



►Coming Soon to Cellphone Screens -- More Ads Than Ever

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After years of hesitation, some of the largest wireless companies in the U.S. are starting to allow advertising on their cellphone networks, with the hope that these small screens eventually will rival the Internet as a powerful marketing venue.

Sprint Nextel Corp. and Verizon Wireless have both been running trials of banner ads on their wireless information and entertainment services since earlier this year. Sprint is planning to make an announcement about its ads program in the coming weeks, according to people familiar with its plan. Sprint is also conducting trials of video ads, which appear for 10 seconds or so before the desired service appears.

Verizon Wireless, a joint venture of Verizon Communications Inc. and Britain's Vodafone Group PLC, is also moving toward advertising on cellphone, according to people familiar with the matter. "We are testing out some different models," says Jeffrey Nelson, a Verizon Wireless spokesman. "We're going to continue to assess them."

Meanwhile, Yahoo Inc. and go2 Directory Systems are set to announce today a deal that will put Yahoo-sponsored listings on the go2 Directory local-search Web site carried by Verizon Wireless, Sprint and Cingular Wireless, a joint venture of AT&T Inc. and BellSouth Corp. When consumers use go2 Directory to search for local restaurants or movie theaters, Yahoo-sponsored advertisers will show up in their result list.

Most wireless Internet sites don't include advertising. While some media companies have ads on their own wireless sites, most cellphone users limit their Web browsing to sites hosted by cellphone operators. An overwhelming majority of wireless Internet traffic goes to these operator-controlled sites. With operators now starting to include ads on their sites, the amount of wireless Internet advertising is expected to mushroom.

Until now, major carriers like Verizon Wireless and Sprint Nextel feared that ads might alienate customers who consider their cellphones personal items. No major carrier is talking about displaying ads on home pages or while customers are making calls.

Cellphone companies are eyeing ads as a way to combat declining revenue from voice calls, which have been getting cheaper to attract new customers. At the same time, carriers have come under pressure to introduce advertising from media companies that are investing heavily to bring sports, news, videos and other entertainment to wireless devices. Content providers are looking for a new revenue source partly because many have been disappointed with consumer response to efforts to sell such content for a fee.

Many marketers are intrigued by cellphone ads because they can target customers more precisely than ads on television, online or in print. Phone companies have a lot of their customers' personal information, from billing records, and locations where they are using their phones in real time. Carriers can potentially track which wireless Web sites a customer is browsing, for instance, and send them targeted ads while they're using the service.

It remains unclear whether consumers will tolerate ads, and some technical complications stand in the way of producing ads that work on a variety of tiny screens and networks. Advertisers and phone companies also have yet to figure out a formula for setting ad rates.

Sprint's first priority is to make sure that advertising doesn't produce negative reactions from customers, says Paul Reddick, the company's vice president of business development. It's a "very measured approach," he says. A Verizon Wireless spokesman says the company is "very protective" of its relationships with their customers.

Consumers may be more willing to accept advertising if they get information and entertainment on their cellphones for lower fees, or free. For example, Verizon Wireless charges \$4.99 a month for its stock-price service while Sprint charges \$2.99 monthly for a city-guide service. If these services have ads, carriers will likely lower prices or even offer them for free, like they are on the Internet, though both companies declined to comment on that prospect.

Some media companies already are doing just that. The Weather Channel recently dropped its monthly fee of between \$2.99 and \$4.99 for its hurricane tracking service because it is now including ads on its wireless Web site. In March, Reuters Group PLC waived the \$4.99 monthly fee for its daily news-alert services. "This is the way for Reuters to grow a mobile audience in the next three to five years," says Stephen Smyth, vice president in charge of Reuters' mobile strategy.

Other content providers also feature ads on their wireless Web sites. For example, when phone users type usatoday.com on their cellphones, they are taken to the newspaper's wireless Web site with banner ads. But when they visit the Gannett Co. newspaper's Web site listed under the news section of Verizon Wireless's or Sprint's wireless portals, users won't see any ads.

This will likely change at Verizon Wireless and other major U.S. carriers, which will share ad revenue with content providers. They're being encouraged in part by the success of content providers in selling ads on their own sites. According to Third Screen Media, a mobile advertising company, its servers registered 100 million Web-page views in June on the wireless sites of its clients, including USA Today, up from 35 million last December.

The average price for a four- to eight-week-long banner ad campaign on a content provider's wireless Web site is now \$75,000 to \$150,000, up from \$25,000 to \$50,000 last year. About 3% to 5% of phone users click on banner ads on their screens -- higher than the 1% click rate of computer users, says Jeff Janer, chief operating officer of Third Screen Media.

Wireless advertising has already caught on in other parts of the world. D2 Communications, a mobile-marketing company partly owned by Japanese wireless company NTT DoCoMo Inc., has had banner ads on cellphones since 2000. D2 says that it runs 100 million to 500 million banners on cellphones a month, with 3% to 5% of viewers clicking on the ads. India's biggest cellphone operator, Bharti Airtel Ltd., has had Microsoft Corp., Canon Inc. and Ford Motor Co. as advertisers since 2005.

In Europe, both France Telecom SA's wireless unit Orange and 3 UK, a unit of Hong Kong's Hutchison Whampoa Ltd., have started to accept advertising in recent months. Vodafone, the world's largest cellphone-service provider in terms of revenue, is trying different business models -- including offering free TV services to customers who agree to accept ads in addition to an ad-sponsored messaging service.

At 3 UK, which has been using mobile advertising and sponsorship for about a year, brands that have signed on include sportswear company Adidas AG, videogame publisher Electronic Arts Inc. and Apple Computer Inc.'s iPod players and iTunes music service, among others, says Mark Joseph, director of music and television at 3 UK. It also has been experimenting with sponsored movie listings, where a phone-directory company pays for an ad on the phone screen before the consumer can access the movie information.

"We absolutely believe this will be a significant revenue stream for us in the next five years," says Mr. Joseph, who declined to specify the percentage of the company's revenue that comes from advertising.

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