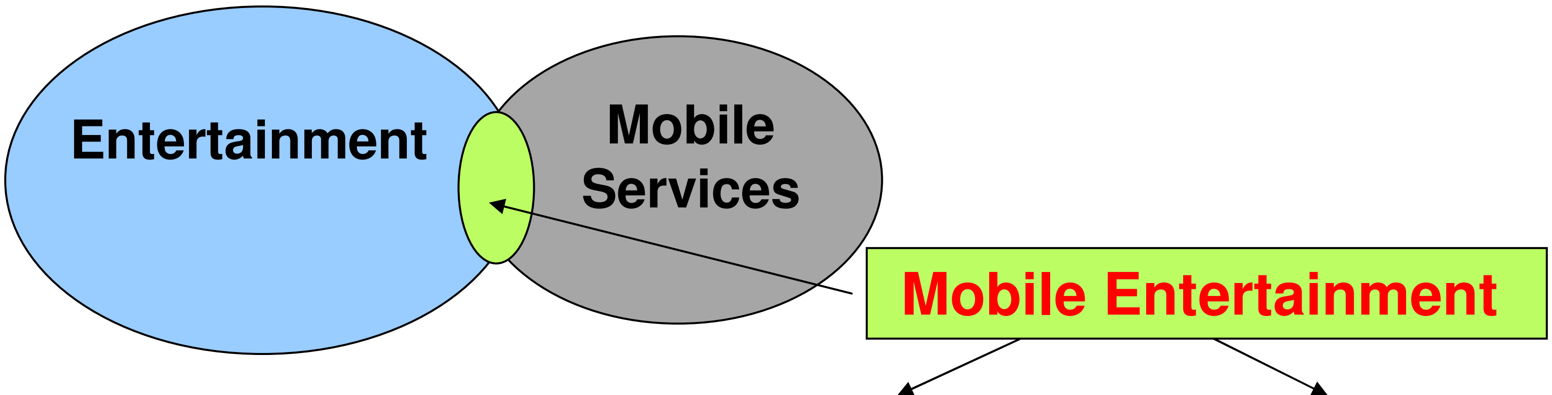
The Evolution of Mobile VAS: Where is it heading?

Rimma Perelmuter
Executive Director, Mobile Entertainment Forum

The Global Voice of Mobile Entertainment

Mobile Content is on the rise…

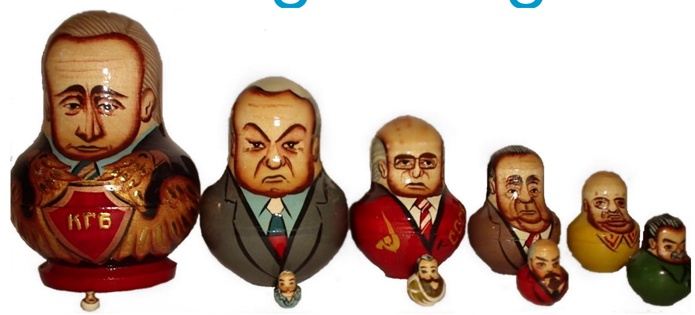


	2007 (in US$)	**2011** (in US$)
Music	7,356.59	11,424.91
Images	2,669.26	3,002.81
Games	3,213.21	6,448.29
Video	1,536.52	3,800.56
Gambling	441.75	822.72
TV	750.82	4,008.05
Total Global ME industry	**15,968.15***	**29,507.34**

***An additional $5.87bn in 'infotainment,' makes it a $21.8b industry**

Source: Informa Telecoms & Media (2007)

…and the Russian market is growing too!

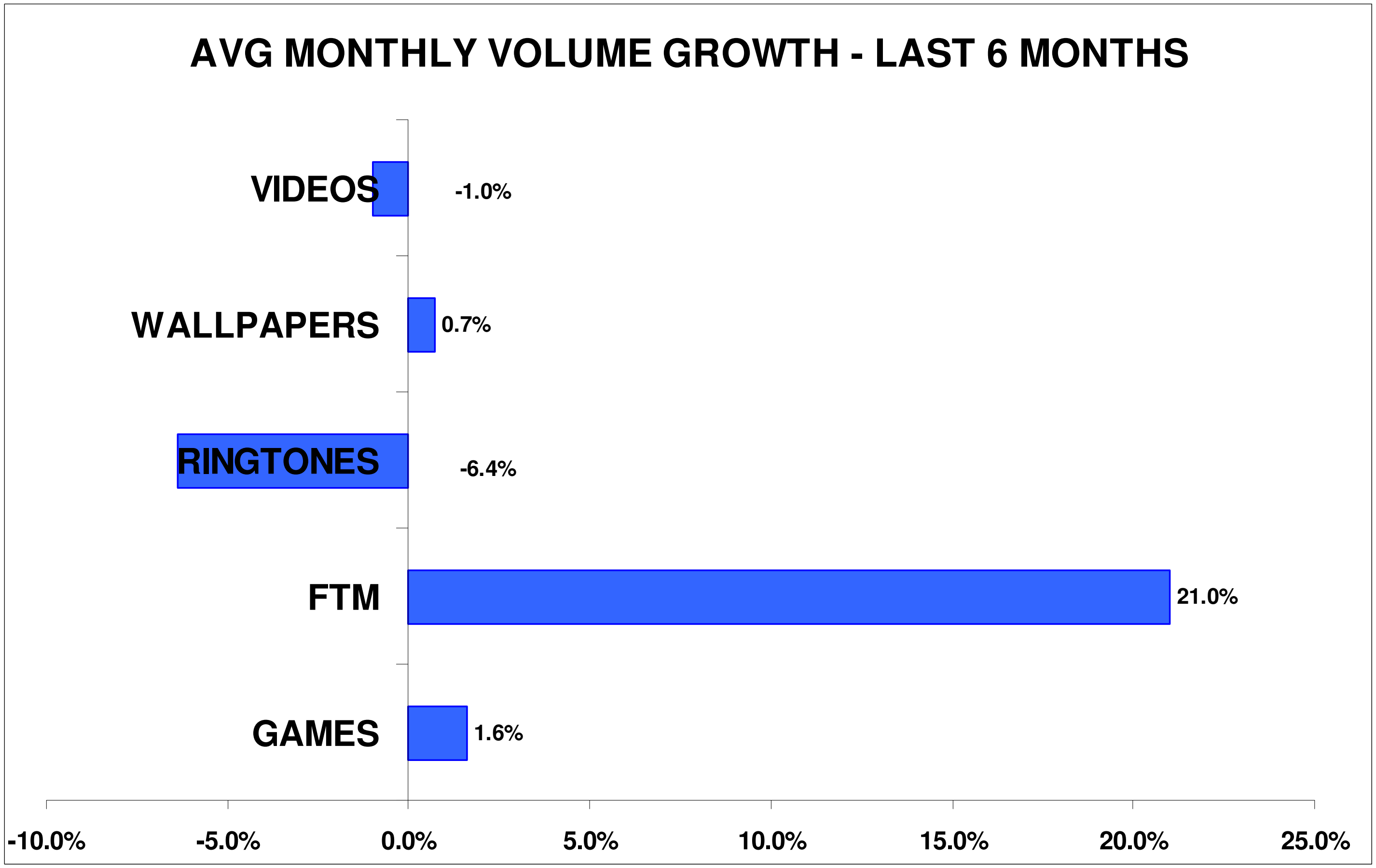


	2007 (in US$)	2011 (in US$)
Music	261.54	680.20
Images	59.18	77.97
Games	50.80	138.05
Video	10.10	31.46
Gambling	1.33	2.30
TV	7.68	128.83
Total Russian ME industry	390.62	1,058.81

*Calculated in millions

Source: Informa Telecoms & Media (2007)

Areas of Growth in the UK



Source: GFK (2007)

Key Drivers for Mobile Entertainment….

- New business models
- Advances in technology and user experience
- Growth in new markets
- Self-regulation

…also create challenges

- Confusion and hype around business models
- Advanced technology needs to drive user experience and consumer adoption
- Appreciation of local differences
- Self-regulation avoids government imposed rules

Driver 1: New Business Models…

- Ad-funded mobile entertainment (AFME)
- Subscription services
- Mobile search
- Mobile internet

…bring new entrants to the mobile space

- Ad agencies
- ISPs
- Social networking sites

Mobile Advertising Spend

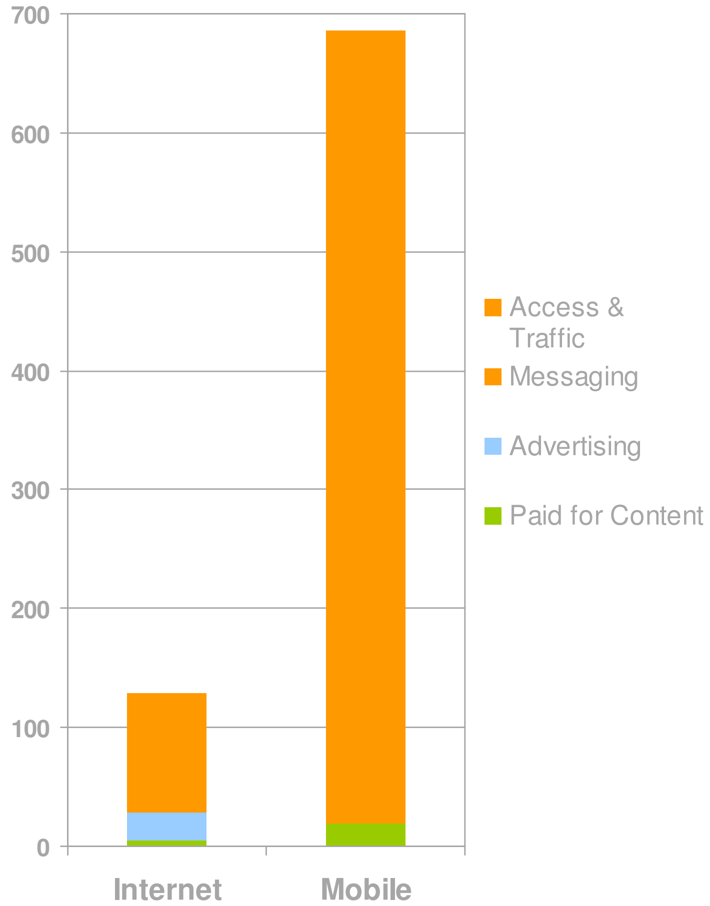
Advertising on mobile currently accounts for 0.3% of total advertising spend, while advertising on the internet accounts for 7%.

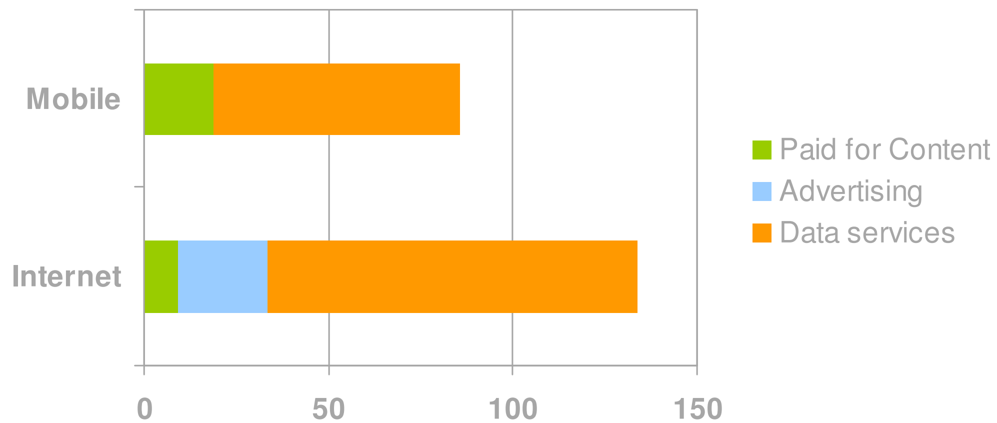
	2007 (in US$)	2012 (in US$)
Global Spend on Mobile Advertising	Less than 1b	7.5 b

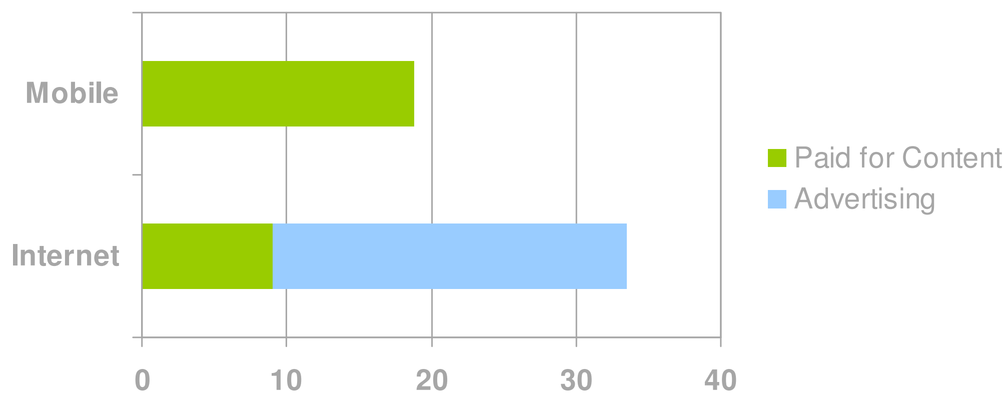
According to D2Mobile, we can expect a doubling of growth in mobile advertising over the next few years.

Source: D2Mobile

Lessons learned from internet advertising







*All revenues in $bn worldwide, 2006

Sources: Andrew Bud, MEF Vice Chair Analysis based on data provided by Informa, Zenith Optimedia, Point-Topic, TIA,, Pyramid Research, Yankee

AFME: Challenges to Mobile Advertising

The 5 F's:

- Function
  - What's the business case for mobile advertising?
- Fragmentation
  - Large audiences from small properties
- Feedback
  - Publishers and advertisers need metrics
- Format
  - Emotion from a 2" screen?
- Fearsome data charges
  - Consumers won't pay for their ads

•Sources: Andrew Bud, MEF Vice Chair: slides 9 -13

What Function will Mobile Advertising serve?

- Driver to mCommerce – like the internet
  - If $500bn eCommerce drives $25bn internet advertising…
  - …how much will $40bn mCommerce drive?
  - ….or will we buy oranges, garden furniture, holidays and loans on our mobiles?
- Digital brochureware – like the internet
  - Will people like exploring new cars, luxury goods and films…….on a 3 inch screen?
- Begin relationships with shops– like print advertising?
- Creating emotion around brands – like TV?
  - The future of the 30 second spot?

What Formats will work on Mobile?

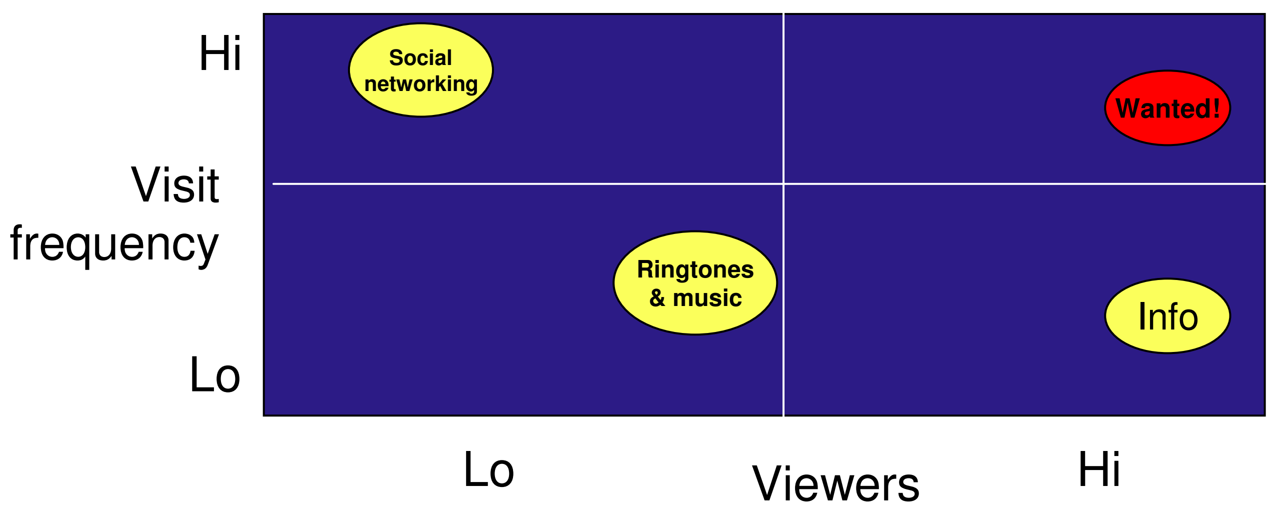
- Teeny-weeny banners?
- Interstitials?
- Text links to….?
- 30 second spots?
- In-game posters?
- Sponsored content?
- It will depend on the function…

How will advertisers get feedback?

- Click-thru is one method……which never worked on TV
- How do media buyers judge conventional media?
- Be familiar, not clever

Fragmentation

- Advertisers spend big money on big audiences
- Mobile has tortured itself with little campaigns
- Few big media properties…
- …means advertisers will look for consolidated audiences
- Consumer profiles sold by carriers to advertisers will be <u>key</u>



The Future of AFME

- Solving the 5Fs will unleash the ad-funded industry
- It will deliver consumer and marketing value…
- …but not revolutionise the industry
- Mobile's business model is already distinct from the Internet…
- …and will remain so!

Driver 2: Advances in Technology & Consumer Experience

- Proliferation of feature rich 3G Phones and faster networks
- i-Phone
- Google's impending launch of the Android platform
- Should drive better user experience and consumer adoption rates
- BUT…
- …according to a recent MEF consumer poll, only 26% of mobile users are satisfied with their mobile experience.
- Only 35% of mobile content can be found in 12 or less click-thus from the starting point
- If users can't discover content, they will get frustrated
- Transparency of pricing and resulting bill shock is still a problem in many markets

Driver 3: Growth in new markets

Each market comes with its own opportunities & challenges due to differing:

- Rules and regulations
- Cultures
- Perceptions of VAS
- Amounts of disposable income
- Technologies – 2.5G vs 3G
- Levels of broadband internet adoption

Driver 4: Self Regulation - helps the industry to grow

Consumer Trust – the key asset worldwide

- Increasing competition from "free"
- Delivering a good value service
- Transparency and satisfaction
  - Refund levels
  - Data pricing
- Trust
  - Lessons from Participation TV
  - Compliance along the value chain

The Mobile Entertainment Forum (MEF) addresses all of these issues

MEF is currently running initiatives and policy activity that address all these challenges and welcome our members' input & participation.

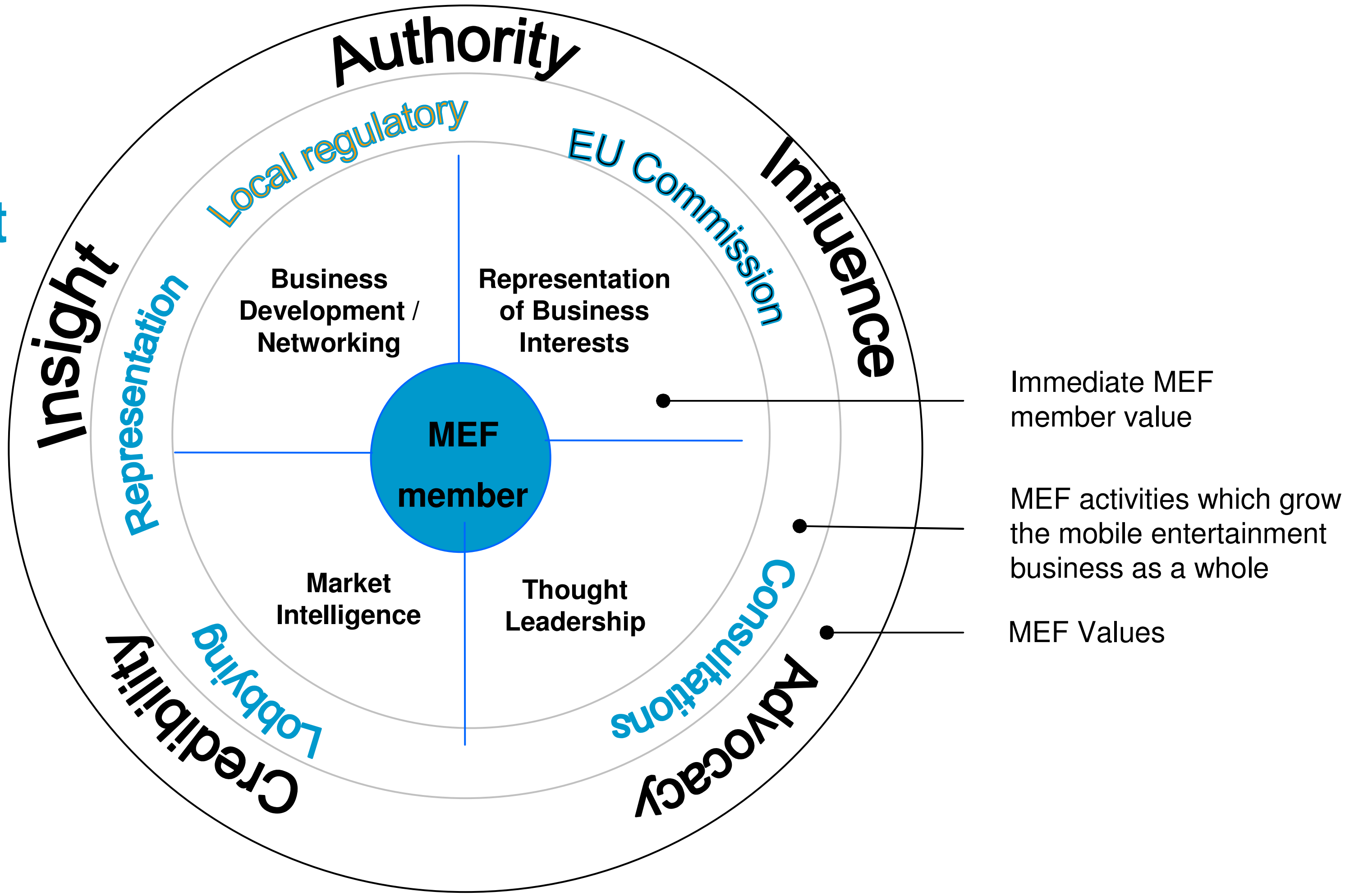
Who We Are

MEF exists to represent the interests of its global membership across the mobile entertainment value chain.

Our goals are to build awareness, create business development opportunities and facilitate the development of commercial guidelines and best practices to promote a healthy and profitable industry.

MEF currently has 150 member companies around the globe, chapters in Europe, Asia and the Americas, and a secretariat in both London and Los Angeles.

MEF Member value exists at several levels



Some of our members today…

To see our up-to-the-minute member list visit http://www.m-e-f.org

Full Members

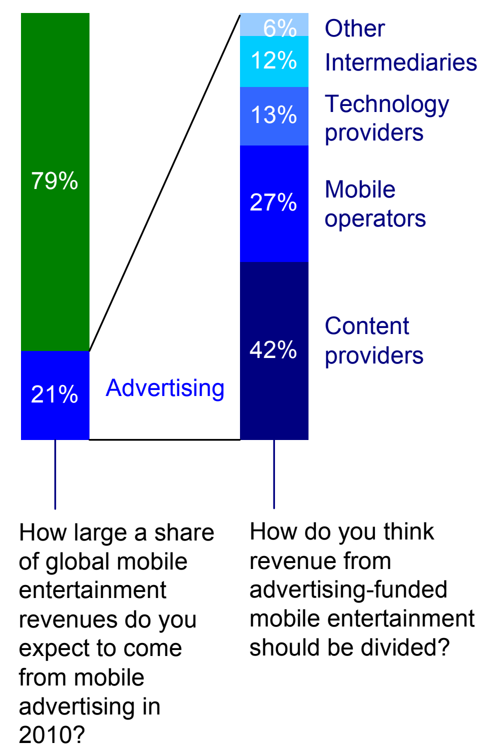
MEF's Initiatives – addressing the challenges

- **Content Sales Reporting:** addresses the need to establish best practices in reporting content sales, their associated metadata and consumer activity.
- **Communities:** defines what the industry means by "communities" vs. "social networking"; establishes current metrics; determines how best to operate and monetize mobile social networks; explores how to self-regulate user-generated communities
- **Search & Discovery (S&D):** seeks to examine how players in the mobile entertainment eco-system can benefit from S&D, and what the relationships between them will look like in the future. Recently compared industry assumptions on S&D with consumer reality.
- **Quality of Experience (QoE):** defines best practices and benchmarks for improving the customer experience. Extensive consumer research study releasing through Fall 2007.
- **Ad-funded Mobile Entertainment (AFME):** aims to further the development of advertising as a mobile entertainment revenue stream through co-operation between all interested parties. It includes educating the advertising industry and devising a set of standards for metrics and measurement.

Ad-Funded Mobile Entertainment Initiative (AFME)

- A MEF Initiative to accurately size the market and identify audience measurement tools
- Ad funding will supplement, not replace mobile transactional revenues
- Looks beyond mobile marketing and identifies business models that will appeal to consumers and advertisers
- Educating ad & mobile industries: glossary, case studies & workshops

Expected size and distribution of mobile advertising revenues



Base: 48 mobile content industry leaders

QoE Initiative

- MEF initiative benchmarking quality of service to improve the customer experience
- Three fundamental quality metrics for determining the objective QoE:
  - content availability - is it the right content?
  - content performance - can consumers access it?
  - service conformance - is it a good experience when they do?
- Global consumer survey already conducted for USA and UK issued – nearly 3000 respondents
- Additional countries being assessed will include France, Germany, Italy, Romania, Spain and Hong Kong – to be published on an ongoing basis
- Next steps will set industry benchmarks for what's acceptable

Regulatory & Policy Work

- puts best practices in place through the launch of guide and Codes of Conduct and the development of frameworks (eg. P-TV)

- responds to regulatory authorities and global government consultations which affect the mobile entertainment industry (eg. The Byron Review)

Participation-TV

- Between £200 and £300m were lost in revenues in the UK in 2007
- MEF has written a draft Code of Conduct to cover all aspects of P-TV delivery and operation to sustain and grow the industry
- Code provides practical framework on issues such as the presentation of pricing information on TV, radio and in print
- Key issues we are looking at include: what ways can P-TV services be made more transparent in terms of how they operate?

Content Sales Reporting

MEF recently launched an industry consultation document to help establish a set of best practices for mobile content reporting.

The initial criteria to be addressed will include:

- Timeliness – How often should data be reported?
- Relevance – What level of detail should be expected?
- Accuracy – How accurate is the reporting, and can it be cross-checked?
- Consistency – How can common formats be adopted

Summary

- The global mobile VAS industry is seeking to evolve
- Some are calling for it to copy the Internet….
- Some believe that faster speeds and advanced technology alone will improve the consumer experience
- Some ignore consumer trust and regulatory pitfalls
- …but many don't believe it
- A maturing industry needs to put its customers first
- MEF is playing a key role in helping the industry to meet these challenges….