Targeted Interactive Advertising
A Killer Revenue App

As the communications industry evolves from a network-centric view of the world to a user-oriented perspective, service providers are transforming their business models to create new revenue opportunities associated with enhanced content and interactive media platforms. This white paper explores the opportunities that exist for service providers as they shift how value is created, managed and monetized in their networks to take advantage of next-generation advertising models.
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Introduction

As the communications industry evolves from a network-centric view of the world to a user-oriented perspective, service providers are transforming their business models to create new revenue opportunities associated with enhanced content and interactive media platforms.

Faced with declining revenue from rapid commoditization of traditional wireline and wireless subscription-based models and competition from new market entrants, service providers have been forced to reevaluate how value is created, managed and monetized in their networks.

Forward-thinking service providers are leveraging their tangible and intangible assets to generate revenue from interactive advertising. They are using subscriber intelligence to form a 360-degree view of their subscribers that enables heightened end-user personalization for the delivery of a seamless, integrated experience across multiple device platforms and locations. This personalization provides advertisers with the unique opportunity to effectively target and directly interact with end users anywhere.

A 2008 multi-client research study, conducted by Heavy Reading, indicates the vast majority of service providers believe advertising will be an increasingly important source of incremental revenue. Almost half of the service providers surveyed are already selling advertising on at least one platform, while most of the other half are either in the planning stages or already beginning to offer advertising services.

With a groundswell of interest and support for next-generation advertising, service providers must be expedient in shifting their models to optimize the potential. Choosing the right partner is critical to service providers in realizing the benefits of new, advanced business models, subscriber intelligence and multi-screen services.

The Opportunity

Service providers have begun to tap into the potential revenue of interactive advertising or are planning to. Nearly half of the service providers surveyed by Heavy Reading are already selling advertising and most of the remaining service providers are either evaluating their strategy or making plans to leverage some form of advertising soon.

Figure 1. Current status of service provider advertising

Source: Heavy Reading 2008
Service providers agree that advertising will become an important revenue stream over the next five years. Over two-thirds of the service providers surveyed expect advertising to generate up to 10 percent of their revenue in the next five years. Almost a third of them project over 10 percent of their revenue will come from advertising in the next five years.

Figure 2. Advertising revenue percentage of service provider revenue

![Figure 2. Advertising revenue percentage of service provider revenue](image)

Source: Heavy Reading 2008

Earlier analysis of the advertising market indicated that the total global advertising spending is projected to grow 17.8 percent between 2007 and 2012. Interactive advertising will fuel this growth, climbing from $45 billion US (€30.6 billion) in 2007 to $147 billion US (€100 billion) in 2012, a 226.7 percent rise. The current uncertainty in the global economic environment is likely to have an impact on segments of the advertising industry but it is as likely to put higher demand for greater targeting and interactive capabilities that new media offers with better returns on advertising dollars.

Figure 3. Global advertising spending

![Figure 3. Global advertising spending](image)

Source: Kelsey Group 2008
To capitalize on this growth trend, service providers must leverage their ability to offer context-aware advertising to reach end users when and where they are most likely to make a purchase. Service providers must also enable advertisers to interact with end users in a way that is integrated into their lifestyles. Then advertisers can engage end users anytime, anywhere, and on any device — choosing opportunities where users are most likely to respond to the information they receive.

So what are the best options to achieve this? Which advertising platforms offer the most potential to reach end users?

**Targeted interactive advertising platforms**

Traditional advertising platforms have limited targeting effectiveness and practically no interactivity capabilities, while newer options are producing opportunities for highly targeted, more relevant advertising. According to Alcatel-Lucent research data, platforms offering stronger targeting capabilities and higher quality end-user experiences, such as mobile, online and IPTV, are positioned to benefit from the largest share of the opportunity since these platforms will experience rapid growth from media investment. The more conventional vehicles — newspapers, magazines, traditional television, and radio — are generally projected to lose a share of spending as advertisers seek out the newer interactive platforms.

The ability to target end users with highly personalized advertising, the ubiquity of mobile devices and the delivery of enhanced end-user experience are among the leading factors driving advertisers toward these new platforms.

While online advertising is not expected to grow as fast as mobile and IPTV advertising platforms for advertisers, it will remain a dominant interactive platform with nearly 85 percent of the spending between these three platforms by 2011\(^1\). The most significant growth, with an optimistic 63 percent Compound Annual Growth Rate (CAGR) between 2006 and 2011\(^2\), is expected to come from the mobile platform, as it offers newer, more effective methods to attract engage and retain audiences.

IPTV will witness moderate growth as mobile, which is projected to reach $12.3 billion US by 2011\(^3\) garners the largest advertising growth.

A recent article in the Alcatel-Lucent Enriching Communications magazine, titled Early Movers in Mobile TV are Poised to Capture a Burgeoning Market, cites data from ABI Research that estimates the number of mobile TV subscribers worldwide will grow from 11 million in 2006 to 462 million in 2012, representing a CAGR of 85 percent.

A key point is that service providers are uniquely positioned to offer and aggregate advertising across multiple domains, TV, Internet and, most exclusively, mobile telephony.

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1. Alcatel-Lucent 2007
3. Alcatel-Lucent 2008
Most advertisers surveyed consider advertising across multiple devices as important or very important due to the opportunity it presents to reach end users in a highly interactive environment, but they are wary of the service providers’ ability to track advertising.

In a Heavy Reading interview, Hong Kong-based service provider PCCW stated, “We see tremendous benefit from advertising across PCCW’s quadruple play including now TV, the PCCW eye home multimedia device, the Internet and PCCW mobile: these, in addition to acting as a reseller of third-party services, such as Yahoo, Google and Baidu, and PCCW’s print products. In our opinion, it is important to be able to multi-publish client’s advertising across the platforms to enable advertisers to gain maximum reach across multiple platforms whenever or wherever their customers and potential customers are.”

Most service providers surveyed by Heavy Reading either agree or strongly agree that offering advertising across multiple devices is important.

![Figure 5. Importance of advertising across multiple devices (service providers)](source)

![Figure 6. Importance of advertising across multiple devised (advertisers)](source)

*: Heavy Reading 2008
To accelerate adoption of next-generation advertising models, advertisers have a set of requirements that must be met. For example, to understand accountability for their investment in advertising through interactive television, advertisers seek detailed TV viewing information and click-through data. For broadband portals, they seek traffic analysis and impression/click-through viewership data in real time using an online dashboard. And when targeting mobile end users, advertisers require location information to better target ads. Advertisers stress the need for an aggregated single view and convenience of buying, particularly for national campaigns. It is important to note that measurement requirements for mobile are still developing as the capability matures. Location will not necessarily be the only requirement — others include click-through rates, conversions and total impressions.

**Figure 7. Interactive advertising measurement**

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<td>TV</td>
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<td>Broadband Portal</td>
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Source: Heavy Reading 2008

To summarize, the uptake of interactive advertising is critical to the service provider’s revenue-generating potential as advertisers are primed to take advantage of the powerful impact and effectiveness of interactive advertising. For those service providers not yet offering interactive advertising, uptake becomes even more urgent to capitalize on the competitive and end-user differentiation it affords.

**Leveraging subscriber data to create new revenue streams**

Service providers are creating individual 360-degree subscriber views based on accumulated subscriber data. This information can help service providers deliver personalized, context-aware services to end users and provide robust subscriber intelligence to advertisers trying to reach end users with highly personalized, targeted messaging.

Personalization and targeting are important to service providers with almost 75 percent considering individual targeting as very important or essential to interactive advertising and 60 percent viewing location-based advertising as a major part of their offerings in the next three years.
Advertisers are looking to create individual consumer profiles, to avoid sending the same consumer the same message across platforms and to gain more intelligence into consumer interactions, especially when a transaction is most imminent — such as in a retail outlet or other point-of-purchase locations.

As advertising becomes more intelligent, privacy concerns are becoming a greater issue for end users, specifically, how their personal information is handled. Service providers acknowledge this sensitivity and work to assure their subscribers that their privacy is being protected. Service providers should implement solutions that do not collect or share Personally Identifiable Information (PII) and create profiles that provide anonymity to the end user. Advertisers also recognize and react to these concerns through the emphasis on permission-based targeting and opt-in advertising.
Service providers must consider a number of technologies to devise an effective solution to support such targeted and segmented advertising. Real-time subscriber and session-sharing systems, subscriber profiling engines and targeting capabilities at the edge of a service provider’s network are all critical elements.

Figure 10. Most important technology for advertising

![Chart showing the most important technology for advertising.](image)

Source: Heavy Reading 2008

In fact, the majority of surveyed service providers agree that targeting ads using subscriber profiling is key to successful interactive advertising. Two-thirds of these service providers have already evolved their organizations toward a subscriber-centric model and are planning to create a single view of subscriber data by the end of the first half of 2009. Profiling and identity management are the two top subscriber data areas of interest for service providers.5

Almost all of the advertisers surveyed would consider paying a premium for real-time subscriber and context information based on network and subscriber data.

Figure 11. Real-time subscriber/context information premium consideration

![Chart showing premium consideration for subscriber/context information.](image)

Source: Heavy Reading 2008

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5 Light Reading Analyst Day 2008
End-user multi-screen adoption – the untapped market demand

End users are willing to participate in creating subscriber profiles because of the convenience and personalization offered. Alcatel-Lucent has begun to see different models emerge to incent the end user to “opt-in” to personalized advertising such as fully ad-supported services and loyalty programs with discounted services and rewards. A unified subscriber profile enables a seamless end-user experience regardless of location or device in a multi-screen environment.

This multi-screen experience is extremely compelling and will ultimately drive higher levels of affinity and value for both end users and advertisers.

According to current research, well over half of the end users surveyed in North America, Europe and Asia believe multi-screen services would provide more flexibility and offer them more control while making their viewing experience more interactive and allowing them to personalize their content.

Over a third of the end users would subscribe to a multi-screen service if it were available today.

End users are especially interested in a number of key multi-screen benefits which service providers should strive to address in solutions such as:

- Offers flexibility/more options to control TV and mobile devices
- Makes the TV or mobile phone experience more interactive like the Internet
- Can multi-task with TV or phone in a new way
- Provides access to information in a new and better way
- Centralizes communications and entertainment into one convenient place
- Allows computer functionality with the TV or phone

End users today accept the concept of mobile advertising, especially if there is some sort of relationship between the content and advertising. For example, Alcatel-Lucent research indicates that end users are more likely to accept advertising if the message is related to a favorite musical artist, sports team, or other major interest. Likewise, location-based services such as ads which may contain special offers or discounts, appeal more to end users if they find themselves in a place where they can act upon the information.

The relationship between advertising and the subscriber’s choice of device is also important. Advertisers can leverage subscriber profiles to identify user behavior and device frequency across multiple platforms to target and customize ads.

Increased personalization will change how ads are created and serve to make them more entertaining but more importantly, more effective.

Figure 12. End-user multi-screen acceptance/ adoption
Multi-screen capabilities enable content and services to flow smoothly back and forth across and among diverse devices, giving end users greater choice along with a simpler, more fulfilling experience as they absorb more information. Likewise, the multi-screen experience increases the value of a service provider’s ability to interact with the end user through increasingly interconnected content, advertising and communications.

Service providers should explore all options to deliver a compelling multi-screen experience to their end users, while generating value and revenue for themselves and their partners.

**Case studies**

Alcatel-Lucent works with service providers to develop and implement interactive advertising solutions that drive sustainable revenue streams. Alcatel-Lucent offers an extensive portfolio of solutions backed by fully managed services and end-to-end support of content owners, media agencies and advertisers to help service providers deliver interactive, next-generation entertainment and advertising services.

Orange Israel has joined with Alcatel-Lucent to develop a solution for managing and distributing its broad range of content-based services across multiple screens. Orange’s enhanced capabilities have allowed greater access to subscriber intelligence for creating personalized marketing and advertising campaigns while reducing time to market of new content applications and services.
Alcatel-Lucent has enabled United Kingdom-based Sky Media to overlay a TV commercial with an SMS call to action, allowing greater flexibility for the delivery of interactive advertising across all digital television platforms.

Proven interactive solutions and exclusive resources make Alcatel-Lucent the partner of choice among today’s leading and most progressive service providers.

Partnering with Alcatel-Lucent, a major European service provider with a large international footprint has successfully launched the first multi-screen social media network aggregation service and interactive advertising portals. The solution offers third-party content owners and advertising agencies the ability to publish their own interactive services across multiple platforms.

Another major United States-based producer of global news and entertainment media products has expanded its interactive media offerings — online PC gaming, online shopping services and a comedy portal — using Alcatel-Lucent solutions to provide templates for content developers and a click-to-send coupon application.

The demand for interactive advertising and the benefits derived from increased personalization and context-aware services are poised to grow exponentially in the next five years. Service providers recognize this opportunity and are rapidly shifting their business models to take advantage of their mobile positions and their ability to offer rich subscriber information to advertisers. End users are demanding ubiquitous access to their content and entertainment regardless of what device they are using and where they are. The culmination of these market forces will drive the realization of the enriched, multi-screen experience to make interactive advertising a killer revenue application.