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Ad industry eyes the iPhone

The success of Apple's App Store has advertisers eager to put ads on mobile phone widgets.

By [Michal Lev-Ram](#), reporter

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SAN FRANCISCO (Fortune) -- Where there are eyeballs, there are usually ads. And the most eye-catching gadget of late has been the iPhone, which can now run thousands of software programs available at Apple's App store.

More than 100 million apps have been downloaded since the store launched in July, according to Apple ([AAPL](#), [Fortune 500](#)). Those numbers have caught the attention of advertisers who see social networking widgets, restaurant locators, mobile games and other apps as prime real estate.

The mobile ad market is expected to grow to \$12 billion by 2013, up from an estimated \$1.72 billion for 2008, according to research firm Informa Telecoms & Media. Most of the industry's efforts have focused on inserting ads in mobile websites, accessible through cell phone browsers.

In the pre-iPhone days, mobile services like Loopt - a social networking tool that lets people with GPS-equipped phones find their friends - were sold through wireless carriers for a few dollars a pop. Now Loopt is one of many companies experimenting with free, ad-subsidized models.

"Ads will enable Loopt to be free across the board," says Brian Knapp, Loopt's vice president of corporate affairs. An ad-subsidized model could also help Loopt grow; the company says people are downloading its iPhone application at a faster rate than they have for any other device.

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While just 20% of the more than 3,000 applications on the App Store are free, they make up 90% of the downloads. A growing number of them, such as popular mobile game Tap Tap Revenge and Pandora Radio, a personalized music service, are already experimenting with ads. Play a round of Tap Tap, for instance, and you'll likely see a banner ad for Jaguar cars on the bottom of your screen. Both Best Buy and Beck's have signed up to insert ads on Pandora's mobile application.

Mobile ad networks like AdMob already launched iPhone-specific services that match brands with application developers. "The iPhone and other smartphone devices have made the application environment especially interesting right now because we can serve richer advertisements," says Omar Hamoui, CEO of a mobile ad network called AdMob.

Not only do the applications make it easy to zero in on a consumer's interests, but Hamoui says the iPhone's touchscreen, built-in GPS and other features dish up more relevant ads. For example, iPhone owners might tap a banner ad for a restaurant that's near their current location and it could provide turn-by-turn directions.

Anne Bezancon, CEO of mobile ad network called 1020, says those kind of location-sensitive ads can yield two to five times the click-through rates of regular ads.

"We're already seeing extremely high returns on this new way of being able to target audiences based on where people are," says Bezancon. Her company is working with FedEx Kinko's, Chanel and other brands to put their ads on iPhone applications like San Diego-based Eventful, which lets people look up concerts and other events in their area.

While some people may not embrace the idea of ads on their iPhones or Google phones, the trend also means that more apps will be available for free.

"Consumers are drunk on free from the Internet," says Peter Farago, vice president of marketing at Flurry, a startup that has developed an analytics tool that lets mobile developers track how people use their applications. Farago believes that paid-for mobile services will initially give way to ad-subsidized applications.

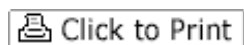
Ads on applications will only grow as other mobile phone companies launch their own app stores. BlackBerry maker Research in Motion ([RIMM](#)) is working on one, and Google's ([GOOG](#), [Fortune 500](#)) Android marketplace will launch in late October. ■

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