologies that were launched in 2004 and 2006, respectively, which are being heavily pushed by operators and create new mobile marketing opportunities: Contactless transactions via RFID (on the Sony-developed FeliCa standard) and digital terrestrial broadcasting to mobile (called 1seg in Japan). The implications of these reach far beyond the concept of "advertising on the mobile web".



McDonald's trial campaign on digital mobile TV

Both technologies can be found on almost every handset shipping today.

Almost one third of all devices in the hands of Japan's mobile subscribers already feature a Mobile FeliCa chip. This enables users to contactlessly make payments at participating

retailers and vending machines, as well as online on mobile shopping sites. Other applications include passing through train gates, using the handset for credit cards transactions, checking into airplanes and redeeming electronic coupons - all of it with just a touch. More than 70 major partners have signed up with FeliCa so far. With revenues from mobile commerce having surpassed mobile content revenues three years ago already, the mobile phone is fast turning into a full-fledged shopping and payment device.

An estimated 25 million handsets out of the 100 million in use in Japan today are already capable of receiving digital broadcasts. For now, due to (soon-to-change) regulation the actual programming that users see is what is being broadcast on TV. A data feed below the TV content window provides links to programming-related websites and promotional offers, offering a compelling advertising platform to marketers without interrupting the user's media experience.

NTT DoCoMo has been running trials that combine both 1seg and FeliCa technologies: during a baseball game, consumers could participate in a mobile game, betting on the outcome of innings. For this, they received promotional coupons, which they could redeem at McDonald's. A similar concept involved coupons which could be used by simply touching the handset to Coke vending machines.

While these examples are still early-stage proofs of concept, the opportunities for mobile marketing look promising.

Barriers and drivers

So which barriers does mobile marketing face in Japan?

Some of them are technical: Until very recently, it was not possible for off-deck sites to discern the unique device ID of NTT DoCoMo handsets. Less than half of Softbank devices are enabled for use of cookies. This makes it difficult to measure campaign effectiveness, and in turn lowers attractiveness of the medium to advertisers. There are similar issues with session IDs.

Specifically with regard to mobile search advertising, algorithms are not as powerful as on the PC web, since mobile sites tend to have less interlinkage with each other than their PC counterparts.

Other challenges are structural: Even though the industry is relatively mature, the media-buying process is fragmented, forcing advertisers to coordinate a range of partners for campaigns that reach across all operators' portals, on-deck and off-deck sites.

However, even with obstacles like these to overcome, the outlook for mobile marketing in Japan is bright: Mainstream adoption of mobile internet usage driven by affordable flat-rate data pricing, evolution of network speeds beyond 3G and ever-increasing handsets capabilities provide the framework. Cross-industry efforts in standardization of formats, targeting and metrics lead to transparency for advertisers. Close cooperation between all players of the value chain constantly creates new marketing opportunities.

The mobile phone is a highly personal device that users carry anywhere and anytime. It is starting to integrate communications, content consumption and production features with contactless transactions and locational positioning. This spells unprecedented possibilities for marketers indeed.

While Japan's mobile advertising market has its particularities, it is certainly a place anyone in the business - whether operator, marketer, agency, media and technical enabler - should be looking towards for inspiration and best practices in mobile marketing.

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Author: Christopher Billich, Infinita Inc.

This strategic research report provides detailed insights into the inner workings of mobile marketing and advertising in a country where the vast majority of the population uses mobile Internet services - and where mobile marketing is fast evolving into a standard part of the marketing mix, a scenario soon to become reality in many other parts of the world as well.

With the rapid and widespread introduction of new technologies into the mobile ecosystem, highly personalized and effective forms of marketing are becoming possible, encompassing interaction both on- and offline.

"21st Century Mobile Marketing" provides in-depth business intelligence and expert analysis relevant to markets everywhere, including:

- * Current and future developments in mobile marketing
- * Key enabling technologies and services
- * Detailed data on mobile consumer behavior
- * Marketer perspective
- * Campaign best practice case studies
- * Drivers and barriers for mobile marketing
- * Interviews with key industry players and mobile consumers

Key questions addressed in this report

- * How has mobile marketing evolved into a USD 620 million market in Japan (and again is set to double by 2011), and what lessons does this hold for other markets?
- * How are the players in the value chain working together to scale the mobile marketing opportunity?
- * How are the traditional players in the advertising industry approaching the mobile channel?
- * Which advertising formats have proven successful in the mobile environment?
- * Which mobile marketing campaigns are successful, which aren't, and why?

- * How will mobile marketing develop in years to come?

Who should read this report

Operators, advertisers, media, agencies and technical enablers anywhere that are looking for mobile marketing insights and best practices from the world's most advanced mobile society to leverage in their local markets.

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For further information, please contact Christopher Billich at billich@infinita.co.jp.