



The death of SMS - not quite yet

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By Fiona Chau

With its ubiquity and simplicity, SMS has become a cash cow for mobile operators, generating the largest slice of their revenues after voice. Research reports and operators' statistics show that in some countries, SMS generates as much as 40% of an operator's revenues.

Research firm Portio Research forecast that SMS will continue to be the star of data services over the next five years despite declining prices.

According to Portio Research, global SMS revenues are expected to reach \$67 billion by 2012, driven by 3.7 trillion messages, as the service continues to be a phenomenal success as the cheapest, quickest and easiest to use form of peer-to-peer mobile communication. In Asia Pacific, the market will continue to be fuelled by new subscribers.

The research firm estimates that every five minutes now and over the next five years 2,267 people will purchase their first mobile phone that will likely only include standard voice and SMS service. This translates into an additional 1.4 billion new mobile subscribers in Asia alone with a corresponding boom in SMS traffic in the region.

While SMS traffic and revenues are expected to continue to grow in the coming years, the report also predicts that by 2011, mobile IM, especially in North America, will potentially replace SMS as the mainstream messaging service, with the emergence of smartphones and wireless internet services.

A Gartner report, on the other hand, projects that the global user base of mobile email will grow from 20 million this year to 350 million by 2010, which will represent about 20% of the global email accounts by then. With the service being largely offered for free, the research firm predicts that mobile users will eventually turn to mobile email as a cheaper alternative to SMS.

Different business cases

Ovum principle analyst John Delaney disagrees, saying mobile email does not represent a competitive threat to bread and butter SMS because it has a different user case. For one, most emails sent from a mobile phone will be sent to a PC and are, therefore, incremental messages, not replacements for SMS. Also, operators' statistics show that mobile users use the service to receive emails rather than send them, he explains.

Neither will internet-based mobile IM threaten SMS, Delaney notes.

Peter Hogewoning, VP and GM for Asia Pacific at Seven, the US-based provider of mobile email solutions, says the strong customer base of SMS as well as its unique features of ubiquity and simplicity are also making it difficult, if not impossible, for mobile email and mobile IM to gain similar popularity.

"SMS is available in every mobile phone, comes with every subscription. It's something that people get used to," he says.

Hogewoning points out that although mobile email is gaining traction in the consumer sector, it is still in its early stage and there are a number of issues needed to be addressed before mobile email can take off in the mass market (see side bar "Low awareness hinders adoption").

Declining revenues

While SMS is not likely to lose its shine anytime soon, one of the major challenges facing mobile

operators nowadays is to retain the revenue growth over the long term.

"The main problem with SMS simply comes from its maturity and the fact that most people that are interested in using SMS are already using the service. This has made it more difficult for operators to get long-term high growth rate in SMS revenues," says Delaney.

That said, mobile operators have launched different initiatives to boost SMS revenues and usage. For instance, operators in the US, such as Cingular and Sprint, have raised the per-message prices in a bid to encourage active texters to subscribe to a messaging bundle.

Meanwhile, the GSM Association launched last year a global initiative to promote the use of interoperable mobile-to-mobile personal IM services, as an extension to SMS. According to the GSMA, around 12 GSM mobile operators in Asia, including Celcom, Digi Telecommunications and Maxis, will roll out standardized and interoperable IM services this year. In Europe Telifornica in Spain, Telecom Italia and T&M in Portugal have launched personal IM, with Telifornica marketing the service as a super SMS service.

While personal IM is regarded as an extension of SMS, Delaney says operators need to strike a balance between SMS and personal IM pricing to prevent the cannibalization of SMS revenues in the future.

"If operators can market it correctly, personal IM will make text messaging even better," he notes.

He also points out it's too early to see if personal IM can be a big success.

"A key feature of personal IM is interoperability, and interoperability takes a long time as it requires a lot of agreements between operators on both the technical and business models levels," he adds.

Money transfer

In addition to personal IM, SMS specialist Anam Mobile says there are many applications that could potentially be introduced to consumers through SMS.

The problem, says Jote Bassi, marketing director of Anam Mobile, is that many operators are focusing on other, less well-established data applications as they aim to increase ARPU and profitability.

Adding to that is the fact that a large proportion of text message are included as part of bundled deals, which in effect is making SMS free to the consumer. This means that each individual message has a low perceived value to the user and almost no financial value to the operator, Bassi says.

He suggests that operators should introduce new data services through SMS as such an approach would make it easier for new services to be adopted and can attach real value to the messages that individuals already send.

"SMS messages are one of the few services that the user will always know how to use on their mobile phone," he says. "There doesn't need to be a shift in consumer mobile behaviour - they can stick with their trusty SMS message, while the operator is able to create immediate results with additional revenue streams."

Examples of such services, Bassi suggests, are mobile advertising and SMS-based money transfer, a service that allows global money transfers to contacts in a mobile user's address book, merely by sending an SMS.

He says the company is now in talks with a number of mobile operators in south Asia, where there is a strong demand for such services.

Apart from that, Bassi can also extend the SMS into niche corporate markets.

For example, instead of sending emails, employees can use SMS to set when they can be contacted and avoiding calls or messages being received during busy meetings or when driving.

"If the subscriber is able to use SMS to interact with their device in a more efficient, more enjoyable or more productive way, then they will be willing to pay a small additional fee for those SMS messages," he says.

Low awareness hinders adoption

Once regarded an enterprise-oriented solution, mobile email is gaining steady penetration into consumer sector, thanks to the push by mobile operators and internet companies like Yahoo, MSN and Google.

Various reports predict that mobile email will continue to gain strong subscriber growth over the next few years, as the technology becomes more mature for the mass market.

Despite this, mobile email experts admits that consumer mobile email is still in the early stage, and there are a number of issues needed to be addressed before the service becomes a big success in the mass market.

"The biggest problem today is consumer awareness. People buy their phones and GPRS connectivity and just don't know that their phones are actually equipped with email capabilities," says Peter Hogewoning, VP and GM for Asia Pacific at Seven.

Another challenge, he adds, is to improve the user experience by making it easier for end-users to sign up and use the service.

"To make people aware, you really need carriers to put more efforts on that," he says. "Then you have to make it actionable, and we've done significant development on our product to allow mobile carriers to target individual users and make it easier for end-users to get it connected."

For example, he says, the company's solution can support different email services, including Gmail, MSN and Yahoo, and is pre-loaded on mobile devices, allowing mobile push email to be as accessible as SMS. The company's solution has already been deployed by a number of Asian operators, including Bharti Airtel, Spice, Digi in Malaysia and StarHub in Singapore.

- *Fiona Chau*