

Location Based Advertising Theory and Practice

A White Paper

Published by:

Russell Buckley

www.unstatic.co.uk

russell@unstatic.co.uk

27 April 2004

Table of Contents

Table of Contents	2
Commercial Terms.....	4
Introduction	5
About the Author.....	7
Technology	8
Part 1 - ZagMe Business model & lessons learned	9
Background to ZagMe	9
ZagMe Modus Operandi.....	11
Registration	11
Activation	11
The business model	13
Consumer proposition	14
Advertiser proposition	15
Reasons for ZagMe failure	17
Business model lessons.....	18
Pure Play	18
Media conglomerate.....	18
Hybrids	19
Key learnings.....	22
Location Feeds	23

Location Based Advertising Theory and Practice

Learning the lessons	25
Part 2 – Location Based Marketing Results	40
Consumer base profile	40
Anecdotal feedback.....	43
Results of campaigns	44
Case Studies	48
Reebok.....	48
TopShop	49
Nando’s	50
Treasure Hunt	51
Quiksilver	52
Lush 53	
Bonsai House	54
Esprit	55
The Future – Richer Media	57
Conclusion	58

Location Based Advertising Theory and Practice

Commercial Terms

Unstatic¹, the leading mobile application specialist, offer you this report on a completely free basis to read, circulate, learn and discuss with colleagues. We hope you enjoy it and it stimulates some quality debate.

Feel free to contact us, offer feedback or comments
Russell@Unstatic.co.uk.

If, however, you wish to use it commercially by quoting from it or reproducing elements of it in publicly circulated documents and/or websites, please contact us for permission. We reserve the right to charge you for granting of such permission.

Although we've taken great care to ensure the accuracy and completeness of the information contained in this publication, neither Digital Creative Limited nor any of its authors, contributors, employees or advisors is able to accept any legal liability for any consequential loss or damage, however caused, arising as a result of any actions taken on the basis of the information contained in this publication.

¹ Unstatic is the trading name of Digital Creative Ltd, a company registered in England and Wales.

Location Based Advertising Theory and Practice

Introduction

Location Based Services (LBS) are increasingly back on the mobile marketing agenda, as both operators and independent technology companies seek to promote the technology that allows us to track the whereabouts of consumers' mobile phones. For marketers, the theory goes, this potentially represents a very powerful opportunity – the means of targeting customers not only with the right message at the right time, but now, in the right **place**.

The promise held out to marketers goes something like this:

Imagine that a consumer is walking down a City street. The local Starbucks Manager is having a quiet morning, so sends a Text message to the consumer saying:

“Hi, in 10 metres turn into the Starbucks on your right. Show this message to get a half price latte.”

The consumer is unable to resist and duly walks into Starbucks, allowing the retailer to make a sale they otherwise wouldn't have. Since Starbucks have a high fixed overhead and a low variable one (a latte actually costs a tiny fraction of the material cost of the coffee), this increases profitability.

Location Based Advertising Theory and Practice

So everyone wins – the consumer gets something of value and the retailer increases profitability.

Could this be a true example of a virtuous circle?

This report explores the potential of this type of advertising – or more accurately, **promotion**. Is it a technology looking for an application, or a tool of genuine use to marketers and one that will be valued and appreciated by their customers?

However, the report is not a theoretical exploration, **but based on the actual experience of running 1,500 Location Based campaigns for 150 different clients over a period of about 12 months, using a pool of 85,000 consumers**. This includes a number of case studies to give readers real insight into the lessons learned from these types of marketing campaigns. The author of this report was the Marketing Director of ZagMe, the company that ran these campaigns, so we can offer real-world knowledge of this type of marketing and the business model.

While it's certainly true that ZagMe failed in the end, many valuable lessons were learned that are as relevant today as when the experiments took place. In fact, ZagMe's collapse was more to do with the macro-economic conditions surrounding 9/11 than the validity, or otherwise, of Location Based Marketing. Besides which, lessons learned at other's expense are cheaper than learning them for yourself!

Location Based Advertising Theory and Practice

About the Author

Russell Buckley is one of the leading authorities on mobile marketing, having personally overseen 1,500 mobile marketing campaigns.

Russell has been involved in marketing for over 20 years, including working with some of the world's largest brands such as Coca-Cola, Diageo, BT, Texaco and Mars.

More recently he has written extensively on the mobile marketing phenomenon and is a founding partner of Unstatic (www.unstatic.co.uk), a specialist in advanced mobile applications for a range of brands, in financial services, youth, telecoms and the media.

Unstatic has offices in London and Munich.

Location Based Advertising Theory and Practice

Why have we written this free report? Frankly, to impress you with the quality of our experience and thinking. If you like this, maybe you'd like to work with us on other mobile projects and pay us for the privilege, this time?

But we also like contributing to the ongoing "Where next in mobile debate?", so there's a healthy dollop of altruism too!

Technology

This report intentionally does not concern itself with the technology behind either Location Based Tracking or the sending and receiving of the mobile marketing messages themselves.

If this is an area that the reader would like more information about, Ajit Jaokar, the leading mobile commentator and specialist in LBS services has prepared a short paper on this topic. This is available by emailing Russell@unstatic.co.uk.

Location Based Advertising Theory and Practice

Part 1 - ZagMe Business model & lessons learned

Background to ZagMe

BUSINESS MODEL	Advertising supported, SMS (text message) media channel
PARTNERS	Frontiers Capital (Carphone Warehouse's venture fund) Sussex Place Investment Management (London Business School's fund) Monitor Consulting
FINANCIALS	Raised c. £3m in two rounds
CUSTOMERS	Burger King, TopShop, KFC, HMV, Quiksilver, New Look, Reebok
REVENUES	Negligible

Location Based Advertising Theory and Practice

ZagMe was started in July 2000 and was a VC funded company based in the UK, with a mix of private and institutional investors. Most prominent of these were Frontiers Capital (Carphone Warehouse's venture fund), Sussex Place Investment Management (London Business School's fund) and Monitor Consulting (Harvard guru Michael Porter's consulting company). It raised an initial £1.9 million and subsequently, £1 million in February 2001.

Its initial remit was to test the concept behind Location Based Marketing. Specifically:

Would consumers sign up for such a service?

Would consumers react to the marketing messages?

Would advertisers use and ultimately, pay for such marketing messages?

It was decided that these issues would be explored by a localised test in Lakeside (Essex, UK) and Bluewater (Kent, UK) shopping malls – the two largest malls in Europe. If the test proved to be a success, further funds would be available to take the service national, in due course.

Location Based Advertising Theory and Practice

ZagMe Modus Operandi

When ZagMe was started in 2000, it was generally accepted that Location feeds (the ability to track the consumer in real time) would be available within six months or so. Therefore, a system that emulated location tracking (the ability to recognise where a consumer's mobile phone was at any given moment) was needed in the interim, so that the marketing principles could be validated.

This system was a two-stage process:

Registration

Consumers signed up for the service by SMS (with web and voice call options available, but never widely used). Basic data was their mobile phone number, date of birth and gender. The later two variables were used to target subsequent marketing messages.

Activation

When the consumer arrived in the mall, they needed to activate the service to tell ZagMe that they wanted to start receiving messages and how long they would be there for (so ZagMe knew when to stop sending messages). Activation was done mainly by SMS, but could be with a voice call. There was also the facility on the website to pre-activate the service if the consumer was regularly shopping on specific days or hours of the day.

Location Based Advertising Theory and Practice

In practice, Registration and Activation took place simultaneously the first time the service was used, by sending an SMS like this:

F 121280 BLU4

Meaning that the consumer was a Female, born on the 12 December 1980 and would be at Bluewater for 4 hours.

On subsequent visits, Activation only was required e.g. LAK3 (Lakeside for 3 hours).

On activation, consumers would start to receive messages from advertisers based in the mall they said that they were in. Messages would be sent approximately every hour and would stop when they had said they would be leaving.

Location Based Advertising Theory and Practice

The business model

The ZagMe business model was an advertiser-funded service that would be free to consumers.

While this model may have been discredited in recent years as online media owners struggle, it's important to recognise that similar highly successful and profitable companies do exist. For instance, to name a few; non-subscription based television, radio broadcasting, free newspapers and magazines, poster sites, ambient media and even a some successful online media plays(!)

Therefore, in principle, there's nothing wrong with the model, providing

- an advertiser-attractive customer base can be recruited and maintained cost-effectively
- sufficient advertisers exist who can be persuaded to pay to use the media.

Location Based Advertising Theory and Practice

Consumer proposition

The consumer proposition was simple:

great deals on essential brands direct to your mobile – free!

85,000 consumers understood the proposition and signed up for the service.

Additional benefits were:

- That ZagMe had a loyalty programme. This means that consumers would actually get paid for receiving marketing messages.
- ZagMe was network independent – it worked across all mobile operators
- Consumers didn't need access to the Internet to register or activate ZagMe
- It put the consumer in control. As well as the filtering done by ZagMe itself (age and gender) the consumer could visit the website and specify their own additional filters. For instance, they could specify that they didn't want certain types of offer or that they didn't want messages from specified advertisers.

The company name, branding and marketing collateral reflected a youth-oriented proposition.

Location Based Advertising Theory and Practice

Advertiser proposition

The advertiser proposition was that they could send marketing messages, targeted by age and gender, to consumers who were close by and therefore more likely to act on them.

Or perhaps more prosaically, we wrote: **retailers can now actually ask their customers to dance, rather than take the old wallflower approach!**

Secondary selling points were that texting was “cool” and would boost a retailer’s credibility among a mainly youthful audience.

To take advantage of this proposition, the advertiser obviously needed a physical presence in a mall where the service was running. In practice, this would be a retailer or service provider in the mall, such as a clothes shop or coffee vendor. But it could also include a company running a temporary promotion in the mall, or a brand selling via one of the retailers.

Initially, the ZagMe service was offered free to advertisers. This was partly as it was recognised that the media channel needed to prove itself. But also because there was an inherent Catch 22 in the proposition; consumers couldn’t be recruited until ZagMe had something to send them. And paying-advertisers couldn’t be recruited until enough consumers were

Location Based Advertising Theory and Practice

signed up to the service. Unlike many free media channels, ZagMe didn't have an equivalent to "editorial", thus advertisers were needed to supply content from Day One.

Once the channel had proved itself and a critical mass of consumers could be built up, advertisers would be asked to start paying and eventually, it was hoped that a rate card of c 25p – 30p (c.\$0.50) per message would be established. At least, that was the theory.

Location Based Advertising Theory and Practice

Reasons for ZagMe failure

ZagMe signed a new round of funding with investors on the morning of September 11th 2001. The funding offer was withdrawn in the subsequent economic climate.

In hindsight, we do not believe that the business model would have worked as originally envisaged, although we have proposed some alternative scenarios in this report that could be successful.

Having said that, when investment was withdrawn, it was premature to draw that conclusion as the business was succeeding in what it had been established to do. So ZagMe's failure as a business shouldn't be viewed as comment on the success or otherwise of location based or mobile marketing per se.

Location Based Advertising Theory and Practice

Business model lessons

Before we go on to consider the lessons for Location Based Marketing, it will be helpful to look at ZagMe as a business model. There are already several companies attempting to operate similar models and these largely fall into three distinct types:

Pure Play

In other words, these companies are seeking to resurrect the ZagMe business model - an independent media channel.

Media conglomerate

If a media owner already has existing relationships with both consumers and advertisers, opening up a mobile marketing channel, whether location-based or not, is a logical one. No significant investment is required in technology or the ad-sales process or team overhead. Therefore, this type of service represents an incremental profit opportunity.

The requirement therefore, is simply to persuade consumers to sign up for the service, as it must be permission-based (from both a best-practice point of view, but also from a legislative one in many markets).

Location Based Advertising Theory and Practice

Hybrids

Various organisations could be looking at the potential of implementing a mobile marketing channel.

These include:

Mall owners

Mall owners already have relationships with retailers (albeit, not generally an ad-sales one) and an implied remit to improve the business of their tenants. Therefore, it makes sense that many mall owners should consider introducing their own mobile marketing channel.

However, arguably even more powerful for mall owners, is the value of the data they can simultaneously collect and use for their own marketing purposes. For instance, real time data as to mall footfall and the ability to identify heavy users of the mall offer significant marketing opportunities to the canny mall owner.

In addition, the service can be used to transmit marketing and promotion messages about the mall and perhaps, public-service type announcements.

Location Based Advertising Theory and Practice

Financial services

Credit and credit card providers (both generic and store specific) would be advised to look at the potential of this channel too. Again, they already have relationships with their merchants and a remit to increase spending in those merchants with their products.

The ability, for instance, to target a store card owner with a specific offer in that store, provided the purchase is made with their card, is highly attractive. In addition, a credit-based purchase is more of an impulse-based one and that means goods and services with higher transaction values can be offered.

Retailers

Retailers themselves could benefit from location-based marketing initiatives. Freed of the need to generate a profit from the advertising element, they could focus on the tool purely as promotional vehicle and customer service tool.

It would be particularly appropriate for department store operations where consumers could be incentivised to visit other departments on their shopping trip. It would also make sense to include store credit cards in the programme.

Location Based Advertising Theory and Practice

Entertainment Venues

These could include cinemas, theatres and sports venues, all of which could benefit from yield management location-based marketing techniques. It is still amazing that there are (for instance) theatre seats unsold every night in London and yet there are enough people available within a 10 minute journey to fill them many times over at very short notice.

As the airlines have consistently proved, efficient yield management increases profits dramatically and does not cannibalise them as is generally feared.

All these companies will benefit from this analysis.

Location Based Advertising Theory and Practice

Key learnings

The key learnings from ZagMe can be broken down as follows and are expanded in the following section.

1. The need for a location feed (preferably an active and affordable tracking service)
2. There's a limited advertising pool
3. The need to manage the redemption process
4. The need for multiple revenue sources
5. Don't rely on operator technology
6. Need for efficient and cost-effective customer acquisition
7. You don't need to pay consumers to send them your marketing messages (in fact, it's dangerous to do so)
8. The importance of filtering marketing messages
9. Creating a new media channel needs time to get established.
10. Plan to manage and exploit the dialogue that mobile marketing creates
11. The need to over-manage campaigns in the early stages
12. ROI – a blessing and a curse

Location Based Advertising Theory and Practice

Location Feeds

While this report does not cover technology per se, it's important to understand the context of tracking the consumer. Broadly, there are two types of location feeds, taken from the viewpoint of the **consumer² or user**:

Passive

This is where the consumer is tracked in real time, without having to do anything themselves. Obviously, the consumer needs to give her initial permission for the marketer to do this, partly as it's simply best practice to treat your customer with respect and partly as it may be legally required anyway – certainly it now is in Europe.

Incidentally, some operators have tried to introduce a pricing model that is frankly, impractical. It requires the marketer to poll the whole of their own database to establish where every consumer is at any given moment and then be charged for every consumer polled. As an example, if we take

² From an LBS technology industry perspective, the terms we have used are usually described differently. "Active" technologies refer to those constantly (or frequently) determining their location (e.g. GPS, Cell-ID, triangulation, etc.). "Passive" refers to technologies that require a trigger or outside stimuli/power to locate themselves or be located (e.g. RFID, Kiosks). However, since our focus is marketing, we have chosen to take the consumer perspective in our definition.

Location Based Advertising Theory and Practice

ZagMe with 85,000 consumers, we would need to poll all 85,000 to find out which ones were in a mall at any given time in order to identify which ones to send marketing messages to. Even if the operator tries to charge each feed GBP 0.01 (considerably less than what they are proposing), the costs are clearly completely uneconomic.

Active

This is where the consumer must do something to initiate the tracking. As an example, in the ZagMe location-feed simulation, the service required the consumer to send a text message saying where they were and how long for. A next generation active tracking service may allow the consumer in this context to send a message saying "ZagMe" and the service being able to tell where they were at that moment.

Location Based Advertising Theory and Practice

Learning the lessons

Lesson 1

A service where the inertia effect is working against the marketer generally won't succeed.

In other words, if you're relying on the consumer to remember to activate the service every time they wish to use it and also remember how to activate it, it almost certainly won't work - or will fail to live up to its full potential. Obviously there are exceptions to this rule, but while it's possible that consumers will actively welcome permission-based marketing messages, it's unlikely that they'll feel strongly enough to activate such a service in the longer term.

Therefore, Passive Tracking must be the solution.

Let's look at the ZagMe evidence. Of the 85,000 consumers who were interested enough to sign up initially, 68% only ever activated the service once (ie on their first visit). The actual figures are:

Location Based Advertising Theory and Practice

Number of activations	%
1	68
2	12
3	5
4	3
5	2

While it could be argued that 32% reactivation was actually reasonably impressive, this figure is undoubtedly significantly less than would have been achieved through a passive tracking service. Obviously there would be some consumers who subsequently wished to opt out, but nowhere near as significant.

ZagMe conducted one major qualitative research programme and numerous anecdotal ones and the overwhelming finding was that most consumers felt extremely positive towards the service. Indeed, one consumer actually dedicated a song to ZagMe on London's Capital Radio. From all this evidence, it's apparent that most consumers would have continued to use the service if they could. Therefore, passive tracking must be part of the technology solution.

Location Based Advertising Theory and Practice

Lesson 2

There's a limited advertising pool.

Let's assume for a moment that mobile marketing works as a channel, though we explore actual results in detail later in this report. Let's take a response rate of 4% as a working figure. This is quite high, but was replicated many times for campaigns such as TopShop, so it's a valid assumption.

As a retailer using a service like ZagMe at a price somewhere near the rate card, it would cost say, 20p per message sent. This would mean that with a 4% response, a sale with at least a **£5 profit margin** would need to be generated just to **breakeven** (20p/4%).

If we take a more attractive scenario of a 10% conversion to sale and a transmission cost of 15p, a **margin** of at least £1.50 needs to be generated to **breakeven**.

Note, these figures haven't factored in a cost of a location feed.

This simple analysis explodes the popular Starbucks myth – for low cost items, mobile marketing used in this way is simply unaffordable. It can only be justified for higher priced and higher margin products.

Location Based Advertising Theory and Practice

A further issue is that generally speaking, this type of marketing tends to be able to influence impulse purchasing by its very nature. However, influencing an impulse purchase is much easier for low priced goods than for high priced ones.

Therefore, a service like ZagMe is not cost-effective for lower priced products, so many potential clients of the service are not able to use it. This includes "fast food", FMCG, snacks and coffee bars. It's also worth noting that these types of advertisers are also traditionally significant users of promotional marketing.

While many retailers do have higher margins, they are going to be very careful about measuring their return on a service like ZagMe, and are going to demand great results and rightly so.

This means that the pool of potential advertisers of a service like ZagMe might be much smaller than is at first apparent.

However, if a model of involving financial service credit providers is applied, this is not necessarily an issue, as credit purchases have higher average transactions anyway.

It's also worth noting that not all marketing campaigns look for such strict returns on investment in quite this way. For instance, if the objective of a campaign is purely to raise profile and create foot traffic, a fixed budget

Location Based Advertising Theory and Practice

might be available and a retailer may allocate some of this to mobile marketing if they are convinced that it will be effective at meeting the objective.

Equally, if the costs of transmission of the messages and location feeds were to fall, and a ZagMe type service was able to work on significantly lower margins, the barrier to entry can be lowered. Or if the service is run in-house, the economics change significantly.

Lesson 3

Manage the redemption process

As we shall go on to see, most of ZagMe's messages were promotional in nature, rather than simple branding advertisements. This meant the consumer was offered a special deal on purchase. Most of these offers were self-liquidating inasmuch as every transaction generated, was profitable for the retailer.

In turn, this meant that the retailer didn't actually need to "police" the redemption process as the more consumers who responded, the better for the retailer. This had the advantage that security was not a potential barrier to participation. However, it also meant that the retailer was solely accountable for measuring the effectiveness of the channel.

Location Based Advertising Theory and Practice

Discounting the tendency for some retailers to understate redemption so that they could negotiate better advertising rates, redemption was invariably understated as staff forgot to record respondees on the manual redemption system.

ZagMe introduced mystery-shopping exercises to gauge how effective redemption tracking actually was and found that actual results were approximately 1/10 of that claimed by retailers. And it's these understated figures we've used in compiling this report.

These days, there are other options to manage the redemption process and gain essential feedback. These include transmission of barcodes to the consumer's phone that can be scanned and recorded at the point of sale.

Location Based Advertising Theory and Practice

Last week (w/c 27th October 2003) The Gadget Shop became the first High Street retailer to run a mobile coupon campaign. Shoppers on Oxford Street were sent an SMS message with an embedded barcode, offering 10% discount, redeemable at three of The Gadget Shops stores; Oxford Street, Covent Garden and The Trocadero.

The campaign, managed by mobile loyalty & couponing pioneers, m-bar-go, was delivered as a simple text message with an embedded barcode. The message read 'Christmas has come early @ The Gadget Shop. Save 10% until 31/10/03 with this SMS. Pass it on'.

Recipients were asked to present their SMS at point-of-purchase, where the barcodes were read by The Gadget Shop's standard barcode reader.

"This being our first public trial, we were keen to learn how the public would react to offers being sent to their mobile phone." Marc Lewis, founder of m-bar-go, said. "The Gadget Shop, because it is such an innovative retailer, was a natural choice for our first retailer programme and we were delighted with the response. To have increased the average transaction value by 50% is a clear endorsement of our product."

m-bar-go promises more trials in the New Year, with two Grocers, a CTN and a Music Retailer.

Location Based Advertising Theory and Practice

Lesson 4

Maximise revenue sources

ZagMe would undoubtedly have benefited from additional sources of revenue, over and above pure advertising sales. For instance, it wasn't possible to implement for technical reasons, but sales of mobile content (e.g. ringtones, logo's etc) could have been very profitable and could have been the key to survival.

Lesson 5

Put not your trust in operators

Many a business has got into trouble by relying on mobile operators to do something, such as introduce a new service on time. While ZagMe's demise can't be attributed to this entirely, the service was relying on operators to introduce a location feed in the first half of 2001. Clearly, this never happened and it did affect activation rates for ZagMe and thus its effectiveness as a marketing channel.

Location Based Advertising Theory and Practice

Lesson 6

Customer acquisition

While ZagMe's customer acquisition was clearly successful per se, with 85,000 consumers signing up, there were some lessons to be learned, especially if the service were to be extended regionally or nationally.

The vast majority of ZagMe customers were signed up as a result of face to face marketing i.e. teams in the mall "selling" the service to the public. Other marketing activity that essentially resulted in **negligible** results included:

- Low key, local advertising (bus tickets and posters)
- Mailing to local Carphone Warehouse customers, within a one-hour drive time of the mall.
- Member get member
- Website

To put this into context though, while usage of SMS (especially in youth segments) was well established in 2000, it was far from the mass-market proposition it is today. Therefore, part of the recruitment task was education as much as persuasion and different results might be enjoyed today.

Location Based Advertising Theory and Practice

While customer acquisition cost was significantly below the £20+ that dotcom companies budgeted for, there's no doubt that face to face marketing is both expensive and increasingly ineffective over time (finding people not approached before being more difficult). In addition, recruiting millions of consumers in this way nationally is simply not an option.

While ZagMe did not survive to find what the answer to mass-market recruitment might be, it is a key dynamic to be solved for future entrants into this market. Naturally, existing media owners or companies who already have mass consumer relationships (such as credit cards and media owners) have the advantage in this challenge.

Location Based Advertising Theory and Practice

Lesson 7

Loyalty programme

ZagMe launched with its own loyalty programme to encourage consumers to both sign up and activate the service in the future. This was ZagPoints and they could be converted into Mobile Top Up Vouchers or shopping vouchers – essentially cash. As well as being able to claim a promotional offer of £5 of ZagPoints for registering (though a visit to the website and full registration was needed to claim), thereafter 5p per message sent to them was allocated to their ZagPoint account.

In retrospect, ZagPoints were completely unnecessary for the following reasons:

There's very little evidence that anyone signed up because of ZagPoints – indeed the majority of people never claimed them.

It added potentially significantly to acquisition and running costs.

The type of consumer attracted to receiving 5p (and a maximum of £5 a month) is likely to be low income (or frankly, rather strange!). Thus, they must of questionable value to most advertisers.

If ZagMe worked, it was because the service delivered its promises and consumers valued it in its own right. "Bribery", even when dressed up as a loyalty programme really wasn't necessary.

Location Based Advertising Theory and Practice

Lesson 8

Filtering

ZagMe provided filtering facilities to its consumers, so that they could specify the type of messages they didn't want to get or the advertisers they didn't want to hear from.

This facility wasn't widely used by ZagMe consumers at all. While this could be because few consumers subsequently visited the ZagMe website where the filtering took place, we believe that with time this facility would be seen as increasingly important. ZagMe was largely operating before the current spate of mobile Spam and we believe that filtering would have to be incorporated in future versions of this type of service.

A final observation might be that ZagMe could possibly be positioned in the future as a way of filtering out Spam, ensuring that only valued marketing messages were allowed through and putting the consumer in control. This could be achieved most effectively perhaps by a Java application these days.

Location Based Advertising Theory and Practice

Lesson 9

A media channel needs time to get established.

As any media owner knows, return on investment for a new venture takes time (traditionally 3 to 5 years to breakeven) and that's for an existing channel. For a new channel it's going to take a long time to get established with both consumers and advertisers.

This lesson obviously really applies more to pure plays. Existing media owners don't require the same levels of investment in the first place and Hybrids have different objectives anyway.

In any event, a deep understanding of the publishing adsales process is a prerequisite skill-set for any advertising channel.

Location Based Advertising Theory and Practice

Lesson 10

Creating dialogue

The mobile channel is very effective at creating a conversation with consumers. The one caveat this throws up is that consumers will text in to the service as well as passively receiving them.

This interaction needs to be planned for and managed. While not every inbound text message will need a personal response, many will and it's not enough to rely on automated server-generated responses. This means an investment in personnel to monitor and respond.

Lesson 11

Be the expert

When establishing a new media channel, it's dangerous to assume that potential clients or their agencies will invest time in understanding it and crafting and tailoring their marketing messages.

Be prepared to do far more than a more established player needs to. This includes thinking up ideas for campaigns, writing the copy and managing the redemption process on the ground.

Location Based Advertising Theory and Practice

Lesson 12

This type of mobile marketing is highly accountable – this is a blessing and a curse.

In some ways, this is a marketer's dream scenario. Campaigns can be put to bed almost instantly, no lengthy planning is needed and message transmission is immediate.

So too are the results. As the consumer is near the store, you can judge the effectiveness of a campaign within an hour, in most cases. Obviously, this assumes that the campaign can be tracked (for instance, with the use of a mobile coupon) as opposed to just raising awareness or stimulating foot traffic.

This is great news as the marketer can test various campaigns within hours, select the best one and roll it out.

Except that not every campaign will work, necessarily. And for the media owner, the evidence is brutal. There's no hiding behind awareness stats and other ad-science – it's simply not debatable whether a campaign worked or not.

Many traditional ad-sales managers will find this feature very disturbing indeed.

Location Based Advertising Theory and Practice

Part 2 – Location Based Marketing Results

In this section, we explore the results of location-based marketing campaigns and the lessons ZagMe has to teach. When looking at the evidence of campaigns, we have tried to take a balanced view, rather than simply those that prove the effectiveness of the channel.

Consumer base profile

Total, Age and Gender breakdowns

We have already noted that ZagMe succeeded in attracting 85,000 consumers. But what kind of consumers were they?

Firstly, practically all 85,000 of them visited the malls and used the service at least once. Therefore, they were all active users who all experienced ZagMe at first hand.

When looking at the following results, it's worth remembering that in 2000, the profile of SMS usage was much more skewed to youth markets and the service was specifically targeted at younger consumers. This was in the tone of the marketing collateral and the type of consumers that were approached in the malls.

Location Based Advertising Theory and Practice

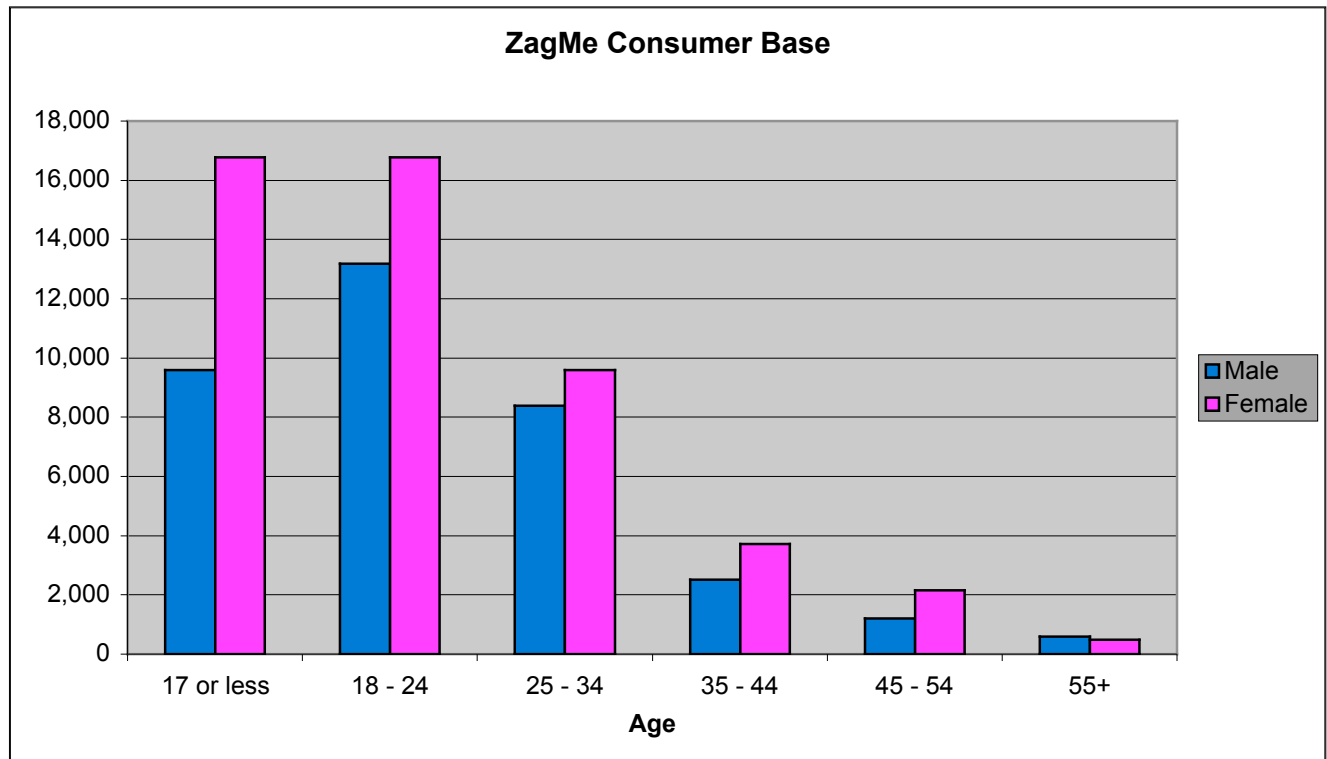
Bear in mind too that malls are primarily female biased environments.

Gender:

Male 42%

Female 58%

Anecdotally, males liked the idea of the technology and saving time on shopping. Females liked the idea of secret offers being sent to them and the way it enhanced the whole leisure experience of the shopping trip.



Location Based Advertising Theory and Practice

If the exercise were repeated today, we would expect more subscribers in percentage terms from older age groups. It would also be interesting to see if sign up rates would be affected by consumer scepticism of Spam.

Location Based Advertising Theory and Practice

Anecdotal feedback

Both the qualitative research undertaken and the ongoing anecdotal feedback indicated that generally, consumers loved ZagMe. For instance:

One consumer dedicated a song to ZagMe in London's Capital Radio

It was a frequent experience for consumers to text back thanking ZagMe for offers

They often asked the ZagMe service for dates!

They viewed the ZagMe service as something very personal and "just for them". Had ZagMe continued, this was an element that would have been built on further. In the final months, "Happy Birthday" messages proved to be a highly effective and low cost retention mechanic (activation reminders).

Location Based Advertising Theory and Practice

Results of campaigns

Before we look at some of the case studies generated by ZagMe, it's worth looking at the essential "Rules" of mobile marketing. In some cases these can't be illustrated by case studies as the corollary of rule was never run:

1. Get permission

Getting permission before sending someone a mobile message is now a legal requirement in the UK/Europe and is so ingrained in best practice that it doesn't need re-examining here. It's always worth mentioning though.

2. Promotion, not advertising

The mobile channel is a promotional one, not an "advertising" one. In other words, there needs to be something of value to the consumer contained in the message, otherwise the consumer will question why the marketer is wasting their time.

At ZagMe, most value was delivered by a special offer, often expressed in a fun way. But other forms of value are certainly possible, such as exclusive information or news, entertainment or jokes or fun.

Location Based Advertising Theory and Practice

3. Copywriting

In retrospect, the need for great copywriting might seem self-evident for a purely text based service. However, translating the copy into “text language” proved very important, especially for younger consumers.

The case studies show examples of the copy style and it could make the difference between a successful campaigns and a complete failure.

4. Targeting

Any good marketing offer will be carefully targeted to its audience. However, mobile marketing offers some additional opportunities.

Firstly, each marketing message is private to that audience. This means that marketers can take risks with their messages that are simply not possible in mass-market communication. Both Nando’s and KFC pushed back boundaries in their campaigns in this respect, by addressing young males with risqué and fun copy.

5. Exclusivity

There were many instances of consumers feeding back their disappointment over non-exclusive promotions. In other words, promotions sent to their phones that turned out to be generally available in the store when they arrived.

Location Based Advertising Theory and Practice

The feeling tended to be “well why did you bother telling me when I would have seen it anyway”.

In addition, recipients of this type of promotion like the feeling that the promotion is “just for them” and not available to anyone just walking into the store. This feeling is clearly compromised by a non-exclusive offer.

However, as the Quiksilver case study shows, the element of exclusivity does not need to be that great.

6. Timing

Timing was a counter-intuitive aspect of location-based promotion. In most conventional direct marketing and promotion, introducing a sense of urgency, normally enhances response rates. That’s why promotional copy often makes reference to “reply today” or similar.

With the exception of the Reebok-type dash promotions, introducing an artificial sense of urgency (eg “within the next hour”) actually tended to reduce response rates.

7. Multimedia campaigns

Like any marketing campaign, if more than one communication channel can be introduced, it tends to have a cumulative affect on response. Thus with the Esprit campaign, both pre-promotional, non-location messages

Location Based Advertising Theory and Practice

were used in conjunction with location-based promotions. This had the affect of both "loading the gun" and "pulling the trigger".

Undoubtedly, this technique would have been used more, had ZagMe continued.

Location Based Advertising Theory and Practice

Case Studies

Reebok

This was an early campaign and was widely quoted in the press at the time (Financial Times: "Mobile Marketing Meets its Moment of Mayhem"). But perhaps more than any other campaign, it spectacularly illustrates the potential power of the mobile marketing channel – what other marketing medium has caused a stampede of consumers to RUN shouting through a mall?

Reebok were opening a new store and their objective was simply to communicate that they were open and where they were located. They sent out a message saying that the first into the store and shout "I've been Zagged" would receive a free pair of trainers. Within 4 minutes, there were over 50 people in the store "causing something of a crush" according to the manager. The Reebok Effect was repeated many times by the ZagMe service to promote itself in the malls and provide additional fun to ZagMe consumers.

Lesson:

Location based mobile marketing's greatest power is as a traffic building promotion. If a retailer simply wants consumers in their stores (a highly legitimate promotional objective for many retailers), mobile marketing is a brilliant new tool.

Location Based Advertising Theory and Practice

TopShop

Sector: Young female fashion

Promotional objective: Foot traffic and purchase among 16 -24 females

Copy:

((!))ZagMe Get a FREE pair of knickers from TOPSHOP 2day! All yours when u buy anything & show this Zag! U can never have enough knickers! ;-)

Results:

c.4% conversion to purchase

Comments:

TopShop ran this same promotion for almost 10 months and consistently enjoyed similar response levels.

Originally the campaign had disappointing results when first broadcast as the copy used was too "traditional" and wasn't adapted to the medium. The new version of copy above was introduced and increased results by over 100%. This directly led to the appointment of a full time SMS copywriter for ZagMe.

If a campaign is going to run for this length of time it's important that the incentive offered is either relevant to every visit or changed and refreshed regularly.

Location Based Advertising Theory and Practice

Nando's

Sector: Restaurant with chicken based menu

Promotional Objective:

Increase awareness of outlet and its location among all audiences, but focusing on under 18's.

Copy:

((!))ZagMe Clucking Free soft drink! Fly over 2 Nando's NOW, & drink 4 FREE! Go now!

((!)) ZagMe Nando's Extra Hot sauce is only 4 real men! We dare U! Show this msg at Nando's, order EXTRA HOT & get 20% off & FREE soft drink!

((!)) ZagMe Nando's sauce is addictive! Show this msg today, tell them "Nando's sauce is NOT addictive 4 me." & get 20% off & FREE soft drink!

Results:

c. 3%

Comments:

Location Based Advertising Theory and Practice

Nando's experimented consistently with different offers and copy styles. In particular they were good at addressing different audiences with copy styles.

The discrete and personal nature of mobile marketing means that marketing messages can be personalised and arguably more risqué than in other channels. Another example was run another chicken restaurant chain, which targeted young males with the line "R U a breast or thigh man?"

Treasure Hunt

Sector: Multi retailer

Promotional Objective:

To drive audience to 5 participating independent retailers.

Copy:

((!))ZagMe 60 cinema tickets to be won today! Get 3 store stamps on a ZagMe card. Fastest wins! Go to the ZagMe stand to pick up your card.

Results:

All 60 tickets claimed, despite hunt taking c 2 _ hours!

Location Based Advertising Theory and Practice

Comments:

The treasure hunt proved that it was possible to engage with an audience over a prolonged period of time. 97% of those completing the hunt also filled a voluntary questionnaire at the end. Retailers noticed the additional traffic and used it as an opportunity to interact with the audience. This promotion would be particularly relevant for mall owners to recreate. In particular, consumers enjoyed the experience and the value it added to their shopping trip.

Quiksilver

Sector: Youth targeted clothing and accessories for snowboarding.

Promotional objective:

To drive traffic and purchase at the end of season sale. Target audience was under 35 males.

Copy:

((!))ZagMe Half price snowboard gear 2day + 30% off snowboards @ Quiksilver. Free poster 4 ZagMe members 2 whilst stocks last!

Results:

7% response

Location Based Advertising Theory and Practice

Comments:

One of the key findings of ZagMe was that marketing messages had to be exclusive to the channel. Consumers might react to a non-exclusive message, but would express disappointment when they arrived at the store to find it was applicable to everyone. With the Quiksilver offer, the half price sale was open to all, but they tailored a special offer to ZagMe consumers by offering a free poster. This had nominal cost to the promoter and a high-perceived value by the consumer. As the high response rate demonstrates, it was a successful promotion, enjoying a profit increase of over 80%, after the costs of the campaign were factored in.

Lush

Sector: Natural cosmetics retailer

Promotional Objective:

Increase awareness and drive foot traffic among primarily a female audience.

Copy:

((!))ZagMe Look good 4 free @ Lush! Rush 2 Lush now and get a FREE Ultrafresh face mask or body scrub.

Results:

c. 3% response

Location Based Advertising Theory and Practice

Comments:

While this may seem to be a generous offer, Lush actually threw away their fresh cosmetics at the end of the trading day anyway, as they were perishable. Therefore, this was a cost-effective way to raise awareness and generate foot traffic.

Many such store visits also generated incremental purchase from other products in the range.

Bonsai House

Sector: Independent retailer of Bonsai (miniature) trees.

Promotional Objective:

Increase awareness and drive foot traffic.

Copy:

((!))ZagMe Go to The Bonsai House 2day and get a FREE £5 voucher.

Results:

c. 2% response

Comments:

Location Based Advertising Theory and Practice

Mobile marketing can be used effectively by niche non-Blue Chip retailers too as this promotion proved.

Bonsai House were not in a high traffic area of the mall, so it was difficult to get consumers to respond to traffic building promotions. This promotion generated significant traffic for them and customers spending the £5 voucher are still very profitable transactions.

Esprit

Sector: Female fashion

Promotional Objective:

Increase awareness and drive foot traffic to support new store opening.

Copy:

(Sent out 1 week prior to opening):

((!))ZagMe It's the hottest thing to hit Bluewater! The NEW ESPRIT MEGASTORE opens in 1 WEEK! Hot ESPRIT FASHION, opening SPECIALS & MORE on 2 flrs! SEP 6!

(Sent out the day before opening):

((!))ZagMe Hey! ESPRIT MEGASTORE opens 2MORO @ Bluewater! Celebr8 a new world of FASHION & party on Sat w/ drinks, acrobatics, XLNT OPENING OFFERS & MORE!

Location Based Advertising Theory and Practice

(Sent out to active customers in the first few days after opening):

((!))ZagMe 10% OFF yr 1st purchase @ THE NEW ESPRIT MEGASTORE! 2 flrs of ESPRIT FASHION! Shirts, shoes, skirts, accessories! Show Zag @ Csh Dsk!

Results:

Unquantifiable

Comments:

While results couldn't be quantified, there was a lot of anecdotal evidence that it worked well. The store enjoyed high traffic in its first week and many of these customers were ZagMe generated.

Without doubt this combination of two stage marketing would have been used more if ZagMe had survived and is a very interesting approach, especially for mall owners.

Location Based Advertising Theory and Practice

The Future – Richer Media

MMS (Multimedia Messaging Service) is currently being touted as the giant leap forward mobile marketing needs to really take off. Frankly silly comparisons are being made (for instance, MMS is to messaging what Windows was to DOS) that ignore the basic market realities.

Yes, MMS with its richer interface, can help create more engaging mobile campaigns. But, at this point, MMS is absurdly expensive to use and haphazard in its delivery.

A wise would-be practitioner of mobile marketing would focus her efforts on SMS and learn about the channel, first and foremost. Those lessons will stand her in good stead if and when richer messaging takes off commercially and with consumers.

Location Based Advertising Theory and Practice

Conclusion

There is undoubtedly a place in the marketing mix for Location Based Promotion, with the caveat that that the medium is used responsibly and effectively by the marketing community. And with new technologies coming on-stream virtually every week, there's a wide choice of vendors who can supply the location feeds. This now includes Bluetooth options, as well as longer range ones, such as GPS.

This report demonstrates how location based promotion can best be used, but perhaps one of the most important lessons is that consumers will opt in for local marketing messages. And if constructed well, they'll also respond to campaigns very positively.

This is equally true today as it was 3 years ago for ZagMe. A recent survey by Rainier PR³ found:

68 per cent of mobile phone users would welcome the opportunity to receive targeted [local] promotional messages or electronic coupons, but only on an opt-in basis.

³ Rainier PR interviewed mobile phone users at Liverpool Street and Paddington railway stations, London, UK, over the period 26 November to 2 December 2003.

Location Based Advertising Theory and Practice

But is there a valid, profitable business model for a Location Based media channel? Our conclusion is that, yes, a very realistic model can be created in conjunction with an existing media channel or another complementary service such as a mall owner or a financial services provider. But a specialist, pure-play? At the very least, such a model would need additional revenue sources available and very significant marketing budgets spent by very canny marketers to establish itself.