Telco2.0™
How to make money in an IP-based world

In partnership with GSM Association

Telcos' Role in the Advertising Value Chain

New Market Study – EXECUTIVE SUMMARY

http://www.stlpartners.com/telco2_research-analysis_ad-funded.php

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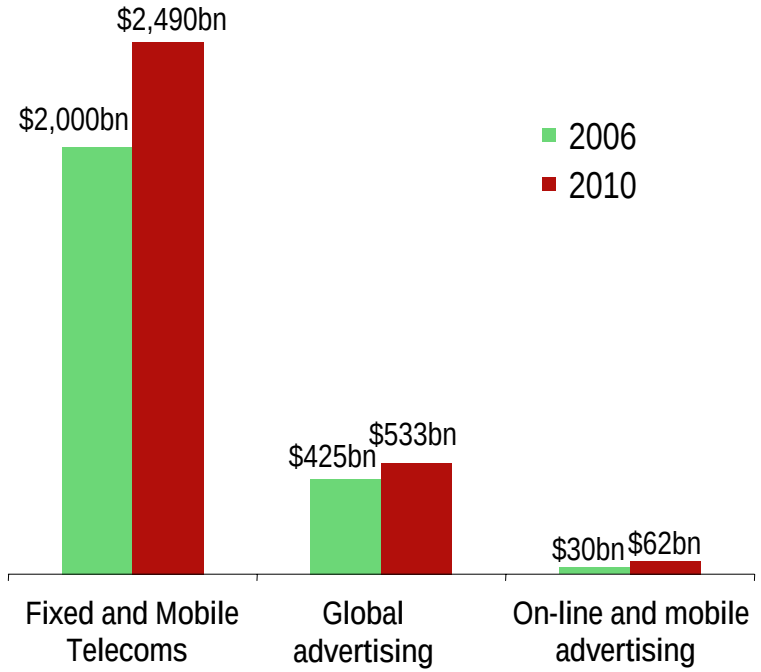
Advertising is seen as a future source of revenue growth for operators but ad-funded core services (voice & messaging, ringtones etc.) will not be attractive

- The fixed and mobile telecoms markets for voice & messaging, broadband access and content services are becoming increasingly crowded and competitive, resulting in revenue and margin pressure for operators
- The on-line and mobile advertising markets are increasingly seen as future sources of operator growth but, despite rapid expansion, they will remain relatively small and will predominantly rely on stealing share from other advertising channels, such as TV, Radio and Print (resulting in an potential price war)
- Most operators are currently focused on offering advertising-funded Telco services (AFTS) – discounting their own services for consumers
- However, the AFTS market is unlikely to be very attractive for operators for 4 reasons:
  1. AFTS risk cannibalising existing subscription revenues
  2. The total advertising inventory available to Telcos for ad-funded services, relative to the wider web, is small
  3. Most Telco customers want to keep their communications channels free from advertising
  4. AFTS are difficult to price
- AFTS will be important to operators for growing premium rate content services such as IPTV and mobile TV by reducing end-user prices and increasing content volumes

Telecommunications vs Global Advertising vs On-line & Mobile Advertising ($billions)



Source: Telecoms Industry association, Datamonitor, Zenith Optimedia, Broadsight and STL Partners Analysis

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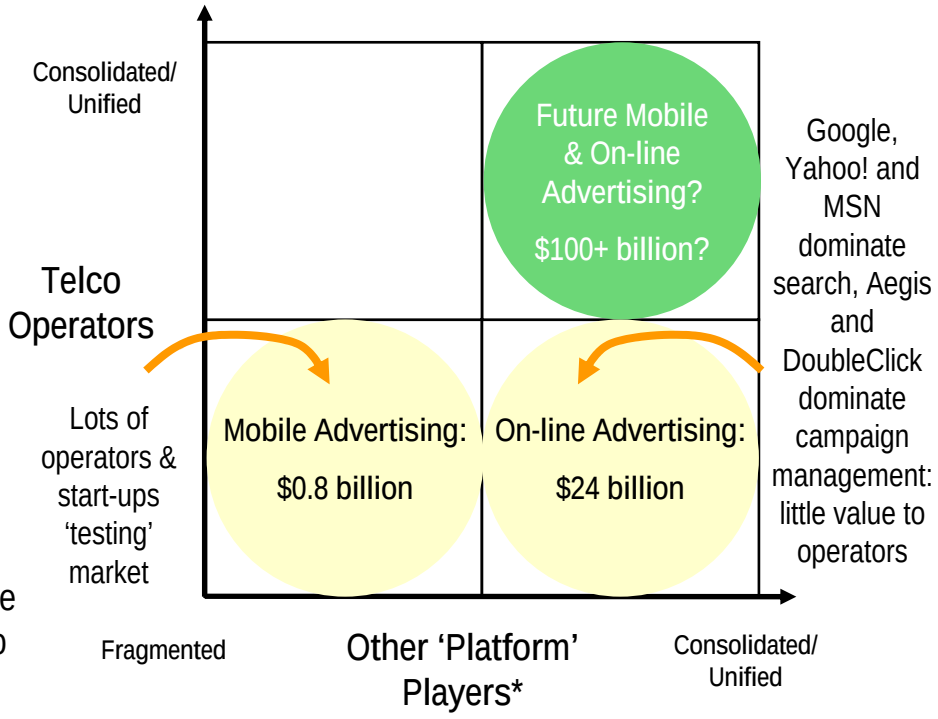
The big opportunity for operators is to develop a large-scale advertising enablement platform

- In addition to their portals (and devices), Operators have several other assets that advertisers value :
  - A large customer base
  - A huge amount of customer information (preferences, real-time usage, demographics/other data)
  - Billing and payment relationships and capabilities
  - In-store and call-centre customer service
- These assets give operators the opportunity to add value to advertisers by helping them:
  - Target advertising more effectively as customers roam the web
  - Track advertising performance
  - Provide a response channel for customers (including payments)
  - Support customers post-purchase
- To successfully grow this advertising enablement market, operators must develop an end-to-end advertising platform with scale:
  - Which meets all the needs of advertisers not just ad distribution
  - The on-line and mobile advertising markets are likely to consolidate around one or two large platforms because scale provides value to advertisers (more consumers) and consumers (cheaper content and services)

The On-line and Mobile Advertising Market Map



*Ad Servers, Website publishers, Search engines, Aggregators

Source: STL Partners Analysis

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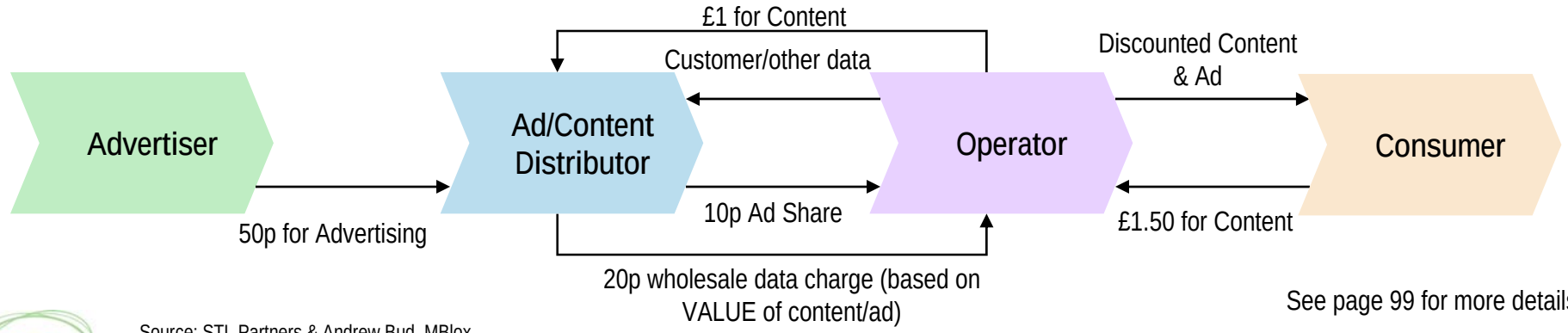
To develop a large-scale platform and sustainable business model, operators must work together – success is dependent on industry-wide cooperation

- Operators currently remain fragmented in the on-line and mobile advertising markets and are conducting discrete trials with separate partners:
  - Vodafone with Yahoo!; O2 with ThirdScreenMedia; France Telecom with ScreenTonic, Orange with Amobee; 3 with Rhythm NewMedia
  - Several start-ups and established players are seeking a role in the advertising platform including, most recently, Nokia with its Advertising Service and Advertising Connector products which provide an ad management and serving capability for operators and a white-label solution for web publishers respectively
- For operators to develop a scale advertising platform, which provides ubiquitous access to Telco customers for advertisers, they need to work together to develop standards-based solutions for…:
  - Ad formats (especially on the mobile); Campaign management; Ad metrics; Customer Profiling
- …as well as develop a simple and transparent business and pricing model for consumers (probably flat-rate) combined with value-based, variable pricing for content providers and advertisers (to ensure network costs are covered):

Potential Content & Ad Business Model: Flat-Rate Downstream, Variable & Value-based Upstream



See page 99 for more details.

Source: STL Partners & Andrew Bud, MBlox

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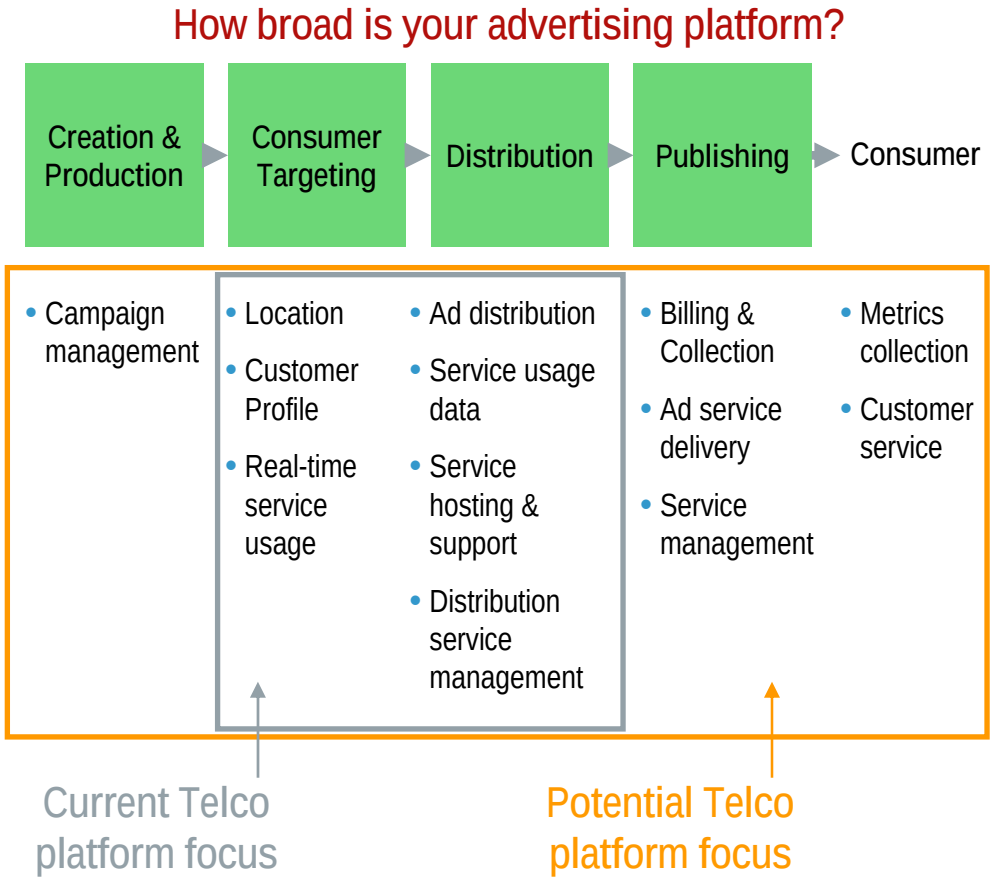
Telcos need to provide an end-to-end ad platform solution – this will require strong partnerships across the value chain and best-in-class CRM tools



- Many operators' advertising aspirations are currently too narrow:
  - Focusing on providing advertisers with reach to their customer base, together with some customer profiling information to facilitate ad targeting
- Operators need to provide an end-to-end solution via partnerships based on open standards:
  - Each operator's ad platform may be different but they need to be open and interoperable (just as each fixed and mobile network is discrete but interoperable)
- For ad-enablement and provision of AFTS operators will need to develop their customer data mining and customer relationship management capabilities:
  - To better understand the economics of advertising across each micro-segment and to provide targeted content and advertising offers

Source: Broadsight and STL Partners Analysis

The new Telco 2.0/GSMA Market Study provides guidance on how to achieve this

Details: http://www.stlpartners.com/telco2_research-analysis_ad-funded.php

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