

The Rise of the Digital Omnivore

What It Means for Advertisers, Publishers, and App Developers

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INTRODUCTION

Marketing used to be so simple. In the not-too-distant past, when marketers had to decide how to best reach consumers, they were faced with just a few options. They could use one or more of the three television networks, run advertisements in newspapers and magazines, or rely on the U.S. Postal Service and direct mail. The advent of digital technologies, however, has made an advertiser's life much more complicated. By the turn of the last decade, about 80 percent of the U.S. population already could be reached via the Internet, virtually all of them using a laptop or desktop computer.

Just five years later in 2014, 71 percent of Internet users also owned a smartphone; 38 percent owned a tablet. These mobile devices have given consumers the freedom to access the Internet wherever and

whenever they want, while also providing advertisers with a plethora of new ways in which they can communicate with their target audiences. And what better opportunity for smart advertisers to build their advertising strategies on a foundation of deep insights into consumers' multi-platform digital behavior?

It's Not a Zero Sum Game

In the early days of smartphone adoption, many thought the device would cannibalize the use of a desktop¹ computer. Yet, this author sees no evidence of a decline in online time spent on desktops² (See Figure 1).

¹ The term desktop is used to refer to both desktops and laptops.

² comScore, 2014.

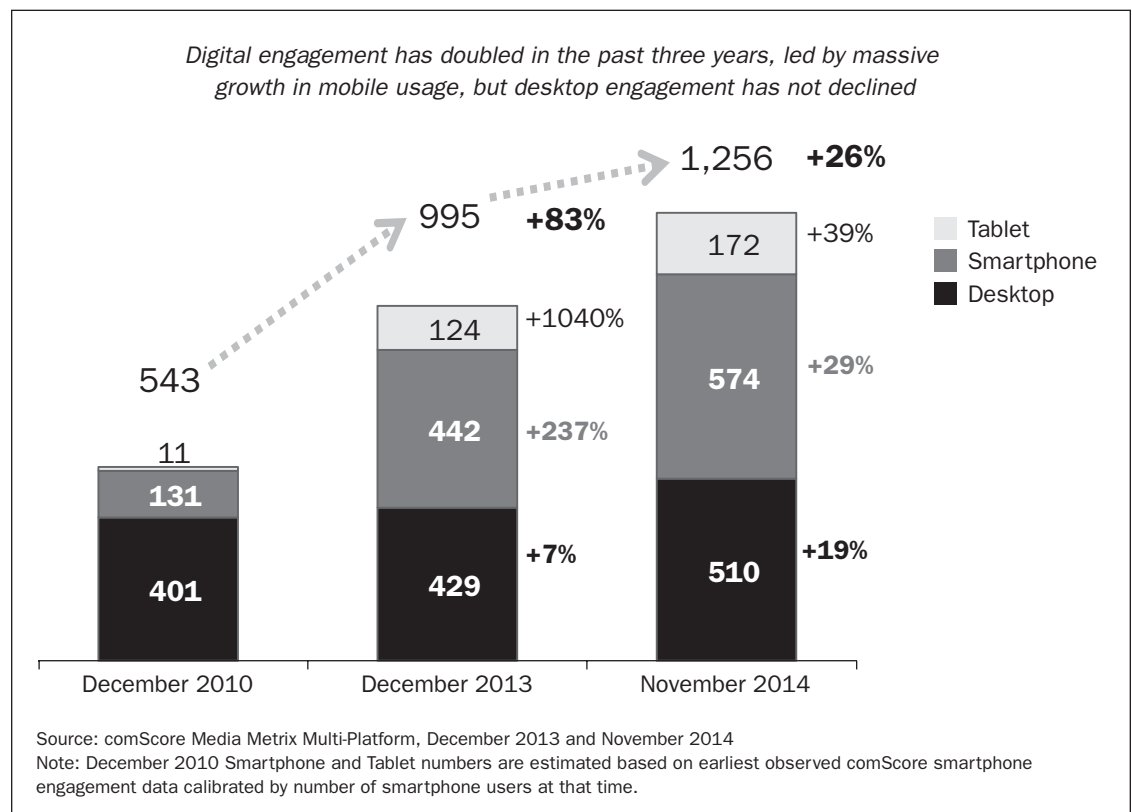


Figure 1 Total U.S. Internet Usage in Minutes (Billions) by Platform

In fact, since the availability of the smartphone, total time spent on the Internet has surged. From December, 2010 to December, 2013, total digital engagement grew by 83 percent, driven by smartphone and, to a lesser extent, tablet usage. And, from December 2013 to November 2014 total engagement continued to climb by 26 percent, driven by both tablet and phone usage.

Important, however, is that there is no evidence that desktop use has declined. True, the share of digital time that desktops account for indeed has dropped, from

- 74 percent in December 2010 to
- 43 percent in December 2013 and to
- 40 percent by November 2014.

This has occurred, however, only because consumers' total time online has climbed by such a large amount. The absolute time spent online using a desktop computer actually has continued to increase, by

- 7 percent from December 2010 to December 2013 and then by a further
- 19 percent from December 2013 to November 2014.

The implications are clear but present several challenges:

- Advertisers have to follow the consumer and pay close attention to how both desktop and mobile devices are being used and what content they access;
- they have to confirm that advertising on mobile devices can produce a positive return for their businesses; and
- they must continue to reach consumers through desktop computers.

And, perhaps the ultimate challenge is determining what types of advertisements to deliver on a desktop versus a mobile device.

It's All about the App

Surprisingly, apps drive the vast majority of media time spent on mobile devices, accounting for approximately seven of every eight minutes.³ So, advertisers have no choice but to figure out how best to leverage apps to reach the mobile consumer. Consider that, in 2014,

- more than 1 million apps (most of them free) were available in the Apple App Store and Google Play repositories;⁴
- consumers faced a daunting task selecting which apps to download and then actually use: In fact, just one-third of all U.S. smartphone owners downloaded at least one app per month;³
- the average smartphone user within this segment downloaded only three apps per month, meaning that the average among the entire smartphone population was slightly more than one app per month;
- the top 7 percent of owners accounted for nearly half of all download activity in a given month, making this a very concentrated segment, and
- actual usage also showed heavy concentration, with a staggering 42 percent of all smartphone app time in a month occurring on an individual's single most used app, and nearly three of every four minutes of app usage occurred on only an individual's top four apps.

For an advertiser, the first challenge is to decide where to place its advertisements. Some start with an understanding of the most popular categories of apps. Here, the choice narrows, with three categories—

- social networking (25 percent),
- games (16 percent), and
- radio (8 percent)

—accounting for nearly half of the total time spent on mobile apps.²

When examining individual apps, however, a different picture emerges (See Figure 2).

Facebook in 2014 was, by far, the leading app, with about 113 million unique users in a month, followed by

- YouTube (84 million),
- Google Search (78 million),
- Facebook Messenger (70 million),
- Pandora Radio (68 million),
- Google Maps (60 million), and
- Gmail (60 million).

From these six leading apps, the audiences fragment rapidly, dropping quickly to 20 million users per month and continuing to decline.

As might be expected, in the early days of mobile advertising, this fragmentation led to the development of mobile-advertising networks such as AdMob, InMobi, Jumptap, and Millennial Media that offered advertisers the ability to place their advertisements on a critical number of mobile websites or in a multitude of apps.

More recently, however, the mobile-advertising market has changed dramatically as Facebook, Twitter, Google, and Apple have made major moves (witness Google's acquisition of AdMob) to further build the mobile-advertising ecosystem.

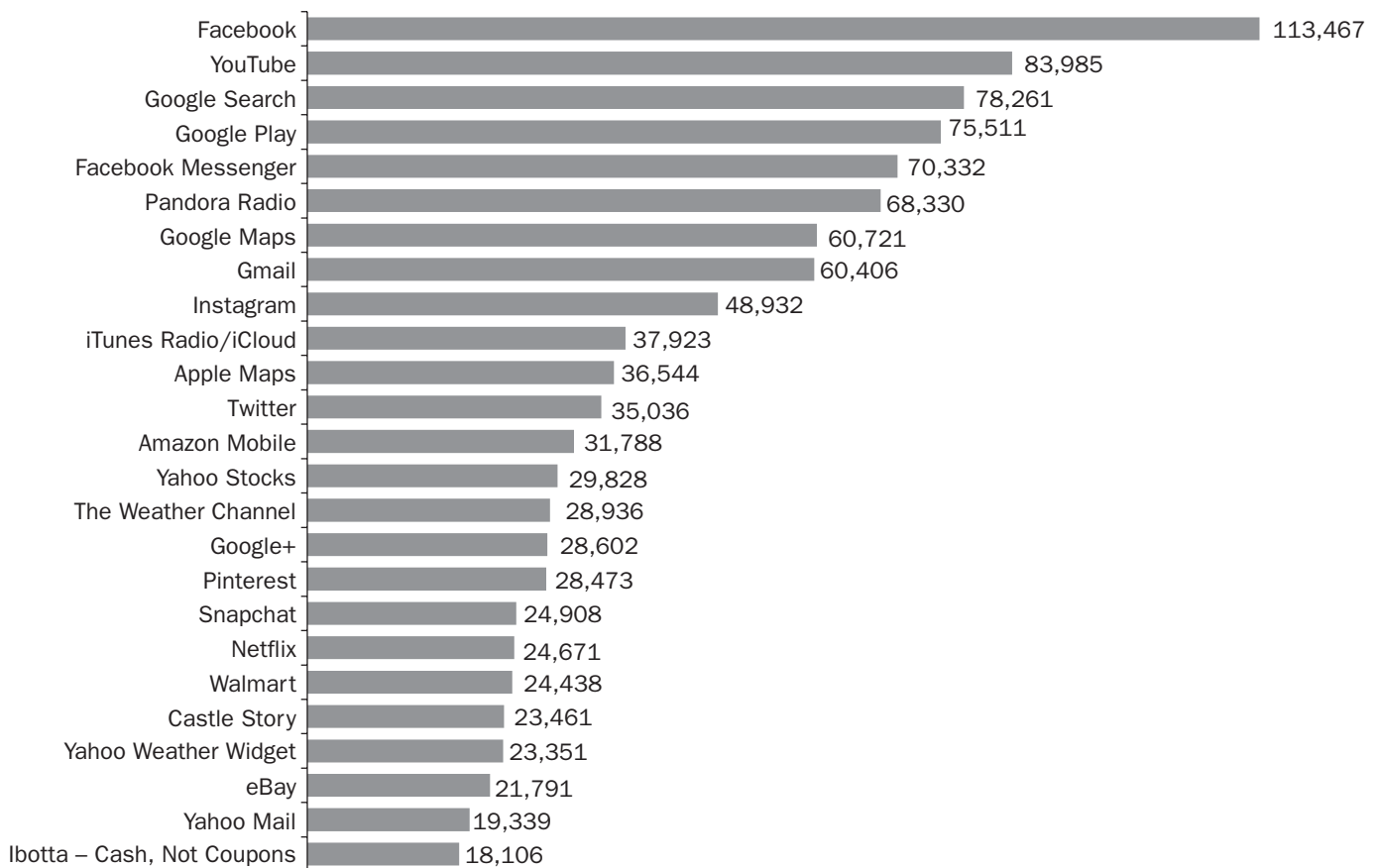
Mobile Advertising on Social Networks

Over the course of the past century, long-distance human communication progressed from letters to the landline phones and, more recently, to e-mail. People now use the smartphone for both voice and text communication. No other online activity has benefited more from mobile usage than social networking. People's seemingly insatiable desire continually to stay "in touch" and know what others are

³ "The U.S. Mobile App Report." comScore, August 21, 2014.

⁴ "Number of apps available in leading app stores as of July 2014." statista.com.

The largest digital media brands (FB, GOOG, AAPL, YHOO, AMZN, EBAY) make up 16 of the top 25 most used apps



Source: comScore Mobile Metrix, U.S., Age 18+, November 2014

Figure 2 Top 25 Mobile Apps by Unique Visitors (000)

doing (and saying) is a perfect mesh with a mobile device.

Consider, for example, that 76 percent of all time spent on Facebook in November 2014 involved the use of a mobile device; the Twitter number was even higher at 87 percent.⁵ These high engagement levels have been rewarded by soaring mobile-advertising revenue. For the fourth quarter of 2014, mobile advertising accounted for 69 percent of Facebook's total advertising revenues, up from 53 percent in the fourth quarter of 2013.⁶ At Twitter, meanwhile,

⁵ comScore, 2014.

⁶ "Facebook Reports Fourth Quarter and Full Year 2014 Results." *yahoofinance*, January 28, 2015.

mobile-advertising revenue made up 88 percent of its total revenue in the fourth quarter of 2014.⁷

These extraordinarily high levels of mobile advertising revenue trace to the high mobile engagement that social networking can generate—along with the ability of social networks to fit mobile advertisements seamlessly in a neat native format in users' timelines. This makes the advertisements very difficult to avoid noticing as the user scrolls down the feed, thereby increasing their impact. Add in the precise targeting capability that sites such

⁷ "Twitter ad revenue soars 97% year over year in Q4." *venturebeat.com*, February 5, 2015.

as Facebook and Twitter can provide, and it becomes clear why they are extremely effective mobile-advertising platforms.

The App-Install Advertisement

After the initial launch of the iPhone in June 2007 and the subsequent introduction of the first Android mobile device in September 2008, the number of apps available for download has surged. This, however, has also created a real challenge for developers and marketers alike in building awareness of their apps.

The search and ranking tools available in the app repositories simply aren't enough to grow sufficient downloads for the app

owners. Google, Facebook, and Twitter quickly realized that the solution was in their hands—or, rather, in the hands of their massive mobile traffic. That solution was allowing app owners to advertise their apps in other apps.

The app-install advertisement was born.

Although it is difficult to get precise data, app-install advertisements are viewed as representing a substantial and fast-growing segment of the mobile-advertising market. Mark Zuckerberg, CEO of Facebook, has acknowledged that app-install advertisements contribute “real revenue” to the company’s bottom line.⁸ Doug Anmuth, JPMorgan Chase Internet-equity analyst, has estimated that app-install advertisements may have contributed 20 percent to 25 percent of Facebook’s mobile-advertising revenue in 2014.⁹

Beyond the ability to target communications accurately to large numbers of potential users, one of the benefits of app-install advertisements is that their impact can be gauged easily simply by tracking the number of downloads that result from the advertisement. Here, the click can provide a relatively accurate indication of advertising effectiveness.

Mobile Advertising on Publisher Sites

Total mobile advertising revenues in the first half of 2014 reached \$5.3 billion, representing 23 percent of all digital advertising—a dramatic increase of 78 percent over the same period in 2013.¹⁰

Although social network sites have benefited immensely from mobile advertising, the picture is not as rosy for other online publishers.

Certainly, many are seeing substantial mobile traffic. For example, 48 percent of the time spent at Gannett sites comes from mobile. At CNN, the number is 44 percent; at the Yahoo-ABC News Network, 55 percent.¹¹ The challenge is that many publishers have not been able to monetize this traffic at the same rate as their desktop traffic.

At *The New York Times*, although more than half its digital audience comes from mobile, just 10 percent of its digital-advertising revenue is attributed to these devices.¹² “We knew 18 months ago, just like everyone else did, that our future was going to have a lot of dependency on our ability to close the monetization gap,” said Meredith Kopit Levien, executive vp-advertising at the *Times*.¹²

This problematic situation is driven by two factors:

• A Lag in Advertising Spending

Advertisers generally aren’t running as many advertisements on mobile as they do with desktops. The main reason is that it’s not unusual for any new medium to see its advertising revenues lag behind a shift in consumer behavior while advertisers conduct the research studies to confirm the wisdom of reallocating their advertisement spending. And so it is for mobile. This can be expected to change as advertisers conduct more research confirming the effectiveness of mobile advertising.

• Low Prices

The price advertisers can obtain for mobile advertisements currently is far below what they can obtain with desktop advertisements.¹² Again, this can be expected to change as research continues to demonstrate the value of mobile advertising.

Measuring Mobile-Advertising Effectiveness

A recent study has confirmed the effectiveness of mobile advertisements,¹³ measuring the attitudinal changes among consumers exposed to mobile advertisements, compared to the changes among a group of people not exposed.

Using this method, the study provided a means to gauge the impact of mobile on such attitudinal metrics as

- aided awareness,
- favorability,
- likelihood to recommend, and
- purchase intent.

The resulting effectiveness norms for desktop and mobile shed light on the value of advertisements on each platform. Although both types of advertisements generated meaningful lifts across a variety of branding metrics, it is important to notice that mobile advertising actually has outperformed display by a healthy margin (See Figure 3).

Mobile advertisements appear to perform especially well on lower-funnel metrics, such as “likelihood to recommend” and “purchase intent.” Reasons that might help explain mobile-advertising effectiveness include

- lack of ad clutter,
- proximity to the point of purchase,
- the personal nature of mobile devices, and
- the relative novelty of the mobile medium.

With mobile gaining increasing share of attention from consumers, the strong impact of mobile advertisements and the fact that smartphone screen sizes are increasing over time, it’s clear that mobile

⁸ “Why Doesn’t Facebook Want to Brag About Its Billion-Dollar App Ad Business?” *recode.net*, July 24, 2014.

⁹ “Facebook, Google, And Twitter’s War For App Install Ads.” *techcrunch.com*, November 30, 2014.

¹⁰ “IAB Internet Advertising Revenue Report—2014 first six months results.” Internet Advertising Bureau, October 2014.

¹¹ *comScore*, 2014.

¹² “Publishers Stare Down an ‘Oh Sh*t’ Mobile Moment.” *adage.com*, February 9, 2015.

¹³ “The Value of a Digital Ad.” *comScore*, February 5, 2015.

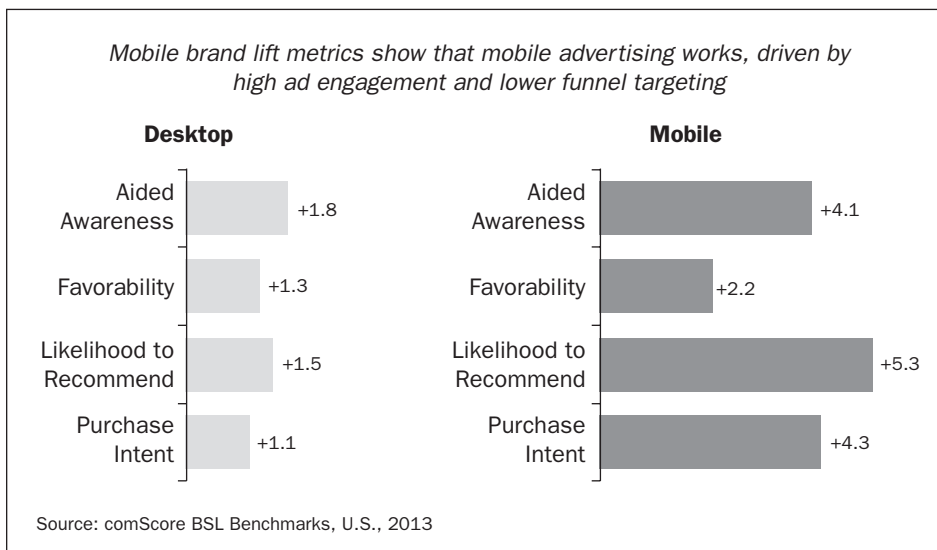


Figure 3 Percentage Point Lift from Advertising

advertising is still in the earlier stages of its upswing. Measurement can be expected to continue to help to grow mobile's share of the digital advertising market.

CONCLUSION

The advent of mobile devices dramatically has altered and complicated the advertising landscape, presenting both opportunities and challenges to marketers. Driven by mobile usage, consumers dramatically have increased the amount of time they spend online. Today, mobile engagement represents about 60 percent of all time online and about 85 percent of that involves an app but, at the same time, there's no evidence that consumers have eschewed use of the desktop.

Several key implications for marketers emerge from these trends:

- Mobile-advertising strategy must be viewed as essential, not experimental.

Consumers simply spend too much time on mobile for large brand advertisers not to have a presence on this medium. And, publishers must ensure they provide attractive inventory for these brands, which means that a well-functioning mobile website tuned to welcome visitors via apps and browsers is mandatory for those hoping to attract advertising dollars.

- The time is now to increase mobile-advertising spending. Research has shown that mobile advertisements particularly can be effective, in terms of both branding and direct response impact. And today's low price points for mobile advertisements represent a very attractive investment for advertisers. Often the emerging days of a new advertising medium is where the greatest arbitrage opportunity exists.

- Apps drive most of mobile usage, but it is difficult for any individual app to break through. Consumers' extensive use of apps presents a two-fold challenge:

- ✧ A publisher or advertiser's app needs to get downloaded by consumers.
- ✧ It then needs to be remembered and used. App-install advertisements can help with the former, but as far as being used, the app needs to stand on its own merits. Ensuring that the app provides true value and is easy to use should be viewed as mandatory functionalities.

- Don't forget about the desktop. Absolute time spent using a desktop has not declined, so advertisers need to ensure they still have a compelling strategy for reaching consumers on desktops. The online-display and video-advertising ecosystems are getting more efficient, and measurement is getting better by the day. So advertisers should not lose sight of the opportunity that already exists.

Combining these strategies with mobile for a cohesive cross-platform advertising strategy is where the outsize returns of tomorrow will be obtained. **JAR**

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