A guide to social messaging for mobile operators

Strategies to remain relevant in the messaging eco-system

SUMMARY

In a nutshell

Social messaging is becoming more pervasive, and Ovum expects it to cannibalize up to $54bn of SMS revenues by 2016. Operators have therefore come under pressure to drive revenues from the non-voice parts of their communications businesses in an attempt to ward off the social messaging threat. Ovum believes that there are short term and long term strategies that operators can use to sustain messaging revenues and keep up with changing consumer messaging preferences. The current phase is critical for operators seeking to remain relevant and competitive in the messaging industry, and that refreshing their messaging strategies with IP-based social messaging is a crucial step.

It is imperative that operators understand the impact of social messaging apps on consumer behavior, both in terms of changing communication patterns and the impact on SMS revenues. This guide enables operators to assess the social messaging landscape, assess their business propositions and guide operators on the various options available to remain relevant in an ever changing messaging eco-system.

Ovum view

The messaging industry is going through fundamental changes, and operators have no choice but to offer consumers services that suit their changing habits. This need is especially heightened by the increased competition created by social messaging players. Ovum has conservatively estimated a $54bn decrease in SMS revenues by 2016, due solely to the entrance of social messaging players. This is a baseline number, and the actual impact on SMS revenues is actually expected to overshoot this level. In short, operators need to do something. Ovum puts forward three strategies comprising of collaborate, compensate and compete options, operators can choose a mix of strategies to ensure they hedge their risk in this evolving messaging ecosystem. A mix of strategies is recommended since relying on one strategy might not be able to make up for lost revenues. For instance, the steady pressure building on operators' SMS revenues may not be fully resuscitated by offering operator-branded social messaging services as suggested in the compete section. However, such a move should open up new revenue streams that will to some extent compensate for the dip in SMS revenues. Within the compensate strategy that Ovum believes will be lucrative is the application-to-person (A2P) SMS services especially through SMS

APIs. This involves creative services that go beyond person-to-person messaging, and tie in social messaging players as well and ties in well with strategies mentioned in the collaborate section. Perhaps the most widely talked about strategy is the adoption of the Rich Communication Suite (RCS) platform. RCS is the GSMA standard for rich communication, and adopting it will allow operators to offer features such as file sharing, video calls, and IP-based messaging. However, adopting the RCS platform has been in the pipeline for several years now, and Ovum does not expect this service to reach the mass market anytime soon. A more robust strategy would be for operators to convert this threat of social messaging into an opportunity by the way of leveraging their subscriber relationship and offering compelling and competing services on peer-to-peer messaging which helps operators retain and acquire new messaging subscribers. And also find ways to collaborate; compensate and compete for revenue shifts due to social messaging with additional revenue streams from application-to peer-messaging.

Impact of Social Messaging

Impact on revenue of SMS

Cannibalization of SMS revenues as a result of the growing popularity of OTT players is estimated to total $54.37bn in 2016. The revenue loss is currently estimated to be $23.17bn and is set to quadruple in the next four years, as shown in Figure 1. Not only are OTT players changing consumers' messaging preferences but the pressure they have exerted on operator messaging services has also forced operators to offer increased SMS bundles and to experiment with messaging pricing models, further dampening revenue growth. The growth of social messaging is linked to the spread of smartphones, a market that is already growing at a healthy pace. Players such as Huawei and HTC now offer affordable and incredibly popular smartphones, and this will further accelerate smartphone take-up and therefore also the decline in SMS revenues.

Change in expectations of consumers

Numerous technology developments are now also entering the market that will bring 'smartphone like' applications to the feature phone community. This in turn is whetting consumer appetite for richer apps and app-like experiences in messaging. Consumers want to do more with their messaging app and this is causing them to go seek out OTT apps and slowly migrate away from SMS which is limited in its services and features. Operators need to be aware of this shift and offer consumers media rich experiences to remain relevant in the messaging eco-system.

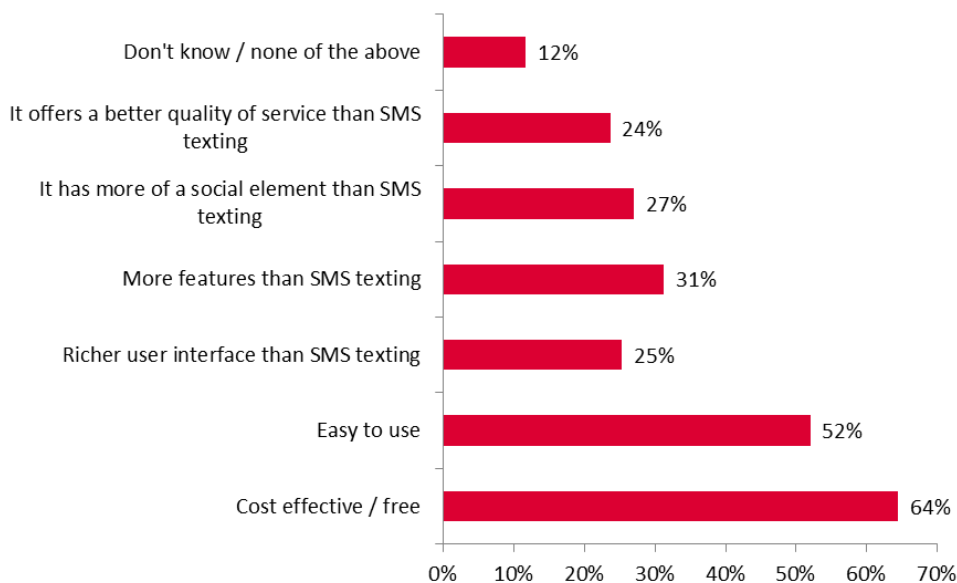### Changing messaging ecosystem

Two of the biggest changes in the messaging ecosystem are that of changing consumer consumption patterns as well as the growth of smart devices and low cost internet-enabled devices. The two are having a profound impact on the consumer and slowly transforming the messaging ecosystem. Operators need to offer up services within this dynamic ecosystem, satisfying both early adopters as well as the large user base still in the process of migration to social messaging.

- Growth and penetration of smart devices: Low cost devices and smarter devices make the access for such application much easier and drive up demand. A lot more

consumers are able to afford mobile phones and smart devices rather than a PC, which leads to a greater demand for OTT services on mobile than PC.

- Developer initiatives grow: A range of platforms are emerging such as webRTC that will drive the shift to real time conversations across any device. Developers are also working on how OTT services interact with each other leading to new forms of communication using the IP channel.

- Shift in consumer demand: OTT players on fixed internet have whetted user appetites for media rich services. Adding to this the competitively priced (or even free) aspect has lowered the barriers for entry and encourages a large number of users to subscribe to OTT services. Ovum's Consumer Insights Survey 2013 reveals that 64% of respondents preferred social messaging because it was free to use. Users on mobile internet enabled feature phones are also able to access app like services which in turn drives up the demand for messaging and media apps.

Figure 1: Reasons for using social messaging services

Reason	Percentage
Don't know / none of the above	12%
It offers a better quality of service than SMS texting	24%
It has more of a social element than SMS texting	27%
More features than SMS texting	31%
Richer user interface than SMS texting	25%
Easy to use	52%
Cost effective / free	64%

Source: Ovum's Consumer Insights Survey, 2013

Move towards social communications

The growth of social messaging has not only impacted SMS but has changed the way consumers communicate. The social experience has become far more central to communication than ever before. Services such Facebook allow users to do a lot more than just post on walls and this trend will intensify in the years to come. The growth of messaging app Line is also driving evolution of social messaging into a more comprehensive mobile media platform that will subsume a range of services such as payments, utilities, mobile commerce and media sharing.

Disruption within OTT players

OTT players are still growing strongly, indicating that social messaging is not a short-term trend but more of a shift in communication patterns. WhatsApp grew at over 900% in the EU5 countries, and is popular in markets such as Singapore and the Netherlands, which have 85% smartphone penetration. It has over 200 million users and transacts 20 billion messages a day. Services such as Line gathered 5 million users in the Indian market within 2 weeks of launch. This high level of growth will continue as smartphone and mobile broadband penetration increases in various markets. There is a high degree of fragmentation in the market today, new entrants will only add to this. However within a few years we will see consolidation in the social messaging market. Currently the growth of new players is forcing incumbents to rethink their mobile messaging strategy. For instance, the popularity of Line caused Facebook to introduce emoticons in their service. Pinterest represents apps that are doing much more than just messaging and picture or location sharing. This indicates a shift of messaging apps to incorporate more features, although these apps still have a messaging (sharing) proposition at their core.

Continuity and ubiquity of SMS

SMS traffic is showing growth in markets particularly those in Africa, North America and South and Central America. However, Ovum expects a global decline in SMS traffic from 2014 onwards. This decline in SMS will be very gradual and slow, and does not mean that SMS will disappear as a medium. It still has a very important role to play in communications however, the number of messages sent has plateaued and it will no longer grow. The most important part of the SMS is its ubiquitous nature, its ability to be sent across in any network and device. No other messaging platform has achieved this to date. With the growing fragmentation amongst OTT players, Ovum believes that the role of the SMS becomes even more important to ensure that not only can OTT players ensure messages are sent across walled gardens but also forms a vital role in bridging the consumers' offline and online worlds. Several OTT players offer SMS based services such as Google Chat and Facebook to allow their users to communicate in every way possible. However, operators need to think before they partner with the players to ensure that they don't end up culling their own SMS revenues by way of this partnership.

Smart pricing will be key in the interim

The operators that are relying on RCS as their key strategy for surviving in the messaging industry need to have a plan in place for the next two years. If successful, RCS will revolutionize communications services, including messaging, but it will take time to evolve into a mainstream service. In the meantime operators should look to implement smart pricing to combat revenue dip to an extent. For example, offering BBM services, or MXit in South Africa, and charging a subscription fee would give messaging revenues a boost, although it would also strengthen the bond between the operator's customer and the third-party player. Pricing will play a key role in SMS traffic, but operators should recognize that offering SMS bundles at a competitive price will add pressure to revenues, and not grow them. In addition, charging third-party players for using the operator's network is a fatal move, as it will encourage the growth of tier-2 operators and lead to increased churn.

Recommendations for players

Operators have a range of options to counter the adverse impact of social messaging players. The strategy to be used is determined by factors such as the extent of social messaging penetration in a market, the prevailing brand value of the mobile operator and most importantly the final aim of the mobile operator whether it is to remain relevant in the messaging industry or gain revenue in the short term or if the mobile operator wishes to implement a long term solution to the social messaging cannibalization. Ovum has summarized the various options into 3 categories:

- Collaborate
- Compete
- Compensate

The strategies need not be carried out in silos; they can be fused together in order for the operators to hedge their risks. Operators must innovate around social messaging services, which doesn't just imply creating new services but they can innovate around the partnerships they form with OTT players. In the medium-to-long term Ovum expects most operators to have both, collaborate and compete strategies within their portfolio.

Collaborate

Perhaps one of the most crucial options in the short term is that of collaboration. Please note, that collaboration does not only refer to forging partnerships with OTT players (which had become a popular option in 2013) but is about a deeper collaboration in creating powerful services for the consumer. This could take a few forms:

- Partnerships: Operators around the world have taken to partnering with social messaging players in various ways. 3 Hong Kong partnered with WhatsApp by way of a paid for roaming pass for its subscribers. Facebook Messenger partnered with 18 operators globally to offer the Messenger for free or at low rates to their subscribers. While KDDI offered its subscribers unlimited access to 500 apps on Android, including popular social messaging player Line. The subscription costs $4.90 per month and as of March 2013 already had over 5 million subscribers. This is a good and quick way to retain an operators' messaging footprint as well as create a new revenue stream. However, it does adversely impact SMS revenue and accelerates the consumers transition from operator-based communications services to OTT ones.

- Open APIs: Telefonica has been working with OTT players through its BlueVia initiative, while through its Next initiative Deutsche Telekom is also encouraging developers to utilize open APIs. If the RCS initiative grows to its expected extent, developers will have a host of APIs to build creative services around. This makes it possible for apps to be built on top of comprehensive communication platforms and exposed to third-party developers. Operators have the power to build the platform and then reach out to consumers, which means they can remain highly relevant in the market, and be perceived as the best in the business. This is not a short term strategy but a long term one and the benefits of this will also be seen in the long run. Revenue generation will depend on the ability of the operator to create a sound business

model, its bargaining power with developers as well the value of the end service created.

- Social propositions: Operators in the past have spent a long time in creating propositions that tie in all the available OTT services out there and serve it up to the subscribers in one user friendly platform. This is then sold as a paid for service and is a key way of generating revenue. Such a client or platform will indeed enable OTT players but will also result in revenue through subscription. However, the biggest risk of this is that OTT players evolve fast and also change the way users interact with the OTT service. This makes it harder to create a platform that can host this ever changing landscape. An additional threat is the direct partnerships between handset vendors and OTT players that provide a rich user experience on the handset itself.

- Carrier billing: This is a sound strategy and can be used in markets where social messaging has evolved into a mobile media platform such as Japan and South Korea in particular. Operators can leverage their billing relationship with consumers to carry out mobile payments for in-app and in-game purchases. In certain cases such as BlackBerry Messenger and MXit operators have played a crucial role in the payment for these services along with in-app purchases.

Compete

Competing with OTT services is a challenging task, it requires a reassessment of the operator's business processes since the way OTTs conduct business is quite different from that of operators. Operators do have a few options in front of them if they choose to compete with social messaging players, but they must fully understand their market before launching their own branded or community based services.

- Community based services in low risk markets: In markets where there is no one clear social messaging player, operators can take the risk of launching not just a social messaging service but one that ties together various value added service propositions which are popular in the local market and results in a service that brings greater value to the consumer. This has been trialed by operators such as Du and their Anayou proposition; however there is a risk attached to this as it requires heavy investment and is becoming harder to monetize in the age of free services. Along with this, the operator needs to create a locally relevant service which plugs in to gaps in consumer services in the market.

- Creative operator braded services: Operator-branded IP-based messaging services such as China Mobile's Fetion and America Movil's Claro Messenger have met with some degree of success. Some operators have also taken the app route: Telefonica's TuGO or T-Mobile Bobsled, for example. Competing directly with OTT players allows operators to have control of everything, from the user experience to the app reach, which leads to a superior product that can be better integrated with the business's greater communication strategy. In addition, it allows operators to retain customers by offering them the services they want, and preventing them going to a third-party player. An operator-branded app also delivers a higher rate of engagement:

Telefonica's TU Me app's (now re-invented as TuGO) average call duration is 2.5 times that of mobile operators. TuGO is an OTT application which is not limited to Telefonica customers which has been developed in-house by Telefonica, based on its Jajah VoIP acquisition. The look and feel of the application is like a synthesis of the best elements of Viber, Voxer, and WhatsApp. All usage is free. It works wherever there is an IP connection, but the benefits will be most strongly felt in the context of non-metered data charging, notably over WiFi when roaming. It can support multiple simultaneous sessions, so it is possible to be sharing content with one friend while on a VoIP call with another. It is strongly cloud-oriented too, in that all contacts, content and communications history are stored off the device, for a year. However, offering an OTT app is not a risk free route as it directly cannibalizes traditional services offered by the operator and also operator branded services have historically not met with much success. Operators' who wish to go down this path, need to research the market and come up with creative services that go above and beyond those offered by apps to be successful.

- Adopting the RCS standard. Although a number of operators are implementing RCS or Joyn as it is commercially known, the earliest it could come into effect is 2014. Despite of the big push made by the GSMA and major players in Germany, Spain and South Korea we are yet to see indicators of healthy growth in the adoption of the service. Therefore, in the meantime operators will have to rely on innovative pricing strategies, partnerships, and launching operator-branded IP messaging services to keep up with the changing demand. Joyn is not only another channel to grow mobile messaging and mobile communication usage, but it represents an evolution in the way consumers will interact with their media and communications services on the mobile phone. It is not a stop gap solution but more of a long term evolution, unfortunately its growth and adoption has been a slow one and it still has a long way to go before it can fully live up to its original vision. Adding to this very few operators are equipped for Joyn and its success is only possible with an industry-wide adoption of the platform. Joyn is best equipped to work in markets where there isn't a dominant OTT player in the market and LTE is yet to hit, which makes markets such as Africa and developing Asia ideal. However, both these markets are very far from Joyn launch.

Compensate

Another channel that has opened up is the ability to generate revenue from a range of A2P services. As a result of the shift in SMS to social messaging, SMS has come into prominence as a secure and reliable bearer technology. A2P SMS now hosts a range of alerts, confirmations, service activations and promotions among other things.

- Grow A2P SMS: As P2P SMS dwindles, the new "sweet spot" for SMS revenues lies in the A2P space and operators should look into harnessing this. This shift comes as a result of new data-based messaging services that have resonated with the consumer and also due to the growing demand for SMS-based advertising and SMS-

based services in verticals such as entertainment, healthcare, transport, and finance. For instance, shows such as X-Factor which include a TV audience voting via short codes drive a large amount of revenue towards this channel. Messaging for the next few years will be grounded in A2P. However, this is just a technical change as the consumer still perceives their communication as a person-to-person interaction and does not realize the role played by SMS as the communication channel or the bearer technology. Social communication will be one of the main drivers of A2P revenues. Social networking services such as Facebook and Twitter will increasingly rely on both IP and SMS channels. Though IP channels are utilized a great deal for social messaging, SMS has begun to play a much bigger role in social messaging services than in the past. The interoperable, ubiquitous, and reliable nature of SMS makes it the ideal channel for social message alerts and transactional messaging activities. This includes payment notifications, friend confirmations, and message alerts – all of which rely on the A2P channel.

- SMS APIs: Currently there is a push from vendors and service providers to use the SMS channels for verticals beyond social networking such as utilities, healthcare, travel, or advertising. This is in the form of SMS alerts on ticketing, clinic appointment reminders, or bill payment alerts. There is a high level of demand backed by even more potential for SMS to be used in this manner. There are even services in the pipeline which enable users to switch off electronic devices in their homes via SMS when outside the home. AT&T is a good example of this as it has a suite of SMS APIs which cover a range of verticals from marketing to HR.

- Mobile broadband revenues: If operators choose towards the LEAN model, then they can gain a large amount of revenue from the sale of mobile broadband subscriptions which is driven by the demand for social messaging apps. Consumers are willing to opt for mobile broadband plans in order to get access to social messaging services.

APPENDIX

This white paper was researched, authored and produced by Ovum in association with Mahindra Comviva, as part of a series of papers assessing the current state and future market direction of value-added services for mobile operators.

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