



iPhone: The New Apple of a Marketer's Eye?

By Derek Leedy
VP, Account Director, Mediasmith Inc.



By Derek Leedy, July 16, 2007

It's here! Now what?

So it's happened. After all the hype, buzz and interminable speculation, the iPhone hit stores June 29 to a warm reception by both consumers and analysts. There have been, of course, complaints about the cost of the service package, the lack of coverage and other first-generation glitches to be addressed by both Apple and AT&T. As the initial frenzy recedes, marketers and advertisers are looking to survey the landscape and assess the short- and long-term implications for their businesses.

The preceding month was filled with multiple spots featuring a sleek device and touting its wide screen, internet, mail, mapping and widget capabilities as much more than the sum of its music and video functionality parts. Clearly, Apple is positioning this as a breakthrough product, not just another iteration of an iTunes-enabled phone. Meanwhile, rumors are still circulating about a possible "Google Phone," but nothing concrete has been announced.

What does the introduction of the iPhone signify for the use of mobile devices and advertising? Will Google answer the call with its own product? Will the iPhone be a game-changer for the rapidly growing mobile advertising sector? How might the use of these devices presage the future of media consumption?

iPhone's introduction to the market

For the first time, marketers will be able to reach a large number of mobile customers who are using a high-end device primarily for entertainment consumption.

The iPhone's high price tag, \$499 for the 4GB phone and \$599 for the 8GB version, did not seem to faze the early adopter crowd. Informal data provided by Piper Jaffray estimated that the vast percentage of consumers purchased the 8GB version. It's a steep price tag, but when we compare the prices of smartphones, even with the cost defrayed by entering long contracts, the price isn't overwhelming in this context.

Also, if we factor in the challenges of switching carriers and the inevitable first generation bugs, the initial sales are encouraging. The failure of MVNOs (Mobile Virtual Network Operators) such as Amp'd and ESPN proved that people were looking for something more than content channels, but it also revealed that there was a market to be developed. The most telling fact about consumers' relationship with the iPhone is that many more people camped out at the Apple Stores (where available) than the AT&T outlets.

What this means for marketers and advertisers

Millions of BlackBerry and Treo customers are not receiving much advertising on their devices. Their primary use of these devices as business communication tools makes customers less receptive to disruptive messaging. The iPhone, which admittedly does not synch well with Microsoft Outlook and other key business applications, is first and foremost a means to consume and share social information. While millions of social emails and text messages are generated daily by the smartphone set, they are not overtly looking transform these phones into their social centerpieces.

With those stylistically challenged belt holders, we can all relate to ditching the smartphone albatross on a Friday night (or earlier in the week for the younger folk) in favor of something a bit more socially versatile, such as the Motorola Razr. However, these smaller phones do not offer the promise of the iPhone. With its email, audio, video and widget versatility, it will make the shift from day to night, with advertisers following suit.



We are ready for the merging of our communications technology with our entertainment. The millions who have a "crackberry" addiction in one form or another have been purchasers of the iPod. The median age has steadily climbed as the player has become ubiquitous. We are sensitized to these expensive but versatile gadgets, and we are sick of having to look after multiple ones. We're ready!

The Google factor

It really doesn't matter whether or not Google introduces a phone; its applications are already installed on the iPhone, which will be readily leveraged by marketers and advertisers. YouTube, which has struggled for a long-term viable advertising model to justify the steep price that Google paid for it, has found a strong distribution partner after being hardwired into the iPhone. Eric Schmidt, Google's CEO, has gone on record citing the iPhone as a powerful device for current and future Google apps.

What this means for marketers and advertisers

Google Street View, at once intriguing and frightening, will become ubiquitous among the iPhone set. Advertisers -- who are struggling with the decline of internet banner engagement -- know that the future lies with intelligently ensconcing their brands and services within content, widgets and other applications. We will all be closely watching how iPhone users customize their content and applications in order to shape our future marketing and advertising.

Google certainly has the capital to create a branded phone, and searches on the internet evince rumors of mysterious European skunkworks focused on such an enterprise. However, as a dominant internet and application force, do they want to enter the hardware arena against Apple, the reigning king of the form factor? Either way, Google will be a major benefactor of the iPhone's success.

Mobile advertising implications

The short-term impact will be immediate, as advertisers are yearning to break free from the constraints of current mobile advertising. This change refers to limitations of current mobile application development platforms, such as BREW. While many programmers complained when Steve Jobs announced that the iPhone will only take third-party applications developed for Safari -- Apple's proprietary web browser -- this still allows programmers to leapfrog current offerings. Web 2.0 applications that run on the current Safari browser will be viable for the iPhone.

The first such offering optimized for the iPhone is "OneTrip," a web-based shopping application. As other apps emerge, they are sure to offer suggestions for alternative products based upon shopping or browsing behavior. Admittedly, much of this performance is contingent upon the speed of the iPhone's EDGE connection, which has not received rave reviews at this time. Though other smartphones offer good browsers, such as Opera Mobile, I still contend that power business users are much less likely to look to their phones for rich mobile internet browsing. They will still prefer to access information from more efficient, less engaging WAP sites.

However, the iPhone is not totally in step with the increasingly sophisticated push-pull technologies used by mobile marketers to reach consumers on the move. Over the past few years, most U.S. users have become adept at using SMS (Short Message Service) capabilities on their phones. "American Idol" has been identified as the tipping point in the U.S. for its massive use of SMS for voting and interacting with the program. Marketers have developed



opt-in databases of customers whom they communicate with via SMS for promotional opportunities. Users have complained that the iPhone succumbed to AT&T's revered revenue stream of charging for each SMS and not allowing iChat on the phone. Elsewhere, the iPhone starts to stray from emerging uses of mobile advertising in its lack of MMS (Multimedia Message Service). Some of the most acclaimed advertising campaigns from last several years were MMS-enabled, whereby users could upload their pictures via MMS to outdoor boards. According to its technical specifications, the iPhone does not have this capability.

What this means for marketers and advertisers

In the final analysis, can the iPhone be a category killer for current mobile advertising? Yes. As consumers become accustomed to sophisticated browsing and coverage increases to combat slow connections, the days of the simple WAP banner and mobile links are numbered. This isn't to say that consumers won't readily click on links and banners that are relevant to their searches, but simplified versions offered by AdMob and Enpocket are going to lose their luster quickly.

The premise that the internet experience cannot be ported over to a phone is losing its validity. It is true that ads will need to be modified for a phone environment, but the distinction will become less apparent. Much of mobile advertising is based upon relationships with the carriers, who feel that they own the customer experience. Apple's relationship with AT&T will bear out the true owner of the mobile experience beyond voice transmission. With its Web 2.0 capabilities to take the user from browsing to buying, the iPhone will go a long way to eliminate the need for third-party vendors to manage the "soup to nuts" mobile marketing experience.

The impact on future media consumption

The evolution of devices such as the iPhone will give the term "mobile" a vestigial distinction. We are merely looking at format sizes appropriate for larger or smaller images. DVRs have continually crept into the marketplace, causing increasing skepticism about simultaneous commercial exposure or even the fear of total skippage of all ads.

iTunes is featuring more and more video content for download, which will likely include every major small and big screen release. All content will be accessible by an iPhone-like device, transferable to an Apple TV-like device and consumable by HD TVs and home stereos. This is not just an Apple-centric future because there will be many competitors that offer nuanced advantages, and open-sourced devices always drive innovation. But the current suite of Apple offerings points toward a future where media can be accessed and consumed at any point among your home, office and leisure destinations. Marketers and advertisers must be prepared to create holistic communications that can convey their value proposition within any of these consumption points.

What this means for marketers and advertisers

Convergence is a term that has lost much of its meaning as it continues to fail to come to fruition. The computer-centric entertainment room does not yet exist in most homes. The adoption of an iPhone or possible Google Phone will invariably help to accelerate this convergence. Apple TV and Joost are all much more attractive if we are constantly using the push-and-pull capabilities that are inherent with these new phones. They can become the true universal remote controls that feed our big screens and speakers for movies, video chatting and aspiring deejays. And we can skip all the intermediary steps that are now involved. Even the savvy consumer is overwhelmed by downloading on the internet, setting up their TV schedules, arranging their song lists and then morphing into a "lean-back" experience.



As advertisers, we must contemplate what will compel the consumer to ever willingly be exposed to a marketing message again. Brand placement is having its challenges for ROI, and branded content will be undesirable if we can get it by another means. It becomes a true exchange of value for consumers' ever shrinking time in their personally controlled content environments. Current offerings such as Free411, which enables callers to avoid steep information charges if they listen to a short commercial message, may be the currency of the future. Advertisers have to increase the tangible value we give our target audience in exchange for their time and attention. Why would a phone trigger such a revolution? It is the most personal of all devices and most people would lend you money for a call before they would let you use their phone.

If the iPhone lives up to half of its promise, then we are on an even faster ride for emerging behaviors in media and marketing.

Conclusion

The iPhone will continue to be a success; the rate of adoption is debatable but unstoppable. There will be price cuts and other maneuvers to maintain its distribution momentum, but after the holidays, there will be millions of users. While Apple is its own worst enemy in not making the iPhone a viable business alternative, it will break down barriers to form a not yet existent audience of mobile entertainment consumers. Advertisers will have to learn how to communicate to this new audience in compelling ways.

Google will remain a force in the mobile space with or without its own phone due to the plethora of applications that will be adopted on the iPhone. The brilliant minds at Google may learn from the limitations of Apple's strategy to create a device that is more amenable to open source innovation and therefore more readily adaptable to business and the convergence of media.

The short-term implications for mobile advertising are very interesting. We will have to use all the current platforms for the time being, but they will become less of a factor as these devices penetrate the market and become more advanced. The long-term implications are by no means dire; they represent a new holistic way to reach the consumer if they are spending more time with a single device.

The challenges are stated above, but if we aren't excited about the potential, we shouldn't be doing this for a living.



About the Author

Derek Leedy has worked in media and marketing since 1995, having held management positions at both the agency and client side of the business. As VP, Account Director at Mediasmith, he is responsible for overseeing internal team management and leading client strategy. This involves working with AMDs, Supervisors, and Planners to provide the architecture and implementation for successful campaigns that incorporate the most effective mix of traditional, digital and emerging media. Additionally, he works on new business, creative and media integration, and participates in thought leadership through writing and speaking. His clients have included Sega, Ask.com, Napster, Trend Micro and World Vision, giving him expertise on Entertainment, Consumer, B2B, and Non-profit accounts. Derek's work has garnered him industry recognition including being named an OMMA "Rising Star," a Creative Media Award, and an Effie for Advertising Effectiveness. He is a graduate of UC Berkeley.

About Mediasmith

Mediasmith is a recognized leader in digital media planning and buying. We specialize in the integration of traditional and digital media, media consulting, search, and audience development with a rapidly growing practice in emerging technologies and their applications. We architect plans across all media, in all markets, in virtually all product categories utilizing the right combination of media options to help our clients grow in the increasingly fractured media environment; from planning and buying, to tracking, optimization, and reporting of ROI on all media efforts. Mediasmith remains dedicated to the evolution and standardization of digital media practices. As committed innovators, we test the latest in metrics and analytics, providing solutions that enable us to act as a catalyst for our clients' media innovations.