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Rhythm Method

Forget SMS: TV Is the Mobile Ad Model

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The revolution will, in fact, be televised. That is, if Rhythm NewMedia has anything to say about it. The Mountain View, California-based start-up believes that the mobile advertising market will ultimately look a great deal like TV.

To press that strategy, it went back to its investors for additional funding earlier this year, and on Monday, the company closed an $18 million second round, backed by a new investor, the private equity giant Carlyle Group. Its prior investors Morgenthaler Ventures, Lightspeed Venture Partners, and Rembrandt Venture Partners also participated in the round. That should last the 25-person company for two years, according to Rhythm CEO Ujjal Kohli. It also brings the start-up's total funding to $27 million.

After getting $9 million in a first round of funding in 2005, Rhythm set out to build an ad delivery service that serves up short video spots to consumers before they can play content they've selected to watch.

Many mobile advertisers currently blast consumers with short SMS text messages hyping their goods and services. One Rhythm rival, ThirdScreen Media is pursuing a display advertising model, where users interact with the ads they receive. But Mr. Kohli thinks his competitors are missing the point.

"Everybody's going about this the wrong way. Bring TV to the phone—that's the big opportunity," he said.

This strategy enabled Rhythm to land several dozen advertisers and ink deals with content players like EMI Music, ABC News, Fox Sports. Early trials have been sufficiently successful to attract the attention of T-Mobile and two other mobile carriers yet to be announced.

Carlyle managing director Allan Thygesen agreed, noting that the time is right for companies to define what mobile advertising will look like.

"With 3G network rollouts completed and 3G handsets becoming the mainstream feature phones, our dialogue with carriers demonstrated that the next phase of mobile video will be partially or completely advertising financed," Mr. Thygesen said.

IDC analyst Scott Ellison's take is that mobile ads are forcing advertisers and wireless service companies to adapt their model to the new medium. "Without fundamental model adaptation, both communities risk alienating the very customers they serve and strive to reach, " he said. In short, wireless operators are going to have to start thinking like media companies, and find ad methods that work for advertisers without turning off the end user.

Mr. Kohli couldn't agree more. "What people forget is that the first stakeholder to worry about is the consumer," he said. It's central that people have a really good time, and in order to do that, you need to show ads respectfully, make them relevant, and respect their privacy."

Respect for users, in Mr. Kohli's world, is conveyed by following a few principles. First, no ad is shown unless the customer asks for something. Second, make sure ads are relevant to consumers, like not showing someone under 35 a geriatric product, or showing men products intended for women. Third, don't get pushy.

"Our belief is that 'push' is really inappropriate in a personal device. Even with a double opt-in. What happens is that when people opt in to do stuff, it maybe satisfies a legal requirement, but in my mind, I'm not sure it meets the test that treats the consumer with velvet gloves."

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