

LOCATION-BASED MARKETING AND ADVERTISING

In October 2010, the UK-based cell phone carrier O2 launched the country's first large-scale, location-based service for delivering targeted marketing to mobile devices. The concept of targeted marketing is considered to be a vital part of any business. O2 Media, the mobile marketing division of the company, already uses customer data to provide personalized marketing to companies. For example, an iPhone application ("app") for a theme park that was targeted at families with children had great success, with approximately 30 percent of those targeted eventually downloading the app. The traditional targets for marketing are age, gender, interests, and so on. Location-based marketing can go further by targeting marketing at the right individuals at the right time, when they are in the right location to make a purchase.

Here's how O2's system works. O2 customers opt into the system by providing their age, gender, and interests. When customers are near an outlet that matches their profile, they receive an SMS message for discounts or other special offers. As of O2's launch, it was limited to providing discounts to Starbucks coffee shops and outlets supplying L'Oréal hair products, but O2 Media was confident that other partners will come on board.

The service is based on a technology called "geo-fencing," which is provided to O2 by a California based company called Placecast. In 2009, Placecast conducted a trial, under the name of ShopAlerts, involving three different types of retailers— American Eagle Outfitters (clothing for young adults), North Face (outdoor equipment and apparel), and Sonic (fast-food outlet). Although there may be some overlap between potential customers at these three retailers, plenty of people will fit one category but not the other two. Targeted marketing reduces the likelihood of relevant marketing messages being lost in "junk mail"; that is, customers get SMS messages that they know are probably relevant. According to research carried out by Placecast on ShopAlerts users, most customers opened the alerts immediately, and 65 percent made a purchase as a result of receiving the SMS message (interestingly, not always a purchase mentioned in the message).

O2 had to resolve several issues with this type of marketing.

- Opt in and opt out. Customers must be able to opt out of the system at any time and must be required to opt in at the start.

- Age. The O2 scheme is not available to customers younger than age 16.
- Data sharing. The targeted marketing is based on information supplied by the customer. This data must not be shared with other customers.
- Frequency. Because the SMS is triggered by the customer moving into the geo-fenced area, there is a danger that the customer will be bombarded with messages as he or she walks up and down the street. The Placecast American trial capped messages at one per every 48 hours and three per week. The O2 scheme limits the frequency of messages to one per day.
- Devices. The O2 scheme works on any mobile phone. It is not necessary to download an app (i.e., a smartphone is not required), and it does not affect the device's battery life.

As you might expect, O2 and its partners were enthusiastic about the venture. According to Shaun Gregory, managing director of O2 Media, the market potential is huge and this is a modern and efficient way to reach a mass audience in one go. Hal Kimber, head of CRM for L'Oréal, noted that the opportunity was very exciting and L'Oréal would learn a great deal which it could implement in future initiatives.

The use of text alerts for marketing does need to consider the potential customer and their use of texting. A survey conducted in October 2010 by comScore, a marketing research company that studies online behavior, found huge differences in mobile behavior in different parts of the world. The survey included cell phone users in Japan, the United States, and Europe. The researchers found that in the European sample more than 80 percent of people sent SMS messages to one another; in the United States the figure was 66.8 percent. In Japan, however, the figure was much lower—40.1 percent. Of course the lack of enthusiasm for sending messages does not necessarily reflect an unwillingness to receive marketing texts.

It appears that in Japan the emphasis is less on the opt-in approach of Placecast and more on location-based mobile advertising, a more sophisticated way of changing the advertising that a user receives when using an application. For example, someone using an iPhone or Android app typically also sees banner advertisements. AdLocal (now part of Yahoo! Japan) has the largest share of Japan's location-based advertising market (valued at US \$1 billion!), and such technology can make sure that the advertising that the

user receives is based not necessarily on who they are but where they are. Advertisers create their own advertisements using a wizard and then specify the desired locations and dates to display them (for special promotions, discounts, etc.). It seems that the success of this type of intelligent marketing is likely to spread to the United States and Europe.

Sources: "O2 Launches UK's First Location-Based Mobile Marketing," O2 news release, October 15, 2010; Kathryn Koegel, "Consumer

Insights on Location-based Mobile Marketing," January 2010; "comScore Releases First Comparative Report on Mobile Usage in Japan, United States, and Europe," comScore press release, October 7, 2010; Farukh Shaikh, "Yahoo Japan Scoops Up Location-Based Mobile Ad Firm Cirius Technologies," eBrands, August 17, 2010 (<http://news.ebrandz.com/yahoo/2010/3515-yahoo-japan-scoops-uplocation-based-mobile-ad-firm-cirius-technologies.html>, accessed October 25, 2010).

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CASE STUDY QUESTIONS

1. Two different approaches to capturing consumer interest are described in this case. How do the Placecast and AdLocal approaches differ?
2. Do you think that targeted advertising is better than a blanket approach? What is the difference for the advertiser? For the consumer?
3. The information from the comScore survey did not differentiate between age groups, only country. Do you think there are differences in behavior among different age groups that would make location-based marketing better for one group than another?
4. Think of businesses in your area that might benefit from joining the O2 scheme. What could they offer?