Going Direct with Mobile Marketing

Don't think of the mobile phone as just another emerging marketing medium: It's much more than that. The mobile phone is a medium with a wallet, and it's about to totally rewrite the rules of marketing.

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Author's note: *The proliferation of new advertising tools that incorporate advanced analytics to break down consumer behavior and produce more targeted marketing messages to consumers has grown over the past decade. As the third installment of First Data's series on mobile commerce, this paper discusses how I believe, and First Data believes, that it's not just the message but the mechanism, the media, that delivers the marketing messages. And with millions of mobile devices in use all over the world, there isn't a better way to deliver those marketing messages. It is my intention to discuss the untapped opportunity for targeted marketing that mobile devices present as well as the infrastructure and business models necessary to make mobile marketing a reality. The mobile commerce industry changes daily—new technology, new partners, even consumer patterns and behaviors previously unseen. It is unlikely that First Data's viewpoint as a company, or my personal thoughts as a commerce industry veteran, is completely accurate.*

Let me know what you think. Call me, send an e-mail or post a comment on our Web site sharing your own expectations and anticipations.

Opening a Two-Way Dialogue with Consumers

The eternal challenge of all marketing is to place the right message in front of the right people at the right time.

Since the advent of broadcast media, mass marketing has been all about creating the greatest number of advertising contacts and responses at a reasonable cost. Traditionally, there are only three ways to increase the number of responses from a campaign: improve the campaign messaging, increase the number of people exposed to that message and target the message as best as possible through selected media outlets.

In recent years, there has been a proliferation of new advertising channel opportunities as well as a growing sophistication in analytics used to segment audiences and fine-tune messaging. The Lifetime Cable Channel targets women between the ages of 25 and 54, and it's one way to reach that targeted demographic. A lot of display advertising in airports specifically targets business travelers. Ads for a car wash scroll across gas pump displays. Companies pay Google to have their sites pop up at the top of the list for selected searches. ATMs are starting to market on their screens. Marketers develop campaigns that optimize messaging for audience segments as well as the media they use to send those messages. However, for the marketer, it's still all about exposing the right people to the best messages.

So what exactly is mobile commerce and how does it fit into targeted marketing? Mobile commerce is commercial activity that occurs when consumers use their mobile devices to make purchases, just as they use credit or debit cards today. As a new generation of mobile devices comes equipped with personal account management software and Near Field Communication (NFC) chips compatible with special payment readers in merchant checkout lines, consumers will be able to use their phones just like credit and debit cards. I'll discuss the technology behind this in a little more detail later in the paper, but it's important at this point to keep in mind two very key concepts.

First, mobile commerce is nearly upon us. The technical infrastructure needed to support mobile commerce and turn mobile devices into devices with purchasing power is largely in place today. In fact, mobile commerce is happening in pilot programs and as a real service on a limited scale around the world.

Second, and this is most important to the topic of mobile marketing, mobile devices are not passive devices like credit and debit cards. Mobile devices provide two-way communications. Not only do they transmit account information at the point of sale during a transaction, but these devices can also receive information. This information can be personal account information, and it can also be personalized advertising.

Imagine for a moment a world in which consumers receive their own unique product messaging on their mobile devices. Let's say you're a marketing manager for a large chain of specialty coffee shops, and you feature a new block of beverages each month. This month's special is an entirely new offering called Orange Mango Banana Blend.

Your plan is to promote this beverage with regional and weather-specific messaging. The promotions will go to the coffee shop's rewards program members who have opted in to receive your promotions on their mobile devices. Any of those customers who have unused coupons in their phones will be reminded that they can apply the coupon to this special. Finally, you set two possible triggering events that will send the customized promotional messages. People will receive a message when they are either within 500 feet of a shop or when they touch their phone to a smart display poster (more about these later).

When campaign launch day arrives, you pull real-time weather data into the database (there happens to be a cold snap in the Northeast and a heat wave in the far South). Based on known consumer buying preferences, prevailing weather conditions and the specific beverage you wish to promote, you send a personalized message to the mobile phone of each appropriately targeted customer. Those messages pop up on their phones when the customers are close to stores or when they touch their phones to display ads. The campaign proves to have an exceptional conversion rate, and you know exactly which customers responded to the promotion.

As a marketer, you might think, "Nice idea—in your dreams!" It might surprise you to learn that virtually every piece of technology needed to make this fictional promotion exists today. Furthermore, the entire mobile commerce ecosystem, including consumers, advertisers, phone service carriers, merchants and data managers, is wrestling right now over the business models that will enable this level of target marketing. It's happening in pilot programs in the United States and Europe; to a limited extent, it's happening in programs offered by some phone carriers (you might already have received text message advertisements from your carrier) as well as special service offerings from financial entities. Mobile marketing is rising up all around us, and for anyone involved in consumer marketing and advertising, this train is about to leave the station.

What's really at stake for merchants, advertisers, consumers and service providers? Let's take a closer look.

Target Marketing Is Better Marketing

Target marketing is all about developing highly focused messages that are more likely to motivate consumers, and then sending those messages at times when consumers are most likely to take action. It's not so much about reaching as many people as possible as it is about increasing response rates and, in doing so, lowering the cost of a customer response or acquisition.

Modern target marketing uses sophisticated analytics to define market segments for targeted messaging, and it optimizes messages across different media such as broadcast, print advertising and mail. Marketers put together highly coordinated campaigns that take advantage of all these channels. Still, segment size is an important consideration in campaign planning because of the costs of creating a campaign. Also, marketers think about the channels available to them for reaching their targets (magazine and display advertising; traditional mail, which has a high discard rate; and television and radio advertising, which can be highly audience-specific). Because target marketing involves not only identifying the targets but also reaching them, these messaging channels influence decisions about which market segments are worth reaching out to in a target marketing campaign.

Mobile marketing introduces a profoundly different kind of medium for communicating with consumers: the mobile phone. This device, which is unique to the person who carries it, is a different marketing medium in two fundamental ways:

→ It enables one-on-one communications with a consumer; it's a medium that can effectively reduce the size of a market segment to one

→ It enables consumers to talk back and provide information about the kind of messages they want to receive; consumers will tell you in advance what they are likely to respond to; also, consumers have the choice to opt in or opt out of your messaging, which means that the consumers who choose to receive your messaging are telling you in advance that they are predisposed to act on messages you send to them

When consumers use their mobile devices to enroll in a service that provides them with advertising of their choice, they voluntarily give information about themselves and the messages they want to receive. In doing so, they effectively self-select into statistically definable "clusters" of consumers with common interests, wants and preferences. These consumers are also telling you they are inclined to respond to ads you send them if the ads are consistent with their interests.

These consumers become candidates for target messaging that can be further personalized based on real-time location information (they're near a store, or they're in Phoenix, or they're in Boston) and situational information (they just touched a smart display ad with their phone and downloaded a coupon, or they just saw something on television and product information with a buy-option popped up on their phone). Consumers who don't want to receive the advertising opt out. These consumers would likely not respond to the ads in any case. You no longer waste money on advertising that ends up being ignored or discarded. Instead, you spend money on advertising that exclusively targets (and always reaches) the very highest value customers—those who are most likely to act on your messages.

Perhaps you're thinking this is all very interesting, but wouldn't it be simpler to send that Mango Blend beverage ad to everybody on the mobile phone network who has a zip code in a warm climate, and then let nature take its course? Bad idea. Read on to see why.

Demographic Advertising on a Personalized Mobile Device Is Spam

Let's say, for example, a consumer is simply walking down the street on his or her way to work, and every other store sends that consumer a text message triggered by the phone's Global Positioning System (GPS) location information. In addition to that, let's say this consumer is also receiving regular messages from merchants who arbitrarily send messages to every contact in their database. Overwhelmed with advertising, this consumer will delete all those unsolicited messages without reading them, and then they'll quickly opt out of all advertising.

The risk in broadcast advertising to mobile phone users is that it will destroy the value of the advertising medium in much the way computer-based e-mail has ceased to be effective advertising. Most computer users run sophisticated spam filters that remove 99 percent of the unwanted messages before a consumer ever sees the messages. It's ironic that spam has become so prevalent that personal computers, like mobile devices, are unique to the individuals who use them. Computers could have become the ultimate target marketing channel (and they are, in fact, evolving that way through user-controlled opt-in information sources and search-based advertising). Spam (broadcast advertising) as a marketing strategy is a total mismatch for the computer medium, which is an individualized device. Consequently, most computer spam is unopened and discarded.

Figure 1. The perils of broadcast advertising on a mobile phone—deleted, unread messages and less-effective advertising.

User-Controlled, Permission-Based Mobile Advertising

Highly targeted advertising is the way to provide valuable, actionable promotions to consumers. Most emerging models provide for advertising in the form of text or multimedia messages sent to the mobile device, or some kind of search-based advertising. There are various ways consumers can control the advertising they receive. For example:

→ Opt-in models provide a way for users to select the promotions they wish to receive; some current models allow users to select from a set of company logos; more sophisticated models can allow users to provide personal data and indicate the kind of messaging they want to receive; advanced versions would allow consumers to change their preferences, look for the best pricing on certain products and actively participate in rewards programs

→ Some companies are experimenting with the idea of using Facebook or My Space Web sites like communities around their products; members join to receive promotional text messages from the company, and they are also able to send messages directly to each other

→ Google's Android platform allows for mobile phone applications that include search-based promotions tied to Google Maps

Although mobile devices offer a potentially rich and valuable advertising medium, this medium could fall victim to the same fate as PC-based e-mail advertising. In fact, the infrastructure that will support and control mobile marketing might already be predisposed to a broadcast advertising model. For one thing, traditional marketers today still tend to think that within the parameters of a campaign, more ad views are better. Also, all message-based advertising must go through mobile phone service carriers because they own the networks. These carriers will likely receive payment for every ad sent over their network, and therefore they will have an incentive to broadcast as much advertising as possible.

A greater volume of advertising dilutes the value of more targeted advertising. So, who is in control and who will win? To answer these questions, we need to look at the infrastructure behind mobile marketing and some of the key players involved.

Technology and Services That Support Mobile Marketing

Other papers in this series discuss the mobile commerce infrastructure in more detail (see a list of additional readings at the end of this paper). However, looking at the mobile commerce infrastructure through a marketing lens, four key elements of the ecosystem must be present for effective mobile marketing:

→ **Mobile devices capable of receiving text messages and making mobile purchases.** Mobile commerce-enabled devices need at the very least the ability to accept and send text messages; better-equipped phones will have an NFC also chip (see the sidebar); the NFC chip not only enables purchases at point-of-sale systems equipped with contactless payment readers, but it allows customers to interact with NFC-equipped smart ads; these might be display ads in public places or in-store displays that offer directions, information, special rewards or other things when a mobile device is swiped near the ad; as mobile marketing matures to take advantage of geo-location information (for example, sending that Mango Blend promotion to selected customers when they come within 500 feet of a store location), mobile devices with built-in GPS capability will have an advantage; eventually, it could be possible for customers to receive product information, pricing or incentives by using the phone's camera to optically recognize bar codes

Most mobile devices today receive text messages (known as Short Message Service, or SMS); many phones are also able to send and receive multimedia messages (MMS); built-in cameras are commonplace in phones today. Many smart devices come equipped with GPS units, and software applets for mobile devices are now available that send out geo-location information with a degree of accuracy selected by the user; also, most anticipate that major phone manufacturers will be adding NFC chips as standard equipment in new models

→ **Software that enables users to enroll themselves in advertising programs voluntarily provide relevant personal information, select the messaging they want to receive and block unwanted messaging.** This functionality could be a component of electronic wallet software that allows users to manage their transactions and accounts; electronic wallet applications exist today, and many smart phones come with electronic wallet software already installed; features that allow users to enroll in advertising programs and control the messaging they receive will need to be developed

→ **A network for communicating consumer preference information from the consumers and distributing marketing messages to the consumers.** Of course, this network exists today as the mobile phone network provided by phone service carriers; it is the same network that would be used to provision mobile devices with the personalized account information that allows consumers to use them as electronic wallets when making purchases

What's NFC?

Near Field Communication (NFC) is a short-range radio frequency communication technology that enables NFC devices located no more than a few inches from each other to exchange data. It is designed specifically for use with mobile devices.

NFC devices are totally compatible with existing contactless technologies such as smart cards and contactless stickers. NFC is also fully compatible with the existing contactless payment readers, which are already prevalent in transportation systems and ever more common at retail points of sale.

In addition to enabling payment transactions between mobile devices and contactless readers, NFC chips placed on products in stores and on billboard display ads can transmit pricing, promotions and other special product information to consumers. In this way, the payment technology also becomes a technology for product marketing.

→ **An entity that stores personal information related to advertising enrollment and user preferences and manages advertiser access based on those user preferences; of course, all of this information would be subject to stringent privacy laws and best-practice implementation**

This last point is the most difficult, because this is the battleground for access to consumers. Mobile phone service providers might feel that they should manage this information, because their networks provide access to mobile devices, and all message-based advertising must pass over the network. Of course, that means advertisers would need to have agreements with all the mobile phone service providers to distribute a targeted message to consumers.

The advertisers themselves might think they own any information that is proprietary to their consumers, and they might prefer to leave it up to consumers and advertisers to decide among themselves how to control messaging. This is analogous to what happens in the market today. When a consumer buys something, that consumer's data enters the business database, and the merchant owns that piece of data. Of course, consumers have little say over how businesses use that data. Businesses typically use aggregate data in their own marketing campaigns. Some businesses sell or rent the consumer lists to other businesses. Sometimes personally identifiable data is collected and used by the business, but only with the consumer's permission. Regardless of the relationship worked out between businesses and consumers regarding the use of consumer data acquired in a purchase, that data must still be managed if it is going to be useful in reaching consumers with mobile advertising.

This could be a role for the Trusted Services Manager (TSM), a commerce-neutral entity that can store account and transactional data and provide over-the-air provisioning of account information to mobile devices so that consumers are able to use them for making purchases. Such an entity could securely manage consumer information according to regulations and industry standards.

The TSM role is the missing link in the mobile commerce ecosystem today. Several other papers in this series discuss TSM in much more detail. This is a central business issue in the mobile commerce ecosystem today, because it is all about enabling consumers' mobile commerce activities while collecting fees and sharing them across all participants in the mobile ecosystem. In the context of mobile marketing, it is also about reaching consumers with marketing messages and influencing their purchasing decisions.

As mobile commerce becomes a reality, there could be a tendency for major players in the mobile commerce ecosystem—entities like phone service providers, account management service providers, financial institutions, hardware manufacturers, credit card issuers and even large merchants—to attempt to control aspects of the ecosystem in ways that preserve exclusive access to their consumers. For instance, you might see a Large Retailer X mobile commerce phone offered through Phone Service Carrier Y, or you might see a Card Association Z phone or a bank-sponsored phone available only to people with accounts at that bank.

However, it's not difficult to see that a mobile device with a variety of accounts—say, a special Large Retailer X consumer account, a major credit card account, personal bank account information and special stored-value accounts or coupons from other businesses—is a much more powerful electronic wallet than a Large Retailer X phone that works only in Large Retailer X stores and carries promotions only for Large Retailer X products. Consumers will always choose the mobile device that offers them the greatest purchasing power. And an environment in which merchants and service providers vie for consumer loyalty by marketing products and services to their customers will be a much richer mobile commerce environment for everyone, rather than using hardware and partnerships to restrict customers to just their products and services.

So, back to the questions that started this infrastructure discussion: Who is actually in control, and who will win the battle to control access to consumers for promotional purposes? Regardless of how the industry resolves access and data-management issues, there are two absolute certainties in mobile marketing: (1) There must be an opt-in mechanism for consumers to choose participation, and (2) If consumers do not like the messaging they receive, or if they become irritated by it, they will turn off the messages. Consumers will opt out of advertising, or they will switch to a different phone service, or they will find a way to block unwanted messages. They will find a way, just as spam filters appeared when unwanted e-mail messages started cluttering everyone's in-boxes.

The answer is that ultimately consumers will control this marketing medium one way or another. And that is something everyone in the mobile commerce ecosystem should keep in mind. If consumers turn off advertising, the medium loses value to advertisers, and mobile devices become less powerful as tools for commerce. Maximizing the value of the mobile marketing medium for both consumers (through advertising that is highly relevant to them as individuals) and advertisers (with a medium that ensures high advertising response rates) will maximize the potential of mobile commerce for merchants, carriers and financial entities.

How do we know this is true? Let's look once again at some mobile marketing scenarios.

Real-Time Mobile Marketing Strategies

In the fictional coffee-shop beverage promotion, opt-in rewards program members receive the message when they are within 500 feet of a store or interact with a smart ad. The campaign pulled weather data just prior to campaign launch and used it, along with known customer buying preferences, to customize messages for each customer.

It's likely a significant percentage of customers did not pass within 500 feet of a store or interact with an ad that first day, so weather information associated with them would now be obsolete. However, the clever marketing manager designed this campaign to recycle every 24 hours with fresh weather data just for those customers who had not yet received their promotional messages.

Now, let's take this marketing scenario a step further. Say that coffee shop strikes a deal with a major food products distributor—Kraft, for instance—to sell their branded products in grocery stores. If a rewards program member acts on the beverage promotion, there could be a follow-on campaign (perhaps funded by Kraft) that triggers when the customer taps his or her phone at the point of sale. When the purchase is made, the customer would at the same time receive a valued customer reward good at his or her favorite grocery store (favorite grocery store information might be part of the market messaging profile this customer submitted when he or she enrolled in the advertising program). This reward might offer a discount on any of a variety of the coffee shops or Kraft products purchased in that grocery store. The customer would receive a brief text message announcing the reward at the time of his or her beverage purchase, and a reminder message would pop up the next time that customer walked into the grocery store.

Now let's say a sophisticated data analytics services provider has identified this customer as one of a large cluster of dedicated bargain hunters when it comes to food shopping. Members of this cluster have varying tastes in foods, shop at different chains and shop at different times of the week. Some are big spenders and some are not. They use all kinds of purchasing instruments, from various debit and credit accounts to special merchant accounts. However, they all have something in common: They are dedicated bargain hunters who have a genuine weakness for a good deal. Whenever they go to the grocery store, they pull out their mobile device and, at the click of a button, list all the unused rewards and special offers they have collected.

Say our coffee-shop customer is now at the grocery store. In addition to seeing his or her special rewards and promotions, the advertising program triggers a new message to this individual. The customer data shows this individual's favorite brand is Sumatra, and this person drinks a lot of it. That information, combined with the customer's timely arrival at the store, triggers an ad for a new product offering: a Bosch Tassimo Brewer® Machine that takes newly available Sumatra packets. The ad reminds the customer that he or she can use the existing reward to buy these Sumatra packets now while at the grocery store. It also gives the customer directions to the nearest Target store, where the Bosch Tassimo Brewer is on special discount just for that customer if he or she acts within the next 24 hours. Our customer, who has been coveting an upgrade to the old six-cup Mr. Coffee® machine, can't resist.

Conclusion

Mobile marketing enables marketers to develop sustained relationships and direct dialogues with their customers in ways and at depths previously unavailable. This is a level of target marketing that has never before been available to marketers or consumers. The greatest challenge to the marketing community, and the entire mobile commerce ecosystem, is to *not* destroy the value of this marketing medium. The best ways to realize the full potential of mobile devices as tools for conveying marketing information and enabling transactions are these:

→ Do not apply broadcast marketing strategies to this target marketing medium; use the data analytics and consumer preferences that are readily available today to establish meaningful dialogues with consumers, and strive for exceptional conversion rates; the higher the conversion rate, the more valuable the ad is to those who receive it and everyone involved in sending it

→ As members of the mobile commerce ecosystem, whether you are merchants or financial entities or carriers or hardware and software vendors, avoid solutions that restrict consumers' mobile commerce choices; although some strategies might look like ways to preserve and strengthen relationships with your own customers, restrictive mobile commerce solutions weaken mobile devices as tools for making purchases and lessen their value for marketers

→ Never forget that at the end of the day, one way or another, consumers will choose what ads they want to see and what services they want to use; we can create an environment that drives them to turn away or block the advertising, or we can maximize the value to consumers in a way that accelerates mobile commerce and makes a richer ecosystem for everyone

Please contact me or any member of my team. We want to help and to listen. I can be reached directly at: Barry.McCarthy@firstdata.com.

For more information about mobile commerce, look for the following white papers, the first in this series

→ *The Risks and Opportunities in a Mobile Commerce Economy*

→ *Mobile Payment—the Linchpin of the Mobile Commerce Economy*

About the Author

Barry McCarthy was appointed to lead the newly formed Mobile Commerce Solutions business unit of First Data in January 2008. There, he has responsibility for commercializing all First Data assets globally for use in mobile commerce. In this role, McCarthy and his team work closely with a variety of industry partners, from the largest wireless carriers to young start-ups, financial institutions, technology provider and terminal manufacturers.

Previously, McCarthy led Global Product and Business Development for First Data and before that, product development for the Commercial Services business unit. Prior to joining First Data, McCarthy was vice president and general manager of VeriSign's Internet Payments & Risk Management business unit, a NASDAQ 100 technology company. Before VeriSign, McCarthy co-founded and later sold MagnaCash, a Silicon Valley micro-payments company that is currently owned by Digital River (NASDAQ: DRV). Previously serving Wells Fargo (NYSE: WFC) as vice president and general manager of the ATM business, McCarthy had P&L responsibility for $110 billion in annual transaction volume and 14 million active ATM cards. McCarthy started his career at Procter and Gamble (NYSE: PG), where he spent 12 years in roles of increasing responsibility, first in sales and sales management and later in customer marketing and brand management. He earned a masters in business administration from the Kellogg School of Management at Northwestern University and completed his undergraduate studies at the University of Illinois, Urbana.

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