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The Real Threat to Google

As more consumers browse the Web on their cell phones, the No. 1 search engine must cope with less space to place ads

By Ben Kunz

Google's biggest threat may not be Microsoft ([MSFT](#)) or Yahoo! ([YHOO](#)). No, one of the most formidable challenges facing Google ([GOOG](#)) is likely sitting in your pocket or purse. It's your cell phone, and it will put added pressure on Google and other Internet companies to revamp the way they handle online marketing.

As more people use cell phones and their tiny glass screens to gain access to the Internet, Google and its fellow online advertisers will have less space, or what's called ad inventory, to place marketing messages for customers. Google makes money selling ad inventory. And its ad inventory is diminished on a cell phone.

IPHONE AS TIPPING POINT

Google can now fit about 10 ads on a standard computer screen. (If you look at Google search results on a PC monitor, paid ads are the listings at the very top and along the right.) But on your cell phone, if you type in a search query at google.com you get only one or two paid ads in response.

Imagine the horror that would befall your business if a large slice of what you sell suddenly disappeared. A similar fate could befall companies that depend on online advertising, as small screens become the gateway to the Internet.

Of course, no one's suggesting that consumers will abandon standard computer screens overnight. And early research shows that mobile advertising may be more effective than

standard online advertising, suggesting that it will be more lucrative for the companies that rely on it. Still, the shift is coming fast enough that Google must get prepared.

It was Apple ([AAPL](#)), a frequent Google collaborator, that tipped the trend. Consumer use of mobile Internet in the U.S. has long trailed Asia and Europe, where standardized cell networks made it easier for handset makers to produce gadgets that tap the Web at blazingly fast speeds. But in the summer of 2007, Apple rocked America by launching the iPhone. The computer maker wasn't the first to put the Web on phones, but for many consumers, the iPhone made the experience more robust.

Almost two-thirds of Americans have had some experience with mobile Internet use, and the adoption trend is most pronounced among teens and young adults, according to Pew Research Center. About 60% of adults 18 to 29 use text messaging every day, compared with only 14% of their parents. Nearly one-third of young adults use mobile Internet. This is the future, because people take their media habits with them as they age.

WHY GOOGLE WANTS IN ON CELL PHONES

So, as Apple and demographic trends thrust the mobile Internet upon us, how will advertisers and we consumers of electronics respond?

Google will try to expand ad "shelf space," especially by redesigning cell-phone software. In November, Google announced it was launching an Open Handset Alliance to design a new operating system, code-named Android, which would provide a "truly open and comprehensive platform" for cell-phone users. A few scratched their heads as to why Google would get into the cell-phone interface business. But now it's clear; Web screens will soon be two inches wide, and Google wants a say in what fits on that tiny screen.

Our bet is that the new Android interface will encourage mobile device users to flick through multiple layers or pages, similar to the iPhone album-art menu. This will create more room for ads. Expanding the visual ad inventory will be crucial for Google, as evidenced by the recent announcement that it will begin selling small display ads on cell-phone screens.

Another implication is that consumers may have to start paying for "free" stuff. Sure, there's a lot that's free on the Web now, as many, including Chris Anderson of *Wired*, have noted. Yet, even Anderson notes that most "free" content models really just transfer the hidden cost from you to third-party advertisers, who subsidize your content in hopes of getting attention. If

online social media such as [Twitter](#), [Facebook](#), or [Digg](#) can't figure out ways to entice money from advertisers, they'll have to grab it from you.

MORE PERSONAL ADS ON THE WAY

Our hunch is that free content systems may stick to the big Web pages, where more ads can fit. For tiny screens, systems such as Twitter that work well in small detail will eventually have to charge, make money some other way, or go away. Consumers push back on paying for something that is already free, so the only solution we see is to keep ads very minimal—and very personal.

Which brings us to one of the biggest implications of wider use of the mobile Web. Advertisers will increasingly rely on personalization. Today, collections of Web sites known as ad networks track consumer behavior across multiple sites, and then shoot targeted ads to users. This behavioral targeting approach, found via WPP Group's ([WPPGY](#)) 24/7 Real Media, [Blue Lithium](#), [Tremor Media](#), and other Web networks, often results in ad response rates 5 to 10 times higher than standard banner ads.

Personalization works, and several companies are working on ways to make it work better. Microsoft recently filed a patent application that would use offline data such as credit-card transactions, estimated physical location (from cell-phone towers), and TV viewing habits to serve you a customized ad the next time you go online. The fact that you bought cleats for your kids this morning, went to a high school football game in the afternoon, and turned on ESPN when you got home would conceivably trigger a personalized sports ad on your cell phone.

BETTER MARKETING THROUGH PROFILING

ComScore ([SCOR](#)), the Web site ranking service, is taking a different approach, using "biometric signature" profiling to match the keystrokes and mouse-click patterns of different users on a single computer. The idea here is to get beyond the gadget to the individual user who touches it. The system can identify whether Dad or Mom or Sis is sitting at the keyboard, and then match the individual user with a rich profile of demographic data to improve ad targeting.

Pondering all this, we called Marc Rotenberg, executive director of the Electronic Privacy Information Center, to see what concerns privacy groups might have about a future where marketers track your every move. "Personalization is actually a great idea," Rotenberg said,

"but it should be done in a way that doesn't require detailed data collection" about an individual.

It's a nice hope, Rotenberg's, that advertising and Google can survive in a world where the ways to reach consumers via glass screens grow smaller and smaller. But we suspect hyperintrusive data profiling is coming fast.

After all, Internet screens will soon be a lot smaller. And no one as rich or as smart as Google gives up so crucial a slice of sales without fighting back.

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