The story of SMS global market development

By Vincent Poulbere, Ovum

Vincent Poulbere is a Senior Consultant at Ovum, specialising in radio communications and the mobile services market. Vincent has managed or contributing to numerous international wireless consulting projects for Ovum. He is also a contributor to Ovum’s research for the Mobile and Wireless Multimedia advisory services, on topics such as mobile payments and broadband wireless access.

As part of the Ovum France team, Vincent is Ovum’s expert on the French mobile market and is contributing to consulting and research projects in this area.

Before joining Ovum, Vincent was a consultant at IDATE, a French analyst and consulting firm. Vincent has also worked as a software designer for Motorola’s handset division and in R&D for Nokia.

Vincent graduated from the Ecole Polytechnique and has a telecommunications engineer degree from the Ecole Nationale Supérieure des Télécommunications.

SMS has progressively become a major application to drive the development of the mobile data market. The most striking achievement has been the strong growth of interpersonal SMS messaging during the last five years, in almost all regions of the world. Premium SMS is now also driving the introduction of many innovative mobile data services, and has become a key channel for content distribution.

In this piece, we are analysing the market dynamics of the SMS market and the future prospects of evolution.

Why SMS is so important

In a context of decreasing voice ARPU during the past years, SMS has played a key role in growing mobile operators’ data ARPU and improving their overall profitability.

With the exception of Japan and Korea, where email was used instead of SMS, operators of all parts of the world have seen SMS revenues becoming an increasing share of
The worldwide revenues from music sales in 2002 are very much comparable to the total world SMS revenues, which were generated by mobile operators in 2004 (around $33 billion). SMS has also become a significant channel to distribute pay for content, thanks to Premium SMS schemes. In the UK - like in many European countries - Premium SMS revenues, which are mostly driven by ringtone sales, have exceeded traditional CD single sales.

The SMS value chain

Let's first analyse the structure of the value chain for person-to-person SMS services. In the most generic scenario, the network operator managing the customer sending an SMS collects traffic revenues and pays interconnection fees to the network operator managing the customer receiving the SMS. This model has to be slightly adapted when the customer is managed by an MVNO (Mobile Virtual Network Operator) or an ESP (Enhanced Service Provider).

In some cases, a third-party is offering a service enabling to send SMS messages. This is the case of some Web service providers. In this scenario, the service provider is collecting revenues and has to pay for the transport to the receiving network operator, either through an operator or an SMS wholesaler.

Let's now examine the value chain structure for application to person SMS services. In this case, a wholesaler is often involved, managing the transport of SMS between the Premium SMS service providers and the network operators. This enables service providers to distribute their services to multiple operators, without the need to establish connections to the different SMSCs. Operators take care of the billing and reverse a share of revenues to SMS wholesalers, which in turn reverse a share to the service providers.
How to Operate

In mature markets like Western European countries, the SMS market has gone through several key steps, in a period spanning typically over the last ten years:

- A “market launch” phase characterised in particular by the implementation of interoperability of SMS transport between national operators.
- A “wholesale” phase, based on the implementation of SMS wholesale agreements between operators and third-parties, which constitutes a basis for the development of Premium SMS market development.
- A “mobile marketing” phase, consisting of using SMS as a marketing channel to run promotion campaigns, promotion games or TV voting for instance.

An “applications” phase, characterised by the development of diverse applications based on SMS, such as micro-payments, m-banking or location-based services.

The world SMS messaging traffic is currently growing fast and we expect this trend to continue in the short term.

We forecast that the world SMS traffic nearly doubles between 2004 and 2006, driven by strong growth especially in developing markets. Next, the growth of SMS traffic should slow down in 2008-2009, due to market maturity.

The trends for person-to-person SMS revenues look different from traffic trends. After strong revenue growth in the 2004-2006 period, we expect SMS revenues to stagnate in 2007-2009, due to price erosion and slowing traffic growth.

Overall this trend actually hides important regional differences. In particular we forecast a decrease of revenues in Western Europe from 2006, due to the combined effects of price erosion and decreasing traffic growth, as well as the progressive migration to IP-based messaging applications. On the contrary, revenue growth should be sustained in...
developing markets such as China, Latin America or MEA as there is still considerable potential for traffic growth - although there will be continuous pressure on the SMS unit price.

When examining more closely the differences between countries, it is important to note the strong correlation between the voice-to-SMS price ratio and the SMS market growth. This is illustrated for instance by the situation in Asia. Countries like China, Indonesia or the Philippines have a high voice-to-SMS price ratio (up to 7:1) and enjoy a fast SMS market growth compared to countries or regions like Taiwan, Thailand and Hong-Kong with a low voice-to-SMS price ratio (of 1:1 or 2:1).

Premium SMS services bring additional revenues to operators, to complement interpersonal SMS services. This market was estimated to generate $1.5 billion revenues for mobile operators in 2004, and to grow to $4.5 billion in 2009. SMS kiosks opened to third-parties (with predefined Premium rates) and short SMS codes were set up at national level in many countries, enabling the development of this market. Most successful Premium SMS services are entertainment services: ring-tones, logo downloads, TV voting, games, quizzes etc.

The vendor landscape

Current positions of SMSC vendors are more and more challenged as operators enter a renewal cycle. We have estimated vendors’ market shares based on the SMS traffic generated by mobile operators in 2004. Logica is number one and Huawei has become the second worldwide vendor due to the importance of its deployments in China. Nokia remains number three, in a steady position during the renewal process. Finally dozens of very small players share one sixth of the market, with very specific solutions, and with IP-oriented strategies in the SMSC domain.
Several trends characterise the evolutions of requirements at the SMS platform level.

- First, there is an evolution towards the high capacity platform, capable of bearing 20 KSMS/sec and more, as a replacement to low capacity platforms.
- Next, intelligent software features embedded become requirements, like SMS firewalling, anti spams, SMS content filtering and SMS routing. There is in particular increasing concern from operators and regulators over the control of spam and offending content sent to children.
- Another evolution is the need for service creation environment, for fast value added services implementation (tele-voting, short numbering).
- And finally operators tend to require the introduction of interfaces enabling multiple types of billing, from prepaid to postpaid, on voice and data accounts.

What’s going to happen next in mobile messaging?

Two trends will shape the evolution of the mobile messaging market. The first one is convergence: to offer customers the possibility to exchange email, SMS, MMS or instant messages between the mobile, the Web or the fixed telephony networks. The second main trend is expansion of message types, with the support of more media types.

In our mobile messaging market scenario, we have considered four main mobile messaging applications, namely MMS, email, SMS and instant messaging (IM).

MMS traffic has so far grown very slowly but we believe it could become significant as soon as camera phone penetration reaches 40-50%, though revenues should remain low compared to SMS. We also expect some migration to occur from SMS to text MMS, as the price of text MMS falls.

Mobile email will enjoy strong development in the enterprise space, but it will be limited in the consumer space outside Japan, due to high SMS usage and low penetration of email-capable devices for the mass market.

Finally, wireless IM usage will progressively cannibalise SMS, with significant impact of IM on messaging revenues expected only in years 2008-2009. Wireless IM will be attenuated in comparison with Internet IM usage, because of usage-based pricing.