Chapter 8

Mobile Marketing:
The Challenges of the New Direct Marketing Channel and the Need for Automatic Targeting and Optimization Tools

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ABSTRACT

In most developed countries competition among mobile phone operators is now focused on switching customers away from competitors with extremely discounted telephony rates. This fierce competitive environment is the result of a saturated market with small or inexistent growth and has caused operators to rely increasingly on Value-Added Services (VAS) for revenue growth. Though mobile phone operators have thousands of different services available to offer to their customers, the contact opportunities to offer these services are limited. In this context, statistical methods and data mining tools can play an important role to optimize content delivery. In this chapter the authors describe novel methods now available to mobile phone operators to optimize targeting and improve profitability from VAS offers.

INTRODUCTION

The mobile phone market is becoming increasingly saturated and competitive (Leppaniemi & Karjaluoto, 2007). In several European countries mobile phone penetration is now over 100% and first-time customers (new users that enter the market and expand the business) are practically inexistent (The Netsize Guide, 2009). In the US, similar competitive intensity has also become the norm after the introduction of wireless number

portability by the Federal Communications Commission in November 2003. Facing saturated and stagnant markets, mobile service operators are now focused on attracting competitors' customers. Because one of the main factors influencing customers' operator choice is the availability of a more convenient telephony rate plan, (Eshghi, 2007), mobile operators are relying increasingly on price competition for customer acquisition while revenue expansion comes mostly from *Value-Added Services* (VAS). Examples of these services include the provision of sports information, news, and weather forecasts, download of ring-tones, games, music, short movies, and even TV shows, all for a fee. Occasionally some of these services are offered for free. In such cases the objective of the service is not generating revenue directly but doing so indirectly. For example, revenues can be generated indirectly through the charges related with the data transmission services or the browsing of additional web pages over the phone. In the case of free viral videos aimed at building brand awareness and word-of-mouth, firms usually wish to build or sustain future revenue streams and long-term goals which are even more difficult to assess (future revenues could be associated with product sales both via the mobile phone or offline, depending on the firm that launches the videos). In addition, services may be offered for free in order to improve users' experience, satisfaction, and loyalty. These products or services are produced by the mobile service provider itself or by external content providers, in which case revenue sharing contracts are established: mobile operators and content producers each take a percentage of the revenue generated, with the share of each depending on the type of content and on the power split between organizations.

Push Versus Pull Delivery Systems

In a Pull delivery system (one of the types of VAS delivery system), mobile phone users initiate on their own a search for a product or service they might be willing to buy (e.g., browse sites through the mobile phone to download videos, games, or a new ring-tone). Currently one of the most popular and successful Pull delivery system is the App Store, developed by Apple in conjunction with the iPhone launch. Anyone can now produce applications for the iPhone to be sold worldwide through the App Store once Apple approves the application. The App Store is a "moderated" type of services, that is, Apple has to make sure all material sold through its store is legal, does not violate operator restrictions (these differ from country to country), does not include offensive material, and so on. Apple is ultimately responsible for the applications sold at the store. These applications are also value-added services and the revenues obtained from their sale are split between Apple and the developer who designed and produced the application.

Notice that Apple does not send messages to iPhone users selling ("pushing") these applications, instead mobile users go to the App Store and search for the applications of their interest. These systems can be very successful and generate significant revenue. As a matter of fact, recently Apple announced (Kerris & Bowcock, 2009) that a total amount of more than 1.5 billion applications have been downloaded since its inception and more than 65,000 different applications are today available on its App Store.

Alternatively, in a Push delivery system (the other type of VAS delivery system), the mobile phone operator is the initiator of the communication with the user (i.e., actually it sends an offer to the user) to stimulate the purchase of a specific product/service, or to have the user respond to an offer. In such delivery systems periodically mobile phone operators send text (SMS) and/or multimedia (MMS) messages to mobile phone users that contain typically one or more commercial offers. These offers invite users to subscribe or acquire services and/or to download digital products (e.g., ring-tones, TV shows, video clips) that can be purchased directly from the mobile phone

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