
KEYS, WALLET, CELL PHONE.

Hoffman | Lewis on Mobile Retail Advertising



Hoffman | Lewis Advertising

INTRODUCTION

Those who are familiar with our agency know that we're hype resistant. When we hear bold predictions about a new medium, we take it with a healthy dose of skepticism. At the moment, the hot topic in the ad industry is mobile advertising. It's the new black. And some are even saying it'll be bigger than television in terms of ad spending—an always-popular comparison when an emerging medium shows a glint of promise.

Usually, the promise is overstated. We certainly don't believe mobile will be bigger than television (mobile spend represented 1% of television spend last year), and many mobile devices are luxury items that can be cost prohibitive. But there is something unique about mobile, and smartphones in particular.

Mobile advertising is still evolving, and many aspects of mobile need refinement before we would recommend them to our clients. However, our own experience has proven that there are a handful of tactics that retailers should consider, especially since mobile is a space where your consumers currently are but many of your competitors most likely are not.

Our hope is that this primer will help you, as a retailer, approach advertising in the mobile space in a way that makes the most of what the medium currently has to offer.

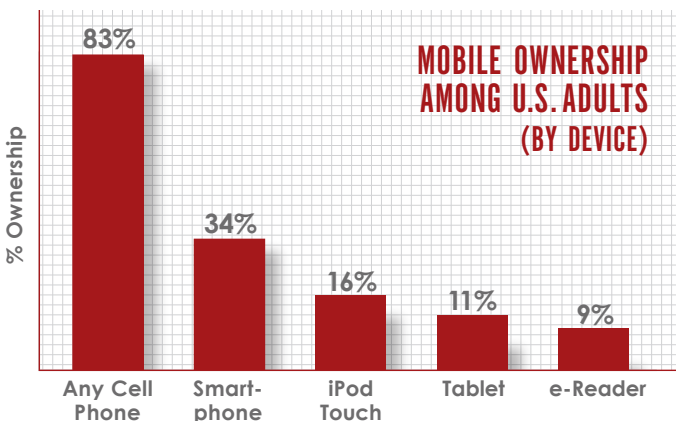
THE CONFLUENCE OF CONNECTIVITY AND CELL PHONE FUNCTIONALITY IS CHANGING CONSUMER BEHAVIOR, ESPECIALLY AS IT RELATES TO RETAIL.

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THE SMARTPHONE

Numerous mobile devices are out there right now, ranging from gadgets like the iPod Touch, tablet computers, and e-readers to feature phones and smartphones. It would be a tremendous undertaking to tailor a campaign to each device given the differences in screen size, functionality, and user behavior by device. In our view, advertiser focus should be placed on the devices that have higher penetration, are always connected, and are always within reach of the consumer, because these characteristics set mobile devices apart from other mediums. Of mobile devices currently on the market, only the smartphone combines all of these qualities.



Within the category of cell phones, which has 83% penetration among US adults,¹ feature-phone ownership is declining and smartphone ownership is rapidly increasing, with some industry analysts projecting that smartphones will soon overtake feature phones. Of all cell phone owners, 42% presently own a smartphone, which equates to over one-third of the total US adult population.² By contrast, e-readers, tablets, and iPod Touch devices have low rates of penetration: 9%,³ 11%,⁴ and 16%,⁵ respectively.

While many mobile devices are always connected to the Internet in some fashion (the exception being feature phones), not all are always on or always in reach. Some have occasion-based usage, like



e-readers, and others, like tablets and the iPod Touch, are not always carried with consumers when running errands, shopping, or at work. Smartphones are the only mobile devices that are consistently on hand and are always connected.

USER DEMOGRAPHICS

Smartphone users can be loosely segmented into two groups: 1) those who have smartphones in addition to other means of accessing the Internet and 2) those who rely on their phones for Internet access.

Group 1 makes up approximately 75% of all smartphone owners and is predominantly affluent and educated. Fifty-nine percent make an annual household income of over \$75K, and 48% have, at minimum, a college education. They tend to be younger, with the highest rates of adoption seen between the ages of 25 and 34 (58% ownership).⁶

Group 2 makes up 25% of smartphone owners, and they reflect a demographic different from their Group 1 counterparts. They tend to be even younger (18 to 29), are nonwhite, have lower income levels (69% make an HHI of less than \$50K), and are not college graduates,⁷ though the last two statistics may be age related.

Among smartphone owners overall, Asians and Hispanics have the highest rate of ownership of all ethnic groups at 45%. African Americans have the next highest ownership at 33%, and Caucasians have the lowest rate at 27%.⁸

RETAIL BEHAVIOR

In addition to being a source of entertainment, smartphones are an on-demand communication and information resource for consumers. On a daily basis, 68% of smartphone users use their phones to access either the Internet or email, two activities previously reserved for PCs and laptops.

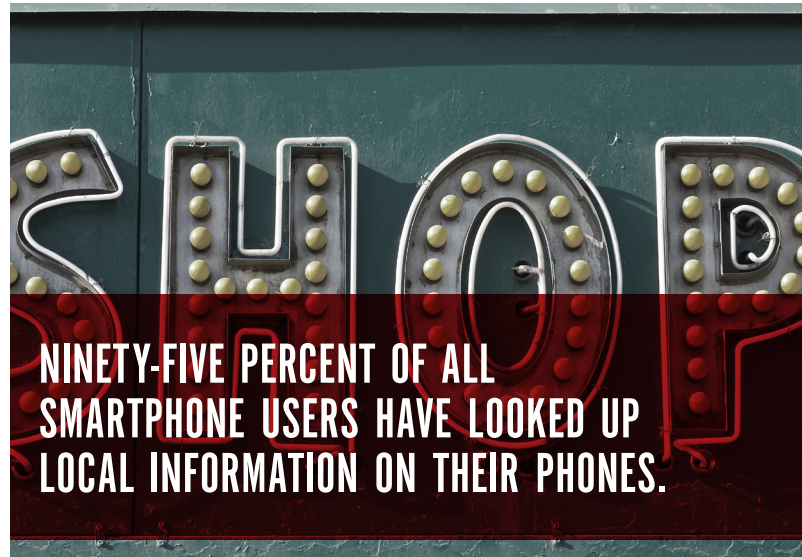
Of all mobile activities, search ranks as one of the most popular. Mobile search is especially important for retailers since it is oftentimes the starting point that ultimately leads to a mobile website or an in-store visit. Over 75% of smartphone users cite a search engine when asked which website they access most frequently on their device. Mobile search already accounts for approximately 15% of total web searches, and with over half of smartphone users reporting that they actually prefer their phones to laptops or PCs for accessing the Internet,⁹ the percentage of mobile searches will likely increase as smartphone penetration goes up.

79% OF SMARTPHONE USERS TURN TO THEIR PHONES AS A SHOPPING AID.

74% OF THOSE WHO HAVE USED THEIR SMARTPHONES DURING THE SHOPPING PROCESS HAVE MADE A PURCHASE BECAUSE OF INFORMATION THEY FOUND BY USING THEIR DEVICE.

Intimately related to mobile search and highly relevant to brick-and-mortar retailers is local information gathering. Ninety-five percent of all smartphone users have looked up local information on their phones.¹⁰ As local inquiries are typically prompted by an immediate or near-term need, the majority of these searches result in action. Seventy-seven percent of all searches

for local information have led to contacting a related business: 61% by telephone and 59% by in-store visit.¹¹ Restaurant searches account for the highest percentage of all mobile queries on Google at approximately 30%. The penultimate category is autos, at 17%, followed by consumer electronics, finance and insurance, and beauty and personal, all around 15% by search-query percentage.



The popularity of these categories indicates how heavily smartphone users rely on their phones, not only for local information but also for shopping. Seventy-nine percent of smartphone users turn to their phones as a shopping aid at various points during the decision-making and purchase process, including while they're in store. Top activities include price comparisons of products and services, finding the nearest store location, and checking for discounts. As with local search behavior, shopping-related smartphone activities often result in an action. Seventy-four percent of those who have used their smartphones during the shopping process have made a purchase on their phones, online, or in store because of information they found by using their device.¹²

MOBILE ADVERTISING OPPORTUNITIES

Advertisers are continuously testing new ways to reach consumers through mobile, and opportunities will expand as mobile begins to mature as a media vehicle.

HERE'S WHAT'S AVAILABLE TO ADVERTISERS NOW:

- *Search:* Sponsored search ads on the results pages of mobile sites and apps of Google, Yahoo, and Bing.
- *Display:* Banners on mobile devices have the most reach of nonsearch ad placements in mobile. Because there are a lot of impressions, this is currently one of the few opportunities with scale. Though targeting options are not as robust as with native web, advertisers can target around content (e.g., males 25–54 can be reached in sports apps or sports websites).
- *Mobile Site:* Also known as a wireless application protocol, or WAP, this is basically a version of your website that has been simplified or adapted to the mobile user experience and resized or optimized for smaller screens. Mobile sites improve load times and user experience, as non-WAP sites tend to be cumbersome (big fingers, small screens).
- *Video Ads:* As with traditional online videos, video ads on mobile devices can be a more engaging way to connect with your audience and communicate more complex messages. However, sophisticated targeting is limited, and mobile video faces the challenge of slow load times, which impact the quality of the video and the experience of the viewer.
- *QR Codes:* “Quick Response” codes are scannable codes that digitally direct the consumer to an online destination. QR codes can be a fun experience for consumers if done correctly. However, you must have a QR scanner app on your mobile device, and many times the incentive provided by the advertiser is not worth the effort to the consumer.
- *iAds:* These are the Apple versions of mobile ads that appear in apps on Apple mobile devices (iPhone, iPod, iPad). They allow for great creative flexibility and can act as minisites. Targeting is more robust than for non-Apple mobile ads because Apple targets based on the user's iTunes account and can aggregate information on all apps the user has downloaded, along with his or her demographics and location. Sound too good to be true? It probably is. Apple must approve iAds, so they must adhere to Apple's standards, both aesthetically and functionally. Also, all actions are contained within the iAd; therefore, users can't click out to the advertiser's WAP site. Finally, it's a \$500K+ minimum spend, so creating an iAd is not cheap.
- *Text Messaging:* Advertisers can create their own lists and send texts to customers who have opted in. On a local level, the San Jose Sharks do a great job of this by texting breaking news, content, and reminders about games. Target also does this well by texting coupons; because the message is contained on your phone, it's easier to recall and access.
- *Location-Based Advertising:* Users “check in” at locations and share with their friends via social platforms like Facebook and Foursquare. Advertisers gain from word-of-mouth recommendations and impressions. Additionally, there is the potential to drive traffic to the retail location by giving consumers an incentive to check in (e.g., discounts, freebies, etc.).

MOBILE ADVERTISING CHALLENGES

In some cases, mobile deserves the attention and excitement it's been getting, but many kinks still need to be worked out. And as much as the heads of mobile at digital agencies may try to deny it, mobile advertising is still a nascent practice and it comes with challenges. Below are some of the major obstacles in mobile advertising:

MEDIA PLANNING CHALLENGES

- **Behavioral Targeting:** For mobile, there are currently no reliable third-party sources like BlueKai and eXelate that sell anonymous cookie data, making it difficult to achieve more sophisticated targeting. Some mobile networks offer behavioral targeting, but reliability and scale are not on par with the native web.
- **Geotargeting:** Geotargeting is managed through mobile ad networks because they have the scale to do so. However, it tends to be inaccurate because users are targeted by IP address, which is not always a good indication of geographic location. Also, GPS is not currently a viable option in geotargeting because many phones do not have GPS activated.
- **Inventory:** As mobile usage grows, publishers will have sufficient impression inventory to provide geotargeting and behavioral targeting to clients—but it's just not there yet. Because of this, many mobile ads today are based on daily sponsorships and must be bought nationally.

CREATIVE CHALLENGES

- **Real Estate:** The standard units used online don't translate well onto the small mobile screens. Many banner ads that run in mobile are too small to be noticed or read. Additionally, ads built specifically for mobile are often accidentally clicked on when the user is trying to close them, contributing to the inflated click-through rates seen across mobile.

- **Standardization:** Unlike the Internet, there are no International Advertising Bureau (IAB) standards for mobile ad units, which makes it necessary to build unique creative units, all with different sizes and specs that depend on the publisher or mobile ad network you're advertising with. Also, Apple doesn't render Flash, so units must either run as static images or in HTML5—or not run at all on Apple mobile devices.
- **Data Network Speed:** It's a 4G world right now, and while telecom providers tout faster, stronger Internet connectivity, heavier ads tend to have slow load times. The result is a negative user experience because your brand is tied to a choppy, disjointed ad.



**PUBLISHERS AND AD NETWORKS
RECOGNIZE THAT MOBILE CAN BE A
SIGNIFICANT SOURCE OF REVENUE . . .**

Keep in mind that many of the current challenges facing mobile advertising are in the process of improvement and will not be issues in the future. Publishers and ad networks recognize that mobile can be a significant source of revenue and are responding to calls for greater levels of consolidation and better tracking and targeting.

MOBILE RECOMMENDATIONS FOR RETAIL ADVERTISERS

Mobile advertising is still ramping up, and many mobile tactics need to be smoothed out before we would recommend them to our clients. However, several tactics are well suited for retailers and are stable enough to jump on right away.

The greatest opportunities for retailers within the mobile space are where smartphone-user behavior and stable technology intersect. Here are our recommendations on what to do now:

1. BUILD A WAP SITE

If you do anything, do this. Mobile users interested enough to visit your website are generally there because they are actively shopping and may even be looking for your location. Make it as easy as possible for them to become a customer by creating a WAP site. If you're worrying about the investment, don't—mobile sites are far simpler to build than traditional websites and cost far less. And just as your normal website is a cost of doing business, so is your mobile site. The difference is that fewer of your competitors are active in the mobile space.

2. DEVELOP A SEPARATE MOBILE SEARCH CAMPAIGN

Most likely you have a search campaign already, so you're familiar with the advantages. Search is about catching demand at the point of greatest interest, and it's also one of the most frequently performed activities on mobile devices. But what you may not realize is that without a separate search campaign for mobile, chances are you're not appearing in the top two positions in mobile—the only positions that are visible above the fold. Having a separate mobile search campaign is also important because of messaging. Including a phone number or address is more appropriate on mobile search than traditional search since users may be searching for products or stores they want to get to now.



THE GREATEST OPPORTUNITIES FOR RETAILERS WITHIN THE MOBILE SPACE ARE WHERE SMARTPHONE-USER BEHAVIOR AND STABLE TECHNOLOGY INTERSECT.

3. CONSIDER MOBILE COUPONING

As we mentioned earlier, one of the top mobile activities performed while shopping is checking for discounts. If couponing is a tactic that you are currently using or considering, mobile couponing can be an efficient way to go. It can be far cheaper than direct mail and strategically timed to maximize the traffic it drives. For example, restaurants can send a coupon via text message an hour before lunchtime, and clothing stores can text coupons timed to back-to-school shopping. Mobile search is another way to deliver coupons to customers who are actively looking for them. And if you are already sending coupons via email, optimizing them for mobile will allow your customers to use them without printing them out at home. Not having to take the extra step to clip or print out coupons can mean the difference between going to your store versus a competitor's.

As with any media vehicle, make sure that your target audience owns a smartphone by using research tools like comScore and that their usage is heavy enough to justify the budget you allot to your mobile campaign.

MOBILE IN THE YEARS TO COME

We're optimistic about mobile, and that says a lot coming from an agency of skeptics where flashy new digital "opportunities" are concerned. Don't get us wrong, we're not your app-happy, blow-your-entire-budget-on-an-iAd type of agency. But there's something to be said for a piece of highly utilitarian technology that more than 80 million users (and growing) have within reach nearly 24 hours a day.

Many of the issues that mobile advertising faces at present will be resolved in the coming years, making for both a better user experience and better advertising opportunities. As smartphone ownership grows and more publishers develop mobile-optimized sites that allow for refined targeting, ad networks will

begin providing opportunities for targeting similar to those presently available online through PCs and laptops. Data networks are expected to become faster, improving the browsing and mobile video experience. Tracking and measurement will become more sophisticated, allowing for greater accountability, and standard ad units will emerge, making media planning and creative development less complicated.

Smartphones may never have the ubiquity of television, but they're poised for substantial growth and present opportunities for you to find and intercept consumers who are actively shopping and drive them to your stores.

1. Pew Internet, July 2011.
2. Ibid.
3. The Nielsen Company, May 2011.
4. Pew Research Center, October 2011.
5. Apple Inc., April 2011.
6. Pew Internet, July 2011.
7. Ibid.
8. "Among Mobile Phone Users, Hispanics, Asians Are Most Likely Smartphone Owners in the U.S.," *Nielsen Wire*, February 2011.
9. Prosper Mobile Insights Study, May 2011.
10. "The Mobile Movement: Understanding Smartphone Users," Google/Ipsos OTX MediaCT, April 26, 2011.
11. Ibid.
12. Ibid.

*For more information on building a mobile advertising campaign for your business, contact Andrea Alfano, Director of Account Services at Hoffman/Lewis.
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ABOUT HOFFMAN | LEWIS

Hoffman/Lewis is a full-service agency with offices in San Francisco and St. Louis. We specialize in creating performance-based advertising for retailers and companies that think like retailers.