

# Breaking the Rules: Finding New AVPU Through Click-throughs

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By J. Giere

Leaders of every stripe – whether in military, political, scientific or even business arenas – have prospered in turbulent times by breaking the traditional rules of engagement that governed the status quo. We find ourselves at such a time today in the communications industry. The industry seeks out new growth that extends beyond traditional revenue streams. We believe, as a result, that service providers must explore business models that focus on leveraging their intangible assets.

This mantra represents a fundamental shift for most service providers and their strategic suppliers, such as Alcatel-Lucent, in terms of how we create value. Together, we must look beyond traditional tangible network assets that deliver us the Average Revenue per User (ARPU) baseline metric. Fundamentally, we must reassess how we can extract new value from our intangible asset base, to drive the new revenue metric – what we refer to as Average Value per User (AVPU).

By looking at their entire business value per customer, a growing number of service providers are discovering a whole new array of largely untapped value assets. The challenge is to create a successful business strategy focused on monetizing these assets. For example, what is the business model to harness new technologies and intelligently mine subscriber profiles to generate new customized service offers and related profitable revenue streams? There is recognition that new approaches to targeted advertising – that is, providing digital marketing platforms that connect buyers and sellers in an intelligent way – can be important part of how the industry answers this question in the future.

Much has been written about how “new media” disruptive entrants into the communications field (like Google, Yahoo, Apple, Skype and so on) are putting downward pressure on incumbent players’ traditional, subscription-based revenue streams. Service providers have an opportunity to challenge the status quo in the “new media” markets by leveraging innovative advertising models to capture new revenue and deliver enhanced customer value. This enables them to penetrate established markets in their own disruptive manner and play a little revenue offense in a marketplace that often places them on the revenue defense. Specifically, service providers offer a new value proposition to advertisers and brand managers with a very targeted and contextual digital marketing platform that surpasses the capabilities of “new media” digital marketing providers.

Service providers intending to take advantage of this potentially lucrative opportunity will focus on reinventing their present relationships with their subscribers. A key aspect will be the need to blaze new trails on how advertising delivers value to consumers and merchants alike. This is especially critical as a new breed of modern consumers takes the stage. This new generation of consumers has forged its buying and decision-making processes in a Web 2.0 environment, behaving very differently from previous users of communications services and traditional advertising demographic segments.

## The Modern Consumer

Personalized interaction is the key to dealing with the modern consumer, which we define as one of two groups:

- **The incoming Millennial Generation:** Coming of age in a Google and MySpace era, conditioned to both receive targeted advertising based on the query characteristics of their searches and to volunteer personal information as they set up profiles on social networking sites.

- **An older generation of early technology adopters:** Often parents of Millennials, they appreciate the power of personalization in their own interactions and are pulled to this technology capability via their children.

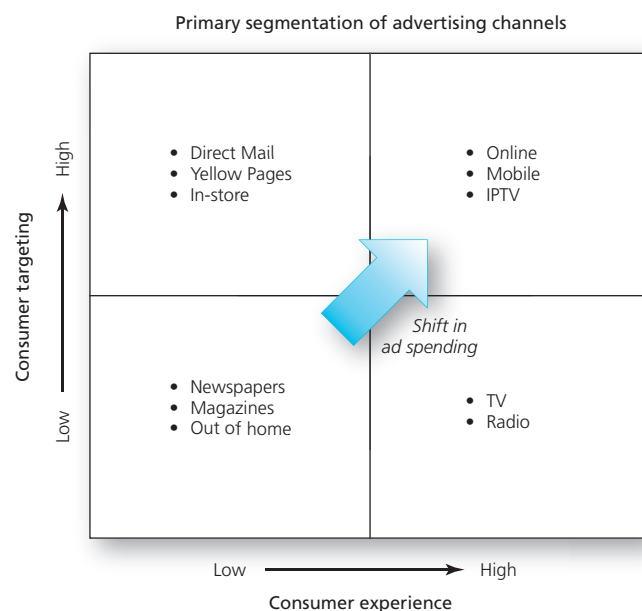
Both segments are interactive technology users and multi-taskers who have integrated collaboration strongly into their lifestyles. Thus, Millennials are a vital target audience for marketers and brand managers. These are the folks who are behind the concept of buzz marketing. These consumers desire to build and develop authentic relationships with friends, communities and brands they care about. When they like a product or a service, they are very likely to spontaneously share their preferences with friends, family and colleagues. Study findings show they have a significant influence on parental technology related purchases. Alcatel-Lucent research shows that this segment of the market accounts for 55% of consumers currently using two or more devices (mobile phone and laptop for instance) on a regular basis.

### New Business Model

According to our research, total investments in global advertising will grow from roughly \$600 billion USD (€389 billion) a year in 2007 to \$800 billion USD (€519 billion) a year in 2011, representing a robust 33% growth. While this market opportunity is expected to raise the tide of the overall market, it will not lift the fortunes of all the players currently in the advertising space today.

Specifically, we expect traditional media outlets – such as newspapers, magazines, TV and radio – will continue to lose a significant share of this spending as brand managers and enterprise marketers shift their focus away from print and broadcast media to the new online, mobility and other interactive marketing opportunities (Figure 1). Mobile, online and IPTV platforms will represent the fastest growth segments for advertising investments. In fact, traditional advertising will only account for 89% of all advertising dollars spent by 2011, down from 95% in 2006. This reduction represents a dramatic \$48 billion USD (€31 billion) shift in ad spending to new digital advertising mediums.

Figure 1: The shift in ad spending



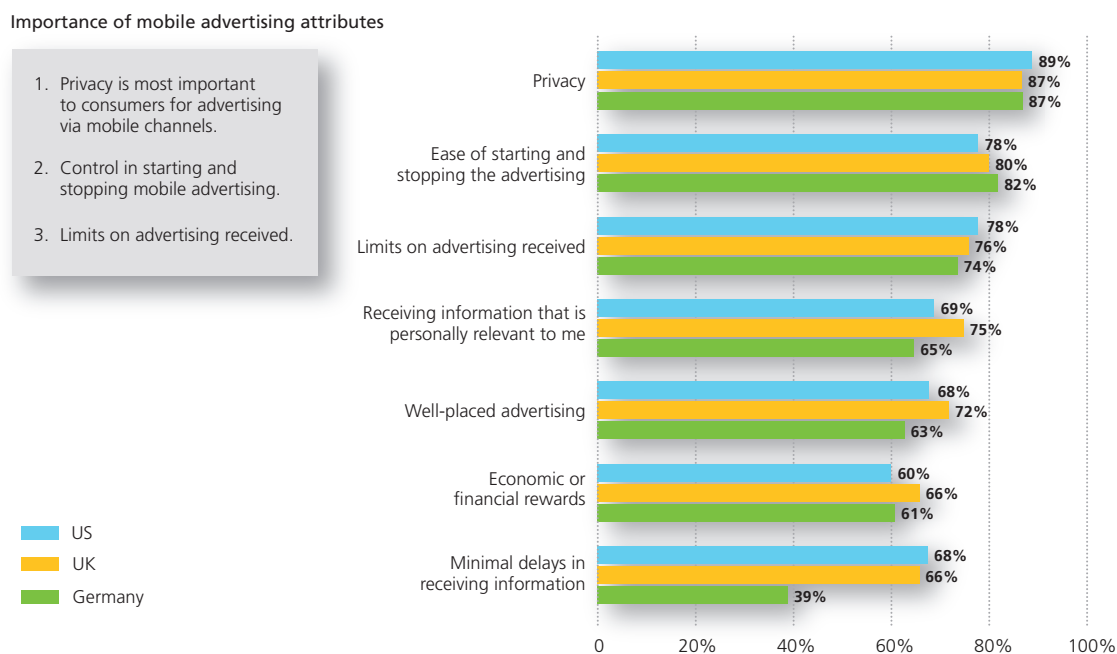
The reasons for this shift are simple. The new digital delivery mediums offer marketers and brand managers ways to:

- Deliver marketing messages to the devices of choice in a more targeted manner, enabling digital marketers to customize specific offers to individual needs and personal preferences. This micro-marketing capability translates into an improved cost-per-thousand (CPM) response performance perspective, a better cost-per-acquisition metric and, finally, a better brand experience metric.
- Leverage the power of buzz marketing. This digital phenomenon relates to how customers use social networking platforms to share with peers their preferences, experiences and recommendations about brands, products and recent purchases in a manner that is more authentic and compelling than traditional marketing and messaging vehicles. Properly managed, this leads to a much higher percent in terms of purchases-per-impression.
- Create cross-media campaigns (mobile, IPTV, web) to nurture and track the development of an individual relationship between buyer and seller. Digital campaigns can enforce a higher level of accountability by tracking the specific responses to every campaign every time, potentially across multiple user access devices. This is important because advertising results have exponential value when exposure (“eyeballs”) and sub-sequent response rates can be measured at an individual level.

### Consumer Rules

The relationship between subscriber and communication service provider is one that is built on trust. We have seen through our primary market research that it is critical to address subscriber privacy concerns and implement good stewardship of personal information. According to Alcatel-Lucent research of consumers in the United States, United Kingdom and Germany, the three most important attributes for mobile advertising are privacy, control in starting and stopping advertising, as well as limits on advertising (Figure 2).

Figure 2: Most important attributes for mobile advertising as reported by consumers in the US, UK and Germany



If the relationship between service provider and consumer is properly managed, advertisers will see an increasingly compelling case for investing their considerable resources in digital mediums.

### **Communication Service Providers Uniquely Positioned**

In this environment, few players are better positioned to play a central role in developing this market opportunity than communication service providers. Service providers have tremendous insight into who each individual consumer is, where that consumer may be present at any given point in time, and preferences based on previously “learned” behavior patterns. This information is extremely valuable to business-to-consumer marketers. It enables lifestyle micro-marketing at home or on the go – which is missing in today’s mass-market advertising models.

We see a growing number of examples where subscribers are willing to share profile information with service providers in exchange for receiving more personalized services.

One good example of a service provider that is leveraging this phenomenon is Virgin Mobile. In 2007, Virgin launched its Sugar Mama service to offer customers new opportunities for earning wireless “airtime in their spare time.” Brands as varied as Microsoft’s Xbox, Jive Records, Levi Strauss, Sony Pictures and the US Navy are working with Virgin Mobile to underwrite new services geared toward young subscribers. Specifically, they are offering customers the opportunity to opt in to interactive mobile and web-based advertising initiatives in exchange for free airtime on their Virgin Mobile phones. Air credit is earned when customers interact with marketing content from one or more of the sponsors. In the process, advertisers get detailed feedback from target audiences.

The results have been impressive. Within the first year of service, more than 300,000 Virgin Mobile customers signed up to earn 5 million minutes. On average, each Sugar Mama subscriber has earned 16 minutes by signing in to interact 14 times with various offers.

Click-through rates are in the 5.5% range, which is 18 times the industry average of 0.3%. Moreover, Virgin Mobile reports that 33% of the users voluntarily provided additional, psychographic information to enhance their participation in the program.<sup>1</sup>

The Virgin Mobile case illustrates that personal information can, in fact, be acquired and used with the full support of consumers. Consumers increasingly see a positive quid-pro-quo in providing information on certain preferences in order to receive commercial messages that are relevant to the brands, people and products they care about over the medium, device or platform of their choosing.

Looking forward, one of the key value-propositions large service providers can offer to brand managers and advertisers is the ability to integrate the various digital initiatives that marketers want to implement. Today, a company that wants to deliver messages to mobile handset owners, web surfers and to the nascent IPTV viewership must execute these campaigns separately, often with different delivery suppliers. The irony is that in many cases, the exact same infrastructure may be used to carry the transmissions to these three different audience segments. One of the biggest opportunities before service providers is to consolidate and simplify digital media buys so that marketers can better understand, manage, measure and adjust their campaigns real-time to maximum effect. Making this happen will require service providers to break through the conventional rules of today’s operations and integrate both network elements and service management levers to present one face to the advertising customer.

1 S. Kelliher, Virgin Mobile Sugar Mama and D. Jones, Ultramercial, “Using Metrics & Measurements Successfully,” Mobile Advertising Conference organized by Informa Telecoms & Media, June 3, 2007, New York City, USA.

## Multi-screen Personalization

Comprehensive integration (sometimes referred to as a three-screen strategy) is the ultimate goal for many marketers, as they seek to have both a presence and a multi-screen relationship with consumers as they interact with their:

- Mobile screens,
- Computer screens,
- TV screens (particularly in an IP environment) and
- Others (portable game players, on-board vehicle screens and so on).

Each of these form factors has different technical and user-experience imperatives. Marketers would like to develop integrated campaigns that seamlessly connect consumers to brands they value across these screens. Service providers are in an ideal position to realize this vision. At Alcatel-Lucent we are working with our customers to introduce the new technologies and management tools that will enable this cross-screen management and link the presentation of content within the context of customer preference information. This not only offers brand managers a way to customize messages across the different screens, but also, more importantly, provides a meaningful way to interact with consumers in a highly personalized and engaging manner.

## The Challenge of Successful Execution

Making the ad-sponsored future happen will have its challenges. Executives must run a race in two directions – continue optimizing their current core business (offering connectivity services to enterprises and consumers) – even as they reallocate resources to develop and execute new services addressing entirely new customer categories such as brand managers and advertisers. Consequently, success will mean effectively managing a more diverse portfolio of services, eco-system partners and customer bases than ever before.

For instance, measuring results of ad campaigns is an imperative. Service providers will have to become skillful managers of advertising metric data to entice sophisticated brand managers and advertisers, and subsequently ensure they reach their desired consumer ad metrics. This introduces yet another service area where service providers can offer added value: measurement and response rate.

Leading service providers are working to develop these key performance indicators to further accelerate the role of network operators in the advertising domain. At the recent 2008 Mobile World Congress event in Barcelona, the GSM Association announced that five of its members would work together to define common metrics and conventions for mobile advertising. According to a February 2008 report by Ovum<sup>2</sup> analysts John Delaney and Vincent Poulbere, Vodafone, T-Mobile, Telefónica/O2, Orange/France Telecom and “3” are looking for consistent ways to measure the effectiveness of mobile network advertising. According to Ovum: “The group will conduct a feasibility study with their five UK operators aimed at developing a consistent basis for aggregating operator data into audited cross-operator metrics, for use by media and advertising companies.” This will be invaluable, and indeed essential, to media and advertising companies as they seek to compare “apples-to-apples” in their new digital promotion campaigns.

<sup>2</sup> ©2008, Mobile Advertising: A Key Theme of Barcelona 2008, Delaney, J. & Poulbere, V., OVUM.

## The Way Forward

It seems clear that service providers are well-positioned to play a key role in delivering the right, relevant messages to the right people at the right time and stimulate the value chain for all stakeholders. Ultimately, identifying and leveraging intangible assets such as customer profiles will be critical to new business model success. Service providers can position themselves to advertisers as the optimal channel to reach individual consumers with very targeted and relevant messages that result in a higher degree of purchase response.

To achieve this optimized state, Alcatel-Lucent believes that service providers must begin now to design and implement a long-term plan that integrates strategy and operational management across applications and delivery platforms. Service providers are uniquely positioned to “make new rules” and capitalize on the opportunity to connect people to the “click” of a brand on their device(s)-of-choice. The result of these new rules will be the generation of higher value AVPU and consequently shareholder value creation. ►►

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