



How Big is the Mobile Marketing Opportunity?

Using Empirical data to quantify the Mobile
Opportunity for Publishers and Marketers

September 2014



Executive Summary

Current predictions of mobile advertising's meteoric rise are themselves too conservative - underestimating the size and growth of the mobile ad spend opportunity.

Early MMA research results on the ROI of mobile and its optimized spend in the mix suggest that it should be more than 2X the current aggregate estimates for 2014. If marketers can follow their heads and optimize their full cross-channel media budgets properly, mobile ad publishers will be serving a \$70B mobile ad spend market in the U.S. alone, and nearly \$220B worldwide.

For **individual marketers**, this media channel's disruptive impact will yield winners and losers, in much the same way that the discontinuities of digital display did before.

At the expense of mobile laggards, marketing executives who choose to lead and move first to optimize mobile advertising spend will open a competitive advantage: tangible share shift, and – for the largest advertisers – **hundreds of millions of dollars of additional annual revenue, with billion dollar incremental market cap implications.** All without spending another advertising dollar.

**1. For Publishers:
A Large Opportunity That
Could Be Larger**

The Opportunity for Publishers

Coming from next to nothing four years ago, mobile advertising spend has increased by an order of magnitude already. Still, mobile banner, rich media and video only account for a combined 3% of the total \$177B in U.S. media spend in the U.S. this year. [1]

US Total Media Ad Spending, by Media, 2011-2017
billions

	2011	2012	2013	2014	2015	2016	2017
TV	\$60.7	\$64.5	\$66.4	\$68.5	\$70.0	\$73.1	\$75.3
Digital	\$32.0	\$36.8	\$42.3	\$47.6	\$52.5	\$57.3	\$61.4
—Mobile	\$1.6	\$4.4	\$8.5	\$13.1	\$18.6	\$24.7	\$31.1
Print	\$35.8	\$34.1	\$32.9	\$32.2	\$31.6	\$31.3	\$31.2
—Newspapers*	\$20.7	\$18.9	\$17.8	\$17.1	\$16.6	\$16.2	\$16.1
—Magazines*	\$15.2	\$15.2	\$15.1	\$15.1	\$15.1	\$15.1	\$15.2
Radio**	\$15.2	\$15.4	\$15.6	\$15.9	\$16.0	\$16.0	\$16.1
Outdoor	\$6.4	\$6.7	\$7.0	\$7.2	\$7.4	\$7.6	\$7.8
Directories*	\$8.2	\$7.5	\$6.9	\$6.4	\$5.9	\$5.5	\$5.3
Total	\$158.3	\$165.0	\$171.0	\$177.8	\$183.4	\$190.9	\$197.0

Note: eMarketer benchmarks its US newspaper ad spending projections against the NAA, for which the last full year measured was 2012, and its US outdoor ad spending projections against the OAAA, for which the last full year measured was 2011; numbers may not add up to total due to rounding; *print only; **excludes off-air radio & digital
Source: eMarketer, Aug 2013

161679

www.eMarketer.com

US Mobile Ad Spending, by Format, 2011-2017
millions

	2011	2012	2013	2014	2015	2016	2017
Search	\$743	\$2,241	\$4,348	\$6,661	\$9,300	\$12,229	\$15,253
Display	\$547	\$1,848	\$3,809	\$5,988	\$8,661	\$11,571	\$14,499
—Banners, rich media and other*	\$479	\$1,605	\$3,233	\$4,960	\$7,041	\$9,248	\$11,512
—Video	\$68	\$244	\$576	\$1,029	\$1,619	\$2,324	\$2,987
SMS/MMS/P2P messaging	\$251	\$223	\$240	\$223	\$211	\$209	\$200
Other (classified, email, lead gen)	\$27	\$50	\$112	\$214	\$389	\$695	\$1,176
Total	\$1,568	\$4,363	\$8,508	\$13,086	\$18,561	\$24,705	\$31,128

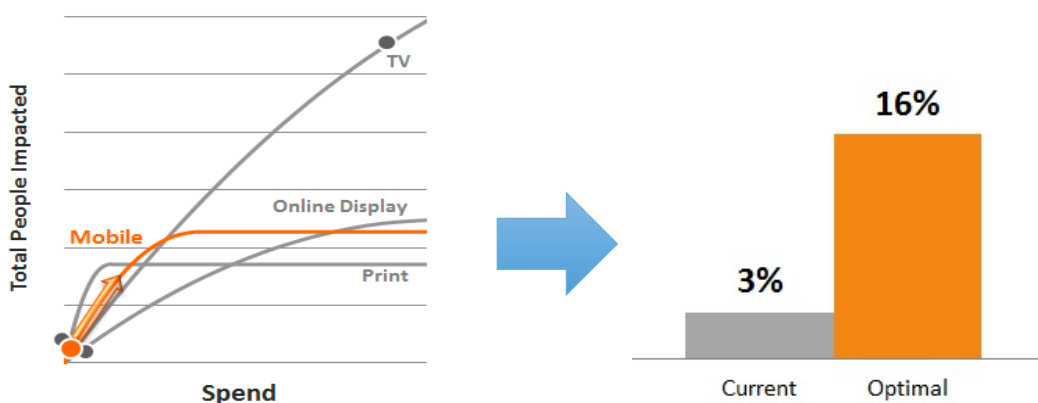
Note: ad spending on tablets is included; numbers may not add up to total due to rounding; *includes ads such as Facebook's Sponsored Stories and Twitter's Promoted Tweets
Source: eMarketer, Aug 2013

161792


www.eMarketer.com

Recent empirical field work and cross-channel analytics from the Mobile Marketing Association suggests that total mobile spend is sub-optimal. The MMA's SMOX studies are the first of their kind designed to test real marketing campaigns to determine the relative economic value of investing in mobile compared to other channels.

The initial study results show an optimized level of non-search mobile spend 5X current average levels in the marketplace. [2]



Empirical data show that current mobile spend is sub-optimal and that marketers can impact more people with the same total budget by shifting dollars towards mobile.



Instead of \$5.9M spend in 2014, the optimal total amount (excluding mobile search) could be \$28.5B in the U.S. today. Extended to the total worldwide ad spend of \$543B [3], optimal worldwide spend should be \$86.8B – or more than the current GDP of 123 of the world’s nations.

Where could optimal total spend go in the foreseeable future? Smartphone and tablet penetration will continue to rise, increasing the reach of the medium. Best practices in mobile execution will increase impact of the channel even beyond current rates. And the ad spend market will grow with economy. On each:

- Current U.S. smartphone penetration is 51.8% today, and will be 80% in the foreseeable future. [4]
- Market Evolution sees impact gains of 20% typically in a new media’s lifecycle, as best execution practices in areas like targeting and creative optimization techniques take hold. Mobile presents intriguing impact improvement opportunities in areas such as advertiser mobile app deployment, geo targeting, and highly personalized behavioral targeting.
- The ad spend market should keep its 3.2% annual growth rate.

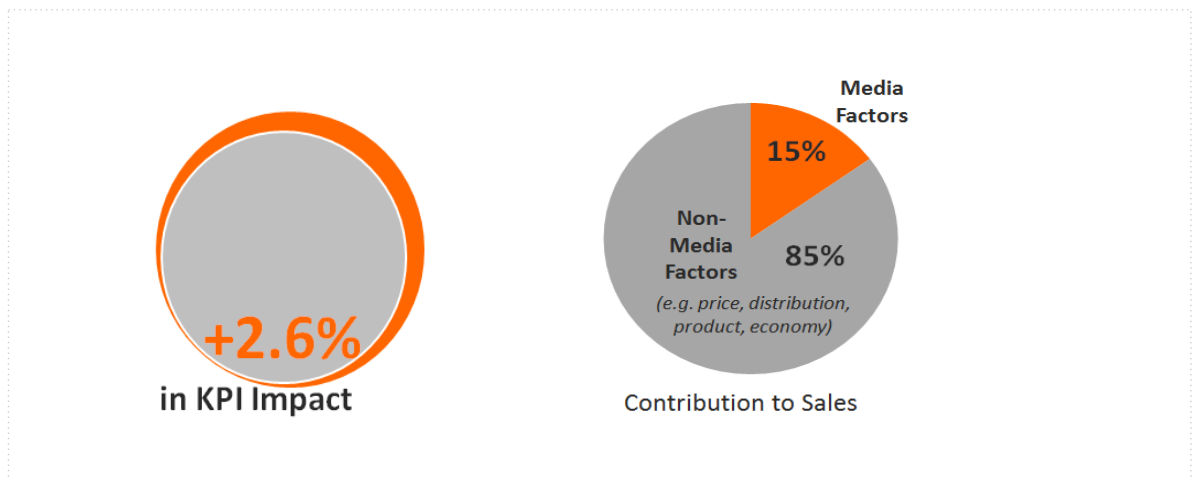
Given these assumptions, mobile can be expected to hold 29% of the overall optimized mix: a staggering \$71.7B in the U.S. and \$218.7B total worldwide, and *the* dominant portion of overall digital ad spend. [5]

2. For Marketers: An Open Window for First Mover Advantage

The opportunity for Marketers

The ad industry's digital revolution has accelerated its pace of change, and with it the sheer opportunity for winning brands to exploit innovation and grab a competitive advantage. The Interactive Advertising Bureau's landmark XMOS studies and their follow-up found real competitive advantages for the early adopters of digital display [6], while setting a foundation for the subsequent major industry step-changes brought on by social, search and now programmatic buying.

Mobile is in a similar place today. Agile marketers who see the opportunity, move first to embrace it, and act analytically and rationally to test, learn, and continually optimize their mobile execution will win. To the winners will come significant financial spoils at the expense of mobile laggards – and all by using same ad spend budgets, but for better results.



Based on Marketing Evolution's Spend-to-Impact response functions [7] in MMA SMOX Studies, optimizing mobile spend can result in a 2.6% net gain on impact generated from a campaign. In other words, just by optimizing on mobile in the media mix, marketing would be 2.6% more effective at driving sales. Previous research suggests that marketing's contribution to overall sales varies from industry to industry, but is typically in the 10-20% range for most traditional sales forecast and marketing mix models. Assuming marketing drives 15% of a firm's sales now for an advertiser, a 2.6% advertising impact increase would boost sales by 0.4% annually. This relatively small percentage could have a big impact for individual companies in established industries where such incremental share shift battles determine company (and career) success or failure in any given year.

Let's examine how this would play out for a large consumer products company with \$71B in revenue last year. A 0.4% shift amounts to \$278M in incremental revenue – the equivalent of an entire new and successful brand in their portfolio. This company's market cap is nearly \$300B. As laid out in the graphic below, a costless move to optimize mobile across the board in such a company could yield \$1.2B of market value for shareholders.



While the logic is the same, the size of the value creating opportunity brought on by mobile's optimal deployment will vary across companies. But no set of C-Suite colleagues would find their upside small. Look at some of these real examples, with names disguised:

Mobile Optimization First Mover Advantage For Selected Firms [8]
(\$ in millions)

Company	Total Media Spend	Projected Optimized Mobile Spend	Market Cap - Mid 2014	2013 Revenue	Potential Incremental Revenue	Market Value to Revenue Ratio	Potential Impact on Valuation
Consumer Technology Company	\$656	\$105	\$573,030	\$170,910	\$667	3.4	\$2,235
Large Consumer Goods	\$1,019	\$163	\$299,000	\$71,312	\$278	4.2	\$1,166
Global Retailer	\$980	\$157	\$248,410	\$476,294	\$1,858	0.5	\$969
Global Consumer Packaged Goods Company	\$3,149	\$504	\$220,830	\$84,167	\$328	2.6	\$861
Multi-National Beverage Company	\$3,300	\$528	\$185,200	\$43,900	\$171	4.2	\$722
Global Telecom Firm	\$1,954	\$313	\$184,560	\$128,752	\$502	1.4	\$720
Global Diversified Financial Services Firm	\$374	\$60	\$142,000	\$76,366	\$298	1.9	\$554
U.S. Retailer	\$750	\$120	\$37,900	\$72,600	\$283	0.5	\$148
Regional U.S. Bank	\$40	\$6	\$14,670	\$5,246	\$20	2.8	\$57

In many established industries it is a zero-sum game. Marketers who take advantage of the transition will reap the benefits *at the expense* of mobile laggards. The question for practicing marketing executives is whether they will exploit the mobile optimization opportunity to their advantage, or be exploited by others who have taken the lead.

Endnotes

[1]

<http://www.emarketer.com/Article/US-Total-Media-Ad-Spend-Inches-Up-Pushed-by-Digital/1010154>

<http://www.emarketer.com/Article/Mobile-Gains-Greater-Share-of-Search-Display-Spending/1010148>

[2] Mobile Marketing Association SMOX Study, May 2014, AT&T Case. Please note that mobile search was not included in any SMOX work to date, and was therefore excluded from this analysis. Additionally, this analysis did not attempt to break out mobile spend contributed by app developers for mobile app downloads (as opposed to traditional marketers). To the extent that mobile app downloads represents a large portion of overall non-search spend, the actual average marketer may spend even less than 3% of their budget on non-search mobile.

[3]

<http://www.emarketer.com/Article/Worldwide-Ad-Growth-Buoyed-by-Digital-Mobile-Adoption/1010244>; extrapolated through 2025.

[4] Based on the current run rate of 4% per annum.

[5] Note here that our market size calculations do not include any CPM declines in the time period.

[6] In 2007, Marketing Evolution followed up with participants of their Cross-Media Optimization Studies (XMOS) with the IAB and found that XMOS brands took the biggest advantage of the shift towards digital, increasing spend 3,000% from 2002 to 2006. *Past XMOS Marketer Investment Change*, Marketing Evolution, 2007.

[7] *SIRFs-Up: Catching the Next Wave in Marketing*, Rex Briggs, 2013.

[8] For each example company, Total Media Spend and Market Cap were pulled from public estimates, and 2013 Revenue was sourced from Kantar estimates. The optimized mobile spend represents Marketing Evolution's estimate that 16% is, on average, the optimal allocation of mobile spend in 2014. Incremental revenue is calculated by multiplying the net impact of marketing (2.6%) times the estimated contribution of marketing towards revenue (estimated at 15%, though this will vary somewhat by company) times the overall revenue of the firm. Lastly, the impact on valuation is calculated by simply multiplying incremental revenue by the ratio of Market Cap to 2013 Revenue.

For more information please contact:

Vassilis Bakopoulos
Head, Industry Research, MMA
vas@mmaglobal.com