

F R O S T & S U L L I V A N

Advertising goes mobile

January, 2010

F R O S T & S U L L I V A N

G R O W T H C O N S U L T I N G

Table of Contents

1. Introduction.....	3
2. The Mobile Advertising Opportunity	4
2.1. Mobile Advertising Market in India.....	4
2.2. Increased revenue avenues for mobile operators	4
2.3. Personalized, engaged audience for advertisers.....	5
3. Challenges in Mobile Advertising	7
3.1. Myriad ecosystem, evolving operational models	7
3.2. Achieving application compatibility.....	8
3.3. Addressing P2P messaging.....	8
4. Affle SMS2.0 – Making media mobile	10
4.1. How SMS2.0 addresses mobile advertising?	10
4.2. Enhanced messaging experience for the consumer.....	11
4.3. Higher interactivity, measurable returns for the advertisers	12
4.4. Additional revenue streams for mobile operators	13
5. Success Showcase.....	14
5.1. Affle’s engagement with India’s leading mobile operator.....	14
5.2. Product launch advertising campaign through the mobile channel	15

1. Introduction

The telecommunications market in India is booming, with subscriber additions being at an all time high. The mobile phone has become a ubiquitous device which has cut across all strata of the population. It has been able to reach out to a segment of population, which have been earlier unreachable through other forms of distribution or media. As a result, mobile advertising is witnessing significant interest across stakeholders – mobile operators, advertisers, content developers.

Mobile advertising creates an opportunity for advertisers to uniquely target customers and prospects through a new, highly interactive channel. The mobile is now being featured as an additional medium of advertising, in conjunction to traditional marketing media, such as TV and radio, as well as online marketing. The high, engaged attention level that the mobile receives from its consumers makes it an attractive media for brands and advertising agencies to integrate into their media plans. It creates an attractive opportunity of incremental revenues for mobile operators through individualized content and increased data usage.

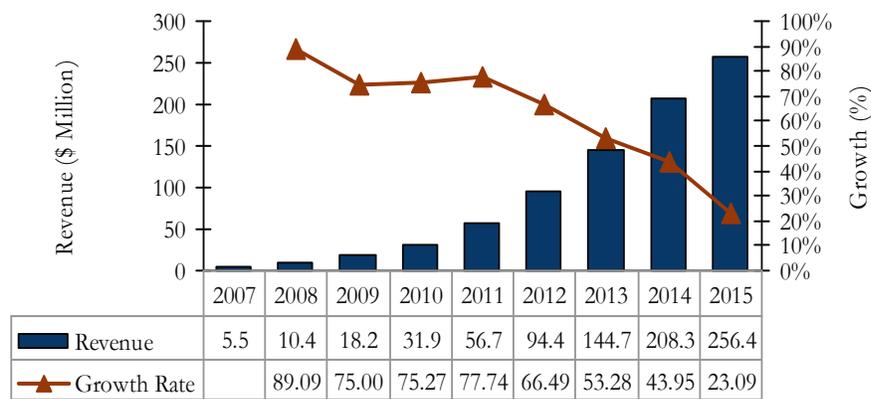
While the mobile advertising medium is quite desirable for mobile operators and advertisers alike, business and revenue sharing models, application compatibility across disparate mobile phone models as well as leveraging on peer to peer messaging forming a majority of messages are aspects that require clarity to leverage the full potential of this medium.

This whitepaper discusses the mobile advertising opportunity in the Indian market and the challenges that currently face the mobile advertising industry. It discusses how the Affle SMS2.0 application caters to the challenges in delivery of mobile advertising and how consumers, mobile operators and advertisers can benefit from this medium. Success case studies of mobile operators and advertisers effectively deploying and utilizing the Affle SMS2.0 application for leveraging mobile advertising have been presented.

2. The Mobile Advertising Opportunity

2.1. *Mobile Advertising Market in India*

The mobile advertising market in India is currently at a nascent stage but will witness high growth in the years to come, driven by awareness towards this medium of advertising, evolving technology and ecosystem as well as a collaborative push by all ecosystems participants due to the visible benefits of the technology. Frost & Sullivan estimates that the market will witness an exponential growth of 58.1 percent to grow from USD 10.4 million in 2008 to USD 256.4 million in 2015.



Note: All figures are rounded; the base year is 2008. Source: Frost & Sullivan

Need for personalization, differentiation of message delivery, wider addressable mass market as well as better resource utilization as compared to any other advertising medium are some of the key drivers for advertisers to include mobile advertising in their media plans. With the impending launch of 3G in the country which facilitates content rich media as well as mobile operators aiming to upgrade from a pure pipe provider, mobile advertising provides mobile operators opportunity to maximize the returns on their technology investments.

2.2. *Increased revenue avenues for mobile operators*

With rapidly growing subscriber bases to the tune of close to 10 million a month, the Indian Telecommunications industry is one of the sunshine sectors in the country. A favorable operating environment and facilitative regulatory has resulted in the sector registering remarkable growth. In addition, with penetration levels of 36.98 percent in March 2009, the sector still has a large proportion of the population to cover.

This investment favorability of the sector has not gone unnoticed. It has witnessed immense interest from a number of market participants, resulting in a highly competitive landscape. While the subscriber base and the average minutes of usage is on an incline, intense competition amongst mobile operators is creating a price war thereby causing a decline in the average revenue per user (ARPU). While the penetration of mobile services in the rural areas is low and categorized by usage of basic telecom services, there is a requirement for differentiation in the highly penetrated urban regions, which is categorized by an appetite for advanced telecom services usage such as increased interactivity, mobile internet and so on.

Therefore, mobile operators are exploring a two pronged approach to increase their declining revenues

- a) Achieve higher penetration in the rural areas
- b) Create differentiated products to capture and retain the urban population

Fuelled by a regulatory drive to contribute to rural telephony and urgency to capture a majority of the bottom of the pyramid, operators are devising new strategies to operate in the semi urban and rural markets. From taking infrastructural initiatives for rural telephony to introducing low price handset with attractive tariffs, a majority of operators are now battling it out to achieve higher coverage in the geographically distributed rural population.

With voice services being commoditized and increasing technology sophistication of the urban customers, there is a mounting need for operators to create differentiated services. Additional competition is expected through the introduction of 3G services in the country. In the enterprise space as well, operators are aiming to escalate from purely being a pipe provider to a partner providing value added services. With the Indian telecommunications operators witnessing one of the lowest ARPUs in the world, value added services provide the potential for operators to safeguard their top-lines, bottom-lines as well as customer churn. Operators can potentially witness increased revenues through value added services as well as increased data usage by users to access a multitude of these services.

2.3. Personalized, engaged audience for advertisers

Advertising is an essential component of marketing communications. The advertising industry has rapidly adapted to every mass communication medium available to increase awareness of their

products – from bill boards to television to the internet. With mobile advertising being a highly measurable medium, the advertiser is now able to accurately track the advertising spends. The extended and rapidly growing reach of the mobile phone makes it a desirable channel for advertisers.



Today, the mobile phone has evolved from just being a purely communication device into a converged device capable of touching various aspects of a consumers' digital life. A majority of these consumers belong to the era that believes in being permanently connected and in constant interaction. In a digital world characterized by information abundance, the consumer wishes to control the information that they like to see. Being a highly unique and personal device, the mobile phone is viewed as a communication channel that can deliver highly targeted, user specific content and advertising.

Facilitated by an increasing adoption by smart phones as well as potentially high data rates to be offered by 3G networks, mobile advertising provides for a highly targeted and interactive medium with the ability to measure accurately the success of a media campaign.

3. Challenges in Mobile Advertising

The mobile ecosystem consists of a diverse array of intermediaries that have a role in delivering the advertiser's message to its intended audience. New business models and technology innovations continue to change the manner in which mobile advertising will be delivered. Navigating through this complex landscape is critical to effectively reach a wide mobile audience.

3.1. *Myriad ecosystem, evolving operational models*

The mobile advertising ecosystem consists of multiple players such as the mobile operators, content providers, advertisers, advertising agencies, content developers and so on. It is the congregation of all these entities that make an effective mobile advertising delivery platform. The nascency of the mobile advertising market still calls for evolution of the business and operational models of the ecosystem.



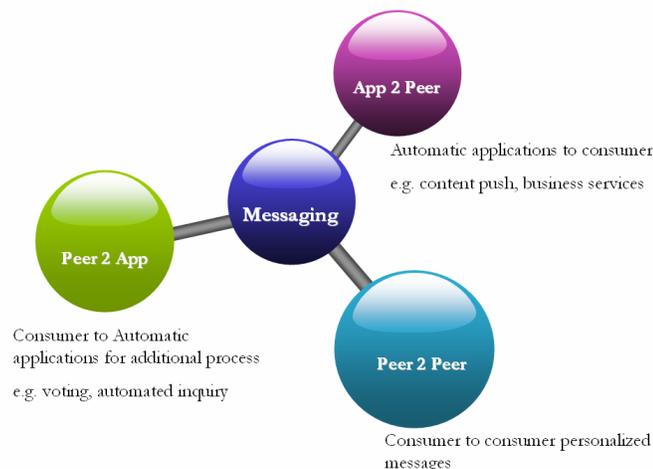
- Advertisements delivered through the mobile medium have a clear advantage of being targeted and must be delivered with minimal intrusiveness to the consumers' normal mode of functioning
- Mobile operators as well as advertisers share a joint responsibility of ensuring that mobile advertising does not compromise on the consumers' privacy by taking the spam route akin to email. Delivering advertisements based on preference and relevance would increase interactivity and conversion rates, while spam adds to the nuisance value. Jointly, mobile operators and advertisers must handle mobile advertising responsibly or risk losing out on customers

- With the bulk of the mobile advertising revenues attributed to the mobile operator, the mobile advertising ecosystem requires clarity on the revenue sharing parameters across the various value chain participants based on the value added

3.2. *Achieving application compatibility*

The total number of wireless subscribers in India has grown from 146.6 million subscribers in 2006 to 321.8 million in 2008 is expected to reach 839.8 million in 2015. Owing to this growth, the sector has been witnessing additional competition not just in the mobile operator segment but also in the associated product and services segments such as handsets. Every handset vendor has been rapidly introducing new models at attractive price points to capture the additional subscribers as well as aiming to cause churn in the handset market. To achieve acceptability in the market, mobile applications facilitating advertising have a humongous task of being compatible with the maximum number of handsets. Every mobile content or application developed has to be ported on hundreds of mobile phones, across handset vendors, across models.

3.3. *Addressing P2P messaging*



Amongst the three prevalent mobile advertising delivery channels of SMS, mobile internet and voice, a majority of mobile advertising is pursued through the SMS route. The SMS window is an area where consumers are engaged with the mobile phone for the maximum duration. It is a space which mobile advertisers have been aiming to tap for a long time, with limited success. In spite of over 80 percent of mobile phone users using peer to peer (P2P) messaging and it contributing to over 70

percent of messaging revenues for mobile operators, advertising through P2P messaging has been largely left untapped primarily because of the unclear means to achieve non-intrusive advertising. Currently, advertising through P2P messaging is pursued through permissive advertising, where prior permission of the user is obtained and the user is rewarded to receive advertisements in P2P messages. This has found limited acceptability and therefore the potential for alternate business models exploiting the wide spread usage P2P messaging for advertising is immense.

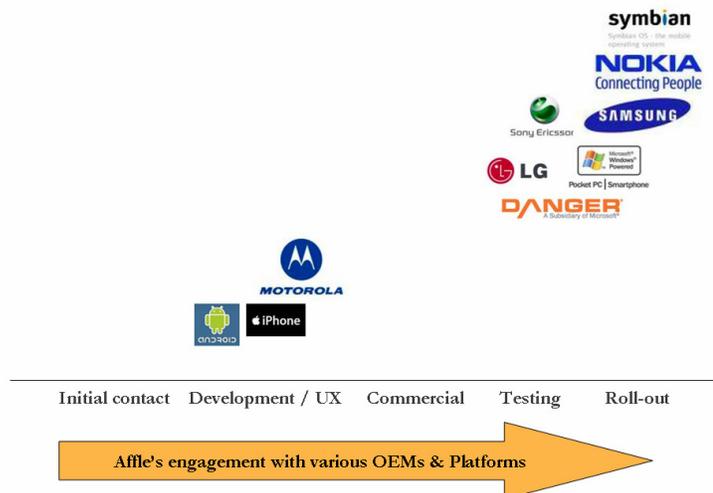
4. Affle SMS2.0 – Making media mobile

Over the years, mobile applications have evolved to give richer and enhanced user experiences to the end consumer. Mobile advertising, per say, is at a nascent stage and the delivery of the same through mobile advertising is a desirable but evolving. Incorporating advertisements as part of mobile application enables collaboration across content developers, advertisers and mobile operators, increasing the revenues of the entire ecosystem in the process.

The Affle SMS2.0 application is an upgrade over the traditional inbuilt SMS applications available on mobile handsets. It replaces the default SMS application on the handset, providing an enhanced messaging experience and allowing users to weave through personalized content displays interspersed with advertisements, creating a non-intrusive display of content and advertisements. Additionally, it allows advertisers to interact with on a one on one basis with their target consumers, anytime, anywhere.

4.1. How SMS2.0 addresses mobile advertising?

With increasingly demanding consumers, the stakeholders in the ecosystem are aiming to provide an enhanced user experience through better access, interaction and content. While one goal is to develop applications to engage consumers, content and advertisers, the other is to cater to the crucial area of handset compatibility. The mobile handset market is in constant evolution, with an existing model almost reaching obsolescence post launch. With the success of a mobile application being defined by the extent of its usage, achieving compatibility with a range of handsets is important.



Affle has entered into partnerships with a majority of the Original Equipment Manufacturers (OEM), thereby increasing the adoptability of Affle SMS2.0. As of November 2009, Affle SMS2.0 has an installed base of users, growing month on month.

Most mobile advertising models incorporate advertisements within P2P messages or provide random advertisement bursts based on the campaigns the advertisers are currently running. Consumers detest unsolicited commercial SMSs and it is therefore important to gather consumer interest without interfering to the primary tasks being pursued on the mobile phone. By incorporating a bottom panel which serves content and advertisements, Affle has introduced relevant, contextual and non-intrusive advertising to the mobile advertising market.

4.2. Enhanced messaging experience for the consumer

The SMS2.0 application gives the consumer access to an enhanced, interesting messaging experience at no extra cost. SMS 2.0 provides a rich messaging experience with color messages, fun emoticons, time scheduling of SMS, personalized signature, secret SMS and easy search. It also provides enhanced messaging features such as SMS to e-mail service, multimedia attachments and peer to peer content as well as includes the best of MMS, IM and E-mail features. By replacing short-codes with easy to use shortcut options, SMS2.0 aids user usage and interactivity.



Improved Messaging

- Scheduled SMS
- Color messages
- Fun Emoticons
- Email features
- Add to calendar
- Add to contacts
- Add to bookmarks
- Call back

The SMS 2.0 application gives users free mobile access of content of interest such as jokes, movies, lifestyle, sports and so on and is delivered in a non-intrusive fashion through a bottom panel on the

messaging screen. A user can choose to expand the content of choice, with an option to browse through additional information.

4.3. *Higher interactivity, measurable returns for the advertisers*

The Affle SMS2.0 application helps the advertisers to achieve last mile marketing; that is, showcasing an advertisement to an extremely targeted audience based on their preference. Advertising is no longer about making an appearance on a bill board or a commercial break, it is more about giving consumers preferred content in the form they are comfortable with. SMS2.0 helps in delivering advertisements in an integrated manner so as not to compromise the performance and nature of the user's original experience, while providing advertisers an avenue to feature contextual advertisements. To increase consumer engagement, SMS2.0 has richer interactivity options such as Call back, Forward content, Add to calendar, Add to bookmark and so on. SMS2.0 assists interactivity by replacing short-codes with shortcut options, thereby increasing the response to advertising campaigns.



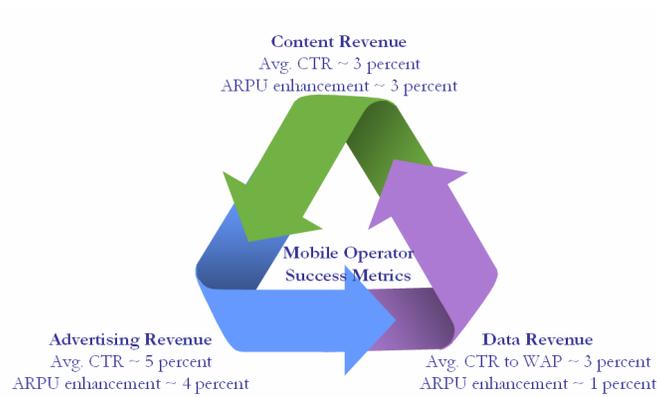
Higher Interactivity

- Schedules, Reminders, Events
- Add to bookmark, calendar, contacts
- Call back
- Launch Browser
- Premium SMS
- Voting, polls
- Interest levels, feedback
- Forward content

Affle SMS2.0 makes mobile advertising achievable for advertisers and agencies by enabling the end-to-end technology and ecosystem: from procurement of content and advertisements to invoicing and billing to delivery of the content and advertisements. With deployment by the major mobile operators in the country as well as a rapidly growing installed base owing to the enhanced consumer experience and compatibility across handsets, Affle has been able to build partnerships with most of the leading advertisers and agencies and deliver customized mobile marketing solutions. Being an early entrant in the industry, Affle has successfully delivered over 300 advertiser campaigns. The SMS2.0 story has proved the case for non intrusive and relevant advertising delivered on mobile.

4.4. *Additional revenue streams for mobile operators*

Already catering to over 2 million subscribers in the country and increasing acceptability by advertisers, consumers as well as major mobile operators, the viability of the SMS2.0 application has been clearly established. With Affle managing the end to end technology, collaboration with advertisers, content owners and OEM's as well as the billing and invoicing, the involvement of the mobile operator is limited to providing access to the network and its subscribers.

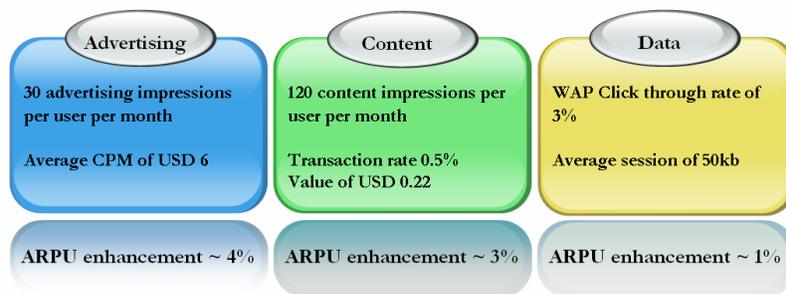


By deployment of the SMS2.0 solution, mobile operators have been able to create additional revenue streams through advertising, content and increased data usage. Learning from the internet experience where pure play ISPs got commoditized as providers of the data pipe, mobile operators can proactively leverage upon the customer coverage achieved over the years to diversify into multiple facets of a consumer's mobile usage such as media, entertainment, utilities and so on. SMS2.0 provides mobile operators an opportunity to achieve the same.

5. Success Showcase

5.1. Affle's engagement with India's leading mobile operator

Bharti Airtel, India's largest telecom service provider and one of the most forward looking mobile operator in the country, has partnered with Affle to make an enhanced SMS service available to its customers through SMS2.0. From a pilot launch of SMS2.0 in June 2007, SMS2.0 acquired over 1.2 million subscribers by June 2009.



Airtel provided access to the customers and the network, while Affle sources content and advertisements to be displayed to the user. Affle manages the end to end deployment of SMS2.0 based mobile advertising infrastructure on the Airtel network. Awareness for the SMS2.0 application was built through targeted over the air downloads, telecalling facilitated by Bharti Airtel and free promotions. As a result, the customer base using the SMS2.0 application over the Airtel network is over 1.2 million users by June 2009.

The mobile advertising platform provided by SMS2.0 has enabled Bharti Airtel to achieve revenue enhancements of close to 8 percent from the users using the application through three modes – advertising revenue, content revenue and enhanced data traffic revenue.

In addition to launching advertising campaigns for different advertisers, Airtel achieved success on an in-house campaign during the launch of the Apple iPhone. Airtel included advertising through SMS2.0 as a part of its media plan. Airtel was able to whet the interest of the consumer through the campaign, as a result of which additional information about the iPhone was viewed by over 70,000 consumers. Of the 200,000 pre-bookings for the iPhone through various media campaigns, over 50,000 pre-bookings were achieved through the SMS2.0 campaign alone.

5.2. Product launch advertising campaign through the mobile channel

Maruti Suzuki, a leading automobile manufacturer in India, partnered with Affle during its launch of the new mid segment hatchback – **A Star** in November 2008. With a variety of products in the same category across manufacturers, differentiation in communication is a key to generate consumer interest.

Maruti Suzuki was exploring an advertising channel which could reach vast majority of population as well as engage the user on a sustained basis. The objective of the campaign was to:

- Build Engagement channels which would allow users to communicate with the company
- Build anticipation and hype around the launch
- Generate interest to lead to test drives, and eventually purchase



Maruti Suzuki was able to engage the consumers through polls, teasers as well as interactivity options such as Call Maruti, Get Brochure and View Site, enabled through the Affle SMS2.0 application. As an outcome of this engagement with Affle, Maruti Suzuki was able to:

- Reach out to over 650,000 users
- Achieve high click through rates of 5.2 percent
- Achieve 84,000 interactions with Maruti Suzuki

The campaign delivered through mobile achieved the objectives of anticipation and engagement, while also generating a higher ROI than other media formats that Maruti Suzuki traditionally uses. Maruti Suzuki is now a regular advertiser on Affle SMS2.0, having done multiple campaigns after the launch of A-Star.